SouthGobi Resources

August 13, 2012

SOUTHGOBI RESOURCES ANNOUNCES SECOND QUARTER 2012 FINANCIAL AND OPERATING RESULTS

HONG KONG – SouthGobi Resources Ltd. **(TSX: SGQ, HK: 1878)**, (the "Company" or "SouthGobi") today announced its financial and operating results for the three and six months ended June 30, 2012. All figures are in U.S. dollars unless otherwise stated.

HIGHLIGHTS

The Company's highlights for the quarter ended June 30, 2012 and subsequent weeks are as follows:

- **Sales volume and revenue declined to 0.16 million tonnes and $8.4 million, respectively, in the second quarter of 2012;**
- **Production declined to 0.27 million tonnes of raw coal in the second quarter of 2012 due to the curtailment of mining operations to varying degrees throughout the quarter. As at June 30, 2012, mining activities had been fully curtailed;**
- **The signing of a Cooperation Agreement with the Aluminum Corporation of China Limited ("CHALCO") and received official notification of CHALCO's intention to make a proportional takeover bid for up to 60% of the issued and outstanding common shares of SouthGobi at Cdn$8.48 per share;**
- **Mineral Resources Authority of Mongolia ("MRAM") held a press conference announcing a request to suspend exploration and mining activity on certain licenses owned by SouthGobi Sands LLC, a wholly-owned subsidiary of SouthGobi;**
- **The opening of expanded border crossing infrastructure at the Shivee Khuren-Ceke crossing at the Mongolia-China border ("Shivee Khuren Border Crossing");**
- **Ribbon cutting ceremony to commemorate the start of construction on the new paved coal highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing; and**
- **SGQ Coal Investment Pte. Ltd., a wholly-owned subsidiary of SouthGobi that owns 100% of the Company's Mongolian operating subsidiary SouthGobi Sands LLC, filed a Notice of Investment Dispute on the Government of Mongolia pursuant to the Bilateral Investment Treaty between Singapore and Mongolia.**

REVIEW OF QUARTERLY OPERATING RESULTS

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

	2012		2011				2010	
QUARTER ENDED	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Volumes and prices								
Raw semi-soft coking coal								
Raw coal production *(millions of tonnes)*	**0.07**	0.28	0.47	0.55	0.52	0.48	0.41	0.18
Coal sales *(millions of tonnes)*	**0.12**	0.31	0.53	0.66	0.60	0.34	0.35	0.11
Average realized selling price *(per tonne)*	**$ 67.17**	$ 67.59	$ 67.62	$ 66.83	$ 65.96	$ 56.50	$ 47.08	$ 46.04
Raw medium-ash coal								
Raw coal production *(millions of tonnes)*	**0.11**	0.64	0.37	0.20	-	-	-	-
Coal sales *(millions of tonnes)*	**0.04**	0.53	0.37	0.20	-	-	-	-
Average realized selling price *(per tonne)*	**$ 49.91**	$ 50.40	$ 48.59	$ 48.17	$ -	$ -	$ -	$ -
Raw higher-ash coal								
Raw coal production *(millions of tonnes)*	**0.09**	0.15	0.50	0.50	0.35	0.63	0.97	0.39
Coal sales *(millions of tonnes)*	**0.00**	-	0.25	0.51	0.45	0.11	1.12	0.08
Average realized selling price *(per tonne)*	**$ 38.80**	$ -	$ 40.30	$ 39.74	$ 38.32	$ 31.68	$ 26.75	$ 25.34
Total								
Raw coal production *(millions of tonnes)*	**0.27**	1.07	1.34	1.25	0.87	1.11	1.38	0.57
Coal sales *(millions of tonnes)*	**0.16**	0.84	1.15	1.37	1.05	0.45	1.47	0.19
Average realized selling price *(per tonne)*	**$ 62.56**	$ 56.79	$ 55.51	$ 54.01	$ 54.06	$ 50.29	$ 31.56	$ 37.15
Costs								
Direct cash costs of product sold excluding idled mine costs *(per tonne)* [(i)]	**$ 22.57**	$ 10.80	$ 22.14	$ 22.64	$ 26.77	$ 18.91	$ 18.53	$ 18.59
Total cash costs of product sold excluding idled mine costs *(per tonne)* [(i)]	**$ 31.49**	$ 15.04	$ 23.09	$ 23.17	$ 27.61	$ 20.61	$ 19.25	$ 22.04
Waste movement and stripping ratio								
Production waste material moved *(millions of bank cubic meters)*	**1.16**	2.20	4.58	4.10	4.08	3.85	3.56	2.90
Strip ratio *(bank cubic meters of waste rock per tonne of coal produced)*	**4.31**	2.07	3.42	3.28	4.74	3.47	2.58	5.09
Pre-production waste material moved *(millions of bank cubic meters)*	**-**	-	-	0.39	0.80	0.49	0.73	0.43
Other operating capacity statistics								
Capacity								
Number of mining shovels/excavators available at period end	**4**	3	3	3	4	3	3	2
Total combined stated mining shovel/excavator capacity at period end *(cubic meters)*	**98**	64	64	64	98	83	82	48
Number of haul trucks available at period end	**27**	27	25	16	16	16	15	12
Total combined stated haul truck capacity at period end *(tonnes)*	**4,743**	4,743	4,561	2,599	2,599	2,599	2,254	1,727
Employees and safety								
Employees at period end	**693**	720	720	695	658	600	544	472
Lost time injury frequency rate [(ii)]	**1.1**	1.4	1.2	0.9	0.6	0.7	0.8	0.9

(i) A non-IFRS financial measure, see Non-IFRS Financial Measures section
(ii) Per 1,000,000 man hours

For the three months ended June 30, 2012

For the three months ended June 30, 2012, the Company produced 0.27 million tonnes of raw coal with a strip ratio of 4.31 compared to production of 0.87 million tonnes of raw coal for the three months ended June 30, 2011 with a strip ratio of 4.74. SouthGobi curtailed its mining activities during the three months ended June 30, 2012 to varying degrees to manage coal inventories and to maintain efficient working capital levels. As at June 30, 2012, mining activities had been fully curtailed. Due to the curtailment of its mining operations, the Company suspended uncommitted capital expenditures and exploration expenditures to preserve the Company's financial resources.

For the three months ended June 30, 2012, the Company sold 0.16 million tonnes of coal at an average realized selling price of $62.56 per tonne compared to sales of 1.05 million tonnes of coal at an average realized selling price of $54.06 per tonne for the three months ended June 30, 2011. Sales volume declined for the three months ended June 30, 2012 due to the significant uncertainty surrounding SouthGobi's business resulting from the proposed proportional takeover bid by CHALCO, which resulted in MRAM holding a press conference announcing a request to suspend exploration and mining activity on certain licenses, various infrastructure constraints in Mongolia and the softening of inland China coking coal markets towards the end of the second quarter. The increase in the average realized selling price is primarily related to the Company's improved sales mix.

Direct cash costs of product sold excluding idled mine costs (a non-IFRS financial measure, see Non-IFRS Financial Measures section) were $22.57 per tonne for the three months ended June 30, 2012 compared to $26.77 per tonne for the three months ended June 30, 2011. Direct cash costs of product sold excluding idled mine costs have primarily decreased as a result of a lower strip ratio and reduced fuel prices.

For the six months ended June 30, 2012

For the six months ended June 30, 2012, the Company produced 1.33 million tonnes of raw coal with a strip ratio of 2.52 compared to production of 1.98 million tonnes of raw coal for the six months ended June 30, 2011 with a strip ratio of 4.03. The decrease in production primarily related to the curtailment of the Company's mining operations in the second quarter of 2012; whereas, the decrease in the strip ratio primarily related to the below-trend strip ratio in the first quarter of 2012 which will be normalized over the life-of-mine.

For the six months ended June 30, 2012, the Company sold 1.00 million tonnes of coal at an average realized selling price of $57.71 per tonne compared to sales of 1.50 million tonnes of coal at an average realized selling price of $52.92 per tonne for the six months ended June 30, 2011. Sales volume declined for the six months ended June 30, 2012 due to the significant uncertainty surrounding SouthGobi's business in the second quarter of 2012, despite first quarter 2012 sales volumes increasing 84% from the first quarter of 2011.

Direct cash costs of product sold excluding idled mine costs (a non-IFRS financial measure, see Non-IFRS Financial Measures section) were $12.67 per tonne for the six months ended June 30, 2012 compared to $24.39 per tonne for the six months ended June 30, 2011. Direct cash costs of product sold excluding idled mine costs have primarily decreased as a result of a lower strip ratio and reduced fuel prices.

REVIEW OF QUARTERLY FINANCIAL RESULTS

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

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

	2012		2011				2010	
QUARTER ENDED	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Revenue	**$ 8,412**	$ 40,153	$ 51,064	$ 60,491	$ 47,336	$ 20,158	$ 41,595	$ 6,597
Gross profit excluding idled mine costs	**1,778**	22,674	16,637	17,635	9,744	7,690	3,950	336
Gross profit margin excluding idled mine costs	***21%***	*56%*	*33%*	*29%*	*21%*	*38%*	*9%*	*5%*
Gross profit/(loss) including idled mine costs	**(13,809)**	22,674	16,637	17,635	9,744	7,690	3,950	336
Other operating expenses	**(3,803)**	(2,578)	(24,644)	(138)	(3,024)	(1,383)	(2,121)	(7,586)
Administration expenses	**(7,497)**	(5,882)	(8,612)	(7,993)	(6,808)	(5,336)	(6,599)	(7,405)
Evaluation and exploration expenses	**(2,099)**	(5,033)	(14,513)	(10,908)	(4,356)	(1,991)	(4,144)	(6,314)
Income/(loss) from operations	**(27,208)**	9,181	(31,132)	(1,404)	(4,444)	(1,020)	(8,914)	(20,969)
Net income/(loss)	**237**	3,126	(18,897)	55,921	67,323	(46,602)	(28,720)	27,495
Basic income/(loss) per share	**0.00**	0.02	(0.10)	0.31	0.37	(0.25)	(0.16)	0.15
Diluted income/(loss) per share	**(0.12)**	0.02	(0.14)	(0.02)	-	(0.25)	(0.16)	(0.08)

	2012		2011				2010	
QUARTER ENDED	**30-Jun**	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Net income/(loss)	**$ 237**	$ 3,126	$ (18,897)	$ 55,921	$ 67,323	$ (46,602)	$ (28,720)	$ 27,495
Income/(loss) adjustments, net of tax								
Idled mine costs	**10,966**	-	-	-	-	-	-	-
Share-based compensation	**4,383**	3,799	4,050	4,296	3,349	2,715	3,840	3,695
Net impairment loss/(recovery) on assets	**2,583**	-	23,818	(2,925)	-	-	574	7,010
Unrealized foreign exchange losses/(gains)	**(511)**	(950)	34	103	263	(993)	(1,837)	(1,116)
Unrealized loss/(gain) on embedded derivatives in CIC debenture	**(26,770)**	776	(10,790)	(62,058)	(70,422)	36,780	19,995	(49,772)
Realized loss/(gain) on disposal of FVTPL investments [i]	**46**	(85)	-	-	-	-	-	-
Unrealized loss/(gain) on FVTPL investments	**2,282**	339	155	2,449	(3,629)	4,116	(4,375)	(1,735)
Adjusted net income/(loss) [ii]	**(6,784)**	7,005	(1,630)	(2,214)	(3,116)	(3,984)	(10,523)	(14,423)

(i) FVTPL is defined as "fair value through profit or loss"

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

For the three months ended June 30, 2012

The Company recorded net income of $0.2 million for the three months ended June 30, 2012 compared to a net income of $3.1 million for the three months ended March 31, 2012 and a net income of $67.3 million for the three months ended June 30, 2011.

Gross Profit:

The Company's gross profit is composed of revenue (net of royalties and selling fees) and cost of sales and relates solely to the Mongolian Coal Division. For the three months ended June 30, 2012, gross profit was negatively impacted by $15.6 million of idled mine costs, resulting in a gross loss of $13.8 million. The Company recorded a gross profit excluding idled mine costs of $1.8 million for the three months ended June 30, 2012 compared to $22.7 million for the three months ended March 31, 2012 and $9.7 million for the three months ended June 30, 2011.

The Company recognized revenue of $8.4 million for the three months ended June 30, 2012 compared to $40.2 million for the three months ended March 31, 2012 and $47.3 million for the three months ended June 30, 2011. For the three months ended June 30, 2012 customers were reluctant to enter into significant sales contracts primarily due to the following:

- Customers' ability to export coal through the Shivee Khuren Border Crossing for the first half of 2012 was far below their projections due to: a) the delayed opening of the expanded border crossing infrastructure at the Shivee Khuren Border Crossing; b) the extended closure of the Shivee Khuren Border Crossing for the Chinese New Year and Mongolian Tsagaan Sar public holidays in the first quarter of 2012; c) the closure of the existing gravel road used to transport coal from the Ovoot Tolgoi Mine and neighboring mines to the Shivee Khuren Border Crossing for over four weeks in the second quarter of 2012;
- Uncertainty with respect to whether SouthGobi would receive a formal request from MRAM to suspend mining activities on its Ovoot Tolgoi mining license had customers concerned that they would be unable to collect and export additional coal purchased from the Ovoot Tolgoi Mine; and
- The softening of inland China coking coal markets closest to SouthGobi's operations towards the end of the second quarter.

The Company is subject to a 5% royalty on all coal sales exported out of Mongolia based on a set reference price per tonne published monthly by the Government of Mongolia. Effective January 1, 2011, the Company is also subject to a sliding scale additional royalty of up to 5% on coal sales exported out of Mongolia based on the set reference price. Based on the reference prices for the second quarter of 2012, the Company was subject to an average 8% royalty based on a weighted average reference price of $97.83 per tonne. The Company's effective royalty rate for the second quarter of 2012, based on the Company's average realized selling price of $62.56 per tonne, was 13%.

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

Cost of sales was $22.2 million for the three months ended June 30, 2012 compared to $17.5 million for the three months ended March 31, 2012 and $37.6 million for the three months ended June 30, 2011. Cost of sales comprise the direct cash costs of product sold, mine administration cash costs of product sold, idled mine costs, equipment depreciation, depletion of mineral properties and share-based compensation. Of the $22.2 million recorded as cost of sales for the three months ended June 30, 2012, $6.6 million related to mine operations and $15.6 million related to idled mine costs. Cost of sales related to mine operations decreased in the second quarter of 2012 compared to the first quarter of 2012 and the second quarter of 2011 primarily due to lower sales volumes, partially offset by higher unit costs.

Other Operating Expenses:

Other operating expenses for the three months ended June 30, 2012 increased to $3.8 million compared to $2.6 million for the three months ended March 31, 2012 and $3.0 million for the three months ended June 30, 2011. In the second quarter of 2012, other operating expenses consisted primarily of public infrastructure costs and provisions for doubtful trade and other receivables. The loss provision relates to allowances granted to certain customers in order to expedite trade receivable cash collections. Other operating expenses consisted primarily of foreign exchange losses in the first quarter of 2012 and of public infrastructure costs in the second quarter of 2011.

Administration Expenses:

Administration expenses for the three months ended June 30, 2012 were $7.5 million compared to $5.9 million for the three months ended March 31, 2012 and $6.8 million for the three months ended June 30, 2011. The increased administration expenses in the second quarter of 2012 compared to the first quarter of 2012 primarily related to increased legal and professional fees, primarily due to increased legal activities, and increased share-based compensation. The increased administration expenses in the second quarter of 2012 compared to the second quarter of 2011 primarily related to increased salaries and benefits. In the second quarter of 2012, salaries and benefits included severance payments resulting from personnel separations.

Evaluation and Exploration Expenses:

Exploration expenses for the three months ended June 30, 2012 were $2.1 million compared to $5.0 million for the three months ended March 31, 2012 and $4.4 million for the three months ended June 30, 2011. Exploration expenses will vary from quarter to quarter depending on the number of projects and the related seasonality of the exploration programs. In the second quarter of 2012, the Company curtailed exploration activities to preserve financial resources. The majority of the exploration activities in the second quarter of 2012 related to water exploration activities.

Finance Income & Finance Costs:

The Company incurred finance costs for the three months ended June 30, 2012 of $4.0 million compared to $2.4 million for the three months ended June 30, 2011. Finance costs in the second quarter of 2012 primarily consisted of $1.6 million of interest expense on the China Investment Corporation ("CIC") convertible debenture and a $2.3 million unrealized loss on FVTPL investments; whereas, finance costs in the second quarter of 2011 primarily consisted of $2.2 million of interest expense on the CIC convertible debenture.

The Company recorded finance income for the three months ended June 30, 2012 of $26.9 million compared to $74.4 million for the three months ended June 30, 2011. In the second quarter of 2012, finance income primarily consisted of a $26.8 million unrealized gain on the fair value change of the embedded derivatives in the CIC convertible debenture; whereas, in the second quarter of 2011, finance income primarily consisted of a $70.4 million unrealized gain on the fair value change of the embedded derivatives in the CIC convertible debenture and a $3.6 million unrealized gain on FVTPL investments.

The Company's investment in Aspire Mining Limited ("Aspire") continues to be classified as an available-for-sale financial asset and for the three months ended June 30, 2012, the Company recorded an after-tax mark to market loss of $20.1 million related to Aspire that has been recorded in other comprehensive income.

Taxes:

For the three months ended June 30, 2012, the Company recorded a current income tax recovery of $3.7 million related to its Mongolian operations compared to a current tax expense of $1.7 million for the three months ended June 30, 2011. The Company has recorded a deferred income tax recovery related to deductible temporary differences of $0.6 million for the three months ended June 30, 2012 compared to $1.5 million for the three months ended June 30, 2011.

For the six months ended June 30, 2012

The Company recorded net income of $3.4 million for the six months ended June 30, 2012 compared to a net income of $20.7 million for the six months ended June 30, 2011.

Gross Profit:

The Company's gross profit is composed of revenue (net of royalties and selling fees) and cost of sales and relates solely to the Mongolian Coal Division. For the six months ended June 30, 2012, gross profit was negatively impacted by $15.6 million of idled mine costs, resulting in a reduced gross profit of $8.9 million. The Company recorded a gross profit excluding idled mine costs of $24.5 million for the six months ended June 30, 2012 compared to $17.4 million for the six months ended June 30, 2011.

Revenue decreased to $48.6 million for the six months ended June 30, 2012 from $67.5 million for the six months ended June 30, 2011 primarily due to decreased sales volumes in the second quarter of 2012, partially offset by higher sales volumes in the first quarter of 2012 and higher average realized selling prices for the first half of 2012.

Cost of sales was $39.7 million for the six months ended June 30, 2012 compared to $50.1 million for the six months ended June 30, 2011. Cost of sales comprise the direct cash costs of product sold, mine administration cash costs of product sold, idled mine costs, equipment depreciation, depletion of mineral properties and share-based compensation. Of the $39.7 million recorded as cost of sales for the six months ended June 30, 2012, $24.1 million related to mine operations and $15.6 million related to idled mine costs. Cost of sales related to mine operations decreased for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 primarily due to lower sales volumes and lower unit costs.

Other Operating Expenses:

Other operating expenses for the six months ended June 30, 2012 increased to $6.4 million compared to $4.4 million for the six months ended June 30, 2011. The increase in other operating expenses primarily relates to provisions for doubtful trade and other receivables and increased foreign exchange losses, partially offset by reduced public infrastructure costs. The increased loss provisions related to allowances granted to certain customers in order to expedite trade receivable cash collections. Public infrastructure costs decreased for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 due to reduced maintenance costs on transportation infrastructure from the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing and reduced works on the expanded border crossing infrastructure at the Shivee Khuren Border Crossing. Public infrastructure costs should continue to be lower than prior periods due to the completion of the expanded border crossing infrastructure at the Shivee Khuren Border Crossing.

Administration Expenses:

Administration expenses for the six months ended June 30, 2012 were $13.4 million compared to $12.1 million for the six months ended June 30, 2011. The increase in administration expenses for the six months ended June 30, 2012 primarily related to increased salaries and benefits and increased share-based compensation. In the second quarter of 2012, salaries and benefits included severance payments resulting from personnel separations.

Evaluation and Exploration Expenses:

Exploration expenses for the six months ended June 30, 2012 were $7.1 million compared to $6.3 million for the six months ended June 30, 2011. Exploration expenses will vary period to period depending on the number of projects and the related seasonality of the exploration programs. In the second quarter of 2012, the Company curtailed exploration activities to preserve financial resources. The majority of the exploration activities for the six months ended June 30, 2012 related to water exploration activities. For the six months ended June 30, 2011, exploration programs had not received all required government approvals; thus a higher proportion of expenses were incurred in the second half of 2011.

Finance Income & Finance Costs:

Finance costs for the six months ended June 30, 2012 were $4.7 million compared to $7.5 million for the six months ended June 30, 2011. Finance costs in the first half of 2012 primarily consisted of $1.8 million of interest expense on the CIC convertible debenture and a $2.6 million unrealized loss on fair value through profit or loss ("FVTPL") investments; whereas, finance costs in the first half of 2011 primarily consisted of $6.7 million of interest expense on the CIC convertible debenture and a $0.5 million unrealized loss on FVTPL investments.

Finance income for the six months ended June 30, 2012 was $26.3 million compared to $34.4 million for the six months ended June 30, 2011. In the first half of 2012, finance income primarily consisted of a $26.0 million unrealized gain on the fair value change of the embedded derivatives in the CIC convertible debenture; whereas, in the first half of 2011, finance income primarily consisted of a $33.6 million unrealized gain on the fair value change of the embedded derivatives in the CIC convertible debenture.

The Company's investment in Aspire continues to be classified as an available-for-sale financial asset and for the six months ended June 30, 2012, the Company recorded an after-tax mark to market loss of $25.5 million related to Aspire that has been recorded in other comprehensive income.

Taxes:

For the six months ended June 30, 2012, the Company recorded a current income tax expense of $1.1 million related to its Mongolian operations compared to a current tax expense of $3.5 million for the six months ended June 30, 2011. The Company recorded a deferred income tax recovery related to deductible temporary differences of $0.7 million for the six months ended June 30, 2012 compared to $2.8 million for the six months ended June 30, 2011.

FINANCIAL POSITION AND LIQUIDITY

The Company's total assets as at June 30, 2012 were $846.5 million compared with $920.3 million as at December 31, 2011.

As at June 30, 2012, the Company had $61.6 million in cash and cash equivalents and $30.0 million in money market investments for a total liquidity of $91.6 million compared with $123.6 million in cash and cash equivalents and $45.0 million in money market investments for a total liquidity of $168.6 million as at December 31, 2011.

The Company's non-current liabilities as at June 30, 2012 were $117.1 million compared with $145.6 million as at December 31, 2011.

PROPOSED TRANSACTION

On April 2, 2012, SouthGobi announced a Cooperation Agreement with CHALCO and received official notification of CHALCO's intention to make a proportional takeover bid for up to 60% of the issued and outstanding common shares of SouthGobi at Cdn$8.48 per share ("Proportional Offer"). SouthGobi has also been informed by its 58% major shareholder, Turquoise Hill Resources Ltd. ("Turquoise Hill"), that Turquoise Hill has signed a lock-up agreement with CHALCO, committing to tender all of its shares held or thereafter acquired by it during the offer period of CHALCO into the Proportional Offer. The Proportional Offer will be made by way of a takeover bid circular under British Columbia law and will be made to all SouthGobi shareholders. If shareholders tender more than 60% of the outstanding common shares of SouthGobi to the takeover bid, a proportional amount of shares will be taken up from each shareholder. SouthGobi has not received any formal documentation relating to the Proportional Offer.

On April 25, 2012, CHALCO and Turquoise Hill announced that in the event of new foreign investment legislation being implemented by the Government of Mongolia prior to the completion of the Proportional Offer, CHALCO and Turquoise Hill will cooperate with the Government of Mongolia to ensure any requirements under such legislation are satisfied.

On May 17, 2012, the Parliament of Mongolia approved a Foreign Investment Law ("FIL") that regulates foreign direct investment into a number of key sectors of strategic importance, which includes mineral resources. The FIL is extremely ambiguous and leaves a lot of discretion in the parliamentary approval process. If foreign shareholding exceeds 49% of an asset and the amount of the investment at the time is to exceed MNT100 billion (approximately $75.0 million), then parliamentary approval is required. In the case of state owned entities ("SOE") there is no minimum threshold and all proposed investments from SOE's require parliamentary approval. In addition, if a foreign entity wants to acquire one third or more of the shares in an investment in a strategic sector, then the MNT100 billion threshold is not applicable and cabinet approval for the investment is required regardless of the value. As a result, the Proportional Offer will require Government of Mongolia approval.

In conjunction with the Proportional Offer, CHALCO and SouthGobi have entered into a Cooperation Agreement. CHALCO's obligations under the Cooperation Agreement will become effective upon CHALCO acquiring a shareholding in SouthGobi.

Key benefits under the Cooperation Agreement between SouthGobi and CHALCO include:

- Coal off-take by CHALCO – SouthGobi will have the right to offer up to 100% of its salable coal to CHALCO and CHALCO will have the obligation to purchase the coal at market prices for a period of 24 months.
- Infrastructure support – CHALCO will assist SouthGobi to procure electricity for its Mongolian business operations either through a direct connection to grid power, or through development of a conveniently located power plant. CHALCO will also provide support to SouthGobi's coal-haul highway project.

SouthGobi has also been notified that CHALCO has entered into consultancy agreements with nine key senior executives, officers and staff to assist CHALCO with the integration and transition following CHALCO's acquisition of a shareholding in SouthGobi. Services would be retained for 12 months from the termination of their employment or for a period of 12-months less the notice period actually served by them on their resignation, after CHALCO becomes a shareholder of SouthGobi. Following arm's length negotiation between CHALCO and the relevant individuals, it has been agreed that fees totaling $9.0 million would be paid by CHALCO for the consulting services. Consultancy agreements have been entered into with the President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and key Vice Presidents, officers and staff.

CHALCO had stated that it expected to mail the takeover bid circular in connection with the Proportional Offer on or about July 5, 2012. On July 3, 2012, CHALCO and Turquoise Hill announced a 30 day extension for CHALCO to mail the takeover bid circular.

Subsequently, on August 2, 2012, an additional 30 day extension was announced by CHALCO and Turquoise Hill. CHALCO has agreed to mail the takeover bid circular on or before September 4, 2012.

MRAM REQUEST TO SUSPEND EXPLORATION AND MINING LICENSES

On April 16, 2012, SouthGobi announced that MRAM held a press conference announcing a request to suspend exploration and mining activity on certain licenses owned by SouthGobi Sands LLC. The request for suspension includes the mining license pertaining to the Ovoot Tolgoi Mine.

Advice to the Company suggests that the action has been taken under the broad national security powers of the Government of Mongolia. MRAM stated that the move is in connection to the proposed proportional takeover bid by CHALCO and the agreement by Turquoise Hill to tender its controlling interest in SouthGobi to such a takeover.

Subsequently, on May 30, 2012, the Mongolian Minister of Mineral Resources and Energy ("MRE") commented at a press conference that "the temporary suspension has been lifted, but regarding the new (Foreign Investment) law, the license of Ovoot Tolgoi will be discussed by the cabinet and parliament." Subsequently, the Company has written to MRAM and the MRE requesting official clarification. However, as at August 13, 2012, no such clarification has been received.

As at August 13, 2012, the Company has not received any official notification to suspend exploration and mining activity and has no reason to believe SouthGobi's licenses are not in good standing. However, the Company cautions that any official notification received will require a mandatory suspension of operations and may result in the impairment of the Company's property, plant and equipment.

Although no official notification has been received to date, SouthGobi continues to be impacted by the uncertainty over its licenses. Many government bodies and regulatory authorities in Mongolia are reluctant to provide approvals and permits. For example, SouthGobi has been unable to receive an approval for a revision to its Environmental Impact Assessment for the dry coal handling facility ("DCHF") from the Mongolian Ministry of Environment. As a result, SouthGobi may be unable to operate the DCHF until it receives approval for the revised Environmental Impact Assessment.

REGIONAL INFRASTRUCTURE

In July 2009, Chinese and Mongolian authorities agreed to create designated coal transportation corridors at the Shivee Khuren Border Crossing. In 2011, SouthGobi, together with Mongolyn Alt Corporation ("MAK"), completed the road and construction works required on the Mongolian side of the border to match the existing Chinese infrastructure. On May 28, 2012, the expanded border crossing infrastructure, consisting of eight new border gates exclusively for coal transportation, opened at the Shivee Khuren Border Crossing. The expanded border crossing infrastructure will eliminate the existing bottleneck at the Shivee Khuren Border Crossing and is expected to increase capacity to approximately 20 million tonnes or more of coal per year.

In June 2012, due to the expanded border crossing infrastructure at the Shivee Khuren Border Crossing, the Company's customers exported 0.58 million tonnes of Ovoot Tolgoi Mine coal (mostly from customer inventories) from Mongolia to China, representing a monthly export record of coal from the Ovoot Tolgoi Mine.

On August 2, 2011, the State Property Committee of Mongolia awarded the tender to construct a paved highway from the Ovoot Tolgoi Complex to the Shivee Khuren Border Crossing to consortium partners NTB LLC and SouthGobi Sands LLC (together referred to as "RDCC"). SouthGobi Sands LLC holds a 40% interest in RDCC. On October 26, 2011, RDCC signed a concession agreement with the State Property Committee of Mongolia. RDCC now has the right to conclude a 17 year build, operate and transfer agreement under the Mongolian Law on Concessions. RDCC has engaged a contractor and construction on the paved highway has commenced. Completion of the paved highway is expected mid-2013. The paved highway will have an intended carrying capacity upon completion in excess of 20 million tonnes of coal per year.

NOTICE OF INVESTMENT DISPUTE

SGQ Coal Investment Pte. Ltd., a wholly-owned subsidiary of SouthGobi that owns 100% of the Company's Mongolian operating subsidiary SouthGobi Sands LLC, filed a Notice of Investment Dispute on the Government of Mongolia pursuant to the Bilateral Investment Treaty between Singapore and Mongolia. The Company has filed the Notice of Investment Dispute following a determination by management that they have exhausted all other possible means to resolve an ongoing investment dispute between SouthGobi Sands LLC and the Mongolian authorities.

The Notice of Investment Dispute consists of, but is not limited to, the failure by MRAM to execute the Pre-Mining Agreements ("PMA") associated with certain exploration licenses of the Company pursuant to which valid PMA applications had been lodged in 2011. The areas covered by the valid PMA applications include the Zag Suuj Deposit and certain areas associated with the Soumber Deposit outside the existing mining license.

The Notice of Investment Dispute triggers the dispute resolution process under the Bilateral Investment Treaty whereby the Government of Mongolia has a six-month cure period from the date of receipt of the notice to satisfactorily resolve the dispute through negotiations. If the negotiations are not successful, the Company will be entitled to commence conciliation/arbitration proceedings under the auspices of the International Centre for Settlement of Investment Disputes ("ICSID") pursuant to the Bilateral Investment

Treaty. However, in the event that the Government of Mongolia fails to negotiate, ICSID arbitration proceedings may be accelerated before the six months have expired.

COMMON SHARE REPURCHASE PROGRAM

On June 8, 2010, the Company announced that its Board of Directors authorized a share repurchase program to purchase up to 2.5 million common shares of the Company on each or either of the TSX and the HKEX, in aggregate representing up to 5.0 million common shares of the Company. On June 8, 2011, the Company announced the renewal of its share repurchase program. The share repurchase program concluded on June 14, 2012. As at June 14, 2012, the Company had repurchased 1.6 million shares on the HKEX and 2.8 million shares on the TSX for a total of 4.4 million common shares. The Company cancelled all repurchased shares.

OUTLOOK

The announcement by CHALCO that it intends to make a proportional takeover bid for up to 60% of the issued and outstanding common shares of SouthGobi continues to create significant uncertainty for the Company's business. Further uncertainly results from the MRAM press conference announcing a request to suspend exploration and mining activity on certain licenses owned by SouthGobi Sands LLC and general difficulty receiving permits and valid cooperation from departments of the Government of Mongolia. This uncertainty has been compounded by worsening conditions in coal markets in inland China.

Inland China coking coal markets closest to SouthGobi's operations have continued to soften in the third quarter of 2012. The Company has observed a substantial deterioration in sentiment among its customers and a decline in key reference prices in key end-use markets.

Due to the uncertainty surrounding SouthGobi's business, the Company anticipates its operations will remain fully curtailed in the third quarter of 2012. Further, the Company cautions that production volumes, sales volumes and pricing for the full year of 2012 cannot be estimated.

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

- Strategic location – SouthGobi is the closest major coking coal producer in the world to China. The Ovoot Tolgoi Mine is approximately 40km from China, which is approximately 190km closer than Tavan Tolgoi coal producers in Mongolia and 7,000 to 10,000km closer than Australian and North American coking coal producers. The Company has an infrastructure advantage, being approximately 50km from existing railway infrastructure, which is approximately one tenth the distance to rail of Tavan Tolgoi coal producers in Mongolia.
- Premium quality coals – Most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coals and hard coking coals. SouthGobi is also completing its investment in processing infrastructure to capture more of the value by selling 'clean' instead of 'raw' coal products.
- Sustainable volume growth – Subject to market conditions, the Ovoot Tolgoi Mine, has the potential to produce well in excess of 2011 levels. Currently undeveloped resources at the Soumber Deposit and the Zag Suuj Deposit may provide additional growth in the future.
- Expanding margins – The Company believes, subject to market conditions, it will continue expanding margins through the benefits of coal processing and increasing economies of scale.

- Exploration as a core business competency – SouthGobi's resources in Mongolia have been acquired through a long term in-house exploration program. The Company continues to maintain exploration as a core long-term strategy to provide additional resources of coal in a cost effective manner.

Objectives

The Company's objectives for 2012 have been impacted by the external conditions faced by it. SouthGobi intends to attempt to mitigate the issues, to the extent possible, and reduce capital expenditures, operating costs and exploration to preserve the Company's financial resources.

NON-IFRS FINANCIAL MEASURES

Cash Costs:

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

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

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

Adjusted Net Income/(Loss):

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

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Condensed Consolidated Interim Statement of Comprehensive Income
(Unaudited)
(Expressed in thousands of U.S. Dollars, except for share and per share amounts)

		Three months ended June 30,		Six months ended June 30,	
	Notes	**2012**	**2011**	**2012**	**2011**
Revenue		**$ 8,412**	$ 47,336	**$ 48,565**	$ 67,494
Cost of sales	3	**(22,221)**	(37,592)	**(39,700)**	(50,060)
Gross profit/(loss)		**(13,809)**	9,744	**8,865**	17,434
Other operating expenses	4	**(3,803)**	(3,024)	**(6,380)**	(4,407)
Administration expenses	5	**(7,497)**	(6,808)	**(13,380)**	(12,144)
Evaluation and exploration expenses	6	**(2,099)**	(4,356)	**(7,132)**	(6,347)
Loss from operations		**(27,208)**	(4,444)	**(18,027)**	(5,464)
Finance costs	7	**(4,006)**	(2,378)	**(4,681)**	(7,542)
Finance income	7	**26,875**	74,406	**26,290**	34,423
Share of earnings of joint venture		**204**	-	**204**	-
Income/(loss) before tax		**(4,135)**	67,584	**3,786**	21,417
Current income tax recovery/(expense)	8	**3,747**	(1,722)	**(1,127)**	(3,475)
Deferred income tax recovery	8	**625**	1,461	**704**	2,779
Net income attributable to equity holders of the Company		**237**	67,323	**3,363**	20,721
OTHER COMPREHENSIVE INCOME/(LOSS)					
Gain/(loss) on available-for-sale assets, net of tax		**(20,087)**	(39,573)	**(25,509)**	11,175
Net comprehensive income/(loss) attributable to equity holders of the Company		**$ (19,850)**	$ 27,750	**$ (22,146)**	$ 31,896
BASIC INCOME/(LOSS) PER SHARE	9	**$ 0.00**	$ 0.37	**$ 0.02**	$ 0.11
DILUTED INCOME/(LOSS) PER SHARE	9	**$ (0.12)**	$ 0.00	**$ (0.10)**	$ (0.03)

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

		As at	
	Notes	**June 30, 2012**	**December 31, 2011**
ASSETS			
Current assets			
Cash and cash equivalents		**$ 61,578**	$ 123,567
Trade and other receivables	10	**49,795**	80,285
Short term investments		**30,000**	-
Inventories		**57,330**	52,443
Prepaid expenses and deposits		**34,714**	38,308
Total current assets		**233,417**	294,603
Non-current assets			
Prepaid expenses and deposits		**8,389**	8,389
Property, plant and equipment		**555,483**	498,533
Deferred income tax assets	8	**20,264**	19,560
Long term investments		**28,935**	99,238
Total non-current assets		**613,071**	625,720
Total assets		**$ 846,488**	$ 920,323
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	11	**$ 14,282**	$ 52,235
Deferred revenue		**4,872**	-
Current portion of convertible debenture	12	**4,284**	6,301
Total current liabilities		**23,438**	58,536
Non-current liabilities			
Convertible debenture	12	**113,134**	139,085
Deferred income tax liabilities		**-**	2,366
Decommissioning liability		**3,934**	4,156
Total non-current liabilities		**117,068**	145,607
Total liabilities		**140,506**	204,143
Equity			
Common shares		**1,059,527**	1,054,298
Share option reserve		**50,957**	44,143
Investment revaluation reserve		**(8,950)**	16,559
Accumulated deficit	13	**(395,552)**	(398,820)
Total equity		**705,982**	716,180
Total equity and liabilities		**$ 846,488**	$ 920,323
Net current assets		**$ 209,979**	$ 236,067
Total assets less current liabilities		**$ 823,050**	$ 861,787

SELECT INFORMATION FROM THE NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

1. BASIS OF PREPARATION

1.1 Statement of compliance

The Company's condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee.

1.2 Basis of presentation

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

1.3 Prior Period Reclassifications

Certain items within the Company's condensed consolidated interim statement of comprehensive income have been reclassified to better reflect the Company's increased mining operations.

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

For the three months ended June 30, 2011, the reclassifications resulted in $3,024 from administration expenses being reclassified to other operating expenses. For the six months ended June 30, 2011, the reclassifications resulted in $4,407 from administration expenses being reclassified to other operating expenses.

2. SEGMENTED INFORMATION

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

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

	Mongolian Coal Division	Unallocated [(i)]	Consolidated Total
Segment assets			
As at June 30, 2012	**$ 725,812**	**$ 120,676**	**$ 846,488**
As at December 31, 2011	696,732	223,591	920,323
Segment liabilities			
As at June 30, 2012	**$ 21,813**	**$ 118,693**	**$ 140,506**
As at December 31, 2011	51,256	152,887	204,143
Segment income/(loss)			
For the three months ended June 30, 2012	**$ (18,872)**	**$ 19,109**	**$ 237**
For the three months ended June 30, 2011	1,633	65,690	67,323
For the six months ended June 30, 2012	**$ (7,108)**	**$ 10,471**	**$ 3,363**
For the six months ended June 30, 2011	5,263	15,458	20,721
Segment revenues			
For the three months ended June 30, 2012	**$ 8,412**	**$ -**	**$ 8,412**
For the three months ended June 30, 2011	47,336	-	47,336
For the six months ended June 30, 2012	**$ 48,565**	**$ -**	**$ 48,565**
For the six months ended June 30, 2011	67,494	-	67,494

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

The operations of the Company are located in Mongolia, Hong Kong and Canada.

	Mongolia	Hong Kong	Canada	Consolidated Total
Revenues				
For the three months ended June 30, 2012	**$ 8,412**	**$ -**	**$ -**	**$ 8,412**
For the three months ended June 30, 2011	47,336	-	-	47,336
For the six months ended June 30, 2012	**$ 48,565**	**$ -**	**$ -**	**$ 48,565**
For the six months ended June 30, 2011	67,494	-	-	67,494
Non-current assets				
As at June 30, 2012	**$ 577,449**	**$ 197**	**$ 35,426**	**$ 613,071**
As at December 31, 2011	519,003	283	106,434	625,720

3. COST OF SALES

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Operating expenses	**$ 4,975**	$ 29,639	**$ 17,567**	$ 39,023
Share-based compensation expense	**189**	300	**1,205**	685
Depreciation and depletion	**1,470**	7,653	**5,341**	10,352
Cost of sales during mine operations	**6,634**	37,592	**24,113**	50,060
Cost of sales during idled mine period [(i)]	**15,587**	-	**15,587**	-
Cost of sales	**$ 22,221**	$ 37,592	**$ 39,700**	$ 50,060

(i) Cost of sales during idled mine period includes $8,785 of depreciation expense and $965 of stock-based compensation expense for the three and six month periods ended June 30, 2012. The depreciation expense relates to the Company's idled plant and equipment.

The Company curtailed its mining activities during the three months ended June 30, 2012 to varying degrees to manage coal inventories and to maintain efficient working capital levels. As at June 30, 2012, mining activities had been fully curtailed.

4. OTHER OPERATING EXPENSES

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Public infrastructure	**$ 1,176**	$ 3,202	**$ 1,186**	$ 3,938
Sustainability and community relations	**260**	145	**431**	480
Foreign exchange (gain)/loss	**(483)**	(323)	**1,960**	(11)
Provision for doubtful trade and other receivables (Note 10)	**2,583**	-	**2,583**	-
Other	**267**	-	**220**	-
Other operating expenses	**$ 3,803**	$ 3,024	**$ 6,380**	$ 4,407

5. ADMINISTRATION EXPENSES

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Corporate administration	**$ 1,544**	$ 1,634	**$ 3,033**	$ 3,386
Legal and professional fees	**1,338**	1,299	**1,682**	1,845
Salaries and benefits	**1,508**	986	**2,857**	1,863
Share-based compensation expense	**3,052**	2,848	**5,698**	4,934
Depreciation	**55**	41	**110**	116
Administration expenses	**$ 7,497**	$ 6,808	**$ 13,380**	$ 12,144

6. EVALUATION AND EXPLORATION EXPENSES

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

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Drilling and trenching	**$ 696**	$ 3,093	**$ 3,470**	$ 3,905
Other direct expenses	**458**	436	**992**	691
Share-based compensation expense	**177**	202	**314**	446
Overhead and other	**768**	625	**2,356**	1,305
Evaluation and exploration expenses	**$ 2,099**	$ 4,356	**$ 7,132**	$ 6,347

7. FINANCE COSTS AND INCOME

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

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Interest expense on convertible debenture	**$ 1,552**	$ 2,177	**$ 1,816**	$ 6,684
Unrealized loss on FVTPL investments	**2,282**	-	**2,620**	488
Realized loss on disposal of FVTPL investments	**46**	-	**-**	-
Interest expense on line of credit facility	**99**	156	**187**	286
Accretion of decommissioning liability	**27**	45	**58**	84
Finance costs	**$ 4,006**	$ 2,378	**$ 4,681**	$ 7,542

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

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Unrealized gain on embedded derivatives in convertible debenture	**$ 26,770**	$ 70,422	**$ 25,995**	$ 33,641
Interest income	**105**	355	**256**	782
Unrealized gain on FVTPL investments	**-**	3,629	**-**	-
Realized gain on disposal of FVTPL investments	**-**	-	**39**	-
Finance income	**$ 26,875**	$ 74,406	**$ 26,290**	$ 34,423

8. TAXES

The Company and its subsidiaries are subject to income or profits tax in the jurisdictions in which the Company operates, including Canada, Hong Kong, Singapore and Mongolia. Income or profits tax was not provided for the Company's operations in Canada, Hong Kong or Singapore as the Company had no assessable income or profit arising in or derived from these jurisdictions.

For the six months ended June 30, 2012 the Company recorded current income tax expense of $1,127 (2011: $3,475) related to assessable profit derived from Mongolia at prevailing rates. For the six months ended June 30, 2012, the Company recorded a deferred income tax recovery of $704 (2011: $2,779) related to its Mongolian operations.

9. EARNINGS/(LOSS) PER SHARE

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Net income	**$ 237**	$ 67,323	**$ 3,363**	$ 20,721
Weighted average number of shares	**181,860**	183,745	**181,802**	183,746
Basic income/(loss) per share	**$ 0.00**	$ 0.37	**$ 0.02**	$ 0.11
Income/(loss)				
Net income	**$ 237**	$ 67,323	**$ 3,363**	$ 20,721
Interest expense on convertible debenture	**1,552**	2,177	**1,816**	6,684
Unrealized gain on embedded derivatives in convertible debenture	**(26,770)**	(70,422)	**(25,995)**	(33,641)
Diluted net loss	**$ (24,981)**	$ (922)	**$ (20,816)**	$ (6,236)
Number of shares				
Weighted average number of shares	**181,860**	183,745	**181,802**	183,746
Convertible debenture	**28,128**	20,264	**28,406**	20,931
Weighted average number of dilutive stock options	**-** (i)	- (i)	**-** (i)	- (i)
Diluted weighted average number of shares	**209,988**	204,009	**210,208**	204,677
Diluted income/(loss) per share	**$ (0.12)**	$ 0.00	**$ (0.10)**	$ (0.03)

(i) The stock options were anti-dilutive for the three and six month periods ended June 30, 2012 and 2011

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

Potentially dilutive items not included in the calculation of diluted earnings/(loss) per share for the three and six month periods ended June 30, 2012 were 10,974 stock options that were anti-dilutive (2011: 8,615 stock options).

10. TRADE AND OTHER RECEIVABLES

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

	As at	
	June 30, 2012	December 31, 2011
Trade receivables	$ **43,852**	$ 64,051
VAT/HST receivable	**331**	144
Insurance proceeds receivable	**1,511**	12,913
Other receivables	**4,101**	3,177
Total trade and other receivables	$ **49,795**	$ 80,285

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

	As at	
	June 30, 2012	December 31, 2011
Less than 1 month	$ **4,254**	$ 50,824
1 to 3 months	**744**	3,337
3 to 6 months	**26,737**	23,699
Over 6 months	**18,060**	2,425
Total trade and other receivables	$ **49,795**	$ 80,285

For the three months and six months ended June 30, 2012, the Company recorded a $2,583 loss provision on certain customer trade receivables (2011: $nil). The loss provision relates to allowances granted to certain customers in order to expedite trade receivable cash collections.

The Company anticipates full recovery of its remaining outstanding trade and other receivables; therefore, no further loss provisions have been recorded in respect of the Company's trade and other receivables.

11. TRADE AND OTHER PAYABLES

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

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

	As at	
	June 30, 2012	December 31, 2011
Less than 1 month	$ **12,327**	$ 52,032
1 to 3 months	**886**	76
3 to 6 months	**1,067**	105
Over 6 months	**2**	22
Total trade and other payables	$ **14,282**	$ 52,235

12. CONVERTIBLE DEBENTURE

On November 19, 2009, the Company issued a convertible debenture to a wholly owned subsidiary of the China Investment Corporation ("CIC") for $500,000. The convertible debenture is secured, bears interest at 8.0% per annum (6.4% payable semi-annually in cash and 1.6% payable annually in the Company's shares) and has a maximum term of 30 years.

On March 29, 2010, pursuant to the debenture conversion terms, the Company exercised its conversion right and completed the conversion of $250,000 of the convertible debenture into 21,471 shares at a conversion price of $11.64 (Cdn$11.88).

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

12.1 Presentation

Based on the Company's valuations as at June 30, 2012, the fair value of the embedded derivatives decreased by $26,770 compared to March 31, 2012. This decrease was recorded as finance income for the three months ended June 30, 2012. The fair value of the embedded derivatives decreased by $25,995 compared to December 31, 2011. This decrease was recorded as finance income for the six months ended June 30, 2012.

For the three months ended June 30, 2012, the Company recorded interest expense of $4,989 (2011: $5,005) related to the convertible debenture of which $3,437 was capitalized as borrowing costs and the remaining $1,552 was recorded as a finance cost. For the six months ended June 30, 2012, the Company recorded interest expense of $9,984 (2011: $9,953) related to the convertible debenture of which $8,168 was capitalized as borrowing costs and the remaining $1,816 was recorded as a finance cost.

The interest expense consists of the interest at the contract rate and the accretion of the debt host component of the convertible debenture. To calculate the interest expense, the Company uses the contract life of 30 years and an effective interest rate of 22.2%.

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

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
Balance, beginning of period	**$ 147,156**	$ 289,529	**$ 145,386**	$ 251,810
Interest expense on convertible debenture	**4,989**	5,005	**9,984**	9,953
Decrease in fair value of embedded derivatives	**(26,770)**	(70,422)	**(25,995)**	(33,641)
Interest paid	**(7,957)**	(7,935)	**(11,957)**	(11,945)
Balance, end of period	**$ 117,418**	$ 216,177	**$ 117,418**	$ 216,177

The convertible debenture balance consists of the following amounts:

	As at	
	June 30, 2012	**December 31, 2011**
Debt host	**$ 90,740**	$ 90,696
Fair value of embedded derivatives	**22,394**	48,389
Interest payable	**4,284**	6,301
Convertible debenture	**$ 117,418**	$ 145,386

13. ACCUMULATED DEFICIT AND DIVIDENDS

At June 30, 2012, the Company has accumulated a deficit of $395,552 (December 31, 2011: $398,820). No dividends have been paid or declared by the Company since inception.

REVIEW OF INTERIM RESULTS

The condensed consolidated interim financial statements for the Company for the six months ended June 30, 2012, were reviewed by the Audit Committee of the Company.

SouthGobi's results for the quarter ended June 30, 2012 are contained in the unaudited Condensed Consolidated Interim Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), available on the SEDAR website at www.sedar.com and SouthGobi Resources website at www.southgobi.com.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the six months ended June 30, 2012, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board of Directors and all applicable statutory, regulatory and stock exchange listings standards (old Corporate Governance Code from January 1, 2012 to March 31, 2012 and new Corporate Governance Code from April 1, 2012 to June 30, 2012).

ABOUT SOUTHGOBI RESOURCES

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

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

Information contacts, SouthGobi Resources

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Forward-Looking Statements: This document includes forward-looking statements. Forward-looking statements include, but are not limited to: the Company anticipates its operations will remain fully curtailed in the third quarter of 2012; the Ovoot Tolgoi Mine has the potential to produce well in excess of 2011 levels; the potential to convert any undeveloped resources into reserves; the ability of the Company to expand margins through the benefits of coal processing and increasing economies of scale; expanded border crossing infrastructure at the Shivee Khuren Border Crossing is expected to increase capacity to approximately 20 million tonnes or more of coal per year; the capacity of the paved highway in excess of 20 million tonnes of coal per year; SouthGobi intends to attempt to mitigate issues and to the extent possible reduce capital expenditures, operating costs and exploration; and other statements that are not historical facts. When used in this document, the words such as "plan," "estimate," "expect," "intend," "may," and similar expressions are forward-looking statements. Although SouthGobi believes that the expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Important factors that could cause actual results to differ from these forward-looking statements are disclosed under the heading "Risk Factors" in SouthGobi's Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2011 and the three months ended June 30, 2012 which are available at www.sedar.com.