



**SouthGobi  
Resources**

**SouthGobi Resources Ltd.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**March 31, 2010**

(Unaudited)

(Expressed in U.S. dollars)

# TABLE OF CONTENTS

## CONDENSED FINANCIAL STATEMENTS

	<i>Page</i>
Condensed Consolidated Interim Statement of Comprehensive Income.....	3
Condensed Consolidated Interim Statement of Financial Position.....	4
Condensed Consolidated Interim Statement of Changes in Equity.....	5
Condensed Consolidated Interim Statement of Cash Flows.....	6

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

	<i>Page</i>
1. Corporate information.....	7
2. Basis of preparation.....	7
3. Segmented information.....	8
4. Discontinued operations.....	9
5. Cost of sales.....	10
6. Administration expenses.....	10
7. Finance costs and income.....	11
8. Loss per share.....	12
9. Cash and cash equivalents.....	12
10. Investments.....	13
11. Inventories.....	13
12. Property, plant and equipment.....	14
13. Line of credit facilities.....	15
14. Convertible debenture.....	16
15. Share capital.....	18
16. Share-based payments.....	19
17. Accumulated deficit and dividends.....	21
18. Related party transactions.....	21
19. Supplemental cash flow information.....	23
20. Commitments for expenditure.....	24
21. Approval of the financial statements.....	24

# SOUTHGOBI RESOURCES LTD.

## Condensed Consolidated Interim Statement of Comprehensive Income

(Unaudited)

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

	Notes	Three months ended March 31,	
		2010	2009
<b>CONTINUING OPERATIONS</b>			
Revenue		\$ 13,917	\$ 3,541
Cost of sales	5	(12,730)	(3,213)
<b>Income from mine operations</b>		<b>1,187</b>	<b>328</b>
Administration expenses	6	(6,034)	(6,119)
Evaluation and exploration expenses		(1,651)	(768)
<b>Operating loss from continuing operations</b>		<b>(6,498)</b>	<b>(6,559)</b>
Finance costs	7	(163,009)	(62)
Finance income	7	575	5
<b>Loss before tax</b>		<b>(168,932)</b>	<b>(6,616)</b>
Current income tax expense		(10)	-
Deferred income tax recovery		671	-
<b>Loss from continuing operations</b>		<b>(168,271)</b>	<b>(6,616)</b>
Loss from discontinued operations	4	-	(3,344)
<b>Net loss and comprehensive loss attributable to equity holders of the Company</b>		<b>\$ (168,271)</b>	<b>\$ (9,960)</b>
<b>BASIC AND DILUTED LOSS PER SHARE FROM:</b>			
Continuing operations	8	(1.09)	(0.05)
Discontinued operations	8	-	(0.03)
<b>Continuing and discontinued operations</b>		<b>(1.09)</b>	<b>(0.08)</b>
Weighted average number of basic and diluted shares outstanding ('000s)	8	153,968	133,263

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

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

	Notes	As at	
		March 31, 2010	December 31, 2009
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	\$ 723,415	\$ 357,342
Trade and other receivables		18,210	12,328
Short term investments	10	-	14,999
Inventories	11	18,297	16,384
Prepaid expenses and deposits		6,679	8,119
<b>Total current assets</b>		<b>766,601</b>	<b>409,172</b>
<b>Non-current assets</b>			
Property, plant and equipment	12	113,512	82,705
Deferred listing costs		-	4,565
Deferred income tax assets		7,618	6,947
Long term investments	10	86,384	57,070
Other receivables		238	225
<b>Total non-current assets</b>		<b>207,752</b>	<b>151,512</b>
<b>Total assets</b>		<b>\$ 974,353</b>	<b>\$ 560,684</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		\$ 13,279	\$ 12,669
Amounts due under line of credit facility	13	3,010	3,009
Current portion of convertible debenture	14	13,030	4,712
<b>Total current liabilities</b>		<b>29,319</b>	<b>20,390</b>
<b>Non-current liabilities</b>			
Convertible debenture	14	347,460	542,351
Asset retirement obligation		940	735
<b>Total non-current liabilities</b>		<b>348,400</b>	<b>543,086</b>
<b>Total liabilities</b>		<b>377,719</b>	<b>563,476</b>
<b>Shareholders' equity/(deficiency)</b>			
Common shares	15	1,062,279	296,419
Share option reserve	16	24,137	22,300
Accumulated deficit	17	(489,782)	(321,511)
<b>Total shareholders' equity/(deficiency)</b>		<b>596,634</b>	<b>(2,792)</b>
<b>Total shareholders' equity and liabilities</b>		<b>\$ 974,353</b>	<b>\$ 560,684</b>
<b>Net current assets</b>		<b>\$ 737,282</b>	<b>\$ 388,782</b>
<b>Total assets less current liabilities</b>		<b>\$ 945,034</b>	<b>\$ 540,294</b>

Commitments for expenditure (Note 20)

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

APPROVED BY THE BOARD:

"Andre Deepwell"  
Director

"Pierre Lebel"  
Director

# SOUTHGOBI RESOURCES LTD.

## Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

(Expressed in thousands of U.S. Dollars)

	Number of shares	Common shares	Share option reserve	Accumulated deficit	Total
Balances, January 1, 2010	134,517	\$ 296,419	\$ 22,300	\$ (321,511)	\$ (2,792)
Shares issued for:					
Cash	27,228	441,130	-	-	441,130
Share issue costs	-	(27,200)	-	-	(27,200)
Conversion of convertible debenture	21,471	347,643	-	-	347,643
Interest settlement on convertible debenture	90	1,436	-	-	1,436
Exercise of stock options	378	2,851	(1,134)	-	1,717
Stock-based compensation charged to operations	-	-	2,971	-	2,971
Net loss and comprehensive loss for the period	-	-	-	(168,271)	(168,271)
<b>Balances, March 31, 2010</b>	<b>183,684</b>	<b>\$ 1,062,279</b>	<b>\$ 24,137</b>	<b>\$ (489,782)</b>	<b>\$ 596,634</b>
Balances, January 1, 2009	133,193	\$ 289,512	\$ 12,775	\$ (213,322)	\$ 88,965
Shares issued for:					
Exercise of stock options	106	419	(197)	-	222
Stock-based compensation charged to operations	-	-	3,847	-	3,847
Sale of metals division	-	-	-	2,617	2,617
Net loss	-	-	-	(9,960)	(9,960)
<b>Balances, March 31, 2009</b>	<b>133,299</b>	<b>\$ 289,931</b>	<b>\$ 16,425</b>	<b>\$ (220,665)</b>	<b>\$ 85,691</b>

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

**SOUTHGObI RESOURCES LTD.**  
**Condensed Consolidated Interim Statement of Cash Flows**  
*(Unaudited)*  
*(Expressed in thousands of U.S. Dollars)*

	Notes	Three months ended	
		March 31,	
		2010	2009
<b>OPERATING ACTIVITIES</b>			
Loss for the year from continuing operations before tax		\$ (168,932)	\$ (6,616)
Adjustments for:			
Depreciation and depletion		2,553	421
Share-based compensation		2,971	3,732
Fair value change on embedded derivative	14	1,372	-
Mark to market adjustment on investments		685	-
Interest income		(575)	(5)
Accrued interest expense		9,585	53
Loss on partial conversion of convertible debenture	14	151,353	-
Unrealized foreign exchange loss		370	1,068
Loss on disposal of property, plant and equipment		360	113
Accretion on asset retirement obligation		14	9
Operating cash flows before movements in working capital		(244)	(1,225)
Increase in inventories		(2,957)	(728)
Increase in trade and other receivables		(6,449)	(2,885)
Decrease/(increase) in prepaid expenses and deposits		1,440	(173)
Increase/(decrease) in trade and other payables		803	(856)
Cash used in continuing operations		(7,407)	(5,867)
Cash used in discontinued operations	4	-	(3,547)
<b>Cash used in operating activities</b>		<b>(7,407)</b>	<b>(9,414)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(32,230)	(5,121)
Interest received		475	15
Maturity of short term investments		15,000	-
Purchase of long term investments		(30,000)	-
Increase in other receivables		(13)	-
Cash used in continuing operations		(46,768)	(5,106)
Cash used in discontinued operations	4	-	(652)
<b>Cash used in investing activities</b>		<b>(46,768)</b>	<b>(5,758)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of common shares and exercise of stock options, net of issue costs		420,211	222
Drawings under line of credit facilities		9,800	8,000
Repayments of line of credit facilities		(9,855)	-
<b>Cash generated from financing activities</b>		<b>\$ 420,156</b>	<b>\$ 8,222</b>
Effect of foreign exchange rate changes on cash		92	15
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>366,073</b>	<b>(6,935)</b>
Cash and cash equivalents, beginning of period		357,342	10,340
<b>Cash and cash equivalents, end of period</b>		<b>\$ 723,415</b>	<b>\$ 3,405</b>
<b>COMPRISED OF:</b>			
Cash and cash equivalents of continuing operations		\$ 723,415	\$ 2,201
Cash and cash equivalents of discontinued operations		-	1,204
<b>Total cash and cash equivalents</b>		<b>\$ 723,415</b>	<b>\$ 3,405</b>
Cash		\$ 683,399	\$ 3,405
Money market instruments		40,016	-
<b>Total cash and cash equivalents</b>		<b>\$ 723,415</b>	<b>\$ 3,405</b>

**Supplemental cash flow information (Note 19)**

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

# **SOUTHGOBI RESOURCES LTD.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

March 31, 2010

*(Unaudited)*

*(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)*

---

### **1. CORPORATE INFORMATION**

SouthGobi Resources Ltd. (formerly SouthGobi Energy Resources Ltd.) is a publicly listed company incorporated in Canada with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange and Hong Kong Stock Exchange. The company together with its subsidiaries (collectively referred to as the "Company") is principally engaged in the acquisition, exploration, development and production of coal properties in Mongolia. The Company's parent is Ivanhoe Mines Ltd. (the "parent" or "Ivanhoe").

The head office, principal address and registered and records office of the Company are located at 999 Canada Place, Suite 654, Vancouver, British Columbia, V6C 3E1.

The Company's financial statements and those of all of its controlled subsidiaries are presented in U.S. dollars and all values are rounded to the nearest thousand dollars except where otherwise indicated. Information related to shares is presented in thousands except for loss per share information which is presented in U.S. cents.

The Company is a coal producer and a coal exploration and development company. These condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

### **2. BASIS OF PREPARATION**

#### **2.1 Statement of compliance**

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

#### **2.2 Basis of presentation**

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2009 consolidated annual financial statements.

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

*(Unaudited)*

*(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)*

---

### 3. SEGMENTED INFORMATION

The basis of segmentation, basis of measurement of segment profit or loss and geographical segmentation is consistent with those applied in the Company's December 31, 2009 consolidated annual financial statements.

At March 31, 2010, the Company has one reportable operating segment, being the Mongolian Coal Division, which had three active customers with the largest customer accounting for 63% of trade receivables and the other customers accounting for the remaining 37% of trade receivables. For the three months ended March 31, 2010, the largest customer accounted for 65% of revenues and the other customers accounted for the remaining 35% of revenues.

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

	<b>Mongolian Coal Division</b>	<b>Discontinued Operations <sup>(i)</sup></b>	<b>Unallocated <sup>(ii)</sup></b>	<b>Consolidated Total</b>
<b>Segment assets</b>				
As at March 31, 2010	<b>\$ 162,607</b>	<b>\$ -</b>	<b>\$ 811,746</b>	<b>\$ 974,353</b>
As at December 31, 2009	129,454	-	431,230	560,684
<b>Segment liabilities</b>				
As at March 31, 2010	<b>\$ 12,793</b>	<b>\$ -</b>	<b>\$ 364,926</b>	<b>\$ 377,719</b>
As at December 31, 2009	7,300	-	556,176	563,476
<b>Segment losses</b>				
For the three months ended March 31, 2010	<b>\$ 1,426</b>	<b>\$ -</b>	<b>\$ 166,845</b>	<b>\$ 168,271</b>
For the three months ended March 31, 2009	1,510	3,344	5,106	9,960
<b>Segment revenues</b>				
For the three months ended March 31, 2010	<b>\$ 13,917</b>	<b>-</b>	<b>-</b>	<b>\$ 13,917</b>
For the three months ended March 31, 2009	3,541	-	-	3,541

(i) The Indonesian Coal Division was treated as discontinued operations for the three months ended March 31, 2009 (Note 4)

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

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

---

### 3. SEGMENTED INFORMATION (Continued)

The following is an analysis of the revenues and non-current assets by geographical area and reconciled to the Company's condensed consolidated interim financial statements:

	<u>Mongolia</u>	<u>Hong Kong</u>	<u>Canada</u>	<u>Consolidated Total</u>
<b>Revenues</b>				
For the three months ended March 31, 2010	\$ 13,917	\$ -	\$ -	\$ 13,917
For the three months ended March 31, 2009	3,541	-	-	3,541
<b>Non-current assets</b>				
As at March 31, 2010	\$ 120,816	\$ 45	\$ 86,891	\$ 207,752
As at December 31, 2009	89,587	49	61,876	151,512

### 4. DISCONTINUED OPERATIONS

The Company sold the Indonesia Coal Division, which is composed entirely of the Mamahak Coal Project ("Mamahak"), effective December 15, 2009. The Company divested its 85% interest in Mamahak to Kangaroo Resources Limited ("Kangaroo") for consideration comprising of \$1 million in cash and 50 million shares of Kangaroo with a fair value of \$8,776. Kangaroo is listed on the Australian Securities Exchange (KRL: ASX). The transaction was completed on December 23, 2009 and the Company incurred transaction costs of \$1 million related to the disposition of Mamahak. As a result of this transaction, the Company held 6.7% of the outstanding shares in Kangaroo on the closing date of the transaction and those shares are subject to a twelve month lock-up.

The Company has disclosed Mamahak as a discontinued operation in the three months ended March 31, 2009. The losses from discontinued operations for the three months ended March 31, 2009 were \$3,344.

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

---

### 5. COST OF SALES

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

	Three months ended	
	March 31,	
	2010	2009
Operating expenses	\$ 10,207	\$ 2,795
Depreciation and depletion	2,523	418
<b>Cost of sales</b>	<b>\$ 12,730</b>	<b>\$ 3,213</b>

### 6. ADMINISTRATION EXPENSES

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

	Three months ended	
	March 31,	
	2010	2009
Corporate administration	\$ 1,117	\$ 581
Legal	199	140
Professional fees	315	586
Listing fees	-	235
Salaries and benefits	3,355	3,716
Sustainability, government and community relations	628	-
Depreciation	6	4
Foreign exchange loss	414	857
<b>Administration expenses</b>	<b>\$ 6,034</b>	<b>\$ 6,119</b>

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

---

### 7. FINANCE COSTS AND INCOME

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

	Three months ended March 31,	
	2010	2009
Fair value change of embedded derivatives in convertible debenture (Note 14)	\$ 1,372	\$ -
Loss on partial conversion of convertible debenture (Note 14)	151,353	-
Interest expense on convertible debenture (Note 14)	9,529	-
Interest expense on line of credit facilities (Note 13)	56	53
Mark to market loss on investments (Note 10)	685	-
Accretion of asset retirement obligation	14	9
<b>Finance costs</b>	<b>\$ 163,009</b>	<b>\$ 62</b>

The finance income for the Company is broken down as follows:

	Three months ended March 31,	
	2010	2009
Interest income	\$ 575	\$ 5
<b>Finance income</b>	<b>\$ 575</b>	<b>\$ 5</b>

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

---

### 8. LOSS PER SHARE

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

	Three months ended	
	March 31,	
	2010	2009
Net loss from continuing operations for the purpose of basic and diluted loss per share	\$ 168,271	\$ 6,616
Net loss from discontinued operations for the purpose of basic and diluted loss per share	\$ -	\$ 3,344
Weighted average number of shares for the purpose of basic and diluted loss per share	153,968	133,263

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as preference shares, outstanding stock options, share purchase warrants and convertible debentures, in the weighted average number of common shares outstanding during the period, if dilutive. All of the stock options and the convertible debenture were anti-dilutive for the three months ended March 31, 2010 and 2009.

### 9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of bank balances and short term money market instruments with an original maturity of three months or less. The Company's cash and cash equivalents are denominated in the following currencies:

	As at	
	March 31, 2010	December 31, 2009
Denominated In U.S. dollars	\$ 720,582	\$ 357,163
Denominated in Canadian dollars	1,579	(136)
Others	1,254	315
<b>Cash and cash equivalents</b>	<b>\$ 723,415</b>	<b>\$ 357,342</b>

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

### 10. INVESTMENTS

The Company's investments are broken down as follows:

	As at	
	March 31, 2010	December 31, 2009
<b>Short term investments</b>		
Money market investments <sup>(i)</sup>	\$ -	\$ 14,999
<b>Long term investments</b>		
Investment in Kangaroo Resources <sup>(iii)</sup>	9,173	9,876
Money market investments <sup>(ii)</sup>	77,211	47,194
	<b>86,384</b>	<b>57,070</b>
<b>Short and long term investments</b>	<b>\$ 86,384</b>	<b>\$ 72,069</b>

(i) Money market investments with original maturities greater than ninety days and less than one year

(ii) Money market investments with original maturities greater than one year

(iii) For more information regarding this investment see Note 4

### 11. INVENTORIES

The Company's inventories are broken down as follows:

	As at	
	March 31, 2010	December 31, 2009
Stockpiles <sup>(i)</sup>	\$ 3,757	\$ 9,553
Materials and supplies	14,540	6,831
<b>Inventories</b>	<b>\$ 18,297</b>	<b>\$ 16,384</b>

(i) Coal inventories are stated at production cost

The amount of inventories recognized as an expense during the three months ended March 31, 2010 is \$12,175 (2009: \$1,696). As at March 31, 2010, the Company anticipates the entire stockpiles balance of \$3,757 will be realized within twelve months.

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

### 12. PROPERTY, PLANT AND EQUIPMENT

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

	Mobile equipment	Computer equipment	Furniture and fixtures	Machinery and equipment	Buildings and roads	Mineral assets	Construction in progress	Total
<b>Cost</b>								
As at December 31, 2009	\$ 66,688	\$ 587	\$ 499	\$ 3,222	\$ 13,594	\$ 6,085	\$ 971	\$ 91,646
Additions	26,986	75	43	751	9	5,437	452	33,753
Disposals	(464)	-	(1)	-	-	-	-	(465)
Reclassifications	231	-	-	-	-	-	(231)	-
<b>As at March 31, 2010</b>	<b>\$ 93,441</b>	<b>\$ 662</b>	<b>\$ 541</b>	<b>\$ 3,973</b>	<b>\$ 13,603</b>	<b>\$ 11,522</b>	<b>\$ 1,192</b>	<b>\$ 124,934</b>
<b>Accumulated depreciation</b>								
As at December 31, 2009	\$ (6,974)	\$ (299)	\$ (72)	\$ (583)	\$ (883)	\$ (130)	\$ -	\$ (8,941)
Charge for the period	(1,923)	(23)	(26)	(149)	(435)	(30)	-	(2,586)
Eliminated on disposals	105	-	-	-	-	-	-	105
<b>As at March 31, 2010</b>	<b>\$ (8,792)</b>	<b>\$ (322)</b>	<b>\$ (98)</b>	<b>\$ (732)</b>	<b>\$ (1,318)</b>	<b>\$ (160)</b>	<b>\$ -</b>	<b>\$ (11,422)</b>
<b>Net book value</b>								
As at December 31, 2009	\$ 59,714	\$ 288	\$ 427	\$ 2,639	\$ 12,711	\$ 5,955	\$ 971	\$ 82,705
<b>As at March 31, 2010</b>	<b>\$ 84,649</b>	<b>\$ 340</b>	<b>\$ 443</b>	<b>\$ 3,241</b>	<b>\$ 12,285</b>	<b>\$ 11,362</b>	<b>\$ 1,192</b>	<b>\$ 113,512</b>

In the three months ended March 31, 2010, the Company capitalized interest of \$252 (2009: \$nil) into construction in progress.

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

---

### 13. LINE OF CREDIT FACILITY

On December 18, 2009, the Company established a line of credit facility with Golomt Bank in Mongolia ("Bank line of credit"). The Bank line of credit facility is a twelve month revolving line of credit facility with a maximum draw-down available of \$3 million. The facility bears interest at 13% per annum and is secured by equipment in Mongolia to a value of not less than 150% of the total facility amount. The Bank line of credit facility will be used by the Company's Mongolian subsidiaries as part of their working capital management.

The movement of the amounts due under the Bank line of credit is as follows:

	Three months ended	
	March 31,	
	2010	2009
Balance, beginning of period	\$ 3,009	\$ -
Amounts advanced	9,800	-
Interest expense	56	-
Amounts repaid	(9,855)	-
<b>Balance, end of period</b>	<b>\$ 3,010</b>	<b>\$ -</b>

The Bank line of credit is broken down as follows:

	As at	
	March 31,	December 31,
	2010	2009
Principal amount	3,000	3,000
Interest payable	10	9
<b>Amounts due under line of credit facility</b>	<b>\$ 3,010</b>	<b>\$ 3,009</b>

### FINANCIAL STATEMENT PRESENTATION

#### Current liabilities

Amounts due under line of credit facility	\$ 3,010	\$ 3,009
---	----------	----------

# **SOUTHGOBI RESOURCES LTD.**

## **Notes to the Condensed Consolidated Interim Financial Statements**

March 31, 2010

*(Unaudited)*

*(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)*

---

### **14. 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, which is secured and 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 with a maximum term of 30 years.

Pursuant to the debenture conversion terms, the Company had the right to call for the conversion of up to \$250,000 of the debenture upon achieving a public float of 25% of its common shares based on a conversion price of the lower of Cdn\$11.88 and the 50-day volume-weighted average price ("VWAP"). On March 29, 2010, the Company exercised this right and completed the conversion of \$250,000 of the convertible debenture into 21,471 shares at a conversion price of \$11.64 (Cdn\$11.88). On March 29, 2010, the Company also settled the accrued interest payable in shares on the converted \$250,000 by issuing 90 shares for the \$1,436 in accrued interest converted at the 50-day VWAP conversion price of \$15.97 (Cdn\$16.29). On April 1, 2010, the Company also settled the outstanding accrued interest payable in cash on the converted debt of \$250,000 with a cash payment of \$5,742.

Based on the Company's valuations as at March 29, 2010 and March 31, 2010, the fair value of the embedded derivatives for the entire convertible debenture, including the amount converted at March 29, 2010, increased by \$1,372, which was expensed in financing costs for the three months ended March 31, 2010. In the three months ended March 31, 2010, the Company also recorded an interest expense of \$9,781 related to the convertible debenture. The interest expense is composed 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 has used the contract life of 30 years and an effective interest rate of 22.2%.

The fair value of the shares issued upon the partial conversion, based on their market value, was \$347,643 compared to the carrying value of the debt host and embedded derivatives, associated with the debt of \$250,000 that was converted, of \$196,290. The difference of \$151,353 was recognized in finance costs as a loss upon partial conversion during the three months ended March 31, 2010.

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

### 14. CONVERTIBLE DEBENTURE (Continued)

The movement of the amounts due under the convertible debenture is as follows:

	Three months ended	
	March 31,	
	2010	2009
Balance, beginning of period	\$ 547,063	\$ -
Interest expense on convertible debenture	9,781	-
Fair value change on embedded derivatives	1,372	-
Loss on partial conversion of convertible debenture	151,353	-
Conversion of convertible debenture	(347,643)	-
Repayment of accrued interest	(1,436)	-
<b>Balance, end of period</b>	<b>\$ 360,490</b>	<b>\$ -</b>

The amounts due under the convertible debenture are further broken down as follows:

	As at	
	March 31, 2010	December 31, 2009
Debt host	\$ 90,574	\$ 184,079
Fair value of embedded derivatives	256,886	358,272
Interest payable	13,030	4,712
<b>Convertible debenture</b>	<b>\$ 360,490</b>	<b>\$ 547,063</b>

### FINANCIAL STATEMENT PRESENTATION

#### Current liabilities

Current portion of convertible debenture	\$ 13,030	\$ 4,712
--	-----------	----------

#### Non-current liabilities

Convertible debenture	347,460	542,351
<b>Convertible debenture</b>	<b>\$ 360,490</b>	<b>\$ 547,063</b>

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

*(Unaudited)*

*(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)*

---

### 14. CONVERTIBLE DEBENTURE (Continued)

The assumptions used in the Company's valuation models as at March 31, 2010 and December 31, 2009 are as follows:

	As at	
	March 31, 2010	December 31, 2009
Floor conversion price	<b>Cdn\$8.88</b>	Cdn\$8.88
Ceiling conversion price	<b>Cdn\$11.88</b>	Cdn\$11.88
Historical volatility	<b>78%</b>	75%
Risk free rate of return	<b>4.02%</b>	4.09%
Foreign exchange spot rate (U.S.\$ to Cdn\$)	<b>0.98</b>	0.96
Forward foreign exchange rate curve (U.S.\$ to Cdn\$)	<b>0.90 - 0.98</b>	0.90 - 0.95

### 15. SHARE CAPITAL

The Company has authorized an unlimited number of common and preferred shares with no par value. At March 31, 2010, the Company had 183,684 common shares outstanding (2009: 133,299) and no preferred shares outstanding (2009: nil).

The weighted average share price during the three months ended March 31, 2010 was Cdn\$16.89 (2009: Cdn\$8.85).

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

*(Unaudited)*

*(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)*

---

### 16. SHARE-BASED PAYMENTS

#### 16.1 Stock option plan

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to acquire common shares of the Company at the volume weighted average closing price for the five days preceding the date of grant. The Amended Equity Incentive Plan, approved on May 6, 2009, provides for a rolling rather than a fixed maximum number of common shares which may be issued pursuant to incentive stock options and other equity incentives, awards and issuances. The Compensation and Benefits Committee determines and makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share-based compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements. The Company is authorized to issue options for a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan.

The stock option plan permits the Board of Directors of the Company to set the terms for each stock option grant, however, the general terms of stock options granted under the amended plan include a maximum exercise period of 5 years and a vesting period of 3 years with one-third of the grant vesting on the first anniversary of the grant, one-third vesting on the second anniversary of the grant and one-third vesting on the third anniversary of the grant. The options granted in the three months ended March 31, 2010, were granted with a weighted average maximum exercise period of 5.00 years (2009: 7.00 years) and a weighted average vesting period of 2.01 years (2009: 1.50 years).

During the three months ended March 31, 2010, the Company granted 200 stock options (2009: 625) to officers, employees, directors and other eligible persons at an exercise price of Cdn\$15.09 (2009: Cdn\$7.94) and an expiry date of February 8, 2015. The weighted average fair value of the options granted in the three months ended March 31, 2010, was estimated at \$7.54 (Cdn\$8.06) (2009: \$4.11, Cdn\$5.09) per option at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were:

	<b>Three months ended March 31, 2010</b>	<b>Year ended December 31, 2009</b>
Risk free interest rate	2.19%	2.17%
Expected life	3.5 years	3.6 years
Expected volatility <sup>(i)</sup>	74.78%	79.54%
Expected dividend per share	\$nil	\$nil

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

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

### 16. SHARE-BASED PAYMENTS (Continued)

#### 16.1 Stock option plan (continued)

A share-based compensation cost of \$1,492 for the options granted in the three months ended March 31, 2010 (2009: \$2,429) will be amortized over the vesting period, of which \$124 was recognized in the three months ended March 31, 2010 (2009: \$760).

The total share-based compensation calculated for the three months ended March 31, 2010 was \$2,971 (2009: \$3,732). Share-based compensation of \$2,526 (2009: \$3,294) has been allocated to Administration expenses, \$274 (2009: \$437) has been allocated to Cost of sales and \$171 (2009: \$1) has been allocated to Evaluation and exploration expenses.

#### 16.2 Outstanding stock options

The following is a summary of option transactions under the Company's stock option plan for the three months ended March 31, 2010:

	Three months ended March 31, 2010		Year ended December 31, 2009	
	Number of options	Weighted average exercise price (Cdn\$)	Number of options	Weighted average exercise price (Cdn\$)
Balance, beginning of period	7,254	\$ 9.11	6,586	\$ 7.18
Options granted	200	15.09	2,671	11.13
Options exercised	(378)	4.63	(1,324)	3.16
Options forfeited	(46)	13.59	(679)	9.96
<b>Balance, end of period</b>	<b>7,030</b>	<b>\$ 9.49</b>	<b>7,254</b>	<b>\$ 9.11</b>

The following table summarizes information about stock options outstanding and exercisable at March 31, 2010:

Exercise price (Cdn\$)	Options Outstanding			Options Exercisable		
	Options outstanding	Weighted- average exercise price (Cdn\$)	Weighted- average remaining contractual life (years)	Options outstanding and exercisable	Weighted- average exercise price (Cdn\$)	Weighted- average remaining contractual life (years)
\$0.86 - \$2.85	640	\$ 2.14	1.18	640	\$ 2.14	1.43
\$3.70 - \$6.00	2,113	5.57	2.86	1,456	5.78	2.74
\$7.16 - \$13.80	3,179	11.17	4.38	751	10.11	4.51
\$15.07 - \$18.86	1,098	16.47	3.61	325	16.68	3.58
	<b>7,030</b>	<b>\$ 9.49</b>	<b>3.51</b>	<b>3,172</b>	<b>\$ 7.19</b>	<b>2.98</b>

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

*(Unaudited)*

*(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)*

---

### 17. ACCUMULATED DEFICIT AND DIVIDENDS

The Company has incurred losses since inception and at March 31, 2010 the Company has accumulated a deficit of \$489,782 (December 31, 2009: \$321,511).

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

### 18. RELATED PARTY TRANSACTIONS

The consolidated interim financial statements include the results or financial information of SouthGobi Resources Ltd. and its subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest	
		March 31, 2010	December 31, 2009
Asia Gold International Holding Company Ltd.	British Virgin Islands	100%	100%
SouthGobi Energy Resources (Hong Kong) Ltd.	Hong Kong	100%	100%
Dayarbulag LLC	Mongolia	100%	100%
SouthGobi Sands LLC	Mongolia	100%	100%
Transbaikal Gold	Russia	100%	100%
SGQ Coal Investment Pte. Ltd.	Singapore	100%	100%
SGQ Dayarcoal Mongolia Pte. Ltd.	Singapore	100%	100%

#### 18.1 Related party expenses

The Company incurred the following expenses with Ivanhoe, I2MS.NET PTE LTD ("I2MS") and Global Mining Management ("GMM"), companies related by way of directors or shareholders in common. As at March 31, 2009, Ivanhoe owned approximately 57% of the outstanding common shares of the Company.

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

### 18. RELATED PARTY TRANSACTIONS (Continued)

#### 18.1 Related party expenses (continued)

Below is an analysis of the Company's related party expenses:

	Three months ended	
	March 31,	
	2010	2009
Corporate administration	\$ 609	\$ 229
Salaries and benefits	808	300
Interest	-	53
<b>Related party expenses</b>	<b>\$ 1,417</b>	<b>\$ 582</b>

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

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

	Three months ended	
	March 31,	
	2010	2009
GMM	\$ 981	\$ 408
Ivanhoe	300	53
I2MS	136	121
<b>Related party expenses</b>	<b>\$ 1,417</b>	<b>\$ 582</b>

#### 18.2 Related party assets

The assets of the Company include the following amounts due from related parties:

	As at	
	March 31, 2010	December 31, 2009
Amounts due from GMM	\$ 238	\$ 225

## SOUTHGOBI RESOURCES LTD.

### Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

---

#### 18. RELATED PARTY TRANSACTIONS (Continued)

##### 18.3 Related party liabilities

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

	As at	
	March 31, 2010	December 31, 2009
Amounts due to GMM	\$ 256	\$ 240
Accounts payable to Ivanhoe	39	158
Accounts payable to I2MS	127	211
<b>Related party liabilities</b>	<b>\$ 422</b>	<b>\$ 609</b>

#### 19. SUPPLEMENTAL CASH FLOW INFORMATION

##### 19.1 Non-cash financing and investing activities

The Company incurred the following non-cash investing and financing transactions in the three months ended March 31, 2010:

	Three months ended March 31,	
	2010	2009
Conversion of convertible debenture	\$ 347,643	\$ -
Interest settlement on convertible debenture	1,436	-
Transfer of share option reserve upon exercise of options	1,134	198
<b>Non-cash financing and investing activities</b>	<b>\$ 350,213</b>	<b>\$ 198</b>

# SOUTHGOBI RESOURCES LTD.

## Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2010

(Unaudited)

(Expressed in thousands of U.S. Dollars and shares in thousands, unless otherwise indicated)

---

### 19. SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

#### 19.2 Cash payments for interest and taxes

The Company made the following cash payments for interest and income taxes in the three months ended March 31, 2010:

	Three months ended	
	March 31,	
	2010	2009
Interest paid	\$ 55	\$ -
Taxes paid	-	-
<b>Total cash payments</b>	<b>\$ 55</b>	<b>\$ -</b>

### 20. COMMITMENTS FOR EXPENDITURE

As at March 31, 2010, the Company had the following commitments that have not been disclosed elsewhere in these condensed consolidated financial statements:

	As at March 31, 2010				Total
	Within 1 year	2-3 years	4-5 Years	Over 5 years	
Capital expenditure commitments	\$24,602	\$ -	\$ -	\$ -	\$24,602
Minimum rental and lease payments	1,380	2,223	417	-	4,020
<b>Commitments</b>	<b>\$25,982</b>	<b>\$ 2,223</b>	<b>\$ 417</b>	<b>\$ -</b>	<b>\$28,622</b>

### 21. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements of SouthGobi Resources Ltd. for the three months ended March 31, 2010, were approved and authorized for issue by the Board of Directors on May 14, 2010.