INDEPENDENT TECHNICAL REVIEW
PROPOSED KHUSHUUT OPENPIT COAL MINE

Khovd Province, Mongolia

Prepared For

MONGOLIA ENERGY CORPORATION LIMITED

By

John T. Boyd Company

Mining and Geological Consultants

Pittsburgh, Pennsylvania, U.S.A.

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16 October 2009
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Mongolia Energy Corporation Limited
Room 1502 – 5 New World Tower 1
16 – 18 Queen's Road
Central Hong Kong

Attention: Mr. James J. Schaeffer
Chief Executive Officer

Subject: Independent Technical Review
Proposed Khushuut Openpit Coal Mine
Khovd Province, Mongolia

Dear Sirs:

John T. Boyd Company (BOYD) was engaged in May 2009 by Mongolia Energy Corporation Limited (MEC) to prepare an Independent Technical Review (ITR) for the Khushuut Openpit Coal Mine project located in Khovd Province, Mongolia. It is our understanding that the ITR will be used in conjunction with a separate coal quality and marketing report being prepared by Shanxi Fenwei Energy Consulting Co., Ltd (Fenwei), to provide technical disclosure for project financing purposes.

BOYD is knowledgeable of the Khushuut Coal Project, having monitored field exploration activity for the 2007, 2008, and 2009 drilling seasons and prepared various coal resources, opencut mining, and other technical studies on the MEC area of control. Salient technical information from BOYD's project work concerning the Khushuut Coal Project has been complied and summarized in preparing this ITR. Our ITR complies with The Stock Exchange of Hong Kong (SEHK) reporting guidelines, with resource reporting being prepared in accordance with international JORC Code standards.

Respectfully submitted,
By:

John T. Boyd II
President & CEO

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GLOSSARY AND DEFINITIONS

AD	Air dried, as in coal quality reporting.
Apparent Thickness	Thickness of a coal seam or lithologic bed measured vertically (or as intersected by the drill hole). In steeply dipping strata, the apparent thickness is substantially greater than the true thickness.
BOYD	John T. Boyd Company.
Burden......................................	Rock material removed during openpit mining to expose the mineable coal seams. Minor coal seams and individual in-seam partings (within the coal seams being recovered) measuring greater than 0.3 m are included in the burden.
CAPEX	Acronym for capital expenditures, which is an expense that is incurred to buy fixed assets or to add to the value of an existing fixed asset. Includes all infrastructure and equipment purchases.
Coal Preparation Plant	Facility used to selectively remove an undesirable portion (waste) from the ROM/raw coal using chemical or mechanical methods. Also known as CPP.
Coal Resource	A concentration or occurrence of coal of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics, and continuity of a coal resource are known, estimated, or interpreted from specific geological evidence and knowledge. Coal resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated, and Measured categories.
Coal Reserve	The economically mineable part of a Measured or Indicated coal resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of the modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal

	reserves are subdivided in order of increasing confidence into Probable coal reserves and Proved coal reserves.
Coal Seam	Portion of the strata that contains solid fossil fuel.
Commercial Output	Saleable product from a particular mine, which may include varying proportions of raw and cleaned coals.
Conceptual Plan........................	Provides an assessment of a deposit and forms the basis of the economic viability. Assumptions based on experience and local knowledge used to estimate operating and capital costs, are considered within +/- 35% to 40% accuracy.
Design Institute	Xinjiang Coal Industry Design and Research Institute Co., Ltd.
Dip	Angle that strata make with the horizontal.
Face	Mine location where active coal extraction is taking place.
Feasibility Study	Assesses in detail the technical soundness and economic viability of an undeveloped mining project and serves as the basis for the investment decision and as a bankable document for project financing. The study constitutes an audit of all geological, engineering, environmental, legal, and economic information accumulated on the project. Generally, a separate environmental impact study is required.
Indicated Coal Resource	That part of a coal resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or quality continuity but are spaced closely enough for continuity to be assumed.
Inferred Coal Resource	That part of a coal resource for which tonnage, quality, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed, but not verified, geological and/or quality continuity. It is based on information gathered through appropriate techniques from locations such as

	outcrops, trenches, pits, workings, and drill holes, which may be limited or of uncertain quality and reliability.
JORC	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
JORC Code	Australian Code for Reporting of Mineral Resources and Ore Reserves.
Kcal/kg	Kilocalorie per kilogramme — measure of coal heat content.
km	Kilometer.
m	Meter.
m^2	Square meter (also sq. m).
m^3	Cubic meter (also cu m).
Marketable Reserves	Saleable coal from Recoverable Reserves after accounting for preparation plant yield, where applicable.
MEC	Mongolia Energy Corporation, Limited.
Measured Coal Resource	That part of a coal resource for which tonnage, densities, shape, physical characteristics, quality, and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling, and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes.
Mine Plan	A Mining Plan Report is understood as the current documentation of the state of development and exploitation of a deposit during its economic life, including current mining plans. It is generally made by the operator of the mine. The study takes into consideration the quantity and quality of the minerals extracted during the reporting time, changes in economic viability categories due to changes in prices and costs, development of relevant technology, newly imposed environmental or other regulations, and data on exploration conducted concurrently with mining.
mm	Millimeter.

GLOSSARY AND DEFINITIONS - Continued

Mt	Million tonnes.
Mtpa	Million tonnes per annum.
Normal Fault..............................	A fault where the hanging wall has dropped along the fault plane (fault angle between 45 and 90 degrees) relative to the footwall.
OPEX	Acronym for operating expense; is an ongoing cost for production of a product. Is limited to costs that include raw materials (fuel, oil, etc.), purchased components (repair parts, etc.), and labor/benefit and other cash costs.
OSD	out-of-seam dilution, i.e., roof and floor rock recovered with the coal seam during the normal mining process.
Outcrop	The part of the coal formation exposed to the surface.
Out-of-Seam	Non-coal material above and below the coal seam recovered during mining.
Overburden	Waste material overlying a coal seam.
Partings	Rock material within mineable coal seams usually extracted with the coal.
Prefeasibility Study	Provides a preliminary assessment of the economic viability of a deposit and forms the basis for justifying further investigations (detailed exploration and feasibility). It usually follows a successful exploration campaign and summarizes all geological, engineering, environmental, legal, and economic information accumulated to date.
Probable Coal Reserve	The economically mineable part of an Indicated and, in some circumstances, Measured coal resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Also referred to as Recoverable Probable Coal Reserve.

GLOSSARY AND DEFINITIONS - Continued

(Production) Cost	All cash costs directly associated with coal production, including, but not limited to, raw materials consumed, salary and wages, labor benefits, power, repairs, coal processing transport of coal from mine to loading point, general administrative expense, and selling expenses.
Proved Coal Reserve	The economically mineable part of a Measured coal resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social, and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Also referred to as Recoverable Proved Coal Reserve.
Qb	Bomb calorific value. The Qb is the heating value per unit of coal (kg) burning in a special container under the condition of high pressure (25–35 times atmospheric pressure) and superfluous oxygen.
Qgr	Gross calorific value. The Qgr of coal is the heating value per unit of coal (kg) burning under natural conditions.
Raw Coal	Coal on an as-mined basis, which may be sold directly or processed if necessary.
Recoverable Coal......................	Portion of coal reserve available for mining exclusive of coal losses due to mining.
Recoverable Reserves..............	Proved and Probable reserves prior to adjustment for preparation plant yield.
ROM..	Run-of-mine — the as-mined material as it leaves the mine site.
Team 129	China Coal and Geology Bureau 129 Exploration Team.
Tonne	Metric ton equal to 1,000 kilogrammes.
tph	Tonnes-per-hour.
True Thickness.........................	Thickness of a coal seam or lithologic unit measured perpendicular to the plane of bedding.

GLOSSARY AND DEFINITIONS - Continued

Wash Plant................................ Facility used to selectively remove an undesirable portion (waste) from the ROM/Raw coal using chemical or mechanical methods. Also known as a Coal Preparation Plant (CPP).

Yield .... Saleable portion of coal cleaned in a preparation plant relative to the total tonnes cleaned.

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1.0 GENERAL STATEMENT

1.1 Introduction

Mongolian Energy Corporation (MEC) currently holds the exploration and various mining licenses in the Khushuut Concession Area located in Khvod Province, Mongolia. BOYD has been working with MEC since 2007 as Technical Advisor and has been involved in several exploration programs.

During 2007, a total of 199 open and core drill holes were completed as the first phase of exploration within the Khushuut area (the “2007 Summer Program”). A 2008 summer and a 2008–2009 winter drilling and sampling program (the “2008 Summer and 2008–2009 Winter Program”) were conducted and a total of 9,710 m at 60 locations were drilled. BOYD was involved on-site for the 2007 Summer program and the 2008 Summer program. BOYD will be reviewing the 2008–2009 Winter program results and incorporating its results in future resource/reserve evaluation studies. The primary purpose of the 2008–2009 Winter Exploration Program was:

- Collecting coal cores for analytical testing (57 holes), and
- Collecting rock and coal samples (3 holes) for geotechnical testing.

BOYD has also been assisting MEC on-site with a 2009 Summer program that included the following:

Area	No. of Holes	Meters
Khushuut	95	23,675.7
North of Khushuut	4	1,368.5
Total	99	25,044.2

The 2009 Summer program included supplemental holes located within the Khushuut study area for use in locating potential waste dump areas, infill quality and structure control holes for the C and B seams, and holes to test quality of seams located below the B Seam in the western part of the deposit.

Drilling north of Khushuut is to establish initial results of the potential to extend the Khushuut Mine to areas north of the Khushuut River. Laboratory results are not expected until the end of the year and will be reviewed by BOYD at that time.

BOYD has also been involved in general reconnaissance exploration activities during 2008 and 2009 on other MEC license areas in Western Mongolia. Results of the reconnaissance are not part of this ITR and will be used to determine future exploration of ferrous and non-ferrous target areas.

The primary market of the Khushuut's coking coal resources is the Uygur Autonomous Region of Xinjiang, China ("Xinjiang"). Substantial volumes of thermal coal will be produced as a by-product of the coal preparation processes, and from the secondary production from coal seams or portions of mined coal seams, which are either weathered or oxidized coking coal, and which would be unsuitable for coke making. Due to the relatively high cost of transporting thermal coal to potential end-users in Xinjiang and/or wheeling electricity into the Xinjiang market from a mine-mouth power plant at Khushuut, BOYD has assumed that the mined thermal coals will be stockpiled in designated locations, compacted to prohibit combustion, and sealed to retard weathering and/or saved to be blended into a final saleable product. A portion of this thermal coal will be used for an on-site power generation facility for the purpose of producing electric power for the proposed mining operations and local community usage.

MEC has contracted with Shanxi Fenwei Energy Consulting Co., Ltd. (Fenwei) to provide advice regarding the projected market pricing of marketable coking coal products from Khushuut. To do so, Fenwei has made certain assumptions as to the blending proportions of oxidized, weathered, and premium coking coal. As directed by MEC, BOYD has used Fenwei's recommended blending ratio of different grades of coking coal and their projected market pricing as a basis for its analysis. The Fenwei recommendations were provided in a letter to BOYD dated 20 November 2009 and are included as Appendix A, following this report.

For purposes of BOYD's analysis, based on the limited amount of coal quality information from the 2007 Summer Program, Fenwei assumed three types of premium-quality coking coal products that would be produced from Khushuut, beginning with coal at depths of 50 meters (m). It should be noted that shallower depth coals must be mined first and recovered in order to gain access to the deeper premium coking coal resources. Based on the results from the 2007 Summer Program, Fenwei developed a blending plan to produce a Khushuut No. 1 blend and Khushuut No. 2 blend, which is outlined in subsequent chapters of this report.

As criteria to be used in BOYD's modeling, Fenwei assumed that the weathering and oxidation of coking coal decreases with depth. Fenwei chose the Chinese Caking Index, G, as a proxy measure of the degree of weathering and oxidation. The following are depth-based criteria relative to G-value assumed by Fenwei:

- < 10 m depth: a weathered zone in which the coal is assumed to be totally oxidized with G-vaues less than five; the weathered coal would not be suitable for blending with higher G-value coking coal into a marketeable coking coal and it can be used only as fuel for domestic space heating or as fuel for a power plant.

- 10 m to 50 m depth: an oxidized zone of coking coal with an assigned average G-value of 12 and the coal would be suitable as a coking coal if blended with higher G-value coking coal.

- > 50 m depth: a zone of premium coking coal with average G-values of 75–85 in the C Seam and average G-values of 40–70 in the B Seam.

The reported resources and coal product distribution shown in this report are dependent on the reliability and accuracy of the Fenwei assumptions.

As of the writing of this report (October 2009), the laboratory results of the coal quality of 6,939 samples from the 2008 Summer Program and the 2008–2009 Winter Program have been finalized. These results will improve our understanding of the Khushuut coal deposit, which has had a complex geologic history. It is anticipated that these results may influence the above Fenwei assumptions. BOYD is in the process of analyzing these results and will incorporate them into an updated geologic model, which is scheduled to be completed in late November.

The Khushuut Coal Mine Project is located in the Darvi Soum District of Khovd Province in western Mongolia. Khushuut is approximately 210 km south of the provincial capital of Khovd and 1,500 km west-southwest of Ulaanbaatar. The site also can be reached from the port of entry Baytag-Uliastay, at the Chinese border; approximately 310 km to the southwest (see Figure 1.1, following this text). MEC is in the process of having an asphalt-paved road constructed from Khushuut to the Yarant Border Station, in order to access the Xinjiang market. Delivered pricing provided by Fenwei was adjusted by BOYD to estimate minegate pricing. The cost of off-site truck transportation was deducted (from the delivered price) using published Chinese-based contractor haulage rates. BOYD used a rate of US$40 per tonne for long-haul transport and material handling for the approximate 860 km haul from Khushuut to a potential buyer in Xinjiang.

Western Mongolia is a combination of desert-steppe, steppe, forest-steppe, and taiga ecosystems that have been grass-dominated over the past 4,000 years. Elevation in the area ranges from approximately 750 m to 2,800 m above sea level, and annual precipitation ranges from less than 100 to over 300 mm/yr. The proposed Khushuut Mine operation is located on the eastern flank of the Altay Mountain range at an elevation of about 2,000 m. Topography in the area consists of low, rolling hills with little vegetation and minimal soil cover. The following picture shows the typical Khushuut topography:

Existing Khushuut Mine Disturbance and Area Topography

Average temperatures over most of the country include a summer season extending from May to September, temperatures below freezing from November through March and about freezing in April and October. In January and February, averages of -20° C are common, with winter nights of -40° C occurring most years.

1.2 Scope of Work

BOYD is knowledgeable of the Khushuut Coal Mine Project, having monitored field exploration activity for the 2007, 2008, and 2009 drilling seasons and prepared various coal resource, opencut mining, and other technical studies on the MEC area of control. This Independent Technical Review ("ITR") report will compile and summarize salient technical information to provide the reader with an understanding of the Khushuut coal resources and the emerging opencast mining opportunity. The technical analysis and projections presented in this ITR are based solely on the coal quality information from the 2007 Summer Program and incorporate the Fenwei guidance regarding coal quality occurrence within the Khushuut coal deposits and projected market pricing of coking coal.

- Geology
  - Discuss the geological setting of the Khushuut deposit.
  - Summarize prior exploration activity.
  - Outline the resource and reserve estimation procedures, definitions, and parameters.

  - Discuss geologic modeling.
  - Summarize coal resource and reserve findings, including tonnage and strip ratio. We have assumed that the Fenwei report will address coal quality and grade and the basis relative to input of this report.

- Mine Plans

  - Discuss the selected mining technology and the conceptual mine plan layout.
  - Provide an overview of mine site facilities.
  - Outline the planned mining operation at full production:
    - Volumetrics: ROM, product coal tonnes, overburden/interburden waste volumes.
    - Employment.
    - Operating cost estimate.
    - Sustaining capital cost estimate.
  - Discuss near-term mining plans and the overall mine development schedule.
  - Provide an annualized schedule of production, CAPEX, operating cost for the mine development period.

- Coal Preparation

  - Processing flowsheet.
  - Budgeting CAPEX and operating cost estimates.

Our report will not discuss product coal quality (grade assumption, coal marketing, and related issues); these topics are being addressed by Fenwei in separate reports.

For the purposes of this ITR , BOYD considers estimates of operating and capital costs relative to a potential opencast operation with a plus/minus 25% accuracy.

1.3 Source Data

The coal resource basis used to develop the mine model is abstracted from the BOYD June 2008 report. The source basis of the mine planning and OPEX and CAPEX scheduling were developed on first principles basis from an internal BOYD prefeasibility report completed for MEC during the fourth quarter of 2008. The purpose of that report was for internal guidance and was not finalized. Coking coal occurrence criteria, coal quality, and pricing for all coal products were provided by Fenwei (provided as Appendix A, following this report).

At the time BOYD was commissioned in 2007 to complete a prefeasibility study, MEC considered the possibility of ramping up from 3 Mtpa to 8 Mtpa of production, maximizing the coal resources over a 20-year period. The assumptions and the analysis described in the subsequent chapters of this ITR are based on these projected levels of production for Khushuut.

Currently, based on Fenwei's market study, the near-term coking coal demand of potential customers, the coal resource footprint, MEC has directed Shenyang Design and Research Institute to develop a detailed 3 Mtpa mine plan for the purpose of initiating mining operations by the end of 2009.

Ultimately any realization of projections, as presented in this ITR and the opportunities to increase production up to 8 Mtpa will depend on the quality of the relatively complex coal deposit, the customer requirements for the quality and quantity of Khushuut's coal products, the demand and price for coking coal in the Xinjiang market, and the size of mining equipment that can be utilized.

Critical assumptions regarding certain infrastructure requirements, such as water resources, have been provided by MEC and are subject to confirmation during detailed planning stages of the Khushuut openpit mine. It should be noted that MEC has various contracts underway for detailed planning, construction drawings, road construction, environmental analysis, hydrological, amongst others in order to fast track this project into production. Our report has made relevant assumptions based on BOYD's experience, actual field work, and knowledge of Mongolian mining operations. In the subsequent chapter of this report we denote, where applicable, those assumptions, critical issues, ongoing efforts by the various contracts to resolve issues as well as the anticipated timeline to complete those projects.

A status report of the project as of 1 October 2009 has been developed by MEC and is presented in Appendix B, following this report. BOYD has discussed these activities with MEC and believes the information as presented is a fair representation of the current status.

1.4 Project Team

The BOYD Project Team has extensive professional experience in coal resource reporting on a worldwide basis. Included in this team are:

Mr. Ronald L. Lewis – Managing Director and Chief Operating Officer, BS (Civil Engineering)
Mr. Lewis has 37 years of experience in assessment and evaluation of coal mining companies with specialized expertise in the areas of coal/mineral reserve estimation, opencut and underground mine analysis, and economic assessment of mining operations. He is a Registered Professional Mining Engineer and a recognized expert in mining property valuation. Mr. Lewis is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as

defined in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

Mr. David Zhong – In-Country Project Leader/Managing Director – China, BS (Mining Engineering)
Mr. Zhong manages the BOYD Beijing office and has over 40 years of experience in the mining industry, primarily in coal mine design at the Beijing Coal Design and Research Institute. His last position was that of Chief Engineer.

Mr. James F. Kvitkovich – US Project Director/Vice President, BS (Mining Engineering)
Mr. Kvitkovich has 28 years of experience in assessment and evaluation of underground coal mining operations throughout the world. He is a Registered Professional Engineer and is highly experienced with regard to reviewing and evaluating LW mining operations. Mr. Kvitkovich is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

Mr. Paul D. Anderson — Geologic Assessment/Director of Geological Services, BS (Geology)
Mr. Anderson is a Certified Professional Geologist (AIPG) with 31 years of professional experience in exploration, evaluation, and development of coal and mineral deposits. Mr. Anderson is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and a member of the American Institute of Professional Geologists, and is qualified as a Competent Person as defined in the Australasian Code for Reporting Mineral Resources and Ore Reserves (JORC Code).

Mr. Edward C. Mast – Senior Geologist, BS (Geology)
Mr. Mast has over 30 years of experience in field exploration, geologic, coal resource, and coal reserve assessment. He is a registered Professional Geologist in Wyoming (US) and a member of the American Institute of Professional Geologists and the Australasian Institute of Mining and Metallurgy (JORC qualified).

Mr. Thaddeus J. Sobek – ITR Preparation/Senior Engineer, BS (Civil Engineering)
Mr. Sobek has 32 years of experience as a mine engineering consultant with extensive international experience. He is a Registered Professional Engineer with a focus on opencut mine planning and design, mine feasibility and cost analysis, equipment application and selection, equipment appraisal, and productivity and efficiency surveys. Mr. Sobek is a Registered Member of the Society for Mining, Metallurgy, and Exploration, Inc., and is qualified as a Competent Person as defined in the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code).

Mr. Rongjie (Jeff) Li — Geologist, MS (Geology)
Mr. Li has over three years of experience in coal and mineral deposit geology, coalfield exploration, drilling supervision, geologic review, and project coordination.

Mr. John Hird – Associate Senior Engineer, BS (Mining Engineering) - Mr. Hird has 23 years of experience in mine design and production planning for openpit and underground mines in coal and metals. Computer skills include geologic modeling, resource/reserve estimation, and mine planning. Software experience includes MINCOM and Whittle programs. Mr. Hird is a Registered Professional Engineer.

1.5 BOYD Qualifications

BOYD is one of the largest independent consulting firms in the world exclusively serving the mining, financial, utility, power, and related industries. Our consultancy services have been provided on a continuous basis since 1943 in over 50 countries. Our full-time staff includes specialists in the analysis of geology, reserves, mine planning and costs, material handling, markets, business planning, transport, and environmental issues. Our full range of professional services includes:

- Due diligence of mining operations.
- Fuel and energy supply planning.
- Permitting and environmental analysis.
- Contract negotiations.
- Market and transport analysis.
- Economic feasibility studies and valuations.
- Assessment of existing operations.
- Strategic business planning.
- Transport issues.
- Asset appraisals.
- Minerals industry restructuring.
- Privatization studies.
- Geologic, reserve, and mine plan modeling.
- Exploration design and supervision.
- Reserve and geotechnical studies.
- Technical assistance in legal matters.
- Monitoring of operating companies.
- Financial analysis.

Our headquarters are located in the Pittsburgh, Pennsylvania, region in the United States. Branch offices are established in Denver, Colorado (US); Brisbane, Australia; and Beijing, China.

Visit our website (www.jtboyd.com) for additional details.

BOYD also possesses extensive computer and software systems to estimate reserves and complete mine plans, including Vulcan, MINCOM, SurvCADD, and others.

Among our numerous IPO projects, we have extensive experience in preparing Competent Persons and Independent Financial Technical Review Reports for international financing purposes and for stock exchange filings. We are knowledgeable of listing requirements of The Stock Exchange of Hong Kong (SEHK), London Stock Exchange, and NI43-101 (Canadian Requirements), JORC Code, U.S. Securities and Exchange (SEC) Rules, etc. We are familiar with the level of effort required by international investors and financial institutions.

We represented Shenhua Group Corporation as their Technical Advisor for their successful IPO on the SEHK. Our work included an analysis of reserves (JORC, SEC, and UN Reporting Standards), coal quality, mine operations, processing, material handling and rail and ocean transport facilities, and economics. Shenhua Group Corporation’s reserve holdings were evaluated according to JORC Code to meet the requirements of SEHK Rule 18. Our report was accepted by the SEHK.

BOYD is a recognized consultancy having worldwide stature. We were retained by Her Majesty’s Government, Department of Trade and Industry, regarding the privatization of British Coal Corporation (British Coal) and were actively involved with N M Rothschild, the lead financial advisor, during the course of this project. Our work assisted in the restructuring of the industry. The coal mining operations of British Coal were successfully privatized for a total purchase price of US$1.4 billion equivalent.

We have completed over 2,000 resource and reserve audits. Eighty percent (80%) of the largest US coal producers have entrusted BOYD to review their holdings. BOYD’s reserve statements have been used by client companies for SEC filings.

We have worked with and/or for virtually all of the major international banks. Numerous financial agencies have used our services to opine on property/mine operations. We have the proven ability to prepare a bankable document that is accepted and used with confidence by major financial institutions and other investors around the world.

1.6 Statement of Interests

BOYD is a privately owned consultancy firm with headquarters in the United States. Our company was selected for this assignment on the basis of our internationally recognized expertise in exploration, resource/reserve studies, mine development, and valuation. All of BOYD's work has been performed as an independent expert. BOYD has no ownership interest in the Khushuut Concession or MEC. Payment for our services is not contingent upon our opinions regarding the merits of the project or approval of our work by MEC.

1.7 Forward-Looking Statements

This ITR utilizes prefeasibility mine planning with an intended costing accuracy of plus/minus 25% and relies on various broad assumptions as outlined herein. Estimates of coal resources and reserves, as well as projections of coal mine output and future costs, are inherently forward-looking statements. Actual performance may differ from projections of future performance due to various reasons beyond the control of BOYD, including, but not limited to: inherent uncertainties in geologic data interpretation, occurrence of unforeseen geological conditions, change or lack of development in key domestic and international markets, material changes in market prices, variations in execution of construction and mine plans, and significant changes in projected materials, supplies, parts and equipment, operating costs, and expenditures. Imposition of different central, regional, and/or local government policies, and/or the future availability of necessary regional infrastructure could affect the accuracy and future mineability of reported resources.

1.8 Recommendations

BOYD has highlighted certain assumptions included in this ITR relative to scheduling, price, and costs. Additional in-depth analysis and reporting is required for ongoing evaluation and detailed mine design to ensure accuracy of these critical assumptions.

We recommend the following additional work effort and detailed analysis be completed as soon as possible:

- Market Analysis: including Market Price of Coking Coal upon completion of quality analysis as part of the summer 2008 and winter 2009 sampling programs. Market analysis should determine end-user requirements (quantity and quality) and price adjustments for remote mine location and associated long-haul requirements.
- Quality Sampling: including core samples sufficient to determine depth relationship and/or lateral variability.
- Screening Analysis and Washability Analysis: bulk samples to determine screening characteristics and ability to produce a saleable ROM coking product

and efficiency of dry screening to remove deleterious material. Washability Analysis to determine final clean product quality and product yield.

- Water Resources: detailed availability consumption requirements to determine the viability of a potential mine-mouth power and coal wash plant.

The above information is critical to subsequent mine planning and detailed design engineering. MEC has commenced action to develop the required information since the completion of the 2008 Summer program and the 2008–2009 Winter program and is working with BOYD to incorporate the additional data into ongoing work in order to develop a better understanding of the deposit.

1.9 Closing Remarks

In preparing this report, we have relied on drilling and coal quality data as reported by Team 129 and operating and other data as provided and directed by MEC and Fenwei. Specifically, BOYD has relied on Fenwei's input and assumptions regarding the extent, characteristics, and quality of weathered, oxidized, and premium coking coal at Khushuut and the blending proportions to come up with the final coking coal products as well as delivered pricing for the coking coal products.

The estimate of in-place coal resource tonnage as shown herein is considered to be JORC compliant. Due to limited coal quality data available at the time this report was prepared, and assumptions regarding coal quality provided by Fenwei, we consider any reported coal product tonnage to be indicative (but not JORC compliant). It is the intention that subsequent ITR studies (now in progress) will incorporate adequate coal quality data to permit the current JORC compliant indicated resource estimate to be upgraded such that Proven and Probable product reserves can be calculated. Actual upgrading of resources/reserve classifications will be dependent upon the outcome of the ongoing resource studies.

Hydrologic studies and permitting have been completed and currently the Shenyang Design and Research Institute is in the process of a detailed plan incorporating that data. BOYD, as part of this ITR, did not have access to this data during the compilation of the prefeasibility study. However, we have assumed that a water resource would be economically available for the project. We have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional material information. The assumptions made are critical to the success and financial return associated with the Khushuut project. This preliminary ITR has been completed in accordance with generally accepted standards and practices employed in the international mining industry. The accuracy of the results and conclusions of this report is reliant on the accuracy of the information provided. We are not responsible for any material errors or omissions in the source data provided to BOYD for use in preparing this study.

The findings and conclusions presented in this report represent the independent professional opinion of BOYD based on our review of available project information. We have assumed information provided to BOYD was prepared by competent engineers and geologists. Our expertise is in technical and financial mining issues, and BOYD is not qualified to offer, nor do we represent any of our findings to include, matters of a legal or accounting nature. We believe our conclusions are reasonable assessments of the information provided.

The ability of MEC, or any mine operator, to successfully develop the Khushuut coal resources is dependent on numerous factors that are beyond the control of, and cannot be anticipated by, BOYD. These factors include mining and geologic conditions, the capabilities of management and employees, the securing of required approvals and permits in a timely manner, etc. Unforeseen changes in regulations could also impact performance, although we believe all findings and conclusions to be reasonable. BOYD does not warrant this report in any manner, express or implied. While this report addresses technical issues (e.g., mine planning and scheduling, cost analysis, etc.), qualified legal expertise is required to verify mining rights and associated royalties, taxes, and related government policies and other assumptions used in preparing this report.

Following this text is Figure 1.1.

Respectfully submitted,

JOHN T. BOYD COMPANY
By:

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M:\ENG_WP\3272.022\WP\1.0 GENERAL STATEMENT.doc

P:\CAD_GROUP\3272.022\FIGURE1-1.DWG

FIGURE 1.1

GENERAL LOCATION MAP
Showing
KHUSHUUT MINE PROJECT SITE
KHUSHUUT CONCESSION
Khovd Province, Mongolia

Prepared For
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company

October 2009
Scale 1 : 10,000,000

2.0 SUMMARIZED FINDINGS

2.1 Introduction

The purpose of this preliminary Independent Technical Review (ITR) for the proposed Khushuut openpit mining operations is to prepare a comprehensive report providing technical disclosures for project financing purposes. This report utilizes work previously completed by John T. Boyd Company (BOYD) as a Technical Advisor to MEC and separate coal quality and marketing information provided by Shanxi Fenwei Energy Consulting Co., Ltd (Fenwei). This report is based on exploration results of the initial 2007 Exploration Program. Further exploration relative to quality (and washability testing), bulk sampling, and geotechnical testing completed during the 2008 Summer exploration program and the 2008–2009 Winter program were not completed in time to be incorporated into these findings. Additionally, hydrological and environmental impact studies have been submitted to and approved by the Mongolian Government. These additional data are critical for completion of ongoing evaluations and detailed mine plans to confirm the economic viability of the proposed Khushuut openpit mine.

This report utilizes the resource study completed by BOYD in June 2008. The resources defined in our June 2008 report have well-defined volumetrics, which are considered measured, but the corresponding coal quality is considered inferred (pending inclusion of the recently completed quality results). Estimates of operating and capital costs for a potential openpit operation as shown herein are considered within a plus/minus 25% accuracy. By assignment, the sunk capital for the haulage road and haulage of coking coal to potential markets in China, project financing, and all other costs are not considered part of the OPEX and CAPEX aspects of this study. As directed by MEC, coal quality criteria for product and associated pricing (delivered to potential customers in Xinjiang Province, China) used in this report in the Whittle software were provided by Fenwei.

- This report provides operating cash cost to achieve an 8 Mtpa raw coal production target as specified by MEC.

This chapter presents BOYD’s findings and conclusions, which are supported by the various sections of this report.

2.2 Location

The project is located in the Darvi Soum District of Khovd Province in western Mongolia. Khushuut is approximately 210 km south of the provincial capital of Khovd and 1,500 km west-southwest of Ulaanbaatar. The site also can be reached from the port of entry Baytag-Uliastay, at the Chinese border (Yarant on the Mongolian side of the border) approximately 310 km to the southwest. A heavy duty haul road is currently being constructed between Khushuut and the Chinese border in order to develop the mine and to dispatch future coking coal to market. Construction of this road is ongoing and will again start up during the 2010 construction season (April through October), and as set out in Appendix B, the road base is substantially complete as explained therein and read herein.

2.3 Coal Resources

A geologic model of the Khushuut coal deposit was developed by BOYD (June 2008 Coal Resources Report) using MINCOM modeling software reflecting economic assumptions and quality parameters as directed by MEC and Fenwei. The coal resource tonnages presented in this report are derived from that model. Estimated coal resources extend to a 400-m depth and are summarized below:

	Indicated Coal Resources				
Seam	Hectares	Average Thick (m)	In-Place* Coal Seam Tonnes (000)	Burden** (Bcm-000)	Burden Ratio (Bcm/T)
C	118.7	29.1	101,739	657,790	6.5
B	156.2	13.8	47,498	78,716	1.7
			149,237	736,506	4.9

* Includes in-seam partings up to 0.3 m thick.
** Includes material mined under the coal seams to allow for a 35-degree slope.

The above coal resources consist of both premium coking coal and weathered coal and include mineable coals to a minimum overburden depth of 5 m. Coals occurring at depths of less than 5 m were considered oxidized and excluded from the resource estimate.

2.4 Mine Modeling

Software used to evaluate the Khushuut property included MINCOM MineScape (version 4.116a) and Whittle (version 4.1). Both of these computer software programs are commercially proven, internationally accepted, and commonly used to evaluate mining plans. BOYD developed an appropriate set of mine design parameters for highwall slope, minimum coal seam mineable thickness, coal losses and rock dilution additions during mining, etc., which were applied to the software to derive annual and life-of-mine volumetrics.

2.4.1 Coal Resources

Using the Whittle model and three pricing scenarios provided by Fenwei, BOYD has calculated the following total available ROM coal resources:

Scenario	ROM Tonnes (000)	Strip Ratio (BCM/tonne)
Low Price Case	134,721	4.26
Medium Price Case	137,914	4.47
High Price Case	140,885	4.58

This output is consistent with findings of our June 2008 Coal Resource Report. At the direction of Fenwei, the zone of oxidized coal was defined as 10-m overburden depth (i.e., coals located between the projected coal seam outcrop and a 10-m overburden depth are excluded).

The estimate of in-place coal resource tonnage as shown herein is considered to be JORC compliant. Due to limited coal quality data available at the time this report was prepared, and assumptions regarding coal quality provided by Fenwei, we consider any reported coal product tonnage to be indicative (but not JORC compliant). It is the intention that subsequent ITR studies (now in progress) will incorporate adequate coal quality data to permit the current JORC compliant indicated resource estimate to be upgraded such that Proven and Probable product reserves can be calculated. Actual upgrading of resources/reserve classifications will be dependent upon the outcome of the ongoing resource studies.

2.5 Coal Quality

The resource quality for the Khushuut deposit is considered inferred. The most critical quality parameter is the definition, occurrence, and tonnage of coking coal, which drives the economics for the project. For purposes of this report, BOYD has been directed to use coal quality assumptions provided to us by Fenwei. MEC has taken the necessary steps to address the coal quality issue. Additional exploration and sampling was completed during the 2008 Summer exploration program and a 2008–2009 Winter sampling program. Results of the associated analytical (coal quality testing) programs are not completed for our review at the time of this report.

2.5.1 Coking Coal Parameters and Source

It is our understanding that coking coal parameters (assumptions) as defined by Fenwei are based on assigned G-values, which are further assumed to be depth related. The limited extent of drill hole quality data suggests that G-value and corresponding coking coal quality on the property are depth-related. The following criteria were provided by Fenwei for use in this ITR:

- < 10 m depth: oxidized zone unsuitable for coking blend, to be sold as thermal or local heating fuel.
- 10 m to 50 m depth: weathered zone assigned a G-value of 12, to be used as a coking blend.
- > 50 m depth: premium coking coal with average G-values of 75–85 for C Seam and average G-values of 40–70 for B Seam.

The specified criteria will be verified, and possibly revised, once the quality of Khushuut coals are better defined.

2.6 Planning Development

The remoteness of the proposed Khushuut mining operations impacts overall economics. Significant front-end capital investment and lead times are needed to construct a road to access the Chinese border for coking coal exports and to serve as the supply line for fuel, explosives, equipment, etc., to support the mine complex. MEC is constructing a paved haul road from the Khushuut Mine site to the Chinese border at Yarant. Road foundation work is substantially complete. Additional work on bridges and pavement will be completed in 2010.

2.6.1 Production Basis

The mine plan presented is based on the assumption that a coal preparation plant (CPP) to maximize the value of the coking coal product (and minimize the haulage costs) will be operational by the end of Year 2.

The following summarizes the proposed targeted production requirements:

Year	ROM Coal (Blended Product 1) Production (tonnes-000)
1	500
2	3,000
3	5,000
4	8,000 (Full Production)

The life of mine is estimated to be 19 years.

The design output of the Khushuut open pit mine plan will be reviewed upon completion of the revised geologic model and re-estimate of coking coal resources.

MEC has instructed Shenyang Design and Research Institute to complete an initial phase detailed mine design for 3 Mtpa. BOYD concurs that a phased approach to mine development is reasonable.

2.7 Selection of Mining Method

The Khushuut coal deposit is suitable for openpit mining methods. Utilization of hydraulic excavators and large off-highway end-dump trucks will provide the lowest cost option while allowing multiple mining faces for production of coals. Availability of multiple coal faces operating in the various quality types is required to both allow an acceptable blended coal product to be produced and to maximize the recoverable coal resource. The selection of a conventional openpit operation using diesel-powered equipment is based on the remoteness of the site, geologic setting (multiple coal seams of varying thickness in a steeply dipping deposit), limited skilled workforce, and the need to maintain multiple pits.

Track dozers will supplement and support the excavator fleet in material movement and overburden dump maintenance. Front-end loaders will also be available for use as a flexible tool for general pit clean-up, to supplement the hydraulic excavators as necessary, and to assist in coal loading.

2.8 Capital Expenditures

2.8.1 Infrastructure

In order for timely construction and development of the mining project, several aspects of infrastructure would need to be completed simultaneously. These priority tasks are listed as follows:

- Road construction between Khushuut and the Chinese border is approximately 310 km. Road foundation work is substantially complete. Top coating and final bridge work remains to be completed.
- Development of water supply and associated pipelines, as necessary.
- Sewage and wastewater treatment.
- Camp development (including temporary housing).
- Power generation (both temporary and permanent power for construction, heating, and initial mine start-up).

Final road/bridge construction to allow transport of heavy equipment and fuel is the most critical link to development of the mine operation.

Secondary development and construction priorities requiring up to two years' lead time include:

- Administration, warehouse, workshops, storehouse, fuel depot, housing, and associated facilities.
- Air strip.
- Mine site power distribution.
- Secondary and mine site access roads.
- Thermal coal stockpile pad.
- Coal handling (crushing and screening) and coal preparation plant.

2.8.2 Equipment

BOYD has developed life-of-mine equipment fleet requirements and associated capital (initial and replacement) estimates based on production requirements of the mining operations and estimated productivity of the assigned equipment. The following primary equipment with their respective unit capital costs (budgetary) are planned for mining the Khushuut deposit:

Equipment Capital (initial)	Unit Capital Cost ($-000)
Overburden Drills - Drilltech D75KS	1,500
Overburden Excavators - 30.6 m^3	9,000
Overburden Excavators - 15.0 m^3	4,700
Overburden Trucks - 255 tonne	4,000
Overburden Trucks - 98 tonne	1,500
Coal Drills - Drilltech D40KS	1,000
Coal Excavators - 15.0 m^3	4,700
Coal Excavators - 6.5 m^3	2,000
Coal Trucks (Pit) - 98 tonne	1,500
Track Dozers-CAT D10T	1,250
Track Dozers-CAT D11T	1,750
Wheeled Dozers-CAT D10T	1,350
Graders-CAT 16M	950
Scrapers-CAT 637G	1,350
Water Trucks	1,350
Front-End Loaders CAT	2,300
Ancilliary Equipment (assigned)	
- Front-End Loaders (stockpile)	2,300
- Fuel/Lube and Other	850

MEC is planning to use an experienced contract miner to manage and conduct the mining operations. The contract miner will provide all mining and related capital; as a result, the majority (if not all) of the above capital items will be the responsibility of the contract miner. Initial requirements will be for the initial phase of mining to be conducted at a 3 Mtpa production level.

MEC is also planning on using a contractor to build-own-operate transfer the coal preparation plant, resulting in the contractor providing most of the related capital.

2.9 Mine Operating Costs

BOYD has developed cash operating cost projections for the proposed Khushuut opencut mine. Our cash operating cost estimates exclude national taxes and non-cash costs (such as depreciation, depletion, project financing, sunk costs, etc.) and include royalties (at 5.0% export sales) and local and provincial taxes. The following is a summary of life-of-mine costs:

Cash Operating Costs	Life-of-Mine Totals Years 1–19
Direct Mine Cost Allocated by Process	
Waste Removal (US$-000)	1,658,960
Cost/bcm	2.76
Cost/Product Tonne	16.32
Mining (US$-000)	111,763
Cost/In-Place Tonne	0.81
Cost/Sold Tonne	1.10
Coal Processing (US$-000)	257,875
Cost/In-Place Tonne	1.87
Cost/Sold Tonne	2.54
Administration & Other Mine (US$-000)	295,456
Cost/In-Place Tonne	2.14
Cost/Sold Tonne	2.91
Summary of Direct Mine Cash Cost (US$-000)	2,324,054
Cost/In-Place Tonne	16.85
Cost/Sold Tonne	22.86
Total Other Cash Mining Costs (US$-000)	526,396
Cost/In-Place Tonne	3.75
Cost/Sold Tonne	5.03
Total Cash Mining Cost[(a)] (US$-000)	**2,850,450**
Cost/In-Place Tonne	20.64
Cost/Sold Tonne	27.71
CAPEX[(b)] (US$-000)	652,239

(a) Excludes project financing, sunk costs, and any sales taxes on realization, purchases, and other taxes.

(b) Excludes VAT on equipment.

MEC has provided the following sunk costs for these categories as of March 31, 2009, relative to the Khushuut operations and MEC's estimate for completion of the road and ongoing exploration. These numbers are listed as follows:

	Sunk Costs (US$-millions)			
Cost	Pre-31 March 2009	April–December 2009	2010	Total
Exploration and Technical Reporting	46.4	3.5	-	49.9
Road and Foundation Work	95.0	16.0	14.0	125.0
Road Surfacing	-	-	71.0	71.0

2.10 Conclusions

This preliminary ITR is intended to provide general confirmation of the viability of openpit mine development of the Khushuut coal deposit. Level of mine planning is considered to be prefeasibility. Based on the fast-track for developing the Khushuut operation, MEC has moved into the detailed planning phase for the initial phase of operation. Upon completion of the coal quality evaluation associated with the 2008 Summer and 2008–2009 Winter sampling programs, BOYD recommends a final review of the detailed mine plan. We understand Shenyang is incorporating all available information from the 2007 Summer, 2008 Summer, and 2008–2009 Winter programs in their analysis. As stated, critical aspects for the viability of a Khushuut openpit mine would include: infrastructure development, water resource study, quality testing (washability analysis and bulk sampling), geotechnical testing, and environmental studies required to obtain mining licenses and required operating permits.

As shown in Appendix B, MEC has made substantial progress in obtaining necessary approvals.

MEC is in discussions with contract miners for the mining operation and contractors for the coal preparation plant as well as potential customers.

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3.0 COAL RESOURCES

3.1 Introduction

Khushuut coal deposit is approximately 210 km south of the provincial capital of Khovd and 1,500 km west–southwest of Ulaanbaatar. The site can be reached by road from the port-of-entry of Baytag-Uliastay, at the Chinese border (Yarant on the Mongolia side of the border), approximately 310 km to the south or by road from Khovd.

There has been small-scale mining at Khushuut since at least 1967. The coal is sold locally and used mainly for heating purposes. Mining on a small scale continues today using hand methods and small trucks to haul the coal. Several large waste piles indicate that some mechanized mining also took place in the past, probably during the Soviet era when there was a small Russian military base at Khushuut.

The terms “resource” and “reserve” are commonly used in the reporting of coal tonnage, but the usage or definition supplied to these terms can vary between parties. Coal tonnage resource estimates have been made for the Khushuut concession using the internationally accepted JORC Code, supplemented by criteria for defining assurance of existence taken from Paper 88-21, Geological Survey of Canada.

The estimate of in-place coal resource tonnage, as shown in this ITR, is considered JORC compliant. However, due to the limited coal quality data and general assumptions provided by Fenwei regarding coal quality (grade) definition used to develop this ITR, any estimate of recoverable product tonnes is considered indicative (Inferred Resource, but not JORC compliant). The analysis from the 2008 Summer and 2008–2009 Winter programs are currently being compiled, and modeling is anticipated to be complete by the end of November 2009. The updated ITR studies will incorporate adequate coal quality data to evaluate both tonnage and quality for JORC compliant resources and reserves.

It should be noted that the coal sampling procedure includes the inclusion of individual in-seam rock partings measuring 10 cm and less in with the coal (both in measured thickness and in physical samples submitted for coal quality testing). The reader should recognize references to “coal” used in databases and coal seam/coal resources actually include coal and minor in-seam parting material. While consistent with Chinese sampling procedures, the inclusion of in-seam parting with coal is generally not in accordance with international standards; however, this is not considered to be a material issue since this protocol is fully disclosed.

3.2 Project Site Area

MEC controls approximately 330,000 ha of mining and exploration licenses in western Mongolia. Within the general vicinity of Khushuut, as reported by MEC, they control eight mining licenses and one exploration license, which total approximately 2,655 hectares and 31,725, respectively, as shown:

Mining and Exploration Licenses Controlled by MEC

License/License No.	Area Hectares	Issue Date	Valid Period (yrs)
Mining Licenses:			
1640A	40	25 May 1999	30
4322A	54	23 Apr 2002	30
6525A	45	7 Nov 2003	30
11887A	208	9 Aug 2006	30
11888A	1,754	9 Aug 2006	30
1414A	29	30 Dec 1998	30
11889A	486	9 Aug 2006	30
11890A	39	9 Aug 2006	30
Subtotal Mining Licenses	2,655		
Exploration License:			
11515X	31,725	20 Mar 2006	3
Total Mining/Exploration Licenses	34,380		

Mining licenses are valid for an initial 30-year period. The license holder has the right to extend the licenses for two consecutive 20-year periods, and provided there are no violations, the Mongolian government will extend the license terms for an aggregate life of 70 years. Exploration licenses are rated for an initial three-year period with the rights to extent for two consecutive three-year periods for a total aggregate life of nine years.

MEC has identified the prime target area for openpit mine development of approximately 600 ha. This 600 ha forms the basis of the current area in which resource estimates have been developed and the basis of this ITR. Coal-bearing strata are present over approximately 156.2 ha of the target area.

This ITR does not address the potential for the removing licenses controlled by MEC.

3.3 Project Staffing

For the 2007 drilling exploration, 20 MEC geologists, mining engineers, and student geologists mapped the coal seam outcrops and geological structures at the Khushuut and North Khushuut concession areas. During the 2008 field season, MEC maintained a full-time staff of from four to six geologists and mining engineers on the Khushuut project over the course of the drilling program.

As Independent Technical Advisor to MEC, BOYD's role provided technical oversight for the project reporting to MEC. BOYD's on-site staffing included one to two geologists who were present during the course of the field work. In 2008, when the geotechnical holes were being drilled, additional BOYD personnel were present to assist MEC in the geotechnical logging, sampling, handling, and packaging of the rock and coal cores.

Further quality testing was completed during the 2008–2009 Winter program under the supervision of Fenwei.

Coal quality and drilling (lithologic/structure) findings from the 2008 Summer and 2008–2009 Winter programs have not been incorporated into this ITR. Further quality testing was completed during the 2008–2009 Winter season. This program was conducted under the supervision of Fenwei. The laboratory results of the 2008 Summer and 2008–2009 Winter program have been completed. BOYD has been assigned to complete an analysis of the 2008/2009 quality testing programs. We anticipated completion of this analysis by November 2009.

Laboratory test results of the 2009 Summer program will not be available until the end of this year and will be reviewed at that time.

3.4 Survey – Drilling Programs

The drill holes were located initially using handheld GPS units. When the holes were completed, a base station GPS unit was used to survey in the final coordinates.

3.5 Exploration Programs

MEC has implemented two mapping and coal drilling exploration programs over the past two years. Team 129 of the China Coal and Geology Bureau (Team 129) from Handan, PRC, was contracted by MEC to implement both the 2007 and 2008 drilling campaigns and, as such, provided the personnel, equipment, supplies, and base camp facilities in support of the drilling project.

In May of 2007, Team 129 mobilized a total of 48 drill rigs, 22 support vehicles, and over 345 project personnel for the Khushuut project. They arrived in Khushuut on May 23, 2007, and commenced setting up base camp. On June 3, drilling operations began. The project shut down for the onset of cold weather in the fall, with the last of Team 129 personnel crossing the Mongolian-Chinese border on October 10, 2007.

Team 129 left their drilling equipment on-site at Khushuut over the winter of 2007–2008 to resume exploration drilling for the field season of 2008. For the 2008 exploration program, Team 129 mobilized nine core drilling rigs, support vehicles, and support project personnel for the Khushuut project. There were delays in getting Mongolian visas for Team 129 personnel, and as a result, drilling activities did not begin until the second week of August, when crews and support staff for five rigs arrived and began working. Four more drill crews and additional support arrived and commenced drilling exploration during the last week of August.

A total of 49,676 m at 199 locations were completed during the 2007 drilling campaign with the primary purpose of:

- Establishing the geological structure, and
- Estimating the coal resources and reserves that are in place.

Twenty-nine of the locations were cored and the coal seams analyzed.

The 2008 drilling exploration program drilled 7,562 m at 42 locations with the primary purpose of:

- Collecting coal cores for analytical testing (39 holes), and
- Collecting rock and coal samples (3 holes) for geomechanical testing.

The 42 locations drilled in 2008 offset previously drilled locations by 5–10 m. Holes were advanced by rotary drilling methods to near the top of the C Seam, then core drilled to 3 m below the B seam. The C and B seams were described, collected, and packaged for follow up analytical testing.

In total, 241 holes have been completed with an aggregate thickness of 57,238 m. Although not part of the coal exploration program, 2 water wells and 12 geotechnical holes for power plant sighting were also completed in 2007.

Tables 3.1 and 3.2, following this text, tabulate the drill holes from the 2007 and 2008 drilling programs.

The following table summarizes the 2007 exploration program:

2007 Coal Exploration Drill Hole Summary

Type of Drilling	No. of Drill Hole	Meterage Drilled
Core Holes for Coal Quality	29	8,559
Rotary Holes for Structural Control	170	41,117
Total	199	49,676

The following table summarizes the 2008 exploration program:

2008 Coal Exploration Drill Hole Summary

Type of Drilling	No. of Drill Hole	Meterage Drilled
Core Holes for Coal Quality	39	652
Core Holes for Geotechnical Testing	3	6,910
Total	42	7,562

Team 129 used a number of different drill bits on the project, including a diamond impregnated bit for coal and a tungsten carbide bit for the non-coal intervals. This resulted in multiple runs having to be made to complete coring through a coal seam. The seam would be cored with the diamond bit until hard rock (typically sandstone) was encountered. Then the core barrel would be removed from the hole and the tungsten carbide bit attached. This created a situation where multiple core runs were required to complete the coring activity. Each time the bit was changed, part of the seam, which would have been either coal or parting material, would be lost. This resulted in an unpreventable core loss with the drilling tools available.
The drilling medium was local clay or bagged drilling mud (polymer). The local clay was sandy and caused significant abrasion of the drilling tools (mostly the water swivel) later in the summer of 2007; when bags of drilling polymer became available, some drillers still preferred to stay with the local clay supplies.

A 2009 summer drilling program is currently nearing completion (September 2009) which focused on additional area within the concession (i.e., northeast of the Khushuut River) as well as in-fill drilling as needed. The 2009 Summer program includes the following:

Area	No. of Holes	Meters
Khushuut	95	23,675.7
North of Khushuut	4	1,368.5
Total	99	25,044.2

3.5.1 Sample Handling

Standard Chinese coal seam sampling protocol is to include smaller individual rock partings (in this case measuring 0.1 m or less in thickness) with the coal sample. BOYD recommended the field sampling procedures be modified to: (1) recovering individual rock parting measuring greater than 0.1 m and less than 0.3 m as a separate sample and (2) limiting any sample to a maximum length of 3 m. Team 129 recovered a limited number of 0.1 m to 0.3 m parting samples, but did implement the 3-m individual coal sample criterion.

Team 129 geologists were responsible for sample handling over the course of the project. The condition of the core when it was removed from the core barrel was typically quite broken up. If the geologist was not present on-site when the core was extracted from the core barrel, the drill crew would measure the length of core that was cut and determine the amount (%) recovered.

The core would be typically laid out on corrugated heavy cardboard or drop cloths after being removed from the core barrel. Team 129 geologists would then describe the core and collect sample intervals. The core was then placed in open-ended plastic bags and taken to the coal sample preparation facility to await preparation.

For purposes of this report, BOYD has estimated core recovery by taking the recorded sample intervals that were analyzed, summing them up for individual coal seams, then dividing by the total thickness measured from the geophysical logs. BOYD's estimated core recovery by seam is shown in the following table:

	% Core Recovery by Seam		
Seam	Average	Minimum	Maximum
C	85	76	100
B	83	48	93
Other	85	54	100

The derived core recovery percentage may be overstated due to: (1) inaccurate field measurements (core recovery data from the field was observed to be typically measured by the drill crews, who tended to stretch out the broken core prior to measuring) and (2) unreported core loss because of the multiple number of runs and frequent bit changes.

Because of the broken and friable condition of the coal, washing the coal core sample with water would potentially wash away the higher quality coal. Therefore, Team 129 geologists would take care to carefully remove as much of the drilling mud from the core as they could by scraping it with a knife. This left some mud adhering to the core.

3.5.2 Geophysical Logging

Team 129 provided one of two geophysical logging units used at the project site in the 2007 campaign. A second geophysical logging unit was supplied by a Mongolian company. For the 2008 drilling program, the original intent was to geophysically log all the holes; however, there were problems encountered with issuing a permit for a radioactive source (needed for the gamma density log) from China to Mongolia that were not overcome. The holes drilled in the summer of 2008 were not geophysically logged.

All holes that were geophysically logged and were logged at the completion of the hole or when one of the two geophysical logging units became available. Natural gamma, gamma density, caliper, and resistivity logs were run. The logging unit was capable of collecting all the geophysical data in one run down the hole. MEC personnel (and BOYD) were subsequently provided copies of the geophysical logs.

3.5.3 Analytical Work

Team 129 set up a sample preparation and analytical laboratory facility at the field camp for the 2007 season. In total, 628 individual coal and non-coal plies were sampled. This volume of samples was more than could be handled at the on-site laboratory, creating a large backlog of samples to be analyzed. The unanalyzed samples were taken back to China at the completion of the drilling season. The analysis were completed either at a contract laboratory or at Team 129's analytical laboratory in Handan, PRC.

In 2008, Team 129 did not set up the analytical laboratory at Khushuut, but stored the coal samples on-site at Khushuut until all drilling had been completed. In October of 2008, at the end of the field season, the samples (of which there were over 1,000) were transported to analytical laboratories in the PRC. Results of those analyses were completed in 2009 and are currently being compiled and incorporated into an updated geologic model.

3.6 Geology

The Khushuut coal deposit is located on the east flank of the Altay Mountains at an elevation of about 2,000 m. Topography in the area consists of low, rolling hills with little vegetation and minimal soil cover, so the underlying geology is well exposed over most of the area. However, there are areas of alluvial cover, upwards to 60 m thick, in the northern part of the exploration area covering the outcropping coal. The coal beds can be easily traced on the surface and are also exposed in several small open pits where coal has been mined for local use. Although easily traced, the complexity of the structure and multiple numbers of coal seams exposed at the surface make correlating seam exposures difficult.

3.6.1 Stratigraphy

The coal-bearing strata at Khushuut are contained in the middle Permian-age Khushuut Formation, which is over 700 m thick. The formation consists predominately of fine-to-medium sandstone, siltstone, and minor conglomerate with some interbedded coal. The depositional characteristics of the coal seams underlying the Khushuut area indicate the coal was probably deposited in a restricted inter-mountain basin characterized by rapid changes in depositional environment and abrupt face changes.

The 2007 exploration identified 29 correlatable coal seams or seam splits on the property (see Figure 3.1, Stratigraphic Column). However, the main horizon, which includes the B and C seams, accounts for all of the estimated in-place coal resources. The minor seams tend to be erratic in occurrence, generally thin where they do occur, and not of economic importance to the deposit.

3.6.2 Structural Geology

The coal-bearing Khushuut Formation has undergone significant structural deformation. The Khushuut structural setting includes two pairs of north-south-trending synclinal folds that plunge to the north (see Figures 3.2 through 3.9 and Exhibit 1). There is minor folding imposed on these major structural features. Dips along the major synclinal limbs range up to almost vertical in the southern part of the area, becoming less severe toward the central part of the property and steepening again to 60–70 degrees on the northern part of the property. The major drainages across the property flow in an east-to-west direction, appearing to be fault controlled. There are a number of reverse faults on the property, mostly along, but not restricted to, the western limb of the synclinal folds. Vertical offset along the faults varies from less than a few meters to over 100 m within the property boundary. The faults generally strike to the northeast to southwest.

Thickness of the major seams can vary significantly over a short distance and is thought to be a depositional phenomenon rather than thickening or thinning due to plastic flow of the sediments. Thickening of coal in the troughs of the synclines or anticlines is not observed in the coal seam outcrops or indicated in the down hole data. If this were the case, it would be indicative of flow due to plastic deformation.

In BOYD's geologic assessment of the Khushuut coal deposit, we judged the Geology Type to be "Complex" using Geological Survey of Canada (Paper 88-21) guidelines. This geology type characterization is important since it also relates to the criteria selected to classify the reliability or assurance-of-existence category used in the coal resource estimate.

3.6.3 Coal Geology

As compared to historical data, the 2007 and 2008 drilling indicated a much more complex picture from a depositional standpoint. There are 29 or more correlatable coal seams or splits of coal seams. However, only the C and B seams have an areal extent and are thick enough to include in a resource estimate. For a more complete interpretation of the geology, all seams that reasonably could be correlated are included in the database.

For purposes of this report, the historical coal seam nomenclature, C, B, and A, is retained.

3.6.4 Principal Seams

The upper, or C Seam, averages 25–30 m in true thickness. The average seam apparent thickness is approximately 54 m, with 86% being coal and non-coal partings less than 0.3 m thick and 14% being non-coal partings greater than 0.3 m thick.

The B Seam occurs as a single seam throughout most of the property. However, two splits, one above (B0) and one below (B1), do occur over parts of the property. Both seam splits (B0 and B1) would most likely be mined in conjunction with the main B Seam (which accounts for about 89% of the coal in the B horizon).

The B Seam averages 10–16 m in true thickness throughout the property. The average seam apparent thickness is approximately 20 m, with 89% being coal and non-coal partings less than 0.3 m thick and 11% being non-coal partings greater than 0.3 m thick.

The two seams (C and B) are separated by a non-coal interval of 15–25 m. Multiple thinner seams occur both above and below the main C-B coal zone.

3.6.5 Minor Seams

The 27 minor seams have been named (from top to bottom) N through AN (excluding the principal B and C seams). The amount of drill hole data is variable and very limited in some cases, as shown on the following table:

	Coal Seam/Split (in descending stratigraphic order)	Number of Drill Hole Intercepts	Number of Coal Quality Analyses by Seam
	N	1	0
	M	1	0
	L	2	0
	K	2	0
	J	4	1
	I	5	0
	H	11	3
	G	14	3
	F	28	7
	E	28	7
	D	18	3
	C0	1	0
	C	160	24
B	B0	80	11
B	B	183	24
B	B1	102	13
	A	37	5
	AA	31	6
	AB	11	3
	AC	11	5
	AD	11	5
	AE	8	4
	AF	9	4
	AG	4	1
	AH	6	3
	AI	3	2
	AJ	2	2
	AK	2	2
	AL	1	1
	AM	1	1
	AN	1	1

As shown in the preceding table, only the C and B seams (the principal focus of exploratory drilling) have a sufficient number of seam data points for coal resource definition and tonnage estimation.

3.7 Inventory Coal

To gain an approximate estimate of potential coal occurrence within the Khushuut area of exploration, BOYD completed an Inventory Coal estimate. Parameters used to define Inventory Coal are very global (liberal) in their scope and include:

• Maximum depth	1,000 m
• Maximum coal thickness	0.7 m
• Maximum projection distance from seam data point (drill hole)	600 m within interior of explored area 200 m beyond perimeter boundary

The 16 coal seams between the H Seam and AH Seam are included in the Inventory Coal estimate. Remaining overlying and underlying coal seams are limited to isolated seam data points.

As shown on Table 3.3, following this text, the estimated Inventory Coal totals 292 Mt of in-place coal.

Due to the limited drilling data available for all coal seams except C and B, the Inventory Coal tonnages shown are considered speculative. According to the JORC Code, Inventory Coal cannot be used to estimate coal reserves (or coal resources).

3.8 Coal Resource Tonnage Estimate

In reporting resources for the evaluation of commercial mineability, the major factor is the geologic assurance of existence. All classifications require that the degree of geological assurance of the subject coal's occurrence and definition be separated into various categories based on the spacing of points of observation (drill holes, mine measurements, and outcrop measurements) and geologic certainty.

3.8.1 Reliability (Assurance of Existence)

For definition of Measured, Indicated, and Inferred Resources for a coal deposit characterized as complex geology type, the following criteria are applicable:

		Assurance-of-Existence Category		
Geology Type	Criteria	Measured	Indicated	Inferred
Complex	Cross-section spacing (m)	150	300	600
	Minimum number of data points per section	3	3	3
	Mean data point spacing along section (m)	100	200	400
	Maximum data point spacing along section (m)	200	400	800

Source: A Standardized Coal Resource/Reserve Reporting System for Canada, Paper 88-21, Geological Survey of Canada, 1989.

During the 2007 Exploration Program, the explored portion of the Khushuut deposit was drilled on cross sections approximately 125 m apart, with drill holes averaging a 67.5-m spacing on each cross section. This density of drilling is sufficient to achieve the Measured Resource classification for estimated C and B seam tonnages. Available coal quality data points are limited with reported analyses between core hole data points having a material variation (particularly in terms of Chinese coking/non-coking coal type classifications). For this reason, coal quality for the C and B seams is considered Inferred. Due to the different classification of coal quantity and quality, we have assigned an overall classification of Indicated to the resource estimate. The analytical results from the 2008 Summer and 2008–2009 Winter drilling programs are being compiled and modeled. Measured and Indicated resources will be appropriately categorized as part of this ongoing program, which is anticipated to be competed by the end of November 2009.

3.8.2 Coal Resource Estimate

A geologic model of the Khushuut coal deposit was developed by BOYD using drilling and coal quality data for the 2007 exploration program and MINCOM modeling software. The coal resource tonnages presented in this report are derived from that model.

By definition, the parameters used to estimate coal resource tonnage should be based on “reasonable prospects for eventual economic extraction” and stated in in situ or in-place tons. Parameters used in the model to estimate the Khushuut coal resource (in-place) tonnages include:

- Openpit mining method.
- Maximum mining depth of 400 m.
- Seam density as determined from the analytical data. The average density for the B and C seams is between 1.53 and 1.57.
- Minimum mineable seam height 1.5 m.

- Non-coal partings measuring 0.3 m or less are mined with the coal.
- Pit slope (highwall angle) of 35 degrees.

Resource tonnages have been estimated for the C and the B seams. A pit shell has been overlain on the resources using the assigned 35-degree pit slope; pit design criteria may change in the future as additional geotechnical information is gathered. The burden ratio is for the mineable in-place coal seam (excluding parting greater than 0.3 m, which report to the burden column). Burden includes overburden between the seams and the surface, interburden between seams, parting material greater than 0.3 m thick, and underburden. Underburden is the material that needs to be mined below the coal seam to stabilize the pit walls and achieve the 35-degree pit slope criterion.

It should be understood that coal resource tonnage forms the global basis from which an independent coal reserve estimate is developed. A site-specific mine plan will determine the economic mineable limits for coal reserve definition. In addition, coal reserves are stated in terms of product or marketable coal (i.e., mining and processing losses must be recognized and deducted from the in-place tonnage).

Table 3.4 shows the estimated resource tonnages in the C and B seams. The table is arranged to show resource tonnages cumulatively down to a maximum depth of 400 m.

The resources are summarized below:

	Indicated Coal Resources				
Seam	Hectares	Average Thick (m)	In-Place* Coal Seam Tonnes (000)	Burden (Bcm-000)	Burden Ratio (Bcm/tonne)
C	118.7	29.1	101,739	657,790	6.5
B	156.2	13.8	47,498	78,716	1.7
			149,237	736,506	4.9

* Includes in-seam partings up to 0.3 m thick.
** Material mined under the coal seams to allow for a 35-degree slope.

Based on drill hole spacing and distribution of drill core holes with quality data, all coal resources are classified as Indicated Resources.

3.9 Coal Quality

In the 2007 Exploration Program, a total of 628 plies of coal and non-coal parting material were collected and analyzed. The number of plies sampled by core hole and by seam follows:

Seam	Number of Core Holes Sampled	Number of Coal Seam Samples Recovered	Reference Table
C	24	365	3.4
B	21	225	3.5
Other*	15	38	3.6
Total		628	

* Minor coal seam.

There were in excess of 1,000 quality samples of the C and B seams collected during the 2008 drilling program. The results from the analytical laboratory were not available for our analysis and use in this ITR. It is anticipated that a revised resource and quality estimate will be compiled by the end of November 2009.

Team 129 followed Chinese standards for quality testing of coal seam core samples. The raw coal was analyzed for industrial analysis (% moisture, % ash, % volatile matter), % total sulfur, heating value, and char residue. All other analyses were done on a 1.4 specific gravity with the proximate analysis.

Coal Type was also determined on 1.40 specific gravity float using the Chinese classification system, which is illustrated in the following charts:

Chinese Coal Type Classification

Caking Index G		y>25	16 **FM** D>150	26 **FM** **Fat** y>25 and D>150	36 **FM** D>220	46 **QF** **Gas Fat** y>25 and D>225	
		y<25 G=85	15 **JM** **Coking** D>150	25 **JM** D>150	35 **JM** **1/3 Coking**	45 **QM** D<220	
		G=65	**JM**	**JM**	**1/3** Y<25, D<220	**QM** **Gas**	
		G=50	14 **SM**	24 **JM**	34 **QM**	44 **QM**	
			13 **SM** Lean	23 1/2 ZN	**33** 1/2 ZN	43	G=35
		G=30				42 **CY** **Long** Flame	
		G=5	12 **Meager** **Lean PS**	22 **RN** **Weakly**	32 **RN** **Coking**		24 MJ/kg
		11	**Meager PM**	21Non-Coking	31 Coking	41	Pm 50%
01 No1	02 No2 **Anthracite**	03 No3				52 **No.2** **Lignite**	Pm 30%
						51 **No. 1** **Lignite**	Pm 0%

Coal yield (% recovery) data for the drill hole 1.40 float analyses were not supplied by Team 129 or the limited numbers of float analyses completed at higher gravities. This information is critical for future coal reserve evaluation and has been requested from Team 129. Team 129 did report the following average yields by seam:

Seam	% Recovery at 1.4 Float
C	44.62
B	39.60
A*	28.23
D*	25.97

*% float were reported for coal seams correlated by Team 129 as the A and D; however, the correlation between the Team 129 data and the BOYD geological model is uncertain.

3.9.1 C Seam Coal Type

The core quality data for the C Seam (1.40 float) are shown in detail on Table 3.5 and the key quality data summarized by core hole below:

C Seam 1.40 Float Coal Quality/Coal Type

		Float Coal					
		Industrial Analysis				GR.I	
DHID	Coal Type	Mad (%)	Ad (%)	Vdaf (%)	Y(mm)	Min	Max
820	Coking	0.90	8.97	19.51	11.2	87	89
1015	Coking	0.92	7.53	14.92	-	70	75
1422	Coking	0.85	8.08	18.16	10.9	80	90
2016	Coking	0.62	5.25	18.24	-	74	98
2216	Coking	0.72	6.18	20.01	12.4	84	96
2420	Coking	0.66	6.04	18.82	18.5	67	96
2424	Coking	0.87	8.83	19.41	13.3	92	97
2817	Coking	0.85	6.75	18.39	11.7	86	91
3220	Coking	0.84	6.07	19.27	-	78	84
3224	Coking	0.86	6.39	19.74	11.4	84	91
3616	Coking	0.80	6.22	17.33	13.4	89	98
4016	Coking	0.69	6.60	18.55	16.0	81	95
4412	Coking	0.74	5.27	16.64	19.0	78	84
4416	Coking	0.72	6.27	20.14	13.6	78	99
4610	Coking	0.84	6.88	14.85	-	74	85
826	Lean	0.90	8.84	18.29	-	37	40
1616	Meager	0.80	6.02	16.76	-	0	18
3212	Meager	1.38	7.11	19.47	-	0	0
3812	Meager	0.67	4.24	15.67	-	0	0
2011	Meager Lean	1.54	5.56	13.53	-	12	18
2012	Meager Lean	0.76	5.63	16.11	20.0	13	98
3608	Meager Lean	0.71	6.23	16.19	-	12	18
3612	Meager/Coking	0.76	5.20	21.93	-	5	84
2414	Meager/Meager Lean/Coking	0.86	6.53	17.13	-	2	82
		0.85	6.77	18.00		0	99

The float portion of the C coal seam ranges from a primary coking coal to a blend coking coal (Meager Lean and Meager). Four core holes, 1015, 2016, 3220, and 4610, do not have Y values; however, the G (Roga) index and dry ash free Volatile Matter (Vdaf) are in the range that would indicate they are of coking quality.

Core holes with primary coking coal characteristics tend to be under more cover and underlie the eastern portion of the property (see Exhibit 2).

3.9.2 B Seam Coal Type

The key core quality data for the B Seam (1.40 float) are summarized by core hole below and shown in detail in Table 3.6:

B Seam 1.40 Float Coal Quality/Coal Type

		Float Coal					
		Industrial Analysis				GR.I	
DHID	Coal Type	Mad (%)	Ad (%)	Vdaf (%)	Y(mm)	Min	Max
		B Seam					
1422	Coking	0.89	7.6	19.1	-	68	75
2817	Coking	0.84	7.0	18.3	-	67	72
4416	Insufficient Data	0.78	6.1	16.5	-	Na	Na
820	Lean	0.90	9.0	18.4	-	35	41
1015	Lean	0.82	7.1	15.6	-	34	62
1616	Lean	0.58	6.1	16.3	-	48	77
2414	Lean	0.87	7.2	17.8	-	28	31
2424	Lean	0.89	8.9	18.6	-	35	40
3220	Lean	0.86	6.2	18.7	-	35	42
3224	Lean	0.84	6.5	19.0	-	40	51
3616	Lean	0.81	6.5	17.5	-	32	37
4016	Lean	0.76	6.0	18.3	-	40	60
1215	Meager	0.87	6.2	18.4	-	0	0
2012	Meager	0.63	4.2	14.2	-	2	12
2016	Meager	0.79	7.1	19.5	-	0	16
3212	Meager	0.84	6.4	18.6	-	2	3
4008	Meager	2.46	4.1	18.0	-	0	0
2420	Meager Lean	0.66	6.0	18.3	-	13	17
3608	Meager Lean	0.79	6.3	15.0	-	12	14
3612	Meager Lean	0.79	5.5	18.5	-	12	16
4412	Meager Lean	0.81	5.5	16.2	-	16	18
		1.05	7.95	20.92		0	77
		B0 Seam					
2012	Meager Lean	0.63	5.0	14.1	-	7	7
2016	Meager Lean				-	15	15
2420	Meager Lean				-	16	16
3608	Meager	0.47	3.5	9.4	-	0	0
3212	Meager	1.01	7.7	20.0	-	0	0
1015	Lean	0.87	8.3	17.6	-	35	35
2414	Lean	0.88	6.5	17.7	-	29	32
		0.77	6.18	15.75		0	35
		B1 Seam					
3612	Meager Lean	0.78	5.7	18.5	-	12	12
1616	Meager Lean	0.70	7.1	16.3	-	15	16
2414	Meager Lean				-	12	12
1215	Meager	0.37	2.8	6.4	-	0	0
2012	Meager	1.25	2.9	16.8	-	0	0
1015	Lean	0.89	8.1	17.1	-	50	52
		0.80	5.32	15.02		0	52

The float portion of the B coal seam ranges from a Meager Lean to a Meager to a Lean coal. The quality of the upper and lower splits (B0 and B1) is similar to the main B Seam. The B Seam is principally suitable for thermal utilization. Depending on availability of premium coking coals (from C Seam), some tonnage of Meager Lean may be able to be blended into the coking product.

3.9.3 Other Coal Seams

There were a number of core holes that intercepted seams that were thick enough or were observed to be of better quality, and samples were collected. The majority of the analysis for these seams indicates they are suitable for thermal utilization. The other seams possessing coal quality data are shown in Table 3.7.

3.9.4 Higher Gravity Washabilities

At BOYD's request, Team 129 also performed a limited number of washabilities at higher specific gravities. The extent of information provided was limited to the following:

Hole No.	Coal Seam	Separation Density	±0.1 Content	Washability Rating
40-08	B	1.75	2.5	Easy
24-20	C	1.52	17.5	Medium
20-16	C	1.63	6.0	Easy
36-12	C	1.58	11.5	Medium
36-08	B	1.72	3.0	Easy
24-14	B	1.54	18.0	Medium
10-15	B	1.62	5.0	Easy

Following this page are:

Tables:

Figures:

Note: Section locations are shown on Exhibit 1 in the Exhibits section of this report.

TABLE 3.1

DRILL HOLE SUMMARY
2007 EXPLORATION PROGRAM
KHUSHUUT CONCESSION
Khovd Region, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION, LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
October 2009

Hole	Rotary or Core	2007 (Mo./Day) Start	2007 (Mo./Day) Complete	Days	Meters Drilled	Meters /Day
Core or Partially Cored Holes						
08-20	C	9/18	9/29	12	503	41.9
10-15	C	9/10	9/20	11	157	14.2
12-15	C	9/19	9/30	9	146	16.2
14-22	C	9/11	10/2	22	382	17.4
20-11	C	9/7	10/3	7	115	16.4
20-12	C	6/9	10/4	22	202	9.2
22-16	C	9/10	10/5	9	237	26.4
24-14	C	7/30	10/6	35	564	16.1
24-20	C	6/10	10/7	35	336	9.6
24-24	C	6/24	10/8	23	373	16.2
24-24 Redrill	C	9/18	10/9	5	100	20.1
28-17	C	9/4	10/10	16	381	23.8
30-01	C	9/18	10/11	4	93	23.3
30-06	C	9/21	10/12	3	82	27.3
32-20	C	9/5	10/13	16	602	37.6
36-08	C	7/30	10/14	35	569	16.3
36-16	C	8/8	10/15	24	673	28.0
38-12	C	6/21	10/16	8	109	13.6
40-16	C	8/20	10/17	21	310	14.8
44-12	C	6/16	10/18	23	275	12.0
44-16	C	8/26	10/19	18	392	21.8
46-10	C	9/13	10/20	9	218	24.2
08-26	C	8/28	10/21	32	332	10.4
16-16	C	8/22	10/22	9	144	16.0
20-16	C	7/21	10/23	10	198	19.8
32-12	C	7/31	10/24	6	122	20.3
32-24	C	8/28	10/25	22	703	31.9
36-12	C	8/21	10/26	20	176	8.8
40-08	C	7/12	10/27	5	68	13.6

TABLE 3.1 - Continued

Hole	Rotary or Core	2007 (Mo./Day) Start	Complete	Days	Meters Drilled	/Day
Rotary Holes						
08-16	R	8/7	8/10	4	120	30.1
08-17	R	9/14	9/21	8	271	33.8
08-18	R	8/16	9/1	17	376	22.1
08-22	R	8/20	9/23	35	531	15.2
10-14	R	8/7	8/9	3	88	29.2
10-16	R	8/10	8/18	9	229	25.5
10-17	R	9/11	9/27	18	291	16.2
10-18	R	9/18	9/28	11	371	33.7
10-20	R	9/20	10/1	11	416	37.8
12-14	R	9/18	9/24	7	122	17.5
12-16	R	8/11	8/15	5	154	30.9
12-17	R	9/20	9/26	5	94	18.8
12-18	R	9/21	9/27	5	203	40.7
12-20	R	9/21	9/30	10	324	32.4
12-22	R	9/8	9/19	12	356	29.6
14-15	R	7/22	7/25	4	96	24.1
14-16	R	8/2	8/3	2	118	58.9
14-17	R	8/12	8/15	4	118	29.5
14-18	R	8/9	8/11	3	131	43.8
14-19	R	9/10	9/17	8	206	25.7
14-21	R	9/19	9/28	6	316	52.7
16-09	R	8/25	8/28	4	104	25.9
16-10	R	8/30	9/5	7	201	28.8
16-12	R	7/4	7/11	8	96	12.0
16-13	R	7/14	7/19	6	92	15.3
16-15	R	9/13	9/19	7	132	18.9
16-17	R	8/5	8/8	4	149	37.3
16-18	R	8/16	8/18	3	159	52.9
16-19	R	9/11	9/22	10	213	21.3
16-20	R	9/9	9/25	17	274	16.1
16-22	R	8/27	9/16	21	425	20.2
16-26	R	9/1	9/18	18	705	39.2
18-10	R	8/11	8/12	2	77	38.4
18-11	R	8/19	8/23	5	155	31.0
18-12	R	9/8	9/14	7	217	31.0
18-13	R	9/2	9/6	5	121	24.2
18-14	R	7/31	8/2	3	122	40.5
18-15	R	9/8	9/12	5	165	32.9
18-16	R	8/22	8/29	8	218	27.3
18-17	R	8/16	8/20	5	185	37.0
18-18	R	8/3	8/6	4	157	39.1
18-19	R	8/19	8/21	3	173	57.5
18-20	R	7/31	8/7	8	198	24.7
18-21	R	8/8	8/18	11	266	24.1
18-22	R	9/10	9/19	10	393	39.3

TABLE 3.1 - Continued

	Rotary	2007 (Mo./Day)			Meters	
Hole	or Core	Start	Complete	Days	Drilled	/Day
			Rotary Holes			
20-01	R	9/14	9/25	12	154	12.8
20-05	R	9/14	9/21	8	191	23.8
20-10	R	8/20	8/22	3	84	28.1
20-13	R	8/20	8/25	6	219	36.4
20-14	R	7/17	7/20	4	113	28.2
20-15	R	9/18	9/25	6	149	24.8
20-17	R	9/3	9/8	6	257	42.9
20-18	R	8/8	8/9	2	152	75.9
20-19	R	8/30	9/2	3	106	35.3
20-20	R	8/10	8/15	6	216	36.0
20-22	R	8/12	8/25	14	339	24.2
22-09	R	8/14	8/15	2	62	30.9
22-10	R	8/16	8/18	3	84	28.1
22-11	R	7/3	7/9	6	201	33.5
22-12	R	9/22	10/1	9	255	28.4
22-14	R	8/31	9/5	6	157	26.2
22-15	R	9/6	9/13	8	209	26.1
22-17	R	8/6	8/9	4	124	31.1
22-18	R	8/1	8/5	5	127	25.4
22-20	R	7/31	8/11	12	257	21.4
24-09	R	7/14	7/16	3	89	29.6
24-10	R	7/11	7/13	3	155	51.5
24-11	R	9/20	9/28	6	307	51.1
24-12	R	8/15	8/26	12	235	19.5
24-13	R	9/5	9/11	7	153	21.8
24-15	R	7/24	7/29	6	162	27.0
24-16	R	6/25	7/4	8	71	8.9
24-17	R	7/30	8/6	8	216	27.0
24-18	R	7/19	7/26	8	252	31.5
24-19	R	8/12	8/21	10	294	29.4
24-21	R	9/8	9/29	22	397	18.0
24-22	R	8/9	9/5	28	721	25.7
24-25	R	8/8	8/26	19	529	27.8
24-29	R	8/31	9/15	16	697	43.5
24-33	R	9/3	9/24	22	727	33.0
26-09	R	7/14	7/19	6	75	12.4
26-10	R	9/22	9/29	7	154	21.9
26-11	R	9/13	9/25	13	192	14.7
26-12	R	7/10	7/12	3	106	35.3
26-14	R	7/31	8/13	14	272	19.4
26-15	R	7/22	7/28	7	168	23.9
26-16	R	7/4	7/19	16	241	15.1
26-17	R	9/10	9/18	9	320	35.6
26-18	R	9/19	9/29	9	381	42.3
26-20	R	7/4	7/22	19	443	23.3

TABLE 3.1 - Continued

Hole	Rotary or Core	2007 (Mo./Day) Start	Complete	Days	Meters Drilled	/Day
Rotary Holes						
28-09	R	9/18	9/22	2	71	35.6
28-10	R	9/23	9/28	5	153	30.7
28-11	R	9/6	9/8	3	59	19.8
28-14	R	8/29	9/4	7	213	30.5
28-15	R	9/5	9/12	7	224	32.0
30-10	R	9/11	9/14	4	78	19.6
30-12	R	9/1	9/6	6	236	39.4
30-13	R	8/29	9/1	4	139	34.8
30-14	R	7/29	8/3	6	179	29.8
30-15	R	8/22	8/28	7	196	28.0
30-16	R	7/17	7/22	6	209	34.8
30-17	R	8/17	8/30	14	260	18.5
30-18	R	8/1	8/20	20	329	16.4
30-29	R	8/30	9/20	22	693	31.5
32-09	R	8/3	8/6	4	96	23.9
32-10	R	8/10	8/16	7	213	30.4
32-11	R	8/7	9/6	8	236	29.5
32-13	R	8/24	8/30	7	151	21.5
32-14	R	7/21	7/26	6	212	35.3
32-15	R	8/15	8/20	6	195	32.4
32-16	R	6/26	7/11	12	202	16.8
32-17	R	8/9	8/16	8	334	41.7
32-18	R	8/2	8/14	13	417	32.0
34-09	R	8/6	8/8	3	96	31.9
34-10	R	8/7	8/16	10	173	17.3
34-11	R	8/10	8/22	13	300	23.1
34-12	R	9/10	9/14	5	179	35.7
34-13	R	8/17	8/22	6	165	27.4
34-14	R	7/21	7/31	11	208	18.9
34-15	R	8/24	8/31	8	193	24.1
34-16	R	6/26	7/8	9	212	23.6
34-17	R	8/20	8/29	10	332	33.2
34-18	R	8/6	8/19	14	443	31.6
34-20	R	8/8	8/25	18	562	31.2
36-04	R	6/30	7/18	19	160	8.4
36-07	R	7/31	8/2	3	54	18.1
36-09	R	8/25	8/30	6	222	37.1
36-10	R	8/31	9/8	9	267	29.7
36-11	R	9/1	9/6	6	126	20.9
36-13	R	9/2	9/4	3	158	52.8
36-14	R	8/5	8/14	10	222	22.2
36-17	R	8/13	8/28	16	454	28.4
36-18	R	8/26	9/11	17	529	31.1
36-20	R	8/17	9/2	17	645	37.9
36-24	R	9/14	9/18	5	286	57.1

TABLE 3.1 - Continued

Hole	Rotary or Core	2007 (Mo./Day) Start	2007 (Mo./Day) Complete	Days	Meters Drilled	Meters /Day
Rotary Holes						
38-09	R	7/5	7/9	4	101	25.2
38-10	R	7/18	7/23	6	169	28.1
38-11	R	7/26	7/31	6	247	41.1
38-13	R	7/28	8/2	6	156	26.1
38-14	R	8/14	8/19	6	148	24.6
38-15	R	8/12	9/3	23	243	10.6
38-16	R	7/19	7/25	7	228	32.5
38-18	R	8/9	8/20	12	409	34.1
38-20	R	8/18	9/6	20	486	24.3
40-09	R	7/19	7/22	4	152	38.0
40-10	R	7/5	7/11	6	233	38.9
40-11	R	8/1	8/6	6	280	46.6
40-12	R	6/23	7/2	7	244	34.8
40-13	R	7/28	8/2	6	243	40.4
40-14	R	7/11	7/18	8	190	23.7
40-15	R	8/3	8/11	9	251	27.9
42-09	R	7/14	7/18	5	154	30.8
42-10	R	7/11	7/18	8	237	29.6
42-11	R	8/1	8/11	11	328	29.8
42-12	R	6/23	7/8	10	238	23.8
42-13	R	8/3	8/8	6	205	34.1
42-14	R	7/14	7/22	9	235	26.1
42-15	R	9/18	9/30	13	316	24.3
42-16	R	8/16	8/24	9	396	44.0
44-01	R	9/19	9/28	6	283	47.1
44-08	R	7/19	7/31	13	299	23.0
44-09	R	8/7	8/12	6	152	25.4
44-10	R	7/10	7/17	8	272	34.0
44-11	R	8/13	8/28	16	327	20.4
44-13	R	8/9	8/20	12	274	22.8
44-14	R	8/16	8/29	14	369	26.3
44-15	R	9/18	10/2	15	366	24.4
46-12	R	6/20	7/14	17	373	21.9
46-13	R	9/21	9/30	8	363	45.3
46-14	R	9/1	9/18	18	349	19.4
					49,676	27.1

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TABLE 3.2

DRILL HOLE SUMMARY
2008 EXPLORATION PROGRAM
TWINNED CORE HOLES
KHUSHUUT CONCESSION
Khovd Region, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION, LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
October 2009

Hole	Quality or Geotech	2007 (Mo./Day) Start	2007 (Mo./Day) Complete	Days	Meters Drilled	Meters /Day
Core or Partially Cored Holes						
08-17	C	8/26	9/15	20	261	13.0
10-17	C	8/11	8/21	10	268	26.8
12-18	C	8/9	8/19	10	187	18.7
12-22	C	8/11	8/25	14	341	24.3
14-17	C	8/10	8/13	4	75	25.0
14-18	C	8/30	9/4	5	98	19.7
14-19	C	8/19	8/30	12	215	19.6
16-15	C	8/23	8/31	10	132	16.5
16-20	Geot	9/7	9/24	17	250	14.7
18-11	C	8/21	8/28	8	116	16.5
18-15	C	8/10	8/21	12	149	13.5
18-17	C	8/13	8/20	7	138	19.7
20-15	C	8/31	9/5	5	128	25.6
20-20	C	8/25	9/1	7	189	27.1
22-11	C	8/28	9/8	11	198	18.0
22-14	C	8/26	9/4	9	134	14.9
22-20	C	8/21	8/31	10	232	23.2
24-10	C	8/26	9/4	9	133	14.7
24-17	C	8/31	9/7	7	179	25.6
26-14	C	8/26	9/4	9	149	16.6
26-16	C	9/1	9/7	6	182	30.4
28-14	C	9/4	9/15	11	187	17.0
30-12	C	9/12	9/16	4	71	17.8
30-14	Geot	9/26	10/5	9	167	18.5
30-16	C	9/14	9/26	12	224	18.7
32-10	C	9/4	9/21	17	190	11.2
32-14	C	9/4	9/14	10	190	19.0
32-16	C	9/17	10/1	14	226	16.1
34-10	C	9/21	10/1	10	151	15.1

TABLE 3.2 - Continued

Hole	Rotary or Core	2008 (Mo./Day) Start	2008 (Mo./Day) Complete	Days	Meters Drilled	Meters /Day
		Rotary Holes				
34-12	C	9/4	9/12	8	116	14.6
34-15	C	9/4	9/18	14	171	12.2
36-11	C	9/16	9/21	5	101	20.3
38-10	C	9/21	10/1	10	171	17.1
38-15	Geot	9/7	9/25	18	235	13.1
40-09	C	9/26	10/4	8	133	16.7
40-11	C	9/24	10/5	11	264	24.0
40-14	C	9/17	9/27	10	187	18.7
42-09	C	9/15	9/21	6	130	21.6
42-13	C	9/8	9/18	10	192	19.2
42-16	C	9/25	10/8	13	330	25.4
44-09	C	9/21	10/1	10	147	14.7
46-13	C	9/15	9/29	14	224	16.0
					7,562	19.1

P:\ENG_WP\3272.012\WP\[Table 3 2.xls]08 Drill Sum

TABLE 3.3

INVENTORY COAL
> 0.7 METERS THICK
5-1,000 METER COVER DEPTH
KHUSHUUT CONCESSION
Khovd Region, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION, LIMITED
By
John T. Boyd Company
Mining and Geological consultants
October 2009

	No. of			Coal		Coal Tonnes (000)			
Seam	Drill Hole Intercepts	Coal Analyses	Hectares	Thick (M)	SG	Measured & Indicated	Inferred & Speculative	Total	% of tonnes
H	11	3	46	3.9	1.55	-	2,692	2,692	1
G	14	3	44	2.0	1.55	-	1,468	1,468	1
F	28	7	94	4.6	1.54	-	6,921	6,921	2
E	28	7	98	3.1	1.55	-	5,181	5,181	2
D	18	3	70	2.4	1.55	-	2,675	2,675	1
C	160	24	444	22.1	1.50	136,642	-	136,642	47
B: B0	80	11	69	1.9	1.51	2,444	-	2,444	1
B: B	183	24	363	12.5	1.55	68,152	-	68,152	23
B: B1	102	13	102	1.7	1.54	3,004	-	3,004	1
A	37	5	79	2.3	1.55	2,573	-	2,573	1
AA	31	6	157	2.2	1.55	5,895	-	5,895	2
AB	11	3	94	1.8	1.55	-	3,084	3,084	1
AC	11	5	139	3.6	1.55	-	9,536	9,536	3
AD	11	5	205	2.4	1.55	-	8,650	8,650	3
AE	8	4	162	2.1	1.56	-	6,440	6,440	2
AF	9	4	184	1.4	1.55	-	4,942	4,942	2
AG	4	1	77	1.7	1.55	-	2,487	2,487	1
AH	6	3	203	5.0	1.60	-	18,715	18,715	6
						218,710	72,791	291,501	100

Coal tonnes include in-seam partings less than 0.1 m thick,
Clasifications based on drill hole intercepts (holes recording seam thickness),
which in most cases did not include coal quality detemrination.
Inventory coal estimate is not JORC compliant.

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TABLE 3.4

PIT SHELLS IN - PLACE COAL RESOURCES
> 1.5 METERS THICK
5-400 METER COVER DEPTH
KHUSHUUT CONCESSION
Khovd Region, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION, LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
October 2009

	Seam		Indicated Resource								Overburden Ratio	
	Area	Thick	Tonnes (000)			Burden (Bcm-000)(c)					Incremental	Cumulative
Seam	Hectares	(m)	Coal(a)	Parting(b)	Seam	Overburden	Interburden	Parting (d)	Underburden	Total	(Bcm/T)	(Bcm/T)
Overburden Depth 5-50 Meters												
C	57.7	19.7	15,427	1,821	17,248	20,028	525	1,738	4,792	27,083	1.6	1.6
B	24.8	10.2	4,506	372	4,878	5,440	3,942	373	-	9,755	2.0	1.7
			19,933	2,193	22,126	25,468	4,467	2,111	4,792	36,838		
Overburden Depth 5-100 Meters												
C	82.7	28.7	34,833	4,180	39,013	46,463	1,232	3,990	12,700	64,385	1.7	1.7
B	52.7	12.1	11,038	970	12,008	7,017	17,211	910	-	25,138	2.1	1.8
			45,871	5,150	51,021	53,480	18,443	4,900	12,700	89,523		
Overburden Depth 5-150 Meters												
C	99.6	27.9	45,443	5,341	50,784	98,061	1,518	5,573	26,402	131,554	2.6	2.6
B	83.7	13.2	18,823	1,740	20,563	7,275	30,970	1,569	-	39,814	1.9	2.4
			64,266	7,081	71,347	105,336	32,488	7,142	26,402	171,368		
Overburden Depth 5-200 Meters												
C	114.6	28.3	55,103	6,373	61,476	157,449	1,593	6,837	42,556	208,435	3.4	3.4
B	110.1	13.9	26,472	2,434	28,906	7,475	40,696	2,273	-	50,444	1.7	2.9
			81,575	8,807	90,382	164,924	42,289	9,110	42,556	258,879		
Overburden Depth 5-250 Meters												
C	131.2	29.0	65,149	7,517	72,666	236,100	1,623	7,960	63,367	309,050	4.3	4.3
B	125.3	13.5	30,732	2,803	33,535	7,778	46,617	2,713	-	57,108	1.7	3.4
			95,881	10,320	106,201	243,878	48,240	10,673	63,367	366,158		
Overburden Depth 5-300 Meters												
C	144.1	29.2	72,955	8,584	81,539	302,877	1,567	8,713	92,564	405,721	5.0	5.0
B	139.4	13.4	34,530	3,174	37,704	7,723	53,028	3,103	-	63,854	1.7	3.9
			107,485	11,758	119,243	310,600	54,595	11,816	92,564	469,575		
Overburden Depth 5-350 Meters												
C	163.1	28.8	81,587	9,770	91,357	381,616	1,539	9,394	144,162	536,711	5.9	5.9
B	154.1	13.7	38,671	3,555	42,226	7,468	59,311	3,478	-	70,257	1.7	4.5
			120,258	13,325	133,583	389,084	60,850	12,872	144,162	606,968		
Overburden Depth 5-400 Meters												
C	181.7	29.1	90,676	11,063	101,739	436,682	1,704	10,114	209,290	657,790	6.5	6.5
B	173.8	13.8	43,494	4,004	47,498	7,513	67,311	3,892	-	78,716	1.7	4.9
			134,170	15,067	149,237	444,195	69,015	14,006	209,290	736,506		

Note:
Underburden = Waste rock excavated below the coal seams in order to achieve a 35-degree pit slope.
(a) Coal tonnes include partings less than 0.1 m thick.
(b) Includes in-seam partings measuring greater than 10 cm and up to 30 cm in thickness.
(c) Assumes 35-degree final slope.
(d) Assumes greater than 30 cm minimum in seam partings are included with burden.

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TABLE 3.5

DRILL HOLE COAL QUALITY
C SEAM
RAW & 1.4 FLOAT
KHUSHUUT CONCESSION
Khovd Region, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION, LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
October 2009

	Raw Coal								Float Coal																
	Industrial Analysis %			Total Sulfur (%)	Heating Value		Characteristics Char Residue JT		Industrial Analysis (%)			Characteristics Char Residue JT		Sulfur (%)		GR.I		Real Density	Ash Meltability	Grind-ability	Ultimate Analysis (daf %)				
DHID	Mad	Ad	Vdaf	St,d	Qb,ad (mj/kg)	Qgr.d (mj/kg)	Min	Max	Mad	Ad	Vdaf	Min	Max	St,d	Y(mm)	Min	Max	TRD	ST(°C)	HG.I	C	H	N	O+S	Coal Type
820	0.87	18.58	20.14	0.50	29.79	29.96	2	8	0.90	8.97	19.51	7	7	0.58	11.2	87	89	1.52	1,301	109	90.1	4.8	1.2	4.0	Coking
1015	1.01	18.29	19.39	0.54	28.83	29.03	2	6	0.92	7.53	14.92	2	6	0.49	-	70	75	1.52	1,245	-	90.5	4.7	1.2	3.7	Coking
1422	1.09	13.38	19.80	0.49	30.61	30.85	5	7	0.85	8.08	18.16	2	8	0.59	10.9	80	90	1.51	1,256	-	90.5	4.7	1.2	3.7	Coking
2016	0.44	24.47	19.86	0.50	26.47	26.50	1	6	0.62	5.25	18.24	4	8	0.50	-	74	98	1.50	1,293	-	92.2	4.5	1.2	2.1	Coking
2216	0.80	24.19	20.83	0.48	27.56	27.72	1	8	0.72	6.18	20.01	7	8	0.48	12.4	84	96	1.57	1,281	-	89.9	4.8	1.2	4.1	Coking
2420	0.75	24.40	19.44	0.32	27.60	27.73	1	6	0.66	6.04	18.82	6	8	0.44	18.5	67	96	1.52	1,325	-	91.3	4.6	1.3	2.9	Coking
2424	0.88	16.84	20.23	0.51	29.89	30.06	6	7	0.87	8.83	19.41	7	8	0.60	13.3	92	97	1.50	1,280	-	90.1	4.8	1.2	4.0	Coking
2817	0.84	15.17	19.22	0.48	30.48	30.64	7	8	0.85	6.75	18.39	3	8	0.47	11.7	86	91	1.48	1,283	-	90.5	4.6	1.2	3.6	Coking
3220	0.80	15.22	19.60	0.43	30.14	30.30	6	7	0.84	6.07	19.27	7	7	0.43	-	78	84	1.52	1,274	-	90.1	4.7	1.2	3.9	Coking
3224	0.76	13.23	20.74	0.50	30.57	30.71	6	7	0.86	6.39	19.74	7	8	0.49	11.4	84	91	1.53	1,295	-	90.1	4.7	1.2	4.0	Coking
3616	0.75	15.71	17.60	0.54	29.90	30.02	6	8	0.80	6.22	17.33	7	8	0.52	13.4	89	98	1.52	1,259	-	90.8	4.6	1.2	3.4	Coking
4016	0.73	16.87	18.32	0.54	30.14	30.25	1	7	0.69	6.60	18.55	6	7	0.50	16.0	81	95	1.39	1,278	-	90.5	4.7	1.2	3.7	Coking
4412	1.15	13.38	19.46	0.43	31.71	31.98	1	6	0.74	5.27	16.64	7	7	0.49	19.0	78	84	1.42	1,230	-	91.0	4.5	1.3	3.2	Coking
4416	0.58	14.73	20.68	0.41	30.59	30.68	5	7	0.72	6.27	20.14	6	8	0.44	13.6	78	99	1.52	1,272	-	89.7	4.8	1.2	4.2	Coking
4610	0.99	12.22	15.43	0.44	32.04	32.27	6	7	0.84	6.88	14.85	1	7	0.45	-	74	85	1.51	1,256	-	91.4	4.4	1.1	3.0	Coking
826	0.90	18.62	18.75	0.51	28.97	29.14	4	4	0.90	8.84	18.29	5	5	0.60	-	37	40	1.51	1,308	-	90.5	4.7	1.2	3.7	Lean
1616	3.16	18.05	22.21	0.44	27.01	27.82	1	4	0.80	6.02	16.76	1	7	0.57	-	17	18	1.47	1,281	-	91.1	4.5	1.2	3.2	Meager
3212	2.44	16.15	20.07	0.37	28.95	29.58	1	2	1.38	7.11	19.47	1	1	0.41	-	0	0	1.53	1,371	-	90.4	4.6	1.2	3.8	Meager
3812	3.29	10.25	21.86	0.41	28.19	29.06	2	2	0.67	4.24	15.67	2	-	0.44	-	0	-	1.46	1,219	-	89.8	4.8	1.2	4.2	Meager
2011	1.17	22.32	15.00	0.61	28.64	28.87	1	4	1.54	5.56	13.53	4	5	0.54	-	12	18	1.54	1,280	-	92.2	4.3	1.1	2.4	Meager Lean
2012	0.75	12.19	16.27	0.51	31.68	31.82	4	7	0.76	5.63	16.11	4	7	0.52	20.0	13	98	1.42	1,240	114	91.5	4.4	1.2	2.9	Meager Lean
3608	1.27	13.25	16.55	0.59	30.86	31.15	1	4	0.71	6.23	16.19	4	5	0.58	-	12	18	1.57	1,296	128	91.3	4.5	1.2	3.1	Meager Lean
3612	2.28	16.03	22.04	0.51	27.00	27.56	1	6	0.76	5.20	21.93	2	6	0.46	-	5	84	1.50	1,280	-	89.5	4.9	1.2	4.4	Meager Lean/Coking
2414	0.94	15.08	18.32	0.52	29.89	30.07	2	7	0.86	6.53	17.13	2	7	0.50	-	2	82	1.50	1,268	-	90.7	4.6	1.2	3.5	Meager/Meager Lean/Coking
	1.06	16.74	18.93	0.49	29.59	29.81	1	8	0.85	6.77	18.00	1	8	0.51		0	99	1.50	1,281		90.7	4.6	1.2	3.5	

TABLE 3.6

DRILL HOLE COAL QUALITY
B SEAM
RAW & 1.4 FLOAT
KHUSHUUT CONCESSION
Khovd Region, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION, LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
October 2009

	Raw Coal								Float Coal																	
	Industrial Analysis %			Characteristics Char Residue JT		Total Sulfur (%)	Heating Value		Industrial Analysis (%)			Characteristics Char Residue JT		Sulfur (%)		GR.I		Real Density	Ash Meltability	Grind-ability	Ultimate Analysis (daf %)				
DHID	Mad	Ad	Vdaf	Min	Max	St,d	Qb,ad (mj/kg	Qgr.d (mj/kg	Mad	Ad	Vdaf	Min	Max	St,d	Y(mm)	Min	Max	TRD	ST(°C)	HG.I	C	H	N	O+S	Coal Type
B SEAM																										
1422	1.14	12.78	19.87	5	7	0.50	31.07	31.33	0.89	7.65	19.05	1	7	0.60	-	68	75	-	1,284	-	90.31	4.70	1.20	3.79	Coking
2817	0.88	17.89	18.26	5	5	0.50	29.71	29.88	0.84	6.99	18.26	6	8	0.49	-	67	72	-	-	-	90.48	4.66	1.19	3.67	Coking
4416	0.65	12.92	16.90	4	5	0.45	31.29	31.41	0.78	6.09	16.51	5	6	0.47	-	77	77	1.51	1,277	90	91.13	4.51	1.16	3.20	Insufficient Data
820	0.88	17.66	18.83	4	5	0.52	30.00	30.17	0.90	9.04	18.43	5	5	0.58	-	35	41	1.52	1,327	91	90.39	4.68	1.20	3.73	Lean
1015	0.83	15.16	16.86	1	6	0.43	28.77	28.92	0.82	7.10	15.60	5	6	0.42	-	34	62	1.51	1,228	-	91.21	4.49	1.16	3.14	Lean
1616	0.72	18.34	17.24	1	5	0.44	29.86	29.98	0.58	6.10	16.28	4	5	0.46	-	48	77	1.48	1,308	-	92.24	4.45	1.16	2.15	Lean
2414	0.92	33.77	15.63	1	4	0.45	19.65	19.75	0.87	7.18	17.79	5	5	0.50	-	28	31	1.66	1,237	-	90.45	4.66	1.19	3.69	Lean
2424	0.88	16.29	19.02	4	4	0.51	30.32	30.50	0.89	8.89	18.57	5	5	0.60	-	35	40	1.51	1,296	-	90.45	4.67	1.19	3.69	Lean
3220	0.89	14.95	20.45	5	5	0.48	30.03	30.20	0.86	6.20	18.68	5	7	0.48	-	35	42	1.53	1,295	-	90.31	4.70	1.20	3.80	Lean
3224	0.73	11.97	20.75	5	5	0.54	31.26	31.39	0.84	6.53	18.95	5	7	0.52	-	40	51	-	1,287	-	90.26	4.71	1.20	3.83	Lean
3616	0.98	18.78	16.24	1	4	0.44	29.38	29.56	0.81	6.49	17.47	5	5	0.47	-	32	37	1.46	1,314	-	90.81	4.58	1.18	3.43	Lean
4016	0.82	17.07	16.58	1	5	0.61	29.52	29.65	0.76	6.02	18.29	5	5	0.59	-	40	60	1.42	1,259	-	90.40	4.68	1.20	3.73	Lean
1215	4.91	9.89	19.95	1	4	0.49	28.71	30.09	0.87	6.22	18.40	1	5	0.58	-	-	-	1.50	1,250	-	90.35	4.69	1.20	3.76	Meager
2012	0.75	13.98	15.10	1	3	0.50	32.10	32.24	0.63	4.22	14.21	3	3	0.53	-	2	12	1.44	1,288	80	91.72	4.08	1.24	2.97	Meager
2016	0.48	24.07	18.04	2	4	0.52	26.41	26.45	0.79	7.11	19.51	2	5	-	-	-	16	1.74	1,302	-	90.07	4.75	1.21	3.97	Meager
3212	1.28	17.24	18.29	1	2	0.61	29.15	29.41	0.84	6.37	18.58	3	3	0.59	-	2	3	1.48	1,263	-	90.47	4.66	1.19	3.67	Meager
4008	3.12	24.73	19.38	1	2	0.69	24.81	25.51	2.46	4.11	18.02	1	1	0.55	-	-	-	1.51	1,175	-	91.01	4.91	1.24	2.84	Meager
2420	3.11	13.07	18.12	4	5	0.36	30.87	31.78	0.66	6.00	18.34	5	5	0.43	-	13	17	1.46	1,292	-	-	-	-	-	Meager Lean
3608	1.01	17.25	15.34	3	4	0.54	29.44	29.64	0.79	6.30	15.02	4	5	0.54	-	12	14	1.53	1,300	97	91.55	4.42	1.14	2.90	Meager Lean
3612	0.82	18.01	18.37	4	5	0.50	28.52	28.66	0.79	5.51	18.47	4	5	0.49	-	12	16	1.53	1,246	-	90.45	4.66	1.19	3.69	Meager Lean
4412	1.10	16.07	18.74	1	5	0.52	30.88	31.11	0.81	5.54	16.17	5	5	0.58	-	16	18	1.46	1,266	-	92.12	4.33	1.38	2.18	Meager Lean
	1.28	17.23	18.00			0.50	29.13	29.41	1.05	7.95	20.92			0.52	-			1.52	1,213.95		86.48	4.38	1.14	3.23	

TABLE 3.6 - Continued

	Raw Coal								Float Coal																
	Industrial Analysis %			Characteristics Char Residue JT		Total Sulfur (%)	Heating Value		Industrial Analysis (%)			Characteristics Char Residue JT		Sulfur (%)		GR.I		Real Density	Ash Meltability	Grind-ability	Ultimate Analysis (daf %)				
DHID	Mad	Ad	Vdaf	Min	Max	St,d	Qb,ad (mj/kg	Qgr.d (mj/kg	Mad	Ad	Vdaf	Min	Max	St,d	Y(mm)	Min	Max	TRD	ST(°C)	HG.I	C	H	N	O+S	Coal Type
												B0 SEAM													
1616	0.69	43.19	13.45	4	-	0.32	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Insufficient Data
1015	0.90	18.74	18.75	4	-	0.52	29.68	29.86	0.87	8.31	17.56	5	-	0.56	-	35	35	-	-	-	90.71	4.61	1.18	3.51	Lean
2414	0.89	27.69	19.62	4	4	0.54	25.00	25.13	0.88	6.51	17.66	5	7	0.52	-	29	32	ND	ND	ND	ND	ND	ND	ND	Lean
3212	1.32	26.59	22.36	2	-	0.47	23.93	24.18	1.01	7.66	20.04	3	-	0.46	-	-	-	1.61	-	-	90.30	4.63	1.22	3.85	Meager
3608	4.86	39.19	27.69	1	1	0.30	12.99	13.76	0.47	3.46	9.39	1	1	0.25	-	-	-	2.04	1,356	ND	ND	ND	ND	ND	Meager
2012	0.77	14.09	13.45	3	-	0.51	30.85	30.99	0.63	4.96	14.11	4	-	0.55	-	7	7	1.50	1,245	77	-	-	-	-	Meager Lean
2016	0.39	5.29	15.83	4	-	0.67	34.37	34.39	-	-	-	-	-	-	-	15	15	1.37	-	-	-	-	-	-	Meager Lean
2420	2.16	8.28	13.96	5	5	0.39	32.50	33.26	-	-	-	-	-	-	-	16	16	1.43	ND	ND	ND	ND	ND	ND	Meager Lean
	1.50	22.88	18.14			0.47	23.66	23.95	0.77	6.18	15.75			0.47	-			1.59							
												B1 SEAM													
1015	0.85	12.71	17.98	4	4	0.50	30.88	31.05	0.89	8.10	17.08	5	5	0.48	-	50	52	ND	ND	ND	ND	ND	ND	ND	Lean
1215	2.46	8.64	16.64	3	4	0.49	31.39	32.09	0.37	2.84	6.41	4	4	-	-	-	-	ND	ND	ND	ND	ND	ND	ND	Meager
2012	0.96	34.24	15.63	3	-	0.66	23.10	23.24	1.25	2.95	16.84	2	-	0.64	-	-	-	-	-	-	-	-	-	-	Meager
1616	0.68	24.43	19.69	4	4	0.68	25.67	25.70	0.70	7.06	16.32	5	5	0.61	-	15	16	ND	1,376	ND	91.07	4.52	1.16	3.24	Meager Lean
2414	0.91	23.13	17.87	3	3	0.82	25.66	25.79				-	-	0.74	-	12	12	1.56	ND	ND	90.73	4.60	1.18	3.49	Meager Lean
3612	0.91	14.76	17.27	4	-	0.58	29.59	29.76	0.78	5.65	18.47	4	-	0.56	-	12	12	-	1,312	-	90.40	4.68	1.20	3.72	Meager Lean
	1.13	19.65	17.51			0.62	27.71	27.94	0.80	5.32	15.02			0.61	-			0.52			90.73	4.60	1.18	3.48	

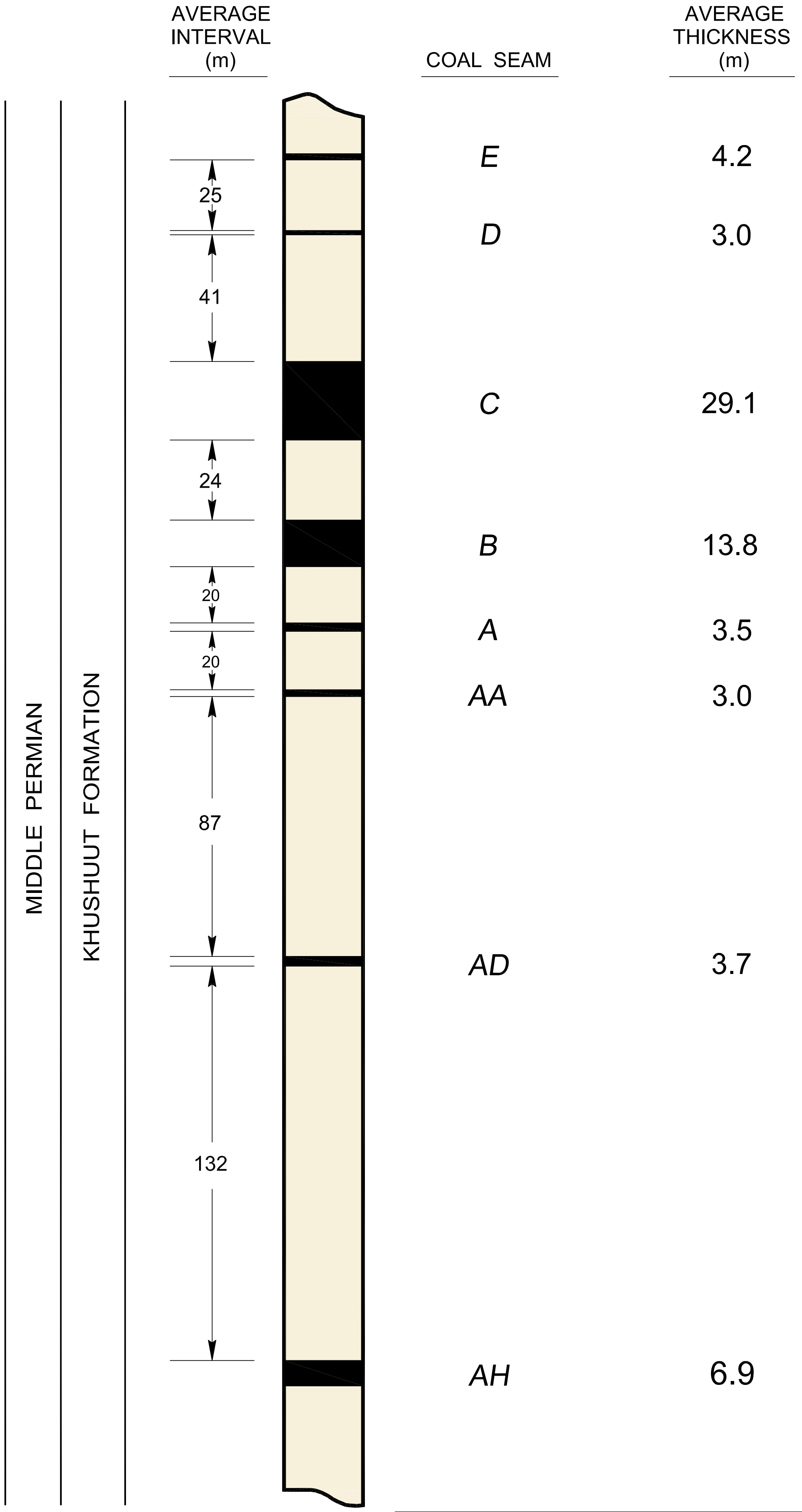
P:\ENG_WP\3272.009\PDA\[Tables 3.5, 3.6 and 3.7.xls]Table 3.6

TABLE 3.7

DRILL HOLE COAL QUALITY
OTHER COAL
RAW & 1.4 FLOAT
KHUSHUUT CONCESSION
Khovd Region, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION, LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
October 2009

	Raw Coal								Float Coal																
	Industrial Analysis %			Characteristics Char Residue JT		Total Sulfur (%)	Heating Value		Industrial Analysis (%)			Characteristics Char Residue JT		Sulfur (%)		GR.I		Real Density	Ash Meltability	Grind-ability	Ultimate Analysis (daf %)				
DHID	Mad	Ad	Vdaf	Min	Max	St,d	Qb,ad (mj/kg	Qgr.d (mj/kg	Mad	Ad	Vdaf	Min	Max	St,d	Y(mm)	Min	Max	TRD	ST(°C)	HG.I	C	H	N	O+S	Coal Type
F Seam																									
2420	0.74	20.24	16.51	3		0.50	28.84	28.97	1.25	5.53	20.12	3		0.51		4		1.49	1,352	ND	ND	ND	ND	ND	Meager
4416	0.59	14.12	21.33	8	8	0.49	30.88	30.97	0.74	6.09	20.42	8	8	0.49	17.81	96	98	1.53	1,299	ND	89.28	4.93	1.25	4.54	Primary
	0.67	17.18	18.92	3	8	0.50	29.86	29.97	1.00	5.81	20.27	3	8	0.50	17.81	4	98	1.51	1,326		89.28	4.93	1.25	4.54	
D Seam																									
3001	1.22	22.55	8.15	1	1	0.45	27.35	27.60	0.90	6.63	12.34	1	5	0.45	-	0	0	1.55	1,225	ND	94.00	3.86	1.02	1.12	Meager
3224	0.59	16.56	21.30	7	7	0.47	29.82	29.91	0.84	6.54	19.95	5	8	0.45	12.67	90	92	1.52	1,324	ND	89.61	4.86	1.23	4.30	Primary
	0.90	19.56	14.73	1	7	0.46	28.59	28.75	0.87	6.58	16.15	1	8	0.45	6.33	0	92	1.53	1,275		91.80	4.36	1.13	2.71	
A Seam																									
1422	1.08	12.47	18.30	5	5	0.52	30.91	31.15	0.88	7.97	18.35	5	5	0.59	-	70	72	1.51	1,246	ND	90.39	4.68	1.20	3.74	Primary
2012	1.92	15.00	16.71	2		0.80	29.42	29.88	1.39	2.91	16.77	1		0.75		0		1.50	1,300		90.99	4.54	1.17	3.30	Meager
3006	1.19	20.83	9.94	1	2	0.57	27.85	28.08	0.97	7.83	9.96	1	7	0.53	-	0	0	1.55	1,255	ND	93.35	4.01	1.05	1.59	Anthracite
	1.40	16.10	14.98	1	5	0.63	29.39	29.70	1.08	6.24	15.03	1	7	0.62	-	0	72	1.53	1,277		92.17	4.27	1.11	2.45	
A (AA) Seam																									
1422	1.06	12.69	18.52	5	5	0.51	30.77	31.01	0.88	7.66	17.64	5	5	0.61	-	70	73	ND	ND	ND	90.30	4.70	1.20	3.80	Primary
D (AH) Seam																									
2414	0.57	29.86	22.28	3	3	0.42	23.24	23.30	0.68	6.84	12.85	3	3	0.43	-	3	4	ND	ND	ND	90.77	4.59	1.18	3.46	Meager
3608	1.39	33.01	15.13	1	1	0.42	23.47	23.73	0.71	8.88	14.82	1	1	0.48	-	0	0	1.70	1,395	ND	91.60	4.40	1.14	2.86	Meager
3616	1.39	25.42	14.17	1	1	0.42	27.31	27.61	0.82	6.40	12.32	1	1	0.44	-	0	0	1.56	1,398	ND	92.43	4.21	1.10	2.25	Meager
	1.12	29.43	17.19	1	3	0.42	24.68	24.88	0.74	7.37	13.33	1	3	0.45	-	0	4	1.63	1,396		92.02	4.31	1.12	2.56	

P:\ENG_WP\3272.009\PDA\[Tables 3.5, 3.6 and 3.7.xls]Table 3.7



P:\CAD_GROUP\3272.022\FIGURE3_1.DWG

FIGURE 3.1

GENERALIZED STRATIGRAPHIC SECTION
KHUSHUUT CONCESSION
Khovd Province, Mongolia

Prepared For
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company

October 2009
Not to Scale

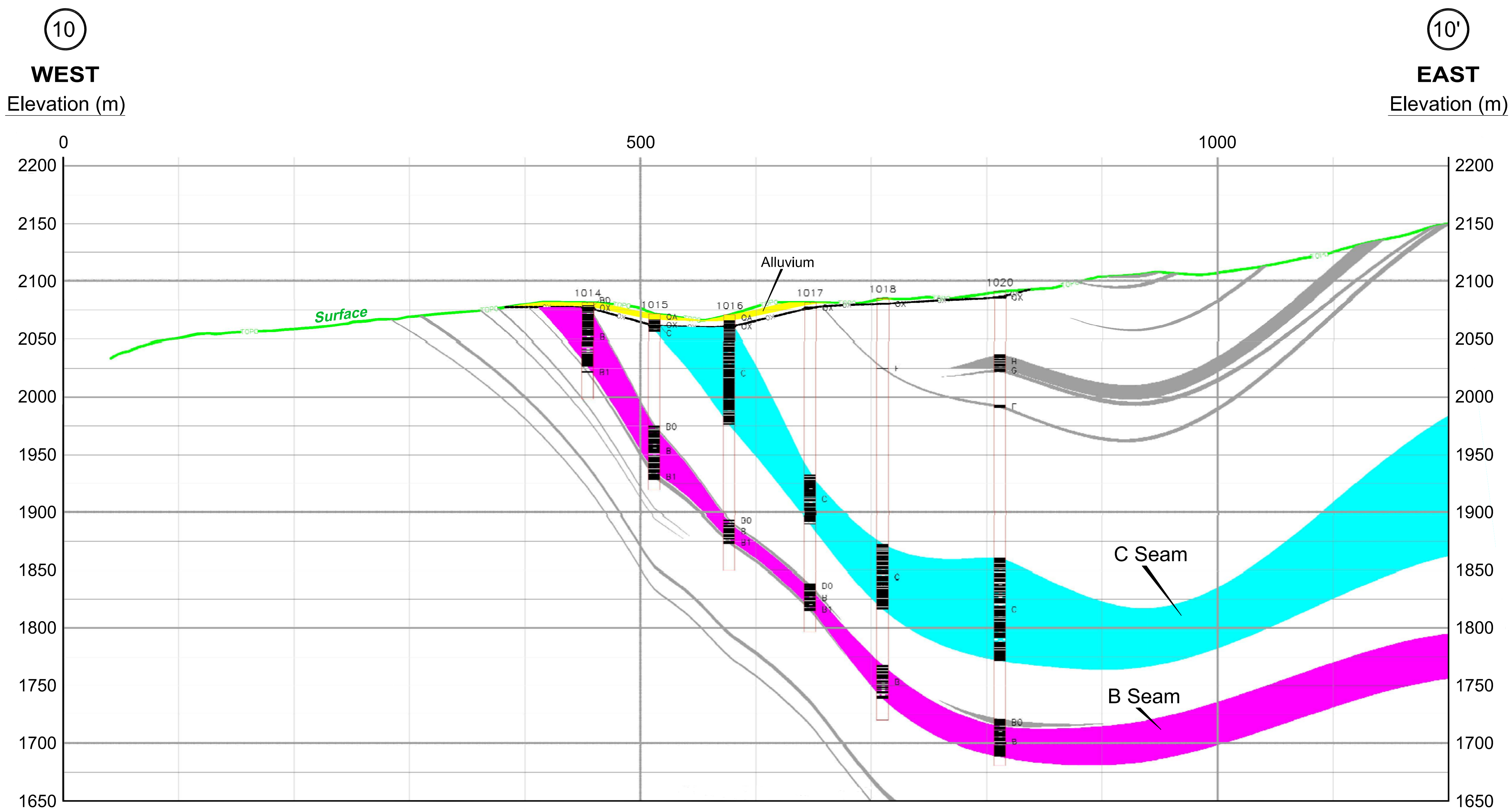


FIGURE 3.2

CROSS SECTION 10 - 10'
KHUSHUUT CONCESSION
Khovd Province, Mongolia

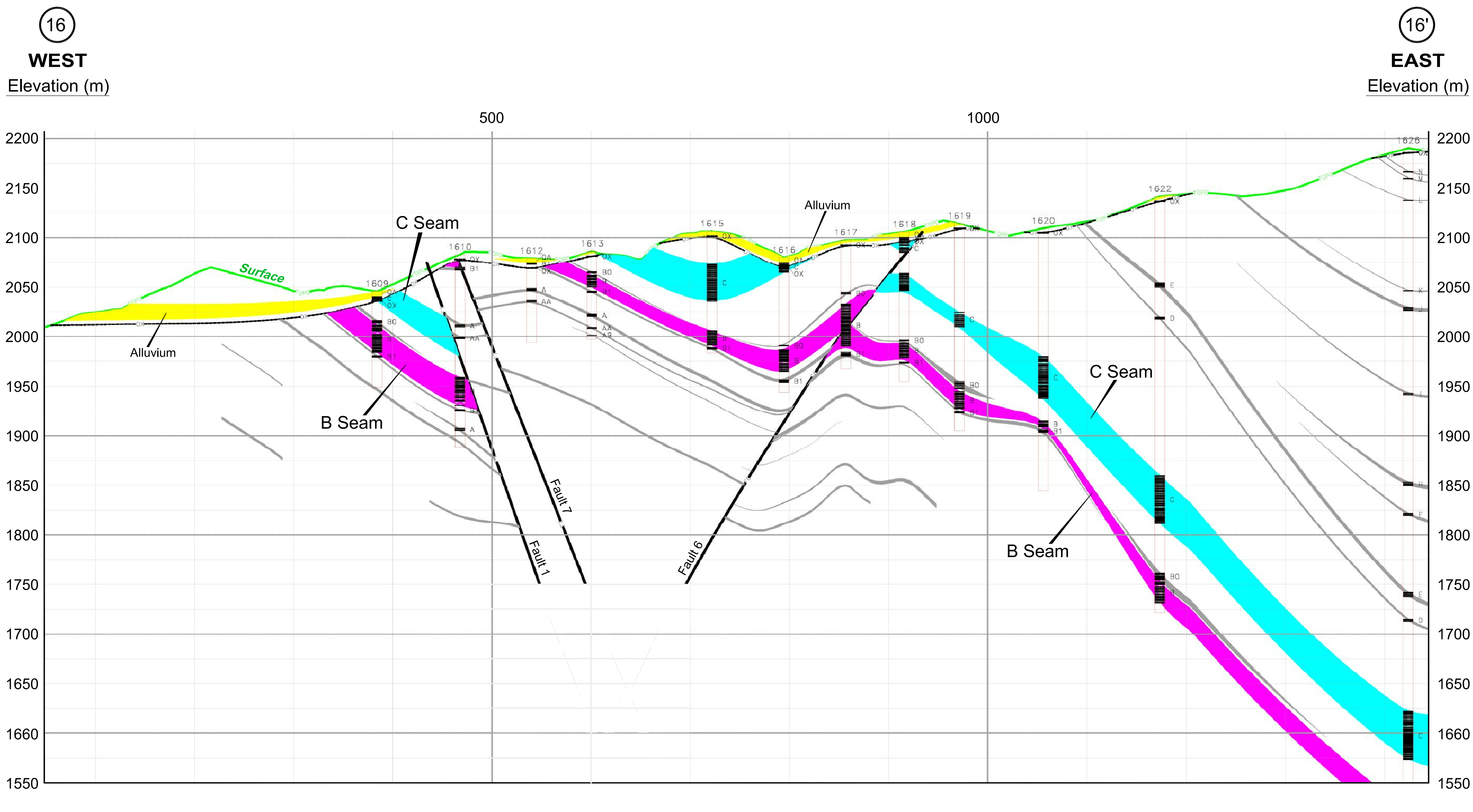
Prepared For
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company

October 2009
Scale 1 : 4,000

Note: See Exhibit 1 For Cross Section Location.

P:\CAD_GROUP\3272.022\FIGURE3_2.DWG



Note: See Exhibit 1 For Cross Section Location.

P:\CAD_GROUP\3272.022\FIGURE3_3.DWG

FIGURE 3.3

CROSS SECTION 16 - 16'

KHUSHUUT CONCESSION

Khovd Province, Mongolia

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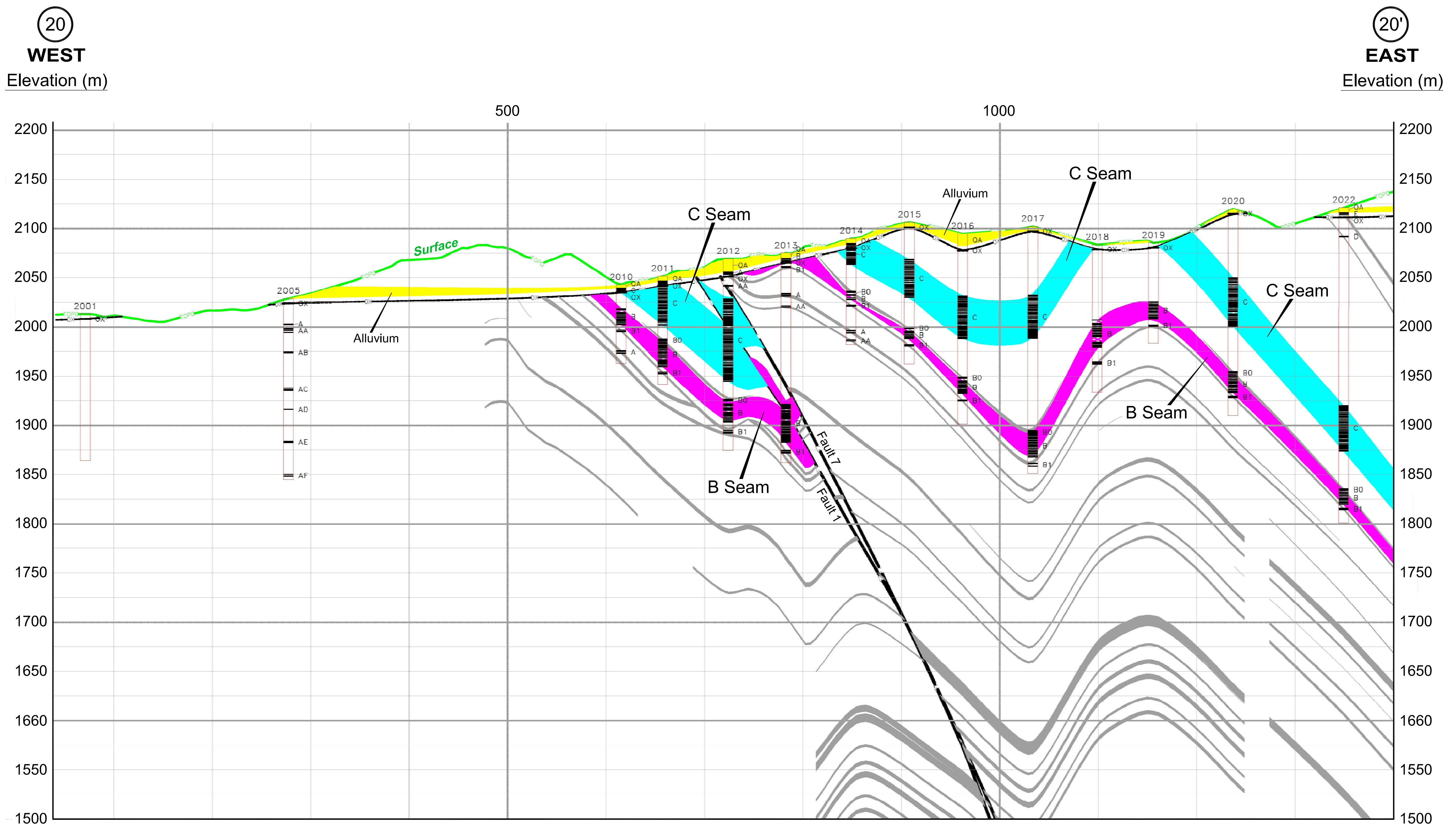
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company

October 2009

Scale 1 : 4,000



Note: See Exhibit 1 For Cross Section Location.

FIGURE 3.4

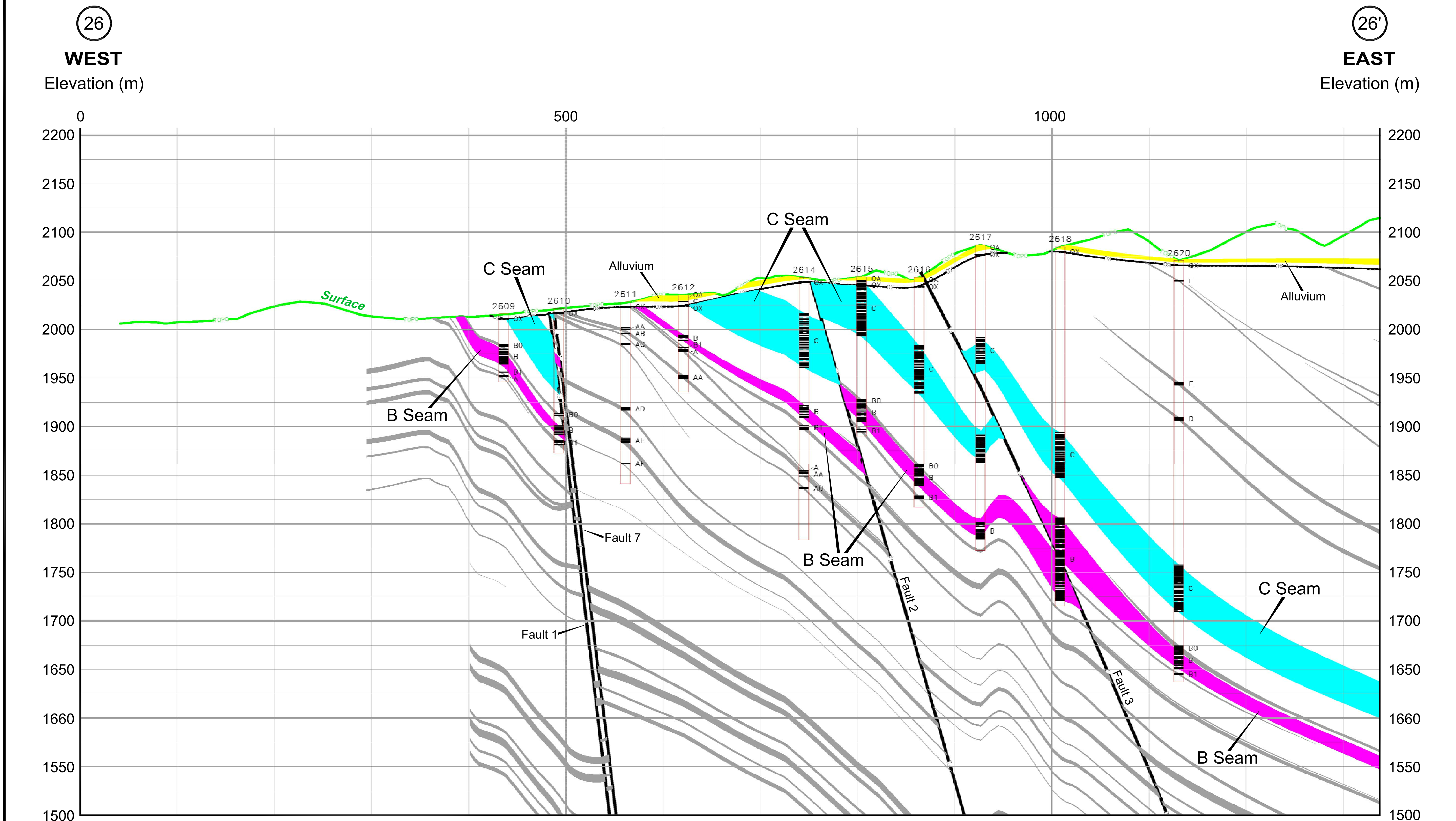
CROSS SECTION 20 - 20'
KHUSHUUT CONCESSION
Khovd Province, Mongolia

Prepared For
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company

October 2009
Scale 1 : 4,000

P:\CAD_GROUP\3272.022\FIGURE3_4.DWG



Note: See Exhibit 1 For Cross Section Location.

FIGURE 3.5

CROSS SECTION 26 - 26'

KHUSHUUT CONCESSION

Khovd Province, Mongolia

Prepared For

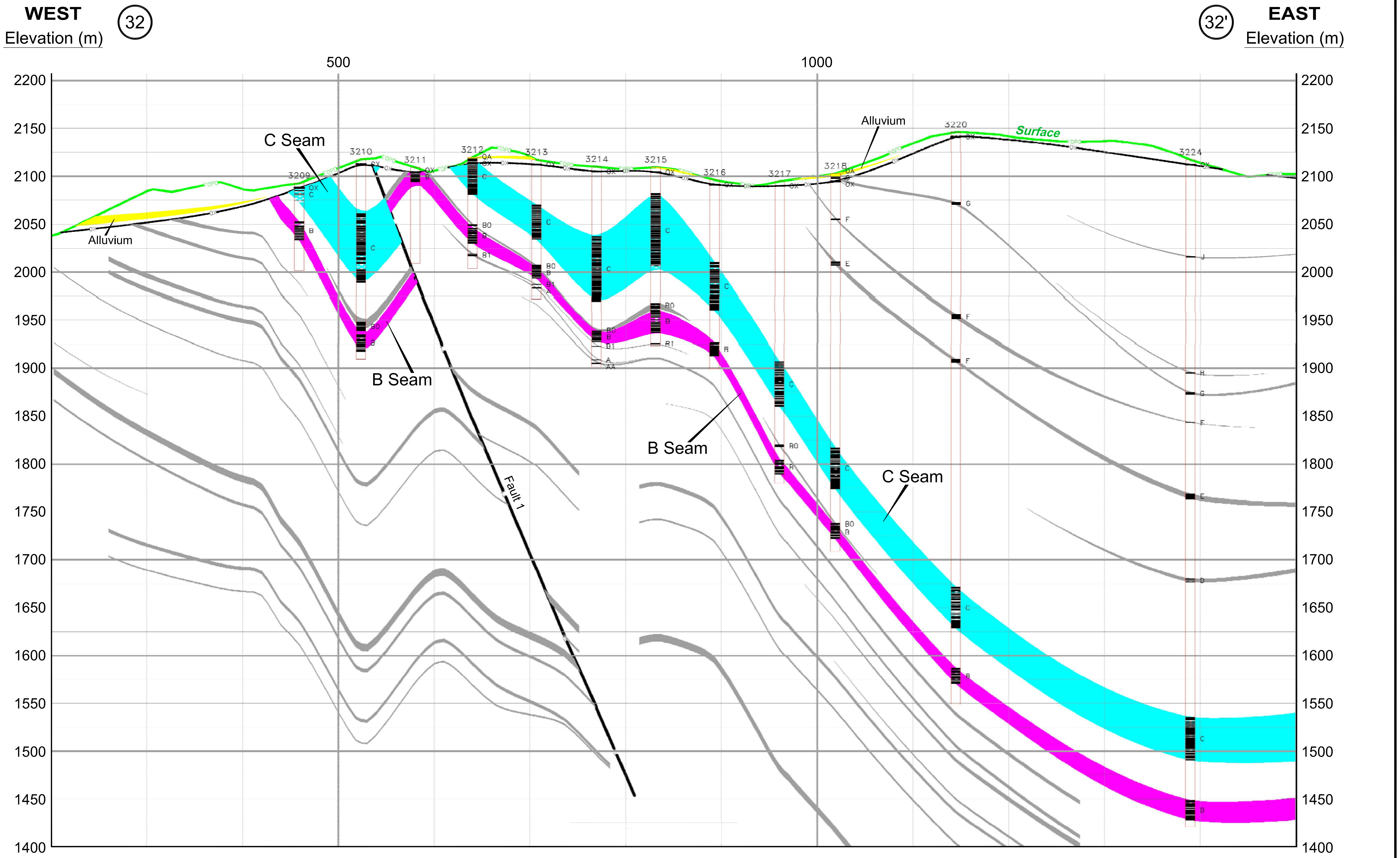
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company

October 2009

Scale 1 : 4,000

P:\CAD_GROUP\3272.022\FIGURE3_5.DWG



Note: See Exhibit 1 For Cross Section Location.

FIGURE 3.6

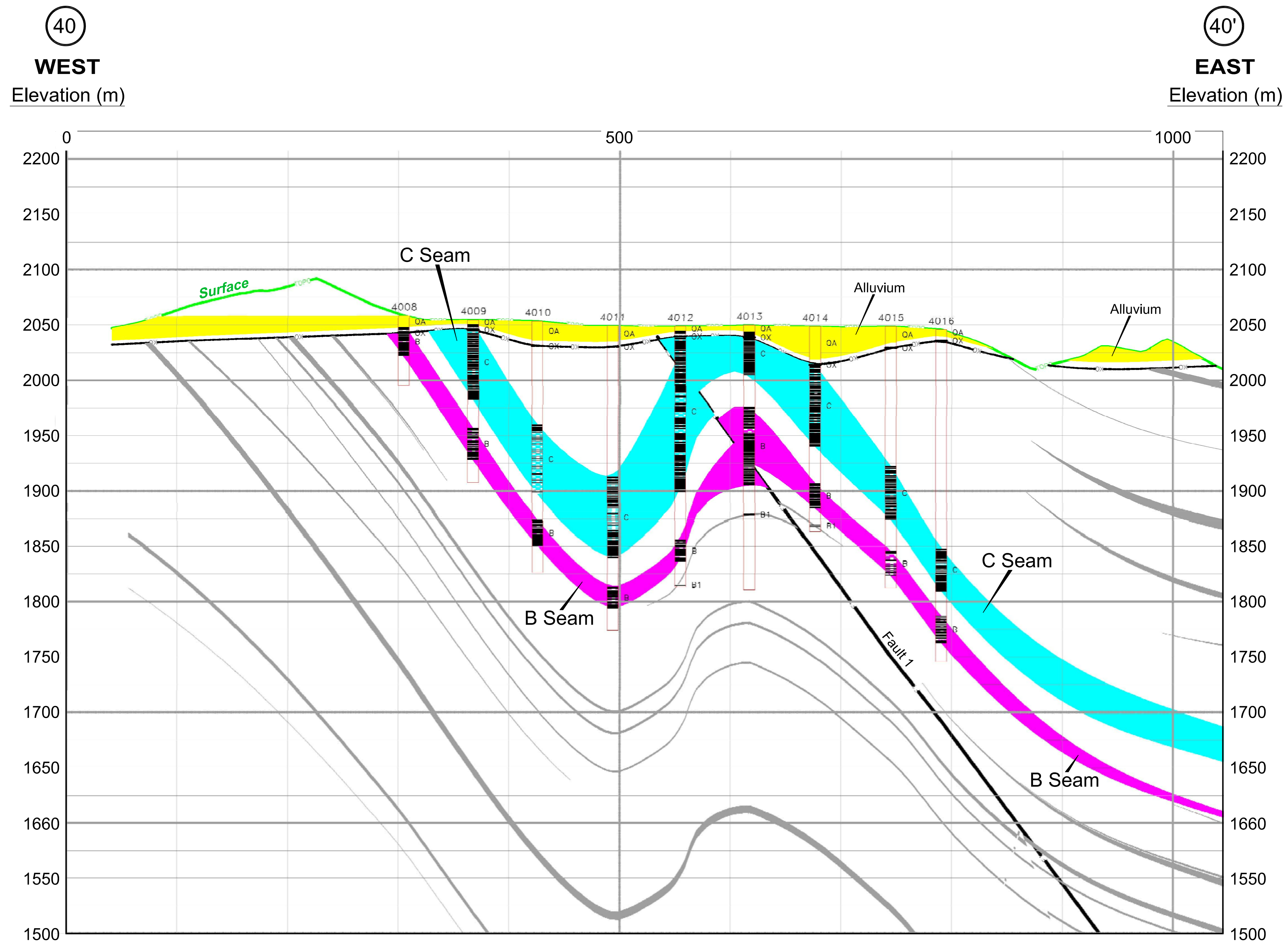
CROSS SECTION 32 - 32'
KHUSHUUT CONCESSION
Khovd Province, Mongolia

Prepared For
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company

October 2009
Scale 1 : 4,000

P:\CAD_GROUP\3272.022\FIGURE3_6.DWG



Note: See Exhibit 1 For Cross Section Location.

P:\CAD_GROUP\3272.022\FIGURE3_7.DWG

FIGURE 3.7

CROSS SECTION 40 - 40'
KHUSHUUT CONCESSION
Khovd Province, Mongolia

Prepared For
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company

October 2009
Scale 1 : 4,000

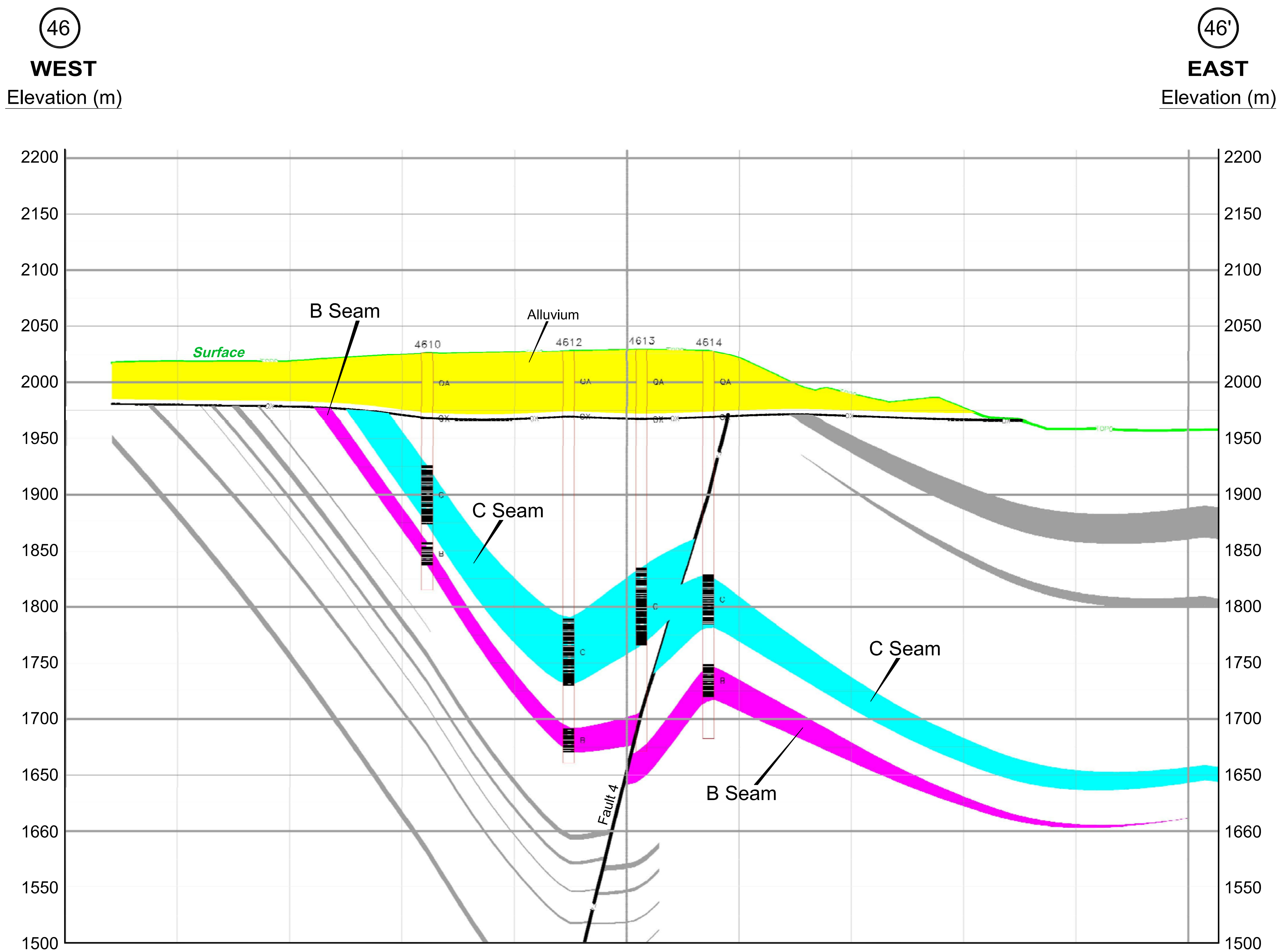


FIGURE 3.8

CROSS SECTION 46 - 46'
KHUSHUUT CONCESSION
Khovd Province, Mongolia

Prepared For
MONGOLIA ENERGY CORPORATION LIMITED

John T. Boyd Company | October 2009 | Scale 1 : 4,000

Note: See Exhibit 1 For Cross Section Location.

P:\CAD_GROUP\3272.022\FIGURE3_8.DWG

FIGURE 3.9

CROSS SECTION S - N
KHUSHUUT CONCESSION
Khovd Province, Mongolia

Prepared For
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Note: See Exhibit 1 For Cross Section Location.

P:\CAD_GROUP\3272.022\FIGURE3_9.DWG

4.0 PLANNING DEVELOPMENT

4.1 Introduction

BOYD developed a geologic model (based on 2007 exploration program results) of the coal resources reflecting economic assumptions quality parameters as directed by MEC and Fenwei. These parameters form the underlying basis of mine plan volumetrics and coal tonnages for the proposed Khushuut opencast coal mine. The following text outlines the procedures used in developing this conceptual mine plan.

4.2 MineScape/Whittle Mine Planning Software

4.2.1 Application

Software used to evaluate the Khushuut property included MINCOM MineScape (version 4.116a) and Whittle (version 4.1). MineScape is a well-recognized mine planning software system originating from Mincom, Inc. (Brisbane, Australia). Whittle is highly regarded for its Lerchs-Grossmann openpit optimization tools. Whittle is a software product developed and sold by Gemcom Software International, Inc. (Vancouver, Canada).

4.2.2 Methodology

During the development of BOYD's coal resource report, a stratigraphic MineScape model was created from the available drill hole data. The raw drill hole structural and quality data were interpolated onto a 10 m x 10 m grid using the Finite Element Method. MineScape models Thicknesses and Surfaces separately, and the final model is produced from these independent calculations. Six of the available fault traces were considered and built into the resulting model.

The MineScape stratigraphic roofs and floors of the major seams (F, C, B0, B, and B1) were then used to establish the "ore zone" for creation of a MineScape block model. Other coal seams were not included due to perceived uncertain mineability (continuity, thickness, etc.) and/or lack of supporting drill-hole data. The model cell size was 10 m (Y) x 5 m (X) x 3 m (Z). The model was subcelled along the IJ axes with a factor of 2. The Inverse Distance Squared interpolator was used for the block model. Stratigraphic resource estimates versus the resulting block model resource estimates were within 3%, so this block sizing seemed to fit the deposit well. This block model was then regularized (subcells were accumulated into the original parent cell) and then exported to Whittle for optimization.

Once imported to Whittle, the model was re-blocked to improve execution time (20Y x 20X x 18Z). Loss of resolution at this point is minimal since Whittle handles "parcel" volumes within a block very well.

4.3 Mine Modeling Parameters

4.3.1 Recoverable Reserve Estimation Parameters

Pit depth in Whittle was limited by costs, and there was no maximum depth limit set in the mine plan model.

As input to BOYD's modeling, Fenwei assumed that the weathering and oxidation of coking coal decreases with depth. Fenwei chose the Chinese Caking Index, G, as a proxy measure of the degree of weathering and oxidation. The following are depth criteria relative to G-value assumed by Fenwei:

- < 10 m depth: a weathered zone in which the coal is assumed to be totally oxidized with G-vaues less than five; the weathered coal would not be suitable for blending with higher G-value coking coal into a marketeable coking coal and it can be used only as fuel for domestic space heating or as fuel for a power plant.

- 10 m to 50 m depth: an oxidized zone of coking coal with an assigned average G-value of 12 and the coal would be suitable as a coking coal if blended with higher G-value coking coal.

- > 50 m depth: a zone of premium coking coal with average G-values of 75–85 in the C Seam and average G-values of 40–70 in the B Seam.

Fenwei determined pricing for the following two coking coal product blends based on the above assumptions.

Khushuut #1 Blend

	Coal from Oxidized Zone	Coal from C-Seam	Coal from B-Seam	Calculated Blend
Blending Proportion (%)	15	55	30	100
G-Value	12	75	45	57

Khushuut #2 Blend

	Coal from C-Seam	Coal from B-Seam	Calculated Blend
Blending Proportion (%)	65	35	100
G-Value	77	45	66

Due to the large volume of weathered coal, the blending ratio is such that the coal stocks of weathered coal are never depleted. This results in only Khushuut No. 1 blend as the sole product type generated from the proposed mine.

In order to achieve the above blend, initial advance to depths of 50 m and greater is imperative. All shallower (<50 m cover C Seam and all B Seam) must be stockpiled and blended to achieve proposed blends. A portion of this coal will be used as fuel for a mine site power plant with electricity to be used for the mine operations and by the local community.

It should be noted that the assumptions listed above are based on 2007 drill program results. The 2008 Summer drilling and sampling program as well at the 2008–2009 Winter program results have not been incorporated into the findings contained herein. Analysis of the results of these programs will be completed by November 2009. These results and revisions will be provided upon completion.

4.3.2 Coal Recovery and Mining Dilution

A 1.5 m coal seam thickness is applied as the minimum mining thickness. The minimum separable parting thickness criterion is 0.3 m. At each interface of a separable parting, a rock dilution of 0.1 m and a coal loss of 0.1 m are applied. This is imposed on both the top and the bottom of each removable parting, as well as at the overall top and bottom of the seam.

4.3.3 Mine Design Parameters

Based on: (1) complexity of the geology of the deposit, (2) variable depth of projected mining (subcrop to over 350 m), and (3) relatively thick seams, the deposit is well suited for openpit mining with end-dump trucks and hydraulic backhoes (or equivalent). The mine will require drilling and blasting of rock overburden occurring below the alluvium. The coal will require drilling and blasting as well.

4.3.4 Geotechnical Assumptions

To achieve geotechnical stability, BOYD recommends the effective slope of the final pit walls must be reduced as the depth of mining increases. While pit walls in competent rock may stand at 60 degrees up to a depth of 50 m, the pit wall must be progressively reduced to 35 degrees at a 250+ m depth. For purposes of the pre-feasibility mine plan, the final effective pit wall slope was set to 35 degrees for all pit shells. Therefore, the overburden waste volumes estimated for the early years of the mine plan should be slightly conservative.

During the 2008 exploration program, geotechnical samples were taken were tested in an independent, geotechnical testing laboratory. Laboratory results of these samples were completed in the first quarter of 2009 and a separate geotechnical report was issued by BOYD. The results were not available in time for use in this report (or accompanying mine design parameters). Subsequently, the results have been reviewed and do not significantly impact assumptions used in this analysis.

4.4 Determination of Margin Ranking

4.4.1 Break-Even Cost

Preliminary margin ranking assumptions:

Description	US$/Tonne
General Mining Cost (coal or waste)	1.20
Additional Costs for Coke (stockpile, crush, wash)	2.05
Coal Processing Costs (starting in Year 4)	2.15
Selling Costs (costs after processing and before FOB)	2.25

A discount rate of 10% was used with an initial capital expenditure of US$150 million. Time costs per period (involving overhead and G&A) are assumed to be included in the mining, processing, and selling costs. Additional capital expenditures were input from Year 1 through Year 5 and are (USD): $50M, $85M, $30M, $40M, and $30M, respectively.

A mining cost adjustment factor was used to incrementally increase the cost of mining based on slope distance from the initial starting point. Basically, this limits the northern, southern, and eastern limits of the pit and increases mining costs for blocks to the north.

In order to perform margin ranking, Fenwei provided preliminary pricing assumptions. Three pricing scenarios were analyzed for Product 1 (a mix of 15% coal < 50 m depth, 55% C Seam > 50 m depth, and 30% B Seam > 50 m depth):

Scenario	Coal Price ($/tonne FOB, mine site)
Low Price	60
Mid Price	92
High Price	135

As stated, these preliminary pricing assumptions were used to develop the coal reserve estimates shown in this ITR. Coking coal pricing is subject to changing market conditions and are reportedly evaluated periodically by MEC and Fenwei. BOYD's assignment does not include a review of market pricing.

4.4.2 Coal Reserves

Using results of the Whittle model, the total available ROM coal resources for each scenario are as follows:

Scenario	ROM Tonnes (000)	Strip Ratio (BCM/tonne)
Low Price Case	134,721	4.26
Medium Price Case	137,914	4.47
High Price Case	140,885	4.58

4.4.3 Preliminary Mine Plans

Three separate cases were evaluated for a Khushuut Life-of-Mine Plan. All three assume a coal preparation plant will start operation in Year 3 of the mine plan. All of the cases require the same annual raw coal production, as shown in the table below.

Year	In-Place Blended Product 1 (tonnes-000)
1	500
2	3.000
3	5,000
4 and after	8,000 (Full Production)

Incorporation of the additional quality data (currently in process) will better define the occurrence and tonnage of coking coal resources. Ideally the quality testing may demonstrate a lateral coking coal relationship rather than the current depth relationship. This would result in a significant simplification of the mining sequence and reduce front-end mining and equipment capital costs.

To achieve coking coal production as early as possible with minimal costs, the initial pit was started in the syncline area where depth to coking coal was approximately 50 m. Significant quantities of coal at depths of less than 50 m will be produced during the early years of the mine plan and will need to be stockpiled.

4.4.4 Mine Modeling

At this stage, findings presented in this ITR are considered to be preliminary in nature and are contingent on items such as:

- Marketing strategies and coal prices obtainable.
- Occurrence and tonnage of coking coal reserves.
- Project start-up schedule and associated costs.
- Mine sequencing, which may be one of the most important aspects.
- Projected capital and mine operating costs.
- Coal quality, yield, and required processing methods (float, screen, crushing, stockpiling, etc.).
- Required MEC internal rate of return requirements (discount rate).
- Water availability, sourcing, and rights resolution.
- Availability and development of off-site infrastructure (roads, powerlines, water supply, etc.).

The following chapters will provide input for many of the above categories and discuss first principles used to create economic OPEX and CAPEX models for the various cases.

There are many possible mine designs (i.e., mine sequencing scenarios) for an openpit mine. The normal requirement for early coal production usually results in initial mining in coal seam subcrop areas with mining progressing downdip. However, the need for coking coal production impacts overall planning in the case of Khushuut. The balance between practical pit operating requirements, geotechnical and possibly hydrologic considerations, coal quality, etc., must be carefully planned. We have assumed what BOYD believes is a logical approach to mining, recognizing an optimum mine plan will be developed during the mine feasibility stage.

4.5 Mine Layout and Sequencing

4.5.1 Prioritization of Mining Areas

At this point, mine sequencing appears to be best suited to start in the midwestern syncline area where JM Coking coal is available at a depth of 50 m. On the downdip eastern flank, JM coking coal becomes available in the C Seam at a depth of approximately 50 m. Therefore, it is proposed that development of the mine progress from the initial syncline area downdip to the east to expose sufficient quantities of the JM coking coal for subsequent periods. The mine will then progress along the north-south strike line. It is preferred to fully develop the mine to the south as soon as practical in order to facilitate in-pit backfill areas for waste disposal instead of out-of-pit waste dumps.

Areas requiring further study before final mine design include the northern Khushuut River Basin and the need to better define coal resources underlying the southeast portion of the overall resource area.

4.5.2 Incremental Mining Volume Calculations

The initial conceptual mine plan volumes for the Khushuut deposit are detailed in the following schedule, which is based on the Mid Price Scenario. This schedule represents the initial run which is further refined in the planning process.

Mid-Price Scenario*

Year	In-Place Coal Tonnes (x1,000)	Waste BCM (x1,000)	Strip Ratio (BCM/tonne)
1	504	16,555	32.85
2	3,131	11,208	3.58
3	5,110	10,226	2.00
4	8,280	15,472	1.87
5	7,876	23,133	2.94
6	8,047	30,960	3.85
7	7,731	26,576	3.44
8	7,999	42,360	5.30
9	7,782	49,313	6.34
10	8,276	47,616	5.75
11	8,077	44,606	5.52
12	8,430	47,896	5.68
13	7,234	46,109	6.37
14	8,130	49,161	6.05
15	9,369	48,623	5.19
16	7,274	49,441	6.80
17	7,679	18,782	2.45
18	8,514	17,890	2.10
19	5,085	5,169	1.02
Total	134,528	601,093	4.47

* Initial run subject rebalancing of overburden.

Tables 4.1, 4.2, and 4.3, following this text, show results for price scenarios low, medium, and high pricing that were run after the initial resource ranking. These tables represent additional definition of the mining sequence and form the basis of the mine plan.

The Whittle software estimates cash flow by pit, which is only used to rank individual pits and to prioritize the pit mining sequence.

Mine life is approximately 19 years for all three price scenarios.

4.6 Mine Production Scheduling

4.6.1 Production Basis

The Product 1 coking coal blend will be the only product from the mine, with ROM productions of 500,000 tonnes in Year 1; 3.0 Mt in Year 2; 5.0 Mt in Year 3; and 8.0 Mt thereafter until end of mine life. Significant stockpiling of the lower quality coals (which are less than 50 m deep) will be necessary throughout the mine life. Blending to achieve acceptable Product 1 coking coal will be done by blending a net 15% of these stockpiles with approximately 55% C seam (best coking seam) and 30% B Seam.

At this point in the conceptual mine design stage, it is assumed that stockpile volumes are not limited and, similarly, suitable waste dumps are always available.

As outlined in General Statement Chapter (1.0) BOYD was commissioned to complete this ITR based on developing 8 Mtpy of production. MEC selected the 8 Mtpy output level to maximize coal resource recovery over a 19-year period. The assumptions described in the subsequent chapters support the basis of production for this ITR.

Currently, based on Fenwei's market study, short-term coking coal demand of potential customers, the coal resource footprint and short-term (less than three years) direction given to the Shenyang Design Institute, production from the Khushuut mining operation is anticipated to be approximately 3 Mtpa for the initial phase of mine development. It is BOYD's opinion that a phased approach to mine development is reasonable (which will form the basis of Shenyang detailed mine planning).

Ultimately, long-term projections (as shown in this ITR) to increase to the planned production to 8 Mtpa will depend on the final deposit quality, customer blend requirements, increased market capacity, and size of mining equipment utilized.

4.6.2 Coking Coal Parameters and Source

Coking coal resources on the property are mainly provided by the C Seam, where the GRI index is above 65. This quality results in a hard coking coal quality designated as "JM" coking coal. Other seams achieve relatively high GRI index values sporadically, but to be conservative, they were not considered as reliable sources of JM coking coal.

The initial mining area has JM coking coal quality beginning at a depth of 50 m. For the purposes of this analysis, this 50-m-depth threshold is applied to other areas similarly. Additional quality data are planned to be available in March 2009.

4.6.3 Thermal Coal Parameters and Source

There are many seams in this deposit, the primary being the C and the B seams. Some of the less prominent seams may have some coking properties and may be recoverable; however, current data on them are very sparse. See the following for a summary of drill hole intercepts by seam.

Khushuut Drill Hole Intercepts Summary

	Intercepts	
Seam	Lithology	Quality
N	1	0
M	1	0
L	2	0
K	2	0
J	4	1
I	5	0
H	11	3
G	14	3
F	28	7
E	28	7
D	18	3
C0	1	0
C	160	24
B0	80	11
B	183	24
B1	102	13
A	37	5
AA	31	6
AB	11	3
AC	11	5
AD	11	5
AE	8	4
AF	9	4
AG	4	1
AH	6	3
AI	3	2
AJ	2	2
AK	2	2
AL	1	1
AM	1	1
AN	1	1

199 drill holes total (including two drill holes showing no coal).

4.6.4 Material Movement Scheduling

It is recommended that the initial pit start in the syncline area (southwest portion of the property) in order to produce JM coking coal as soon as possible. Pit development should then be prioritized to the east of this initial pit to establish a continuous source of coking coal on the downdip leg of the C Seam. This plan will minimize haul distances. However, it will require higher burden removal vs. coal recovery to achieve long-term coking coal production requirements (as compared to a plan that would attempt to initially recover as much coal as possible at a lower strip ratio).

Waste dumps will initially be developed as a continuation of the pre-existing Russian mining waste dumps. This will result in minimal waste haul distances and, according to current drill hole data, minimize the loss of any future coal reserves due to coverage by waste dumps. The new overburden waste disposal area will extend to the north and south until the pit is fully mined to the south and in-pit backfilling can begin. An alternative is to create additional waste dumps on the south end of the property. However, this area should be explored and evaluated before such a commitment to ensure that the affected area is not underlain by economic resources that would be lost by the dumps.

Out-of-Pit coal stockpiles will be required. These will be on the magnitude of 10.0 Mt, due to: (1) delay in the mine’s ability to process coal recovered from depths less than 50 m, and (2) limitations on the amount of this lower quality coal that can be used in the Product 1 coking coal blend over the life of mine.

Stockpiling of alluvium material should also be considered for reuse during final reclamation. Thickness of the alluvium is considerable, as much as 60 m on the northern end of the property. In all probability, only a portion of this alluvium will be required for final reclamation.

Following this page are:

Tables

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TABLE 4.1

CASE 1: MODEL RANKING AND GROSS PRODUCTION SCHEDULE - LOW PRICE SCENARIO
KHUSHUUT MINE PLAN
Khovd Province, Mongolia
Prepared for
MONGOLIA ENERGY CORPORATION LIMITED
By
John T. Boyd Company
Mining and Geological Engineers
October 2009

Year	In-Place Coal Tonnes (000)	Waste BCM (000)	Strip Ratio (BCM/tonne)	Grade Input Coal	In-Place Tonnes (000) < 50 m depth	In-Place Tonnes (000) > 50 m depth	Total	ROM Tonnes (000) < 50 m depth	ROM Tonnes (000) > 50 m depth	Total	Product Tonnes (000)
1	425	6,113	12.23	0.925	2,041	425	2,466	75	425	500	475
2	2,566	14,937	4.95	0.940	3,509	2,565	6,074	450	2,550	3,000	2,850
3	4,245	21,758	4.36	0.914	4,352	4,242	8,594	750	4,250	5,000	4,750
4	6,998	28,608	3.49	0.910	4,409	6,999	11,408	1,200	6,800	8,000	5,850
5	6,840	30,093	3.74	0.888	3,664	6,848	10,512	1,200	6,800	8,000	5,850
6	7,418	33,648	3.90	0.865	2,404	7,430	9,834	1,200	6,800	8,000	5,850
7	6,192	37,857	5.11	0.886	1,301	6,202	7,503	1,200	6,800	8,000	5,850
8	7,546	48,245	5.51	0.874	1,267	7,553	8,820	1,200	6,800	8,000	5,850
9	6,129	49,509	6.75	0.872	211	6,137	6,348	1,200	6,800	8,000	5,850
10	6,749	42,292	5.30	0.860	222	6,781	7,003	1,200	6,800	8,000	5,850
11	7,436	44,910	5.18	0.858	150	7,470	7,620	1,200	6,800	8,000	5,850
12	6,542	36,289	4.68	0.873	24	6,547	6,571	1,200	6,800	8,000	5,850
13	6,672	39,910	5.07	0.882	3	6,676	6,679	1,200	6,800	8,000	5,850
14	6,777	37,125	4.65	0.895	1	6,777	6,778	1,200	6,800	8,000	5,850
15	6,197	26,859	3.63	0.891	-	6,201	6,201	1,200	6,800	8,000	5,850
16	6,855	22,151	2.75	0.888	-	6,856	6,856	1,200	6,800	8,000	5,850
17	7,515	22,077	2.53	0.899	-	7,515	7,515	1,200	6,800	8,000	5,850
18	6,057	16,831	2.32	0.896	-	6,060	6,060	1,200	6,800	8,000	5,850
19	1,878	1,977	0.64	0.896	-	1,879	1,879	1,200	6,800	8,000	5,850
Totals	111,037	561,187	4.26		23,558	111,163	134,721	20,475	116,025	136,500	101,675
Tonnage Percent					17%	83%	100%	15.0%	85.0%	100.0%	

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TABLE 4.2

CASE 2: MODEL RANKING AND GROSS PRODUCTION SCHEDULE - MID PRICE SCENARIO
KHUSHUUT MINE PLAN
Khovd Province, Mongolia
Prepared for
MONGOLIA ENERGY CORPORATION LIMITED
By
John T. Boyd Company
Mining and Geological Engineers
October 2009

Year	In-Place Coal Tonnes (000)	Waste BCM (000)	Strip Ratio (BCM/Tonne)	Grade Input Coal	In-Place Tonnes (000) < 50 m depth	In-Place Tonnes (000) > 50 m depth	In-Place Tonnes (000) Total	ROM Tonnes (000) < 50 m depth	ROM Tonnes (000) > 50 m depth	ROM Tonnes (000) Total	Product Tonnes (000)
1	431	16,555	32.85	0.901	3,855	429	4,284	75	425	500	475
2	2,681	11,208	3.58	0.916	3,576	2,681	6,257	450	2,550	3,000	2,850
3	4,360	10,226	2.00	0.927	2,755	4,360	7,115	750	4,250	5,000	4,750
4	7,084	15,472	1.87	0.911	3,063	7,080	10,143	1,200	6,800	8,000	5,850
5	6,673	23,133	2.94	0.884	3,128	6,676	9,804	1,200	6,800	8,000	5,850
6	6,841	30,960	3.85	0.868	3,652	6,847	10,499	1,200	6,800	8,000	5,850
7	6,524	26,576	3.44	0.879	1,150	6,531	7,681	1,200	6,800	8,000	5,850
8	6,794	42,360	5.30	0.874	1,170	6,799	7,969	1,200	6,800	8,000	5,850
9	6,581	49,313	6.34	0.871	821	6,582	7,403	1,200	6,800	8,000	5,850
10	7,068	47,616	5.75	0.872	205	7,076	7,281	1,200	6,800	8,000	5,850
11	6,853	44,606	5.52	0.861	275	6,877	7,152	1,200	6,800	8,000	5,850
12	7,218	47,896	5.68	0.864	115	7,230	7,345	1,200	6,800	8,000	5,850
13	6,033	46,109	6.37	0.883	18	6,034	6,052	1,200	6,800	8,000	5,850
14	6,930	49,161	6.05	0.898	19	6,930	6,949	1,200	6,800	8,000	5,850
15	8,167	48,623	5.19	0.886	54	8,169	8,223	1,200	6,800	8,000	5,850
16	6,074	49,441	6.80	0.884	5	6,074	6,079	1,200	6,800	8,000	5,850
17	6,479	18,782	2.45	0.896	-	6,479	6,479	1,200	6,800	8,000	5,850
18	7,313	17,890	2.10	0.903	-	7,314	7,314	1,200	6,800	8,000	5,850
19	3,885	5,169	1.02	0.891	-	3,885	3,885	1,200	6,800	8,000	5,850
Totals	113,989	601,093	4.47		23,861	114,053	137,914	20,475	116,025	136,500	101,675
Tonnage Percent					17.3%	82.7%	100.0%	15.0%	85.0%	100.0%	

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TABLE 4.3

CASE 3: MODEL RANKING AND GROSS PRODUCTION SCHEDULE - HIGH PRICE SCENARIO
KHUSHUUT MINE PLAN
Khovd Province, Mongolia
Prepared for
MONGOLIA ENERGY CORPORATION LIMITED
By
John T. Boyd Company
Mining and Geological Engineers
October 2009

Year	In-Place Coal Tonnes (000)	Waste BCM (000)	Strip Ratio (BCM/Tonne)	Grade Input Coal	In-Place Tonnes (000) < 50 m depth	In-Place Tonnes (000) > 50 m depth	In-Place Tonnes (000) Total	ROM Tonnes (000) < 50 m depth	ROM Tonnes (000) > 50 m depth	ROM Tonnes (000) Total	Product Tonnes (000)
1	425	5,835	11.67	0.925	1,974	425	2,399	75	425	500	475
2	2,567	12,983	4.30	0.940	3,469	2,566	6,035	450	2,550	3,000	2,850
3	4,254	17,125	3.42	0.916	4,099	4,253	8,352	750	4,250	5,000	4,750
4	6,874	21,794	2.70	0.913	3,206	6,874	10,080	1,200	6,800	8,000	5,850
5	6,795	32,685	4.09	0.897	3,480	6,788	10,268	1,200	6,800	8,000	5,850
6	7,015	47,903	5.83	0.862	4,167	7,015	11,182	1,200	6,800	8,000	5,850
7	7,507	39,584	4.55	0.872	1,843	7,509	9,352	1,200	6,800	8,000	5,850
8	5,987	44,707	6.22	0.876	951	5,993	6,944	1,200	6,800	8,000	5,850
9	7,292	47,952	5.65	0.881	501	7,292	7,793	1,200	6,800	8,000	5,850
10	6,810	48,099	6.00	0.872	304	6,814	7,118	1,200	6,800	8,000	5,850
11	6,245	35,399	4.75	0.872	101	6,254	6,355	1,200	6,800	8,000	5,850
12	7,116	42,910	5.15	0.862	50	7,127	7,177	1,200	6,800	8,000	5,850
13	6,872	49,186	6.09	0.873	12	6,874	6,886	1,200	6,800	8,000	5,850
14	6,421	49,382	6.48	0.895	52	6,421	6,473	1,200	6,800	8,000	5,850
15	7,350	39,010	4.56	0.887	31	7,352	7,383	1,200	6,800	8,000	5,850
16	7,269	44,268	5.23	0.890	-	7,269	7,269	1,200	6,800	8,000	5,850
17	5,949	23,603	3.30	0.892	-	5,949	5,949	1,200	6,800	8,000	5,850
18	6,519	14,377	1.86	0.901	-	6,519	6,519	1,200	6,800	8,000	5,850
19	7,351	10,690	1.25	0.898	-	7,351	7,351	1,200	6,800	8,000	5,850
Totals	116,618	627,493	4.58		24,240	116,645	140,885	20,475	116,025	136,500	101,675
Tonnage Percent					17.2%	82.8%	100.0%	15.0%	85.0%	100.0%	

P:\ENG_WP\3272.022\WP\[Table 3 3.xls]Tbl 3.3 Inv Coal

5.0 MINE ANALYSIS

5.1 Introduction

The Khushuut coal deposit presents a challenging openpit mining plan due to its geologically complex nature, steeply dipping eastern flank, quality depositional characteristics, and deep stripping requirements. In addition to presenting technical challenges for mining applications, the site presents difficulties due to its remote location, availability of water resources, and severe climatic conditions.

The remoteness of the proposed Khushuut mining operations impacts overall economics. Significant front-end capital investment is needed for heavy-duty road access to the Chinese border for coking coal exports and to provide a supply line for fuel, explosives, equipment, etc., to serve the mine complex. This work is under way. Major equipment and supplies (not readily available in Mongolia) for the project will need to be procured from the international market and will have an increase in capital and/or commodity cost due to additional freight costs, import duties, etc.

BOYD has completed this ITR providing a conceptual openpit mine plan to estimate overall and annual volumetrics (coal and waste) and associated cash and non-cash costs. Significant additional work is required relative to quality testing, wash plant design, and available water resources. A hydrology report was completed after this mine plan was completed and the results are not included in this ITR. This ITR presents the results of this study reflecting the preliminary nature of the data available.

Costing in this study primarily focuses on the production of coking coal for export to the steel manufacturing areas located in the Xinjiang Autonomous Region of China. As directed by MEC, we have used quality parameters for product blending. Market sales prices and quality assumptions for blending purposes have been provided by MEC and MEC’s marketing consultant, Fenwei. As part of this study we developed a logical mining plan, but we have not attempted to optimize the mine plan with detailed pit designs. The outputs from the mine plan include: material movements, coal product tonnes, equipment lists, labor levels, and associated operating (OPEX) and capital (CAPEX) costs.

MEC has contracted with the Shenyang Design and Research Institute to provide a detailed feasibility, detailed mine plan, construction drawings, and cost projections (OPEX and CAPEX). This work will be completed in conjunction with ongoing efforts for permitting and progression toward the development of the openpit operation at Khushuut. The findings contained herein reflect our opinions based on available information at the time of our study.

5.2 Production Requirements

Coal production requirements were specified by MEC. Coking coal sales commitments are currently being negotiated by MEC and their marketing consultant Fenwei.

Fenwei, as of February 2009, has determined that the following three coal types will be produced by the Khushuut mining operations:

- Weathered Coal (< 10 m depth): which can be used for local heating sales and possible on-site power plant consumption.
- Oxidized Coal (10 m to 50 m depth): which has been assigned a G-index value of 12 and will serve as a blend to produce a final coking coal product.
- Coking Coal (> 50 m depth): premium coking coal product.

These assumptions are subject to revisions based on additional drilling and quality testing as discussed in previous chapters.

The following is the schedule of annual coal sales and the basis of viability for the Khushuut openpit mine project:

	Coal Sales Forecast Blend Requirements Sold (tonnes - 000)		
	Source of Production by Depth of Mining		
Period	>50 m	< 50 m	Total
Year 1	393	82	475*
Year 2	2,360	490	2,850*
Year 3	3,933	817	4,750
Year 4	3,933	1,007	5,850
Thereafter	3,933	1,007	5,850

* ROM basis.

MEC may attempt to commence small production quantities in 2009 and ramping up production in subsequent years. It is BOYD’s opinion that this may be possible to commence early production on a limited basis by extending the existing operating face (see following photograph), which is being mined by local (unauthorized) miners.

The EIS, water resources plan, and a prefeasibility study have been submitted to the Mongolian Government and each have been approved as part of the government staged approval process.

Existing Coal Face and Unauthorized Mining Operations at Khushuut.

It is our understanding that the roadway base to interconnect an existing road from Khushuut to the Yarant border crossing approximately 310 km away has been substantially completed. Additional base course work, bridges, and asphalt surfacing requires completion. BOYD has not reviewed the status of road and other infrastructure construction needed to effectively develop and operate the mine at any substantive level of output.

The operations will have a mine life of approximately 19 years. Table 5.1, following this text, provides annual ROM and recoverable product tonnes for the life of the proposed Khushuut Mine Plan.

5.3 Pit Design Constraints

The primary constraint on pit design is; (1) depth of coal along the eastern flank, (2) The Khushuut River to the north, and (3) property boundary in the southeast. For the purpose of this study, we assumed that recovery of coal up to the existing property line would be possible and MEC would acquire rights outside the concession limit for necessary highwall (batter angle) excavations. If this were not possible, coal resources in this portion of the property would be materially reduced.

5.4 Selection of Mining Method

Geologic and mining conditions within the Khushuut coal deposit are recoverable using openpit mining techniques. Utilization of hydraulic excavators and large off-highway end-dump trucks will provide MEC with the lowest cost option. This mining system will allow multiple mining faces for production of various quality types that will be blended to provide a consistent product to various customers. The selection of a conventional openpit operation using diesel-powered equipment appears reasonable due to the remoteness of the site, the geology of the deposit, limited skilled workforce, and the need to maintain multiple pits. Alternative use of electric excavators can be utilized to decrease risk of fuel volatility and use of waste coal generated by the mining process. Electric excavators decrease mobility of the operating face.

Track dozers will supplement and support the excavator fleet in material movement and overburden dump maintenance. Front-end loaders will provide operating flexibility and be used for general pit clean-up to supplement the hydraulic excavators as necessary and to assist in coal loading.

The following is a summary of the types of equipment (suggested or equivalent types) and their respective assigned tasks and functions:

Task	Primary Equipment	Function
Topsoil Removal	CAT D10T dozers, CAT FEL's.	Dozer push, FEL to truck.
Overburden Stripping	Hitachi 5500, 1900 excavators. Hitachi EH5000 trucks.	Hydraulic excavator to truck.
Coal Mining	Hitachi EX2500, EX1200 excavators. CAT 777F trucks.	Hydraulic excavator to truck.
Drilling and Blasting	Drilltech D75KS drills OB, D40KS drills coal.	Rotary blasthole drill.
Support	CAT D11T, D10T dozers. Cat D10T wheeled dozer. CAT 16M grader. Other Miscellaneous.	Various.

As part of any future feasibility work, we recommend review of electric shovels and electric assist trucks to reduce the use of diesel fuel. Electric-powered equipment would be supported by the proposed on-site power generating station.

5.5 Topsoil

There is minimal topsoil in this arid region of Mongolia and the plan will be to utilize alluvium as topsoil replacement. Alluvial will be mined in by hydraulic excavators and used to reclaim mined and backfilled pit areas.

5.6 Drilling and Blasting

Competent waste rock will be drilled (with 230 mm diameter drill) and shot as part of the mining process. In the competent rock zone, we have assigned a powder factor of 0.35 kg/bcm. To be conservative, we have also assumed the alluvial zone will be drilled and blasted to improve its excavation. A 0.20 kg/bcm is applied in the alluvial zone.

Coal will be drilled (175 mm diameter holes) with an assigned coal powder factor of 0.15 kg/t.

5.7 Overburden Excavation, Haulage, and Waste Handling

The proposed mine plan uses large 30.6 m^3 hydraulic excavators (backhoes and/or front shovels) for major benching operations and 15.0 m^3 hydraulic excavators for interburden removal and for cleaning the top of coal. Waste rock will be placed in 255-tonne end-dump trucks and hauled to either external or in-pit dumps.

BOYD did not complete analyses to optimize equipment type, sizing, and selection. However, equipment selected (hydraulic excavators) is used in similar operations and to maintain multiple coal faces to produce a blend of coals to be delivered to the ROM coal stockpiles. Based on field observations and preliminary quality information, we recommend hydraulic excavators with backhoe attachments for removal of waste above the coal seam. This will minimize equipment traffic on the seam, which appears to be highly friable (which should reduce rock dilution and coal losses).

Annual waste quantities required to be removed to produce the specified ROM tonnages were calculated within the Whittle software. The driving factor was production of coking coal (> 50 m in depth) to create the specified blend for export sales. Because of depositional characteristics, significant lower quality coal (occurring less than 50 m in depth) is required to be mined to reach (access) the premium coking coal. This mandates that a large tonnage of < 50 m depth coal to be stockpiled. Following this text, production by depth and waste is shown on Table 5.1: Mine Production Schedule.

Shown in the Mine Production Schedule are periods during which the mine plan could not achieve a uniform annual coal production to meet projected sales requirements. For the purposes of this ITR, we have assumed that additional equipment and labor will be contracted on a short-term basis in order to excavate necessary (deficit) tonnage requirements. We have incorporated in those production requirements within the mine plan (labor, material and supplies, etc). These periods are highlighted within each table.

5.8 Overburden Stockpile

External and in-pit waste dumps are required as part of the mining operations. External waste dumps will be created to the west of the mining area and in nearby valley areas. In-pit backfilling will be initiated as early as possible without sterilizing coal resources.

A detailed plan for external dump and dump placement has not been included in the conceptual plan other than to assume sufficient area is available for waste placement. No attempt has been made to optimize waste haulage profiles other than to develop expected average haul profiles. As part of a detailed feasibility study waste dump design and placement on an annual basis should be completed.

5.9 Coal Handling

Coal seams will be excavated primarily by hydraulic excavator (15.0 m^3 and 6.5 m^3) and loaded into haulage trucks (98 tonne) equipped with combo-bodies. The combo-bodies will increase flexibility of the mining operations and can be shifted to waste removal as necessary.

The mined coal will be hauled out of the pit and transported to a central coal handling facility where it will be delivered to either a designated ROM stockpile (premium coking coal or low-grade blend coal) or dumped directly onto a grizzly into a hopper for initial crushing, sizing, and screening, then conveyed into the wash plant.

5.10 Off-Site Coal Haulage

The coking coal blend product will be dispatched via on-highway tractor trailers. By assignment, BOYD has not included within this ITR study long-distance coal haulage of coking coal to customers in China. However, it is anticipated that MEC will contract these services to independent coal haulage contractors utilizing a fleet of 120-tonne GVW tractors with twin-trailers for haulage as well as being responsible for construction and maintenance of the haulage road to the Yarant border crossing.

5.11 Coal Stockpile and Stockpile Management

Lower quality coking coal (< 50 m) will be stockpiled and blended with premium coking coals to provide a Khushuut Product 1 coking blend. The following lists projected coal stockpile and in-pit inventory balances over the life-of-mine:

	Coal Product Stockpile Balance	
Year	> 50 m	< 50 m
1	14	3,581
2	202	6,487
3	-	7,685
4	-	8,919
5	-	10,200
6	-	11,865
7	-	11,699
8	64	11,548
9	36	11,142
10	369	10,285
11	556	9,480
12	1,002	8,557
13	572	7,563
14	798	6,570
15	1,931	5,603
16	1,531	4,600
17	1,427	3,593
18	1,934	2,587
19	-	1,594
20	-	1,594

As shown, substantial coal stockpiles are required in order to maintain production of coking coal blend. BOYD has not optimized mining as part of the ITR to achieve minimum stockpiling requirements.

All ROM lower quality coking coal (< 50 m) will be excavated and hauled to a designated stockpile area, compacted, and sealed to minimize oxidation and spontaneous combustion during the extended periods of storage.

5.12 Water Handling and Management

The Khushuut climate is arid; however, we anticipate encountering ground water in each of the pits. Mine site water management will include routing of water to in-pit collection sumps and the pumping of water out of the pits into settling ponds.

Hydrologic field testing is ongoing and a final hydrological study for both surface and ground water is required to determine the water supply plan for wash plant and other water requirements. The results of these findings will be incorporated into subsequent studies and required for the final mine permit process.

5.13 Reclamation Plan

Reclamation will be completed on disturbed land as mining operations proceed and coal resources are depleted in a given area. External waste dumps will be used during the initial phases of mining operations. We propose a ‘block style’ mining method in order to use in-pit backfilling as soon as practical. Additionally, due to the large volume of < 50 m coal required to be produced, it would be best to place this coal in a previously mined area. Locating the coal stockpile below surface topography should minimize airborne dust losses.

In-pit backfilling will permit reclamation to proceed as mining progresses. This will minimize backfilling and grading during mine closure.

5.14 Pit Support

Maintenance of pit walls, pit floor, waste dumps, and access roads is an integral part of the mining process and required to ensure that productivities are optimized, operations are conducted safely and efficiently, and equipment availabilities are kept at high levels. A fleet of dozers, graders, a small front-end loader, and scrapers have been included in the CAPEX program to perform necessary support functions.

Following this page is Table 5.1, Mine Production Schedule.

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TABLE 5.1

MINE PRODUCTION SCHEDULE
KHUSHUUT MINE PLAN
Khovd Province, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION LIMITED
By
John T. Boyd Company
October 2009

		Tonnes (000)																		
						Product Sold			Coal Product									Stripping Ratio	Stripping Ratio
	Pit Area	In-Place		Product Mined		Blend			Stockpile Balance		Overburden Volume (BCM - 000)			Re-Balanced Overburden (BCM - 000)			(BCM/tonne mined)	(BCM/tonne sold)
Year	(Ha)	> 50 m	< 50 m	> 50 m	< 50 m	> 50 m	< 50 m	Total	> 50 m	< 50 m	Alluvium	Waste	Total	Alluvium	Waste	Total		
1	115.76	429	3,855	408 *	3,662 *	393 *	82	475	14	3,581	2,057	14,498	16,555	2,057	17,943	20,000	4.91	42.11
2	20.30	2,681	3,576	2,547 *	3,397 *	2,360 *	490	2,850	202	6,487	1,215	9,993	11,208	1,215	11,285	12,500	2.10	4.39
3	27.88	4,360	2,755	3,189	2,015	3,933	817	4,750	(541)	7,685	1,287	8,939	10,226	1,287	11,213	12,500	2.40	2.63
4	19.24	7,080	3,063	5,179	2,241	4,843	1,007	5,850	(206)	8,919	2,095	13,377	15,472	2,095	17,905	20,000	2.70	3.42
5	40.90	6,676	3,128	4,883	2,288	4,843	1,007	5,850	(165)	10,200	2,929	20,204	23,133	2,929	17,071	20,000	2.79	3.42
6	24.46	6,847	3,652	5,009	2,671	4,843	1,007	5,850	(0)	11,865	3,582	27,378	30,960	3,582	31,418	35,000	4.56	5.98
7	34.72	6,531	1,150	4,777	841	4,843	1,007	5,850	(66)	11,699	3,378	23,198	26,576	3,378	31,622	35,000	6.23	5.98
8	43.94	6,799	1,170	4,973	856	4,843	1,007	5,850	64	11,548	8,710	33,650	42,360	8,710	36,290	45,000	7.72	7.69
9	16.66	6,582	821	4,815	601	4,843	1,007	5,850	36	11,142	9,410	39,903	49,313	9,410	35,590	45,000	8.31	7.69
10	14.96	7,076	205	5,176	150	4,843	1,007	5,850	369	10,285	2,600	45,016	47,616	2,600	42,400	45,000	8.45	7.69
11	9.14	6,877	275	5,031	201	4,843	1,007	5,850	556	9,480	940	43,666	44,606	940	44,060	45,000	8.60	7.69
12	3.44	7,230	115	5,289	84	4,843	1,007	5,850	1,002	8,557	468	47,428	47,896	468	44,532	45,000	8.38	7.69
13	0.98	6,034	18	4,414	13	4,843	1,007	5,850	572	7,563	216	45,893	46,109	216	44,784	45,000	10.16	7.69
14	1.02	6,930	19	5,069	14	4,843	1,007	5,850	798	6,570	83	49,078	49,161	83	44,917	45,000	8.85	7.69
15	-	8,169	54	5,976	40	4,843	1,007	5,850	1,931	5,603	3	48,620	48,623	3	44,997	45,000	7.48	7.69
16	-	6,074	5	4,443	4	4,843	1,007	5,850	1,531	4,600	-	49,441	49,441	-	45,000	45,000	10.12	7.69
17	-	6,479	-	4,739	-	4,843	1,007	5,850	1,427	3,593	-	18,782	18,782	-	20,000	20,000	4.22	3.42
18	-	7,314	-	5,350	-	4,843	1,007	5,850	1,934	2,587	-	17,890	17,890	-	17,500	17,500	3.27	2.99
19	-	3,885	-	2,842	-	4,776	993	5,850	(0)	1,594	-	5,169	5,169	-	3,596	3,596	1.27	0.61
20	-	-	-	-	-	-	-	-	-	1,594	-	-	-	-	-	-	-	-
Totals	373.40	114,053	23,861	84,109	19,078	84,110	17,484	101,675			38,973	562,123	601,096	38,973	562,123	601,096	5.83	5.91

* Run-of-Mine (ROM) product pending construction of preparation plant facilities

P:\ENG_WP\3272.022\WP\[Table 5.1.xls]Table 5.2

6.0 EQUIPMENT AND INFRASTRUCTURE CAPITAL

6.1 Introduction

The Khushuut project site is located in a remote region of western Mongolia and is isolated from significant population centers. Virtually all infrastructure and community amenities necessary to operate the proposed mine need to be developed. There is a small population of permanent residents at Khushuut and various towns within the region. There also is a portion of the population that is nomadic in nature that relies on animal grazing during the warmer months.

The construction of a new mine complex will promote regional development and create substantial primary and secondary employment opportunities. By assignment we have excluded the sunk capital (haul road to the Chinese border, mining license purchase, exploration, conceptual and prefeasibility planning, etc.), working capital, financing cost, etc. We have incorporated the contracted cost for current road access construction cost to the Chinese border as provided by MEC.

For purposes of this ITR, BOYD has developed a CAPEX estimate based on a combination of first principles, actual costs of similar projects located in northern China, data from manufacturers, and BOYD in-house databases.

The capital costs presented in this ITR are based on MEC providing 100% of the capital and operating requirements. MEC is planning to use an experienced contract miner to manage and to conduct the mining operations. The contract miner will provide all mining and related equipment for the mining operation. As a result, the majority of the equipment capital will be the responsibility of the contract miner. This type of contract miner operation is common and, in BOYD’s opinion, is a prudent way for MEC to proceed with mine operations.

The capital costs presented in this ITR are for development of an 8 Mtpa operation. MEC has instructed Shenyang Design Institute to develop a detailed mine plan for an initial phase operation of 3 Mtpa. Future development phases will be dependent on several factors as previously discussed in this preliminary ITR.

This report provides a basis for anticipated capital requirements. However, the actual capital requirements for the initial phase of 3 Mtpa will be determined by the detailed mine design being developed by Shenyang.

In a similar manner, MEC is planning to utilize a build-own-operate contract arrangement for the wash plant. As a result, most of the capital requirement for the wash plant will be provided by the contract operator. As with the mine requirements, actual capital for the initial phase of 3 Mtpa will be determined in the detailed mine design.

6.2 Equipment Capital

Unit capital costs used in this study for mining equipment are:

Equipment Capital (Initial)	Unit Capital Cost ($-000)
Overburden Drills - Drilltech D75KS	1,500
Overburden Excavators - 30.6 m^3	9,000
Overburden Excavators - 15.0 m^3	4,700
Overburden Trucks - 255 tonne	4,000
Overburden Trucks - 98 tonne	1,500
Coal Drills - Drilltech D40KS	1,000
Coal Excavators - 15.0 m^3	4,700
Coal Excavators - 6.5 m^3	2,000
Coal Trucks (Pit) - 98 tonne	1,500
Track Dozers-CAT D10T	1,250
Track Dozers-CAT D11T	1,750
Wheeled Dozers-CAT D10T	1,350
Graders-CAT 16M	950
Scrapers-CAT 637G	1,350
Water Trucks	1,350
Front-End Loaders CAT	2,300
Ancilliary Equipment (Assigned)	
- Front-End Loaders (stockpile)	2,300
- Fuel/Lube and Other	850

Equipment for use in western Mongolia is assumed to be equipped with winter packages and will require additional cost for remote delivery.

Table 6.1, following this text, provides a listing of equipment capital expenditure requirements (initial and replacement).

6.3 Initial Development

In order for timely construction and development of the mining project, several aspects of infrastructure would need to be completed simultaneously. These priority tasks are listed as follows:

- Road construction – Khushuut to Chinese border, which reportedly has most of base work completed. Top coating has commenced nearest the Chinese border and bridge work has been started with remaining work to be completed during the 2009/2010 construction seasons.
- Development of water supply and associated pipelines, as necessary.
- Sewage and wastewater treatment.
- Airstrip.

- Camp development (including temporary housing).
- Power supply (both temporary and permanent power for construction, heating, and initial mine start-up).

Final road/bridge construction to allow transport of heavy equipment and fuel is the most critical link to development of the mine operation.

Secondary development and construction priorities, which typically requires up to a two-year lead time, include:

- Administration, warehouse, workshops, storehouse, fuel depot, housing, and associated facilities.
- Mine site power distribution.
- Secondary and mine site access roads.
- Coal handling (crushing and screening) and coal preparation plant.

The following sections of this chapter provided descriptive text relative to the infrastructure requirements.

BOYD has estimated costs based on assumptions of typical projects. Detailed design drawings and cost estimates will be completed by the Shenyang Design and Research Institute as part of their work efforts. They will provide an accurate timeline on completion and feasibility of the various infrastructure requirements. As of this writing Shenyang had completed their prefeasibility study and were about to commence work on the detailed mine plan. A draft of the detailed mine plan will be completed within six to eight weeks and finalized by the end of 2009. BOYD will interface with Shenyang prior to completion to ensure methodology matches international contract mining standards.

6.4 Road Access

6.4.1 Access to Site

Existing access roads to Khushuut are primitive and no more than dirt tracks. The following photograph shows the main southern route out of the provincial capital of Khovd, which is approximately 210 km north of Khushuut. Khovd is the closest location for air access, camp supplies, and hospital in case of emergencies. We assume that Khovd will be the permanent residence for a portion of the mine site employees.

The following photograph shows the route out of Khushuut, which will be the primary route to the Chinese border. The surface is typically hard packed coarse and rocky surface, which should facilitate road construction.

Picture showing typical road base extending south of Khushuut to Chinese Border

Construction of approximately 310 km road to the Chinese border should require minimal work due to relatively flat terrain, with very little cut/fill earthwork required. Hard granite or other borrow materials outcrop along the route and will be developed as needed for supply of rock for road construction. It is reported that road base construction has been completed for most of the Khushuut road, which will interconnect with an existing road, from Khushuut to the Yarant border crossing into Xinjiang Province, China.

There is approximately 20 km stretch of area that crosses mountainous terrain, which will require additional work relative to bridges and crossings. As of the date of this report bridge abutment work has commenced but completion is not anticipated for completion until the 2010 construction season.

6.4.2 Site Roads and Ramps

Future mine site roads and pit access ramps will be constructed at natural surface level or at normal grades to access pit operations using locally mined materials. Site roads will be unsealed and will be periodically graded and resurfaced to ensure that they remain in good condition.

Roads will be chemically treated to suppress (control) dust emissions to the extent possible. Because of the dry climate, it is BOYD's opinion chemical dust treatment should be successful and provide the most economic method for dust control.

6.5 Power Supply

Diesel fueled power generating facilities will be utilized until the mine-mouth power plant is constructed. These facilities will provide power for heating and lighting for administrative offices, housing, water pumping and distribution and mine facilities. We assume that the mine-mouth power plant will be completed prior to start-up of the wash plant. The estimated CAPEX allowance for this initial diesel generating system is US$2.0 million, and US$30 million for the permanent 25 MW (waste-coal fired) generating station.

6.6 Water Supply

Securing a reliable water supply source and water delivery system is essential for the project. A reliable supply of water is required for:

- Mine-mouth power generation plant.
- Coal preparation plant.
- Mine camp and related requirements.

MEC has completed a groundwater study and a report (the "Groundwater Report"), which was performed over a two-year period in 2007-2008. The Groundwater Report was submitted to and accepted by the Water Resources Authority of Mongolia (WRAM) in May-June 2009, which provides for the withdrawal of groundwater from the Boorji Basin for the Project's industrial use.

Estimates of water consumption for industrial use for the Project, provided by Shenyang Design & Research Institute is approximately 6,539 cubic meters/day. A breakdown of the planned water usage is as follows:

	cubic meter/day
• Surface mine, up to 3 million mt/yr	2,727.3
• Coal preparation plant, 3 million mt/yr	1,818.2
• Power plant, 30 MW	1,993.2
	6,538.7

Securing the final water use permit is subject to the following additional steps and approval:

- A design and plan for the groundwater withdrawal system; and
- An environmental impact assessment (EIA) of the impact of groundwater withdrawal on the ecology of the area.

MEC is reportedly working towards the design of a water plant and the preparation of an environmental impact assessment. The Boorji Basin is located approximately 40 km from the Khushuut mine site.

BOYD has allocated US$5M for development of a water supply for the coal preparation plant and mine site facilities. This estimate excludes estimated water requirements or costs associated with a mine-mouth power generation facility.

6.7 Industrial/Camp Development

6.7.1 Background

Planning and site layout will be relatively simple since the terrain in the valleys is relatively flat-lying (see the following picture of a portion of the existing village of Khushuut). BOYD recommends that the mining camp and associated mining facilities be constructed (located) separate from the existing village to avoid any local issues. Specific site layout will be determined during the Feasibility and Design phase of the project.

Portion of existing village of Khushuut

6.7.2 Construction Parameters

Fixed facilities (buildings, etc.) will have reinforced concrete foundations and structurally consist of a combination of steel structure, reinforced concrete, and/or wood frame/insulated structures. Large facilities (such as workshops and warehouses) will be constructed with steel; smaller buildings (such as administration offices and camp housing) will consist of wood frame and brick structures. Explosive storage facilities will be constructed of reinforced concrete and are assumed to be provided by the explosives supplier.

6.7.3 Camp Housing

Employment at Khushuut will most likely be sourced from a combination of domestic (Mongolian) and expatriate hourly (Chinese) workers to obtain the necessary expertise. MEC will be responsible to provide adequate housing and it is assumed the camp housing will accommodate both single and married persons. Due to cultural differences it may be necessary to segregate Mongolian and Chinese personnel.

Apartment blocks are considered desirable as they will allow more efficient heating and better insulation to retain heat. Each apartment block would be three or four stories in height, and individual apartments will have living room/bedroom and an in-suite bathroom

Each unit will be constructed separately to cluster single versus married workers and domestic versus expatriate workers. A guesthouse will be constructed for occasional family visits and holidays for the single workers. Senior staff housing will also be separate with additional housing located off-site in Ulaanbaatar for rest and relaxation time-off.

6.7.4 Administration Offices

Administration offices will house all mine management personnel, including manager, production functions, technical and engineering, maintenance supervision, financial affairs, and safety. To simplify power distribution and heating and insulation from the weather, it would be preferred to cluster or centralize administration offices, workshops, warehousing, or combine operations and offices into one or two buildings.

A safety training center will be included as part of the administration facilities.

6.7.5 Workshops and Warehouse

The workshop facilities will be sized and based on the equipment components selected with allowances for potential upsizing of equipment. Due to the remote location of the Khushuut operations the shop facilities must be self-reliant and equipped to perform both preventative and corrective maintenance efforts. The workshop and warehouse complex will provide an enclosed area for servicing and maintenance of heavy mobile and light equipment. The complex will incorporate a dedicated service and refueling area, a ready-line with core plug-ins, separate bays for breakdown and scheduled maintenance.

The complex would also incorporate dedicated areas for electrical, welding, and hydraulic maintenance activities. A warehouse would be located adjacent to the workshop with enclosed access from the workshop.

Warehouse facilities will be divided into several areas with specialized functions such as; mechanical components, electrical components, consumables (i.e., filters, etc.)

and major components such as; truck tires, conveyor parts (wash plant) and excavator buckets.

6.7.6 Explosives Handling and Storage

BOYD has assumed for purpose of this ITR that explosive services will be outsourced and the vendor will provide all explosives and related materials, handling and on-site support services, and associated minesite facilities.

6.7.7 Fuel and Lubricants

Fuel and lubricants are assumed to be trucked to Khushuut from China and delivered to on-site fuel storage. We have assumed that MEC will enter into a long-term fuel supply agreement with a sole source provider that will supply and be responsible for appropriate storage facilities as part of the contract. This CAPEX is included in the estimated rate/liter.

6.8 Airstrip

Due to remoteness of the mine site and the possible need for emergency services, we recommend an airstrip be constructed on-site capable of accommodating prop aircraft. BOYD has allocated US$2.0M for construction of a landing strip for small prop planes. Consideration should be given to constructing a larger airstrip to facilitate rotation of employees for time-off and transport to either Khvod or Ulaanbaatar.

6.9 Coal Preparation and Handling Facilities

6.9.1 Coal Processing Objectives

There are two primary coal processing requirements: (1) production of a raw screened 20% ash coking coal product during the initial operating years while the coal processing plant is constructed and (2) production of a washed premium coking coal blend product beginning Year 3.

It is assumed the 20% ash coking coal product can be produced utilizing a dry screening process. Ideally, dry screening is most effective when the coal is friable and rock partings and dilution material remain in blocks. This allows for more effective separation of deleterious rock material from the coal in the ROM product. Additionally, bulk testing of a ROM sample will be needed to better evaluate the viability and type of screening process most efficient for the Khushuut operations. Results from the MEC coal samples taken from the 2008 and 2009 winter drilling programs have been completed and are currently being compiled and incorporated into the geological model. The results are anticipated to be completed in November 2009.

An on-site coal wash plant must be built in order to produce a high quality coking coal product for export into Xinjiang Province, China. Typically Chinese Coking coal markets accept a 12% ash coal product. A market study and potential blend requirements will be submitted under separate cover by Fenwei.

6.9.2 Processing Requirements

MEC is currently constructing a adit (underground drift entry) to obtain a bulk coking coal sample for full-scale coke oven testing by a potential customer in Urumqi, Xinjiang Autonomous Region, China. An adit was constructed rather that a box cut due to permitting regulations of the Mongolian Government and the need to obtain this sample in a timely fashion.

It was reported that this sample should be delivered for testing by the end of October 2009. This sample will be tested for various coking coal properties as well as washability characteristics. For the purpose of this analysis we have assumed a 95% recovery for a raw coal product (i.e., 5% coal handling losses) and a 77% processing recovery for washed coking coal.

6.9.3 Capital Cost Basis

BOYD has prepared preliminary capital budget cost estimates to construct a 1,100 tonne per hour (tph) Coal Preparation Plant (CPP).

Our cost estimate is based on coal being trucked to a truck dump located at the central coal handling facility that receives the ROM coal and sizes the coal through a screening/crushing station before it is stored in a 50,000-tonne open stockpile. Coal is reclaimed from storage by a series of vibratory feeders located beneath the pile. Coal is discharged on a conveyor belt located in the reclaim tunnel running beneath the stockpile area. The belt conveyor transports the coal to the processing plant for cleaning.

The CPP has a capacity of 1,100 tonnes per hour to process 50 mm x 0 raw coal over 6,000 operating hours per annum. The plant is designed to produce three products: coking coal, middling, and rejects. Process circuits are:

- Dense Media Cyclone Primary and Secondary Circuit.
- Water-Only Cyclones and a Spiral Concentrator Rewash (Middling) Circuit.
- Column Flotation Cells.

Auxiliary plant circuits include a magnetite supply and recovery and a water clarification system. The plant will have a closed water system that uses a Hyperbolic Pressure Filter to dewater the fine refuse material.

Plant coking coal product will be conveyed from the plant to a Fluid-bed Thermal Drying System that will reduce the surface moisture to 5% to 6% in the product. The dryer will be a state-of-the-art design with a stoker-fired furnace, dust collection and wet scrubber. Dried product will be transported by belt conveyor to a covered coal storage area with a nominal 50,000-tonne capacity. Coal will be reclaimed by a belt conveyor system and transported to a truck loading station. Coal will be sampled and weighed with an automated batch weigh system as it is loaded in trucks. The loading system will be designed to load two trucks at the same time.

Plant middling product will be transported by belt conveyor and stored in an open storage pile. Product can either be blended with raw coal for on-site thermal coal use (power plant fuel) or used to fuel the thermal dryer.

Plant coarse and fine reject materials will be transported by belt conveyor to a large bin for loading trucks. Depending on quality (heat value) and fuel availability) rejects will either be trucked back to mining pit for disposal or be blended and burned in the on-site coal-fired power plant.

6.9.4 Capital Cost

BOYD's preliminary budgetary capital cost estimate for the CPP is $60 million, plus $6 million for raw handling and storage and $15 million for coke handling, barn storage and the weigh station based on a final mine production rate of 8 Mtpa.

We have assumed the majority of the equipment and the steel fabrication will be performed in China to reduce project cost. A more detailed engineering study and cost estimate will be completed during the feasibility report stage to confirm our preliminary findings.

6.10 Communications

Communication provisions for the Khushuut conceptual mine plan include satellite system connections between mine site to Hong Kong and Ulaanbaatar. Additionally, local communications with hand-held and base station radio systems for mine site communications. CAPEX is estimated at $1.0 million with an annual operating costs of $100,000.

6.11 Environmental

Capital costs associated with the installation of mine and on-site facilities and related environmental protection is calculated based on 2% of total mine investment (excluding equipment capital expenditures). This cost allocation is intended to cover all capital expenditures required prior to commencement of mining operations for installation of:

- Sedimentation ponds.
- Catch basins and surface water diversion.
- Sewage water and water treatment.
- Dust protection.
- Miscellaneous environmental control measures.

6.12 Engineering and Design

Engineering and design capital cost estimates are based on typical industry experience. This amount is calculated using a factor of 5% of initial capital expense (excluding equipment capital expenditures).

6.13 Project Management

Project management capital cost allocations are based on typical industry experience. This amount is based on 7.5% of total capital investment (excluding miscellaneous and sustaining capital).

6.14 Miscellaneous Capital

Miscellaneous capital or contingency is based on 15% of total investment.

6.15 Non-Equipment CAPEX Estimate

The CAPEX estimates for construction of the camp, administration and industrial facilities are summarized as follows:

Infrastructure Capital

	Estimated Cost (US$-000)*			
	Total	Year 1	Year 2	Total
Coal Processing Plant	60,000	10,000	50,000	60,000
Raw Coal Handling Open Storage	6,000	2,000	4,000	6,000
Coke Handling, Barn Storage & Weigh Station	15,000	15,000	-	15,000
Environmental	2%	776	585	1,361
Diesel Generator	2,000	1,500	500	2,000
Mine Site Power Plant (~25mw)	30,000	10,000	20,000	30,000
Power Lines (Mine Site)	750	750	-	750
Communications	1,000	500	500	1,000
Water	5,000	2,500	2,500	5,000
Airstrip	2,000	1,000	1,000	2,000
Industrial Area				
Offices and Equipment	825	825	-	825
Workshop / Warehouse	1,500	1,500	-	1,500
Bath House / Work Team Office	450	450	-	450
Explosives Related Facilities	250	250	-	250
Access Roads	1,000	1,000	-	1,000
Haul Roads, Ramps	500	500	-	500
Camp / Housing	1,750	1,000	570	1,750
Haul Road Khushuut to Border**	**	**	-	**
Intermediate Long-Haul Rest & Repair Areas	500	500	-	500
Engineering and Design	5%	2,478	3,992	6,470
Project Management	7.5%	3,716	5,988	9,704
Miscellaneous Capital	15%	7,433	11,975	19,408
Other Capital		-	-	-
Total – Infrastructure Capital		101,149	101,790	202,939

* Unless otherwise noted.
** BOYD completed the prefeasibility study that formed the basis of the calculations within this ITR. CAPEX for the balance of the haulroad was estimated to be an additional $37.472 million at that time. The table following reflects updated estimates and budgeting.

MEC has provided the following sunk costs for these categories as of March 31, 2009, relative to the Khushuut operations and MEC's estimate for completion of the road and on-going exploration. These numbers are listed as follows:

	Sunk Costs (US$-millions)			
Cost	Pre-31 March 2009	April–December 2009	2010	Total
Exploration and Technical Reporting	46.4	3.5	-	49.9
Road and Foundation Work	95.0	16.0	14.0	125.0
Road Surfacing	-	-	71.0	71.0

Following this page is Table 6.1, Estimated Capital Expenditures.

TABLE 6.1

ESTIMATED CAPITAL EXPENDITURES
KHUSHUUT MINE PLAN
Khovd Province, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION LIMITED
By
John T. Boyd Company
October 2009

	Unit	Year																			
	Capital ($000)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	Totals
Equipment Capital (Initial)																					
Overburden Drills - Drilltech D75KS	1,500	3,000	-	-	-	-	1,500	-	1,500	-	-	-	-	-	-	-	-	-	-	-	6,000
Overburden Excavators - 30.6 m3	9,000	18,000	-	-	-	9,000	9,000	-	9,000	-	-	-	-	-	-	-	-	-	-	-	45,000
Overburden Excavators - 15.0 m3	4,700	9,400	-	-	-	-	4,700	-	4,700	-	-	-	-	-	-	-	-	-	-	-	18,800
Overburden Trucks - 255 tonne	4,000	28,000	-	-	-	-	20,000	-	12,000	-	-	-	-	-	-	-	-	-	-	-	60,000
Overburden Trucks - 98 tonne	1,500	9,000	-	-	-	-	6,000	-	3,000	-	-	-	-	-	-	-	-	-	-	-	18,000
Coal Drills - Drilltech D40KS	1,000	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,000
Coal Excavators - 15.0 m3	4,700	4,700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,700
Coal Excavators - 6.5 m3	2,000	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000
Coal Trucks (Pit) - 98 tonne	1,500	4,500	-	-	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,000
Track Dozers-CAT D10T	1,250	1,250	-	-	-	-	1,250	-	1,250	-	-	-	-	-	-	-	-	-	-	-	3,750
Track Dozers-CAT D11T	1,750	1,750	-	-	-	-	1,750	-	1,750	-	-	-	-	-	-	-	-	-	-	-	5,250
Wheeled Dozers-CAT D10T	1,350	1,350	-	-	-	-	1,350	-	1,350	-	-	-	-	-	-	-	-	-	-	-	4,050
Graders-CAT 16M	950	2,850	-	-	-	-	950	-	1,900	-	-	-	-	-	-	-	-	-	-	-	5,700
Scrapers-CAT 637G	1,350	1,350	-	-	-	-	1,350	-	-	-	-	-	-	-	-	-	-	-	-	-	2,700
Water Trucks	1,350	4,050	-	-	-	-	1,350	-	2,700	-	-	-	-	-	-	-	-	-	-	-	8,100
Front-End Loaders CAT	2,300	2,300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,300
Ancilliary Equipment (Assigned)																					-
- Front-End Loaders (stockpile)	2,300	4,600	2,300	2,300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,200
- Fuel/Lube and Other	850	3,400	-	-	1,700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,100
Subtotal		102,500	2,300	2,300	3,200	9,000	49,200	-	39,150	-	-	-	-	-	-	-	-	-	-	-	207,650
Equipment Capital (Replacements)																					
Overburden Drills - Drilltech D75KS	1,500	-	-	-	-	-	-	-	-	3,000	-	-	-	-	1,500	-	1,500	1,500	-	-	7,500
Overburden Excavators - 30.6 m3	9,000	-	-	-	-	-	-	-	-	18,000	-	-	-	9,000	9,000	-	9,000	9,000	-	-	54,000
Overburden Excavators - 15.0 m3	4,700	-	-	-	-	-	-	-	-	9,400	-	-	-	-	4,700	-	4,700	4,700	-	-	23,500
Overburden Trucks - 255 tonne	4,000	-	-	-	-	-	-	-	-	28,000	-	-	-	-	20,000	-	12,000	12,000	-	-	72,000
Overburden Trucks - 98 tonne	1,500	-	-	-	-	-	-	-	-	9,000	-	-	-	-	6,000	-	3,000	3,000	-	-	21,000
Coal Drills - Drilltech D40KS	1,000	-	-	-	-	-	-	-	-	1,000	-	-	-	-	-	-	-	-	-	-	1,000
Coal Excavators - 15.0 m3	4,700	-	-	-	-	-	-	-	-	4,700	-	-	-	-	-	-	-	-	-	-	4,700
Coal Excavators - 6.5 m3	2,000	-	-	-	-	-	-	-	-	2,000	-	-	-	-	-	-	-	-	-	-	2,000
Coal Trucks (Pit) - 98 tonne	1,500	-	-	-	-	-	-	-	-	4,500	-	-	1,500	-	-	-	-	1,500	-	-	7,500
Track Dozers-CAT D10T	1,250	-	-	-	-	-	-	-	-	1,250	-	-	-	-	1,250	-	1,250	-	-	-	3,750
Track Dozers-CAT D11T	1,750	-	-	-	-	-	-	-	-	1,750	-	-	-	-	1,750	-	1,750	-	-	-	5,250
Wheeled Dozers-CAT D10T	1,350	-	-	-	-	-	-	-	-	1,350	-	-	-	-	1,350	-	1,350	-	-	-	4,050
Graders-CAT 16M	950	-	-	-	-	-	-	-	-	2,850	-	-	-	-	950	-	1,900	950	-	-	6,650
Scrapers-CAT 637G	1,350	-	-	-	-	-	-	-	-	1,350	-	-	-	-	1,350	-	-	-	-	-	2,700
Water Trucks	1,350	-	-	-	-	-	-	-	-	4,050	-	-	-	-	1,350	-	2,700	1,350	-	-	9,450
Front-End Loaders CAT	2,300	-	-	-	-	-	-	-	-	2,300	-	-	-	-	-	-	-	-	-	-	2,300
Ancilliary Equipment (Assigned)																					-
- Front-End Loaders (stockpile)	2,300	-	-	-	-	-	-	-	-	4,600	2,300	2,300	-	-	-	-	-	-	-	-	9,200
- Fuel/Lube and Other	850	-	-	-	-	-	-	-	-	3,400	-	-	1,700	-	-	-	-	-	-	-	5,100
Subtotal		-	-	-	-	-	-	-	-	102,500	2,300	2,300	3,200	9,000	49,200	-	39,150	34,000	-	-	241,650
Total - Mining Equipment		102,500	2,300	2,300	3,200	9,000	49,200	-	39,150	102,500	2,300	2,300	3,200	9,000	49,200	-	39,150	34,000	-	-	449,300

TABLE 6.1 - Continued

	Unit Capital ($000)	Year 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	Totals
Infrastructure Capital																					
Coal Processing Plant	60,000	10,000	50,000	-	-																60,000
Raw Coal Handling Open Storage	6,000	2,000	4,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,000
Coke Handling, Barn Storage & Weigh Station	15,000	15,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000
Environmental	0	776	585	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,361
Diesel Generator	2,000	1,500	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000
Mine Site Power Plant (~25mw)	30,000	10,000	20,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,000
Power Lines (Mine Site)	750	750	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	750
Communications	1,000	500	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,000
Water	5,000	2,500	2,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,000
Airstrip	2,000	1,000	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000
Industrial Area																					-
Offices and Equipment	825	825	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	825
Workshop / Warehouse	1,500	1,500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,500
Bath House / Work Team Office	450	450	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	450
Explosives Related Facilities	250	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250
Access Roads	1,000	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,000
Haul Roads, Ramps	500	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500
Camp / Housing	1,750	1,000	750	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,750
Haul Road Khushuut to Border	37,472	37,472	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	37,472
Intermediate Long-Haul Rest & Repair Areas	500	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500
Engineering and Design	0	2,478	3,992	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,469
Project Management	0	3,716	5,988	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,704
Miscellaneous Capital	0	7,433	11,975	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,408
Other Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total - Infrastructure Capital		101,149	101,790	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	202,939
TOTAL CAPITAL EXPENDITURES		203,649	104,090	2,300	3,200	9,000	49,200	-	39,150	102,500	2,300	2,300	3,200	9,000	49,200	-	39,150	34,000	-	-	652,239

Notes: CAPEX excludes sunk capital through January 2009 and Working Capital

P:\ENG_WP\3272.022\WP\[Table 6.1.xls]Table 6.1

7.0 MINE OPERATING COSTS

7.1 Introduction

Mine operating costs account for 75% to 80% of the variable cost component for the Khushuut Pre-feasibility Study and are the key to development of the economics contained within this report.

Of the total variable costs, fuel and explosives account for approximately 60% of the total (50% fuel and 10% explosives). This high percentage (fuel and explosives) is due to the current diesel fuel price. MEC provided the unit cost of fuel used in this report. To confirm the unit cost for diesel was reasonable, we compared the MEC price against: (1) BOYD internal information on mine site diesel pricing, and (2) other international prices and (3) relationship with United States Energy Information Administration (EIA) diesel fuel components history. The MEC fuel price was confirmed to be reasonable and was then applied to fuel consumption rates per hour by equipment type, to derive total fuel cost.

The remaining component costs such as parts, tires, ground engagement components, and lubricants were based on a combination of published sources and BOYD's in-house database.

Labor costs and functions were based on Chinese standards as a comparative analysis. We believe that the Khushuut operations will be closely aligned with those standards. Total labor costs including benefits account for less than 3% of the total estimated cash costs.

7.2 Labor

7.2.1 Basis

Based on prior studies by BOYD involving Mongolian mining projects, we have a general knowledge of Mongolian labor cost and structure. However, political changes and associated changes in labor law are subjective and related to policies and economic factors prevailing at the time of actual operations.

For the purpose of this report we have utilized Chinese standards and associated Mongolian holidays and required leave time. Wages are based on 5 days/week, 8 hours/day, with excess hours paid at 1.5 times the standard rate. Work on public holidays will be paid at 2.0 times standard rates. A minimum of 12 hours off-time per employee between shifts is mandated by law. Basic vacation leave is 15 days per year plus additional days for service over 6 years. We have utilized 20 days of leave per year (average) for the purpose of developing annual labor rates. There are 9 public holidays per year, listed as follows:

- New Year's Day, January 1 – 1 day.
- White Moon Day, Spring – 2 days.
- International Women's Day, March 8 – 1 day.
- Children's Day, June 1 – 1 day.
- National Naadam Holiday, July 11 through 13 – 3 days.
- Day of Proclamation, November 26 – 1 day.

The pension system is based on a combination of company and employee contributions. This covers health insurance, injury and professional disease insurance, special benefits insurance, and unemployment insurance. Combined this benefits account for an employer contribution equal to 30% of direct wages. We have included an employment payment to encourage skilled persons to work in remote conditions, equal to 15% of standard salary.

Though not incorporated into this study, a roster will need to be developed to provide Mongolian staff home leave on a reasonable basis. We anticipate a majority of the staff will have their permanent residence in Ulaan Bataar, Hvod, and general work staff will be recruited from local soums.

7.2.2 Schedules

BOYD anticipates the following work schedule per employee:

Work Schedule

52 Weeks/Year x 5 Days/Week		260 Days/Year
Less:	Vacation Days 15 to 29/Year (based on years of service)	21 Days/Year
	Public Holidays	9 Days/Year
Net Work Days/Employee		230 Days/Year
Scheduled Work Hours/Year		1,840

Labor requirements (number of employees) are calculated using scheduled hours per year, which are based on equipment productivity and hours required to meet the production schedules (refer to Chapter 5.0).

7.2.3 Labor Wages and Benefits

The following labor cost parameters are used in this report:

	% Base Pay
Vacation/Holiday	12.6
OT/Extra Pay	28.0
Remote Location Premium	15.0
Employer Direct Benefits	30.0 (insurance, taxes, etc.)
Employer Indirect Benefits	22.6 (meal and housing allowances)

The following pay rate structure was used in this Pre-feasibility Study:

	Annual Pay Rates (US$)						
Position	Base	Holiday/ Vacation	OT/Extra Pay	Remote Premium	Employer Benefits	Calculated Total	Assigned Total
General Worker	2,500	315	700	375	2,046	5,936	6,000
Skilled Worker	5,000	630	1,400	750	4,092	11,872	12,000
Team Leader	9,500	1,197	2,660	1,425	7,776	22,557	23,000
Jr. Mgmt	12,500	1,575	3,500	1,875	10,231	29,681	30,000
Deputy Manager	18,000	2,268	5,040	2,700	14,732	42,740	43,000
Manager	24,000	3,024	6,720	3,600	19,643	56,987	60,000

7.2.4 Labor and Cost Schedules

Table 7.1, following this text, shows labor and cost estimates.

7.3 Operating Cost

7.3.1 Equipment

Hourly operating costs (fuel, lube, repair parts, tires, and ground engagement components) for equipment selected in the Khushuut Conceptual Mine Plan were developed from published sources and BOYD’s database for similar equipment.

7.3.2 Productivity

Scheduled and operating hours for equipment were developed based on production capacity of the primary overburden excavators and coal mining equipment. Scheduled labor and equipment hours are driven by these primary production units and provide the basis for calculating cash operating costs.

7.3.3 Unit Cost Per Hour

Estimated hourly unit costs were developed based on public source information, BOYD in-house information and fuel pricing provided by MEC. The unit costs provide details relative to equipment consumption of fuels, and unit costs for various cost components.

Table 7.2, following this text, shows estimated unit costs of primary materials and supplies.

7.3.4 Material and Supplies Cost Schedules

Table 7.3, following this text, show material and supply cost estimates.

7.4 Coal Processing Plant (CPP)

There are substantial unit costs associated with the coal processing plant (CPP) and handling facilities. At this Pre-feasibility Study level, we used typical unit costs based on similar operations. Consumable costs typically associated with a CPP include: power, water, magnetite, flocculant, reagent, and miscellaneous.

We have estimated consumable costs at US$2.5 per ROM tonne for wash plant costs and US$0.25 per ROM tonne for crushing and screening costs.

7.4.1 Fuel Component

The fuel component of material and supplies operating cost currently accounts for 50% to 60% of the total hourly operating cost.

7.4.2 Explosives

BOYD utilized the going Chinese rate of $1,075 per tonne and provided an additional allowance of $125 per tonne for detonators and primers.

7.4.3 Other Costs

7.4.3.1 Communications

Communications costs were estimated at a constant annual fixed rate of $100,000 for maintenance, repair and replacement.

7.4.3.2 Roads

Miscellaneous equipment utilized in the maintaining of mine-site roads (such as water trucks, graders, and scrapers) have been budgeted into the normal equipment and labor schedules. In addition, an allowance is provided for road repairs requiring stone and other materials (such as chemical dust suppressants). Roads maintenance supply costs were estimated at $250,000 in Year 1, $350,000 in Year 2 and $500,000 per year thereafter.

7.4.3.3 Camp

Camp maintenance cost for meals and miscellaneous camp site services were calculated at $5.00/person/day.

7.4.3.4 Power

The cost of electrical power is assumed to be sourced from diesel generators initially and ultimately will be supplied from the proposed mine-mouth power station. The Chinese rate for electrical power is US$0.07/kw-hr for power. Without completion of a detail consumption profile we have assumed power costs at US$750,000 in Year 1 and US$1.0 million per year thereafter.

7.4.3.5 Water

Sourcing and cost of future water requirements have not been determined to date. We have assumed an annual cost of US$1.5 million for future water license and usage fees.

7.4.3.6 Rehabilitation

Rehabilitation is based on US$20,000 per hectare of disturbed area.

7.4.3.7 Project Overheads/Administration

Project overheads and administration include corporate administration in Hong Kong, Ulaanbaatar, Khvod, mine site administration, cost allocated to charter flights and ex-pat labor. Project overheads and administration are estimated at US$1.00 per product tonne.

7.5 Conclusions

We believe the estimated mining costs are within the stated +/- 25% accuracy for this study. Because of the current high fuel costs, the project's OPEX is extremely sensitive to petroleum products market price.

Following this page are:

Tables:

P:\ENG_WP\3272.022\WP\7.0 MINE OPERATING COSTS.doc

TABLE 7.1

ESTIMATED LABOR AND AND COSTS
KHUSHUUT MINE PLAN
Khovd Province, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION LIMITED
By
John T. Boyd Company
October 2009

Years:		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Employees (No.)																				
Equipment Operators - Overburden		65	41	40	65	65	113	113	145	144	146	147	147	147	147	147	147	65	57	12
Equipment Operators - Coal		16	16	15	21	20	25	17	19	18	17	17	17	15	16	18	15	11	11	5
Support Equipment Operators		21	14	14	21	21	36	35	45	45	45	45	45	45	45	45	45	20	18	4
Blasters, Pumpers, Lights		12	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24
Material Handling - Stockpile		8	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Material Handling - Sreening & Wash Plant		8	12	12	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84
Plant Maintenance / Electricians		8	8	8	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Laboratory		4	6	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Warehouse		12	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24
Maintenance	0.30	30	21	21	32	32	52	50	63	62	62	63	63	62	62	63	62	29	26	6
Security / Safety / General Labor	0.05	9	9	9	15	15	20	19	22	22	22	22	22	22	22	22	22	15	14	10
Administration & Management - Domestic	0.08	10	12	12	21	21	24	23	25	25	25	25	25	25	25	25	25	19	19	15
Administration & Management - Expat	0.02	2	3	3	5	5	6	5	6	6	6	6	6	6	6	6	6	5	5	4
Total Employees		205	200	201	347	347	444	431	493	491	491	492	492	490	491	494	490	332	318	224
Productivity																				
Product Tonnes per Employee per Year		19,839	29,711	33,560	21,362	20,694	17,297	13,024	11,825	11,038	10,839	10,632	10,918	9,042	10,347	12,183	9,081	14,263	16,825	12,697
Product Tonnes per Employee per Shift		11.3	17.0	19.2	12.2	11.8	9.9	7.4	6.8	6.3	6.2	6.1	6.2	5.2	5.9	7.0	5.2	8.2	9.6	7.3
Overburden Moved per Employee per Year		97,492	62,480	62,063	57,583	57,711	78,829	81,133	91,284	91,727	91,579	91,452	91,440	91,913	91,598	91,143	91,894	60,190	55,035	16,066
Labor Costs (US$ - 000)	US$/Year																			
Equipment Operators - Overburden	12,000	777	486	486	777	774	1,360	1,361	1,734	1,732	1,756	1,762	1,764	1,765	1,765	1,766	1,766	785	687	141
Equipment Operators - Coal	12,000	186	191	184	248	245	299	205	231	216	201	201	200	180	192	210	180	131	137	60
Support Equipment Operators	6,000	125	82	81	127	127	217	212	271	270	269	269	269	269	269	270	269	122	107	23
Blasters, Pumpers, Lights	6,000	72	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144
Material Handling - Stockpile	6,000	48	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72
Material Handling - Screening & Wash Plant	6,000	48	72	72	504	504	504	504	504	504	504	504	504	504	504	504	504	504	504	504
Plant Maintenance / Electricians	12,000	96	96	96	192	192	192	192	192	192	192	192	192	192	192	192	192	192	192	192
Laboratory	6,000	24	36	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48
Warehouse	6,000	72	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144	144
Maintenance	6,000	182	126	125	192	191	314	299	376	373	374	375	375	372	374	377	372	174	156	37
Security / Safety / General Labor	6,000	55	53	53	92	92	118	115	132	131	132	132	132	131	132	132	131	88	84	58
Administration & Management - Domestic	40,000	409	465	469	823	822	963	926	1,015	1,008	1,005	1,005	1,005	997	1,002	1,009	997	777	759	617
Administration & Management - Expat	100,000	225	259	262	473	473	552	545	596	594	594	595	595	593	594	596	593	464	452	376
Total Labor Costs		2,320	2,225	2,237	3,837	3,828	4,927	4,766	5,459	5,429	5,436	5,443	5,444	5,411	5,433	5,464	5,413	3,644	3,486	2,417
Labor Cost per Product Tonne		0.57	0.37	0.43	0.52	0.53	0.64	0.85	0.94	1.00	1.02	1.04	1.01	1.22	1.07	0.91	1.22	0.77	0.65	0.85

Note: Employee numbers based on shifts rounded to the next highest number. Labor costs are based on actual employee hours.

P:\ENG_WP\3272.022\WP\[Table 7.1.xls]Table 7.1

TABLE 7.2

ESTIMATED UNIT COST OF OPERATING MATERIALS AND SUPPLIES
KHUSHUUT CONCEPTUAL MINE PLAN
Khovd Province, Mongolia
Prepared for
MONGOLIA ENERGY CORPORATION LIMITED
by
John T. Boyd Company
Mining and Geological Consultants
October 2009

				US$/Operating Hour - Adjusted						
Equipment Model (or Equivalent)	Capacity (m^3)	HP	Kw	Fuel	Lubes	Parts	Tires	GEC	Total	USE
Excavators										
Hitachi 5500	30.6	2,604	1,942	565.50	204.71	192.65	-	30.82	993.68	**1,000**
Hitachi 3600	26.3	1,880	1,402	408.20	136.21	95.84	-	15.34	655.59	**650**
Hitachi 2500	15.0	1,250	932	271.70	98.18	92.34	-	14.78	477.00	**475**
Hitachi 1900	12.0	965	720	209.30	71.72	51.01	-	8.16	340.20	**350**
Komatsu PC1800-6	14.4	908	677	197.60	65.69	46.20	-	7.40	316.89	**325**
O&K RH400	55.0	3,350	2,498	728.00	338.44	360.23	-	57.64	1,484.31	**1,500**
O&K RH200	31.1	2,102	1,567	456.30	186.29	190.71	-	30.51	863.82	**865**
Trucks										
Mechanical Drive										
Cat 777D	98t	938	699	92.30	34.57	11.70	17.84	-	156.41	**150**
Komatsu 530M	150t	1,337	997	136.50	57.51	14.25	32.59	-	240.85	**240**
Electric Drive										
Hitachi EH3000	160t	1,695	1,264	150.80	50.38	13.43	31.53	-	246.13	**250**
Hitachi EH3500	185t	1,892	1,411	167.70	57.12	16.56	35.97	-	277.36	**275**
Hitachi EH4000	220t	2,458	1,833	218.40	51.97	21.20	46.07	-	337.65	**350**
Hitachi EH5000	255t	2,633	1,963	234.00	60.71	24.78	53.83	-	373.32	**375**
Komatsu 630E	175t	2,000	1,491	178.10	47.97	12.44	27.03	-	265.53	**265**
Komatsu 730E	185t	1,860	1,387	165.10	47.35	12.69	27.57	-	252.71	**250**
Komatsu 830E	230t	2,360	1,760	209.30	38.48	15.70	34.13	-	297.61	**300**
Dozers										
Cat. D11R		850	634	149.50	47.22	52.20	-	8.70	257.61	**250**
Cat. D10R		570	425	100.10	29.59	31.68	-	5.28	166.65	**165**
Cat. D9R		410	306	71.50	21.60	23.27	-	3.87	120.25	**120**
Graders										
Cat. 16H		275	205	42.90	13.85	10.80	6.88	0.90	75.33	**75**
Cat. 14H		220	164	35.10	10.00	7.44	4.73	0.62	57.90	**60**
Front-End Loaders										
Cat. 992G	13.7	800	597	128.70	41.61	20.45	29.34	2.78	222.88	**225**
Cat. 988G	7.5	475	354	75.40	20.69	9.31	13.35	1.26	120.01	**120**
Water Trucks										
Off-Highway Water Truck	(50 kl)	550	410	92.30	23.20	17.32	14.65	-	147.47	**150**
Cat 785C		1,450	1,081							
Wheel Dozers										
Cat. 834G		481	359	80.60	21.83	9.71	11.86	0.78	124.78	**125**
Drills										
D75KS		630	470	110.50	24.11	32.49	-	3.00	170.10	**170**
D40KS		430	321	75.40	15.87	22.43	-	2.06	115.76	**115**
Scrapers										
Cat. 631G		490	365	92.30	28.58	23.65	6.77	0.92	152.22	**150**

P:\ENG_WP\3272.022\WP\[Table 7.2.xls]Sheet1

TABLE 7.3
ESTIMATED MATERIALS AND SUPPLY COSTS
KHUSHUUT MINE PLAN
Khovd Province, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION LIMITED
By
John T. Boyd Company
Mining and Geological Consultants
October 2009

Years:		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	Totals
Mining Equipment Operating-Hours																					
Overburden Drills - Drilltech D75KS		9,486	5,966	5,928	9,466	9,025	16,611	16,718	19,186	18,816	22,417	23,294	23,544	23,677	23,747	23,790	23,791	10,574	9,252	1,901	297,191
Overburden Excavators - 30.6 m3		12,161	7,601	7,601	12,161	12,161	21,281	21,281	27,362	27,362	27,362	27,362	27,362	27,362	27,362	27,362	27,362	12,161	10,641	2,187	365,492
Overburden Excavators - 15.0 m3		8,987	5,617	5,617	8,987	8,987	15,727	15,727	20,221	20,221	20,221	20,221	20,221	20,221	20,221	20,221	20,221	8,987	7,864	1,616	270,100
Overburden Trucks - 255 tonne		38,307	23,942	23,942	38,307	38,307	67,037	67,037	86,190	86,190	86,190	86,190	86,190	86,190	86,190	86,190	86,190	38,307	33,518	6,888	1,151,300
Overburden Trucks - 98 tonne		31,724	19,827	19,827	31,724	31,724	55,517	55,517	71,379	71,379	71,379	71,379	71,379	71,379	71,379	71,379	71,379	31,724	27,758	5,704	953,454
Coal Drills - Drilltech D40KS		3,150	3,495	3,269	4,195	4,144	4,601	2,547	2,630	2,300	1,938	1,944	1,906	1,529	1,755	2,094	1,529	1,627	1,836	975	47,465
Coal Excavators - 15.0 m3		1,793	2,618	2,977	4,244	4,103	4,393	3,214	3,335	3,098	3,047	2,993	3,074	2,533	2,908	3,441	2,544	2,711	3,061	1,626	57,712
Coal Excavators - 6.5 m3		3,457	3,207	2,470	2,747	2,805	3,275	1,031	1,049	736	184	247	103	16	17	48	4	-	-	-	21,396
Coal Trucks (Pit) - 98 tonne		12,454	14,524	14,176	18,666	18,341	20,180	12,048	12,459	11,099	9,841	9,798	9,764	7,908	9,077	10,798	7,920	8,432	9,519	5,056	222,061
Track Dozers-CAT D10T		6,344	3,965	3,965	6,344	6,344	11,103	11,103	14,275	14,275	14,275	14,275	14,275	14,275	14,275	14,275	14,275	6,344	5,551	1,141	190,678
Track Dozers-CAT D11T		6,344	3,965	3,965	6,344	6,344	11,103	11,103	14,275	14,275	14,275	14,275	14,275	14,275	14,275	14,275	14,275	6,344	5,551	1,141	190,678
Wheeled Dozers-CAT D10T		6,344	3,965	3,965	6,344	6,344	11,103	11,103	14,275	14,275	14,275	14,275	14,275	14,275	14,275	14,275	14,275	6,344	5,551	1,141	190,678
Graders-CAT 16M		14,006	8,754	8,754	14,006	14,006	24,511	24,511	31,514	31,514	31,514	31,514	31,514	31,514	31,514	31,514	31,514	14,006	12,255	2,518	420,951
Scrapers-CAT 637G		4,230	2,643	2,643	4,230	4,230	7,402	7,402	9,517	9,517	9,517	9,517	9,517	9,517	9,517	9,517	9,517	4,230	3,701	760	127,118
Water Trucks		14,006	8,754	8,754	14,006	14,006	24,511	24,511	31,514	31,514	31,514	31,514	31,514	31,514	31,514	31,514	31,514	14,006	12,255	2,518	420,951
Front-End Loaders CAT		1,575	1,747	1,634	2,097	2,072	2,300	1,274	1,315	1,150	969	972	953	765	877	1,047	764	813	918	488	23,732
Ancilliary Equipment		2,640	1,904	1,867	2,814	2,806	4,468	4,125	5,197	5,142	5,081	5,082	5,076	5,013	5,051	5,107	5,013	2,386	2,156	543	71,470
Mining Equipment M&S Costs	$/Operating-Hour																				
Overburden Drills - Drilltech D75KS	175	1,660	1,044	1,037	1,657	1,579	2,907	2,926	3,358	3,293	3,923	4,076	4,120	4,143	4,156	4,163	4,163	1,850	1,619	333	52,008
Overburden Excavators - 30.6 m3	1,000	12,161	7,601	7,601	12,161	12,161	21,281	21,281	27,362	27,362	27,362	27,362	27,362	27,362	27,362	27,362	27,362	12,161	10,641	2,187	365,492
Overburden Excavators - 15.0 m3	350	3,145	1,966	1,966	3,145	3,145	5,504	5,504	7,077	7,077	7,077	7,077	7,077	7,077	7,077	7,077	7,077	3,145	2,752	566	94,535
Overburden Trucks - 255 tonne	375	14,365	8,978	8,978	14,365	14,365	25,139	25,139	32,321	32,321	32,321	32,321	32,321	32,321	32,321	32,321	32,321	14,365	12,569	2,583	431,737
Overburden Trucks - 98 tonne	150	4,759	2,974	2,974	4,759	4,759	8,328	8,328	10,707	10,707	10,707	10,707	10,707	10,707	10,707	10,707	10,707	4,759	4,164	856	143,018
Coal Drills - Drilltech D40KS	125	394	437	409	524	518	575	318	329	288	242	243	238	191	219	262	191	203	230	122	5,933
Coal Excavators - 15.0 m3	350	627	916	1,042	1,486	1,436	1,538	1,125	1,167	1,084	1,066	1,047	1,076	886	1,018	1,204	890	949	1,071	569	20,199
Coal Excavators - 6.5 m3	250	864	802	618	687	701	819	258	262	184	46	62	26	4	4	12	1	-	-	-	5,349
Coal Trucks (Pit) - 98 tonne	150	1,868	2,179	2,126	2,800	2,751	3,027	1,807	1,869	1,665	1,476	1,470	1,465	1,186	1,362	1,620	1,188	1,265	1,428	758	33,309
Track Dozers-CAT D10T	175	1,110	694	694	1,110	1,110	1,943	1,943	2,498	2,498	2,498	2,498	2,498	2,498	2,498	2,498	2,498	1,110	971	200	33,369
Track Dozers-CAT D11T	250	1,586	991	991	1,586	1,586	2,776	2,776	3,569	3,569	3,569	3,569	3,569	3,569	3,569	3,569	3,569	1,586	1,388	285	47,669
Wheeled Dozers-CAT D10T	175	1,110	694	694	1,110	1,110	1,943	1,943	2,498	2,498	2,498	2,498	2,498	2,498	2,498	2,498	2,498	1,110	971	200	33,369
Graders-CAT 16M	75	1,050	657	657	1,050	1,050	1,838	1,838	2,364	2,364	2,364	2,364	2,364	2,364	2,364	2,364	2,364	1,050	919	189	31,571
Scrapers-CAT 637G	150	634	397	397	634	634	1,110	1,110	1,427	1,427	1,427	1,427	1,427	1,427	1,427	1,427	1,427	634	555	114	19,068
Water Trucks	150	2,101	1,313	1,313	2,101	2,101	3,677	3,677	4,727	4,727	4,727	4,727	4,727	4,727	4,727	4,727	4,727	2,101	1,838	378	63,143
Front-End Loaders CAT	225	354	393	368	472	466	518	287	296	259	218	219	214	172	197	236	172	183	207	110	5,340
Ancilliary Equipment	5%	2,390	1,602	1,593	2,482	2,474	4,146	4,013	5,092	5,066	5,076	5,083	5,084	5,057	5,075	5,102	5,058	2,324	2,066	472	69,255
Total M&S Costs		50,180	33,636	33,457	52,130	51,948	87,068	84,273	106,922	106,389	106,598	106,750	106,774	106,190	106,582	107,149	106,214	48,796	43,390	9,920	1,454,365
M&S Cost per Product Tonne		12.33	5.66	6.43	7.03	7.24	11.34	15.00	18.34	19.65	20.01	20.40	19.87	23.99	20.97	17.81	23.89	10.30	8.11	3.49	14.09
Explosives																					
Alluvium blasted (bcm - 000)		2,057	1,215	1,287	2,095	2,929	3,582	3,378	8,710	9,410	2,600	940	468	216	83	3	-	-	-	-	38,973
Overburden blasted (bcm - 000)		17,943	11,285	11,213	17,905	17,071	31,418	31,622	36,290	35,590	42,400	44,060	44,532	44,784	44,917	44,997	45,000	20,000	17,500	3,596	562,123
Coal Blasted (tonnes - 000)		4,284	6,257	7,115	10,143	9,804	10,499	7,681	7,969	7,403	7,281	7,152	7,345	6,052	6,949	8,223	6,079	6,479	7,314	3,885	137,914
Alluvium Explosives Used (tonnes)	0.20	411	243	257	419	586	716	676	1,742	1,882	520	188	94	43	17	1	-	-	-	-	7,795
Overburden Explosives Used (tonnes)	0.35	6,280	3,950	3,925	6,267	5,975	10,996	11,068	12,702	12,457	14,840	15,421	15,586	15,674	15,721	15,749	15,750	7,000	6,125	1,259	196,743
Coal Explosives (tonnes - 000)	0.15	643	939	1,067	1,521	1,471	1,575	1,152	1,195	1,110	1,092	1,073	1,102	908	1,042	1,233	912	972	1,097	583	20,687
Total Explosives Used (tonnes - 000)		7,334	5,131	5,249	8,207	8,031	13,288	12,895	15,639	15,449	16,452	16,682	16,782	16,625	16,780	16,983	16,662	7,972	7,222	1,841	225,225
Explosives Cost ($ - 000)		8,801	6,158	6,299	9,849	9,638	15,945	15,475	18,767	18,539	19,743	20,018	20,138	19,950	20,136	20,380	19,994	9,566	8,667	2,210	270,270
OB Explosives Cost per bcm		0.440	0.493	0.504	0.492	0.482	0.456	0.442	0.417	0.412	0.439	0.445	0.448	0.443	0.447	0.453	0.444	0.478	0.495	0.614	0.45
Total Explosives Cost per Product Tonne		2.16	1.04	1.21	1.33	1.34	2.08	2.75	3.22	3.42	3.71	3.83	3.75	4.51	3.96	3.39	4.50	2.02	1.62	0.78	2.62
Other Costs																					
Coal Processing Consumables (/ROM Product)	0.25	1,071	1,564	1,779	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,414
Coal Processing Consumables (/Washed Product)	2.50	-	-	-	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	14,625	234,000
Communications	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	9,500
Mine Site Roads		250	350	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	9,100
Camp (per employee)	10	749	730	735	1,268	1,265	1,621	1,575	1,799	1,791	1,794	1,796	1,796	1,787	1,793	1,802	1,787	1,213	1,161	817	27,278
Power	500	750	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	18,750
Water (est 5ml/day)	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	28,500
Transportation																					
Rehabilitation (per Ha)	20,000	2,315	406	558	385	818	489	694	879	333	299	183	69	20	20	-	-	-	-	-	7,468
Project Overheads/Administration (/Product Tonne)	1.75	831	4,988	8,313	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,238	10,096	177,790
Total Other Costs		7,966	11,038	14,884	30,015	30,445	30,472	30,631	31,041	30,486	30,455	30,341	30,228	30,169	30,176	30,165	30,150	29,575	29,523	29,038	516,799
Other Costs per Product Tonne		1.96	1.86	2.86	4.05	4.25	3.97	5.45	5.32	5.63	5.72	5.80	5.63	6.81	5.94	5.01	6.78	6.24	5.52	10.22	5.01
TOTAL OPERATING COSTS		66,947	50,832	54,640	91,993	92,031	133,485	130,379	156,729	155,414	156,796	157,110	157,139	156,310	156,894	157,693	156,358	87,938	81,580	41,167	2,241,434
Total Operating Costs per Product Tonne		16.45	8.55	10.50	12.40	12.83	17.38	23.20	26.89	28.70	29.44	30.03	29.25	35.31	30.87	26.22	35.16	18.55	15.25	14.49	21.72

Notes: Roads Cost exclude M&S of long-haul road to Chinese Border.

P:\ENG_WP\3272.022\WP\[Table 7.3.xls]Table 7.3

Fenwei Energy
汾渭能源

Shanxi Fenwei Energy Consulting Co., Ltd.
8th Floor, Tower A, Shanxi World Trade Center
111 Changzhi Road, Taiyuan
Shanxi Province 0300006 China
Tel: +86 351 472 8541
Fax: +86 351 472 8543

20 November 2008

Mongolia Energy Corporation Limited
40th Floor, New World Tower 1
16-18 Queen's Road Central
Hong Kong
Attn: Mr. James J. Schaeffer, Jr.
Chief Executive Officer

With a Copy to:

John T. Boyd Company
1500 Corporate Drive, Suite 100
Cannonsburg, PA 15317
United States of America
Attn: Mr. Thaddeus J. Sobek
Project Manager

Re: Recommended Market Pricing for Modeling Studies
Khushuut Coal Mine
Khvod , Mongolia

Dear Mr. Schaeffer:

Pursuant to your request, we hereby submit this letter setting forth our recommended market pricing scenarios as input to the modeling work you have charged John T. Boyd Company ("Boyd") to perform in connection with securing a mining permit from the Mongolian authorities for the referenced project. A copy of this letter is also being sent directly to Boyd at your request.

Please consider this letter as a supplement to our Market Study Report dated 10 October 2008 (the "Market Report"). The forward-looking statements, which were set forth in our Market Report, are in effect herein.

Boyd's Work

We understand that Boyd is using the Mincom MineScape and Whittle software, two very powerful tools, to perform the modeling work. As you know, our going-forward recommendation is to develop blended coking coal products from Khushuut. We understand that the tools Boyd are using have the capability to blend materials from various strata, subject to defining the strata and the pricing of the blended products. In this letter, we are providing that information.

Market Pricing

The market prices for coking coal, which were set forth in our Market Report, were based on our survey of the market in June 2008, which was at their all time high, consistent with the market trend in the pricing of the coal commodity throughout China in the late spring and early summer of 2008. Between then and now, and beginning in August 2008, the impact of the global financial crisis in liquidity and credit, began to filter across and down into China's economy and is now being felt in China's coal market. In connection with this letter, we have re-visited the Xinjiang market in November 2008, during the period from 11-14 November 2008. The market status is as follows:

Grade	Market Price Delivered (Xinjiang), RMB/mt	
Coking Coal	June – August 2008	November 2008
1	1,800	1,500
2	1,200	1,000
3	1,000	800

At the time of our survey for the Market Report in June-August 2008, we forecasted that coking coal as well as coal prices in general will come down in Xinjiang and elsewhere in China. As it turns out, the pace at which prices of coal declined was much more quicker than we had anticipated, consistent with the unexpected, unprecedented rapid deterioration in the global financial market that has occurred in the last several months. We now project that prices of coking coal will continue to fall through 2009. Our forecast of coking coal prices for Xinjiang for 2010 is:

Grade	Projected 2010 Market Price Delivered (Xinjiang), RMB/mt	
Coking Coal	Made in Aug 2008	Made in November 2008
1	1,500	1,200
2	1,000	900
3	800	680

The global economy is undergoing changes in degree, magnitude, and speed on a daily basis as of this writing. The market volatility is unpredictable and its impact on the coal market is uncertain. We do not have the crystal ball to forecast the future. Our forecast is based on our best judgment and market intelligence of China's coal market, and based on our fundamental belief in China's domestic economy. However, we reserve the right to change our opinion at any time.

Input for Modeling

We understand that Boyd will be able to perform the modeling work to come up with a blended coking coal product, based on *assigned G-values* [i.e., Chinese caking indices]. To get the Boyd team going forward with their work, we propose the following inputs. The inputs are based on our best judgment at this time. There is very limited coal quality data for the C-seam and B-seam coal in the oxidized zone. Subject to the results of the pending program we are executing in the coming months, and which was authorized by MEC on 19 November 2008, we reserve our rights to make modifications, changes, and updates to the inputs set forth below as appropriate.

1st *Blended Product* We propose that the oxidized coking coal be blended in the modeling study with coking coal that has not been oxidized from the C-seam and B-seam in proportions as follows:

	Coal from Oxidized Zone	Coal from C-seam	Coal from B-seam	Calculated Blend
Blending Proportion, %	15	55	30	100
G-value	12	75	45	
Calculated Blended G-Value	1.8	41.25	13.5	56.5

For purposes of this modeling study, we will refer to this "calculated blend of coking coal with G-value at 56.5" as Khushuut #1 Coking Coal. We wish to note that the actual G-value of a blended coal product cannot be determined as a simple proportional mathematical calculation, though the calculation can be an approximation. The chemical and mechanical properties of coal are complex.

Oxidized Zone Coal that is within the first ten (10) meters of the ground surface is assumed to be either *weathered coal* or *totally oxidized coal* with G-values less than five (5), rendering them unsuitable to be considered as a candidate coal for blending into a marketable coking coal. For planning purposes, coal deposits excavated in the first 10 meters should not be included in the economic model. These deposits would be suitable as thermal or steam coal or coal for domestic heating purposes. We would be interested to know from Boyd a breakdown of the estimated tonnages of this first-ten-meter deposit based on Boyd's modeling work. By breakdown, we are referring to approximate locations on the project site where the tonnages would be produced. That kind of information would help in the project's strategic thinking on how best to deploy this coal, perhaps from a Mongolian community relations standpoint, if the tonnages are nominal.

G-Values For purposes of the modeling work, the *usable* oxidized coal in the C-seam and B-seam would be found between 10 to 50 meters. Within this zone, we are assigning an average G-value of 12. In general, the severity of the impact of oxidation will lessen with depth. The program we are executing in the next few months will provide us more useful answers.

Below 50-meters in depth, for purposes of modeling study, we postulate that there will be no evidence of oxidation. C-seam and B-seam non-oxidized coking coal will come from the strata below 50 meters. We propose Boyd's modeling would first exhaust the excavation of the first 40 meters of oxidized coal to produce the first blended product. We would be interested to learn from Boyd at what stage or what depth would the project complete the utilization of the 40-meters of oxidized material. We postulate that G-values for the C-seam would range from about 75-85, with a maximum of about 90. We postulate that the G-values for the B-seam would range from about 40-70.

2nd Blended Coking Coal We propose to blend in the modeling study non-oxidized coking coal from the C-seam and B-seam in proportions as follows:

	Coal from C-seam	Coal from B-seam	Calculated Blend
Blending Proportion, %	65	35	100
G-value	77	45	
Calculated Blended G-Value	50.05	15.75	65.8

For purposes of this modeling study, we will refer to this "calculated blend of coking coal with G-value at 64.5" as Khushuut #2 Coking Coal. Surface mining should continue to such depths as it would be limited by geotechnical constraints of slope stability and site topographical constraints. We would be interested to learn from Boyd the maximum depth of surface mining at this site and what those limitations would be.

Pricing For purposes of the modeling study, we ask Boyd to perform the modeling studies for low, medium, and high forecast scenarios.

	Forecast Scenarios, Market Price Delivered (Bayi) RMB/mt		
	Low	Medium	High
Khushuut #1 Coking Coal	680	900	1,200
Khushuut #2 Coking Coal	780	1000	1,300

Limitation So far, as you know, we have only dedicated our attention in our study and analysis on the "eastern half of the project", which was the scope of the work you authorized for us on 19 November 2008. As you know, there is also a paucity of coal quality data pertaining to oxidation issues for the "western half of the project". It is our intent as we gain more knowledge and our confidence in the performance of the Khushuut coal from this pending program, we believe oxidation issues in the "western half of the project" will work itself out in time, but with still some additional level of effort. However, should Boyd's work requires that the scope of modeling encompasses the entire project, we would ask Boyd to proceed on the basis as set out in this letter. We reserve the right to modify, change and update our inputs as appropriate and necessary.

In closing, we trust that the information set forth in this letter adequately provides the input Boyd needs to proceed with their work. We are happy to work with Boyd and provide any additional support or assistance needed. As their work progresses, and as interim results become available, we would appreciate to be kept in the loop. As we understand it, the software, which Boyd is deploying, is a powerful tool. It could be an invaluable asset as we go forward.

Sincerely yours,

K. T. Mao
Vice Chairman

MEC
MONGOLIA ENERGY CORPORATION
蒙古能源有限公司

MONGOLIA ENERGY CORPORATION

(HKEx Stock Code: 276)
Board lot: 1,000
Number of issued shares: 6,102,797,828

FROM THE CEO'S DESK

James J. Schaeffer Jr.

October 16, 2009

CEO Technical Summary

PERMITTING

Mongolia Energy Corporation Ltd ("MEC"), and its Mongolian subsidiary, MoEnCo LLC ("MoEnCo") (MEC and MoEnCo collectively, the "Company") has been actively working towards securing licenses and permits from applicable agencies of the Mongolian government since 2007 in order to fast track the development of the Khushuut Coal Mining Project (Project).

Reserves

Effective August 19, 2008, the Company received Order 423 issued by the Mineral Resource Authority of Mongolia ("MRA") to enter 85.7 million tonnes as the amount of the reserves of coal (in accordance with Mongolian standards) to be entered into Mongolia's state reserve register (the "Project's Reserves") and to instruct the Company to prepare a feasibility study for the Project. This is part of the deposit only. The Company has approximately 149 million tonnes in place JORC resources.

Mining

The Company completed and submitted a Feasibility Study of the Project, (the "Mine Feasibility Report") in July 2009 to the Ministry of Mineral Resources and Energy ("MMRE"). The Mine Feasibility Report was prepared by the Mining Institute of Mongolia on behalf of the Company, and the report was based on preliminary studies undertaken by Shenyang Design and Research Institute and John T. Boyd Company under contract to the Company. Pursuant to the minutes of the meeting (No. 13-01) held on July 22, 2009 by the Council of Mineral Professionals, Ministry of MMRE, which is a panel of experts in mining, the Mine Feasibility Report was reviewed and accepted by the Council for its economic and technological feasibility for operation of a surface mine up to 8 million tonnes annually. The Director of MRA was so advised to permit mining operations at the Project, subject to further applicable provisions of the mining laws of Mongolia and the Company's compliance with those provisions.

Securing the above approval is an important first step. Securing approval to commence mining operations requires:

- Completion of an Environmental Impact Assessment, review and approval;
- Submittal of a detailed first year mine plan;
- Securing applicable land use agreement; as well as
- Compliance with applicable mine safety and labor protection provisions of the Mongolian mining law.

Environmental Impact Assessment

The Company, through a contracted licensed Mongolian environmental consultant, completed and submitted an Environmental Impact Assessment ("EIA") of the Project on September 9, 2009 to the Ministry of Environment. The Company has received informal favourable feedback of the EIA. A formal meeting of environmental experts was held in October 2009 and the Company received approval of the Project's EIA on October 12, 2009.

First Year Mine Plan & Other Requirements

The Company has completed a First Year Mine Plan. The Company plans to submit the Plan to the MRA in October 2009 for government approval. Approval of the First Year Mine Plan would be a pre-requisite to commence mining operations.

Mine Plan for Pre-Stripping

The Company has completed a mine plan for the pre-stripping of overburden, which will be submitted to the government in October 2009 for its approval. The pre-stripping, also referred to as a box-cut, is the beginning of the mining operations for the Project. The Company anticipates that pre-stripping will commence before the end of calendar year 2009.

Water

The Company has completed a groundwater study and a report (the "Groundwater Report"), which was performed over a two-year period in 2007-2008. The Groundwater Report was submitted to and accepted by the Water Resources Authority of Mongolia ("WRAM") during May/June 2009, which provides for the withdrawal of groundwater from the Boorji Basin for the Project's industrial use at a rate of 217.2 liters/sec or approximately 18,766 cubic meters/day.

Estimates of water consumption for industrial use for the Project, provided by Shenyang Design & Research Institute are approximately 6,539 cubic meters/day, which is about 35% of the approved allocation. A breakdown of the planned water usage is as follows:

	cubic meter/day
Surface mine, 3 million mt/yr	2,727.3
Coal preparation plant, 3 million mt/yr	1,818.2
Power plant, 30 MW	1,993.2
	6,538.7

Securing the approval of WRAM for the withdrawal of groundwater from the Boorji Basin is the first and most important step on the matter. Securing the water use permit is subject to the following additional steps and approval:

- A design and plan for the groundwater withdrawal system; and
- An environmental impact assessment ("EIA") of the impact of groundwater withdrawal on the ecology of the area.

The Company is working towards the design of a water plant and the preparation of an environmental impact assessment. The Boorji Basin is located approximately 40 km from the Khushuut mine site. At the request of the WRAM, the Company is also considering accessing water from the Khushuut River to supplying water to the local communities for domestic use.

Power Plant

The Company has received a Special License to construct power facilities for the Project, by order of Resolution 159, issued by the Coordinating Council of the Energy Regulatory Authority ("ERA") of Mongolia, effective September 23, 2008. The Special License was granted for a 12 megawatt ("MW") power plant dedicated solely for the Project. In August 2009, the Company was advised by Shenyang Design & Research Institute, that the needs of the Project would require a generating station of about 30-MW, rather than 12-MW in capacity. Moreover, the Company was informed of the Mongolian government's wish that the Project's power plant be interconnected to Mongolia's western power grid, which would alter the design of the plant from generating units which are solely dedicated to the Project to units that would have to be connected to a statewide grid. Accordingly, the Company plans to petition the government to amend the Special License. The Power Authority of Mongolia has requested to meet with the Company to further discuss and advance the issue to the next level, which is being planned for October-November 2009. The Company's mining operations will be diesel based prior to construction of the power plant. Thus, timing for construction of the power plant is not a critical factor in commencement of mining operations as set forth below.

ENGINEERING DESIGN

The Company has entered into a contract with Shenyang Design and Research Institute, Shenyang, Liaoning Province, China to perform the detailed design of the Project. The scope of work includes the design of a three (3) million metric ton surface mine and associated coal preparation plant and a power plant. Shenyang has completed the first phase project planning and is in the process of upgrading their prior feasibility studies and to begin the design phase of the Project.

CONTRACT MINER

The Company is in final discussions with an internationally experienced contract miner for management and operations of the Project's mining requirements. The plan is to authorize the contractor to commence work on the pre-stripping before the end of calendar year 2009 and to negotiate a long-term contract, presently contemplated to be 5 to 6 years for the first phase of an estimated 19 year life-of-mine production schedule. The Company is negotiating with the contractor to consummate a definitive contract for the pre-stripping work. To fast track the development of the Project, and in order to allow the contractor to place orders for long lead time heavy construction equipment needed for the project, the Company is working with the contractor to enter into a Letter of Intent, with a definitive term sheet. It is the Company's intent that the contractor will absorb a major portion of the capital requirements of the project. The consummation of a definitive long-term contract will follow and will first require the establishment of a definitive mining plan, which has to be mutually agreed upon between the contractor and the Company. The definitive mine plan will be developed by the contractor in consultation with Shenyang Design and Research Institute, with oversight by John T. Boyd Company, working under the general direction of the Company. Pursuant to the understanding reached with the contractor, it is planned that the bulk of the capital expenditures for heavy construction equipment for the Project will be carried by the contractor.

CONTRACTOR FOR COAL PREPARATION PLANT

The Company is pursuing two concepts, in the selection of a contractor for the coal preparation plant: either (a) an engineering-procurement-construction (an "EPC") contractor or (b) a build-own-operate-transfer (a "BOOT") contractor. Both methods of contracting are a form of a turnkey contract, and there are many variations of these contracts, subject to project financing, the level of risk the parties to the contract are willing to assume, and the degree of control over product quality which the Company is willing to relinquish. It is the Company's desire to reduce the level of capital expenditures into the Project, and to rely on the future positive cash flow generated from the sale of coking coal products from the Project to pay for the plant.

There is a long lead time of 18 months minimum before a coal preparation plant would be commissioned and put into operation in Mongolia, where there has been no history of coal preparation plants. A coal preparation plant would assure that the mined raw coal would be processed into high quality coking coal products with the specification, consistency and reliability for delivery to a customer. To achieve the Company's objective, securing a definitive purchase-and-sale contract with a customer for the Project's coking coal products, and the commencement of mining operations would go a long way towards the feasibility of project financing. The Company estimates that a decision would be made in early spring 2010, on which concept should be utilized and possible selection of contractor. In the interim, the Company intends to produce raw coal that will be screened on site for removal of rock impurities before trucking to Xinjiang, PRC where it will be processed in a coal preparation plant.

THE CUSTOMER & BULK SAMPLE

The Company has made preliminary marketing efforts to prospective customers in Xinjiang, China since 2007. In April 2009, an 80-kg sample of the Project's high quality coking coal from the C-seam was submitted to a prospective major customer in Xinjiang (the "Customer") for testing. In June 2009, the Customer confirmed that the sample tested was of a high quality coking coal and further requested a bulk sample of 200 tonnes for full scale testing. In September 2009, an operation commenced to retrieve the bulk sample, after having obtained the necessary government approvals and permits and determined a location, method, equipment and a contractor to obtain and export the sample. On September 20-21, 2009, a 6-person delegation of the Customer, headed by one of its senior officers, visited the site of the Project by travelling over the road that the Company is constructing, and witnessed the sampling operation. The 200 tonnes of bulk sample has left the Khushuut site and is currently being transported via truck to the customer. Subject to the results of the full-scale tests, and commercial terms, the Customer has expressed a desire to enter into a long-term purchase-and-sale contract with the Company, which the Company shall negotiate with the Customer. It is the Company and customer's intent to have a purchase – and – scale agreement finalized as soon as practicable.

POWER PLANT

In March 2007, operating under the premise of a very rapid, fast-track development of the Project, the Company entered into a fixed-price EPC contract with a Chinese contractor to build a 12-MW power plant, based on an early-stage pre-feasibility study. Since then, the size and requirements of the power plant have changed. The Company plans to renegotiate with the Chinese contractor in October-November 2009 to re-direct the continued development of the power plant

POWER SUPPLY DURING CONSTRUCTION

The Project has a total of nine (9) diesel generators on site. These nine generators represent a total generating capacity of 3,356 kW or approx 3.36-MW. The company has two (2) camps located in the Khushuut area. One (1) camp for Company operations and the other camp to support various construction and exploration contractors. Current camp needs are being met by a generator at each camp: a 120kW unit at the Company camp and a 30kW unit at the Contractor camp. The other seven generators are on standby. Until the permanent power plant is built and commissioned, the interim needs for power during the early stages of construction could be met by the on-site diesel generators.

THE KHUSHUUT ROAD

Construction of the Khushuut Road began in 2007. The Khushuut Road links the Project site to the Yarant Border Station at the Mongolia-Chinese border, a distance of approximately 310 km. Construction of the foundation is substantially complete. Construction of the embankment to bring the road to final grade elevation is the most challenging, as certain sections of the road traverses difficult terrain. The embankment work is nearly complete. Construction of the piers to support the bridges and installation of the concrete bridge beams is in various stages of completion. In one area, referred to as the canyon, the technical aspect of the work is most demanding. However, the commencement of mining operations of the Company will not be affected as the road base is sufficient to meet initial requirements.

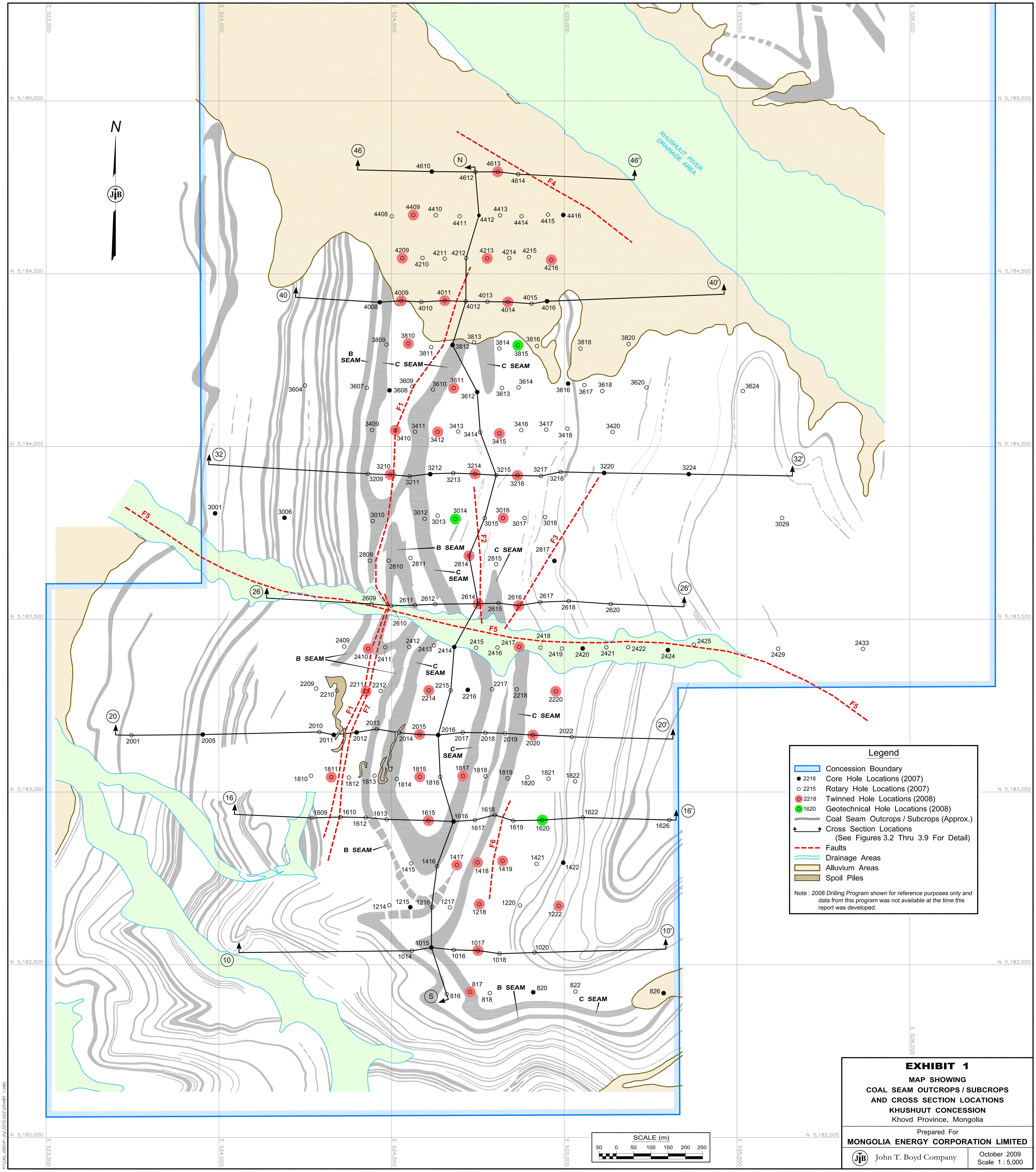
During 2010, the Company will resolve any final base construction matters and will complete the asphalt pavement which consists of a layer of subbase material, followed by a layer of stabilizing material mixed with cement on top, and then the asphalt topping. This is at the option of the Company. The Company views this as desirable to reduce longer term maintenance costs, improve transport efficiency and protect the road from weathering.

INSURANCE

In September 2009, the Company appointed Marsh Inc. as the insurance advisor and broker for the Project. Upon completion of its due diligence, Marsh is expected to recommend comprehensive insurance for the Project, which will include, but not be limited to all-risks policies for construction and erection, third-party liability, delay in startup and cargo insurance.

CONTINUING GEOLOGIC EXPLORATION

In 2009, the Company continued geologic investigation and exploration of the Project. China's Team 129 continued to provide the services for drilling and sampling, working under the oversight of John T. Boyd Company. An additional 95 holes were drilled for approximately 23,675.7 meters, thereby bringing the total number of holes and the total meterage drilled for the Project to 354 holes, and 85,062 meters, respectively. The 2009 program drilled in certain places to add to the Project's understanding of the quality of the coal seams, the structure of the coal beds, and to investigate potential sites that will be used for waste dump and other infrastructure facilities. The 2009 program also began to explore the coal beds north of the Khushuut River. There appears to be prospects to expand the resource base of the Khushuut project. The Company will work towards demonstrating additional resources following analytical results at the end of the year.


N
KHUSHUUT RIVER DRAINAGE AREA
B SEAM
C SEAM
F1
F2
F3
F4
F5
F6
F7
Legend
Concession Boundary
2216 Core Hole Locations (2007)
2215 Rotary Hole Locations (2007)
2218 Twinned Hole Locations (2008)
1620 Geotechnical Hole Locations (2008)
Coal Seam Outcrops / Subcrops (Approx.)
Cross Section Locations (See Figures 3.2 Thru 3.9 For Detail)
Faults
Drainage Areas
Alluvium Areas
Spoil Piles
Note : 2008 Drilling Program shown for reference purposes only and data from this program was not available at the time this report was developed.
SCALE (m)
50 0 50 100 150 200 250
EXHIBIT 1
MAP SHOWING
COAL SEAM OUTCROPS / SUBCROPS
AND CROSS SECTION LOCATIONS
KHUSHUUT CONCESSION
Khovd Province, Mongolia
Prepared For
MONGOLIA ENERGY CORPORATION LIMITED
John T. Boyd Company
October 2009
Scale 1 : 5,000