JORC Reserve Report: Baruun Naran Coal Project, Mongolia

Report prepared by

SRK Consulting

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Khangad Exploration LLC
16/F Central Tower
Sukhbaatar
District 8, Sukhbaatar Square 2
Ulaan Baatar 14120
Mongolia

SRK Consulting (Australasia) Pty Ltd
Level 6, 141 Queen Street
Brisbane QLD 4000

Compiled by:

Neville Terry
Principal Mining Engineer (Coal)

Email: nterry@rsk.com.au

Peer Reviewed by:

Bruce McConachie
Principal Consultant

Authors:
Neville Terry; Sunil Kumar

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Name/Title	Company
Mr Graham Wong	Khangad Exploration LLC

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Executive Summary

Summary of Principal Objectives

SRK Consulting (Australasia) Pty Ltd trading as SRK Consulting ("SRK") has prepared an independent evaluation of the Coal Reserves of the Baruun Naran Coal Project ("BN"). The purpose of the evaluation is to provide an objective assessment of the Coal Reserves in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code), 2004 for public reporting. The Reserve report has been endorsed with appropriate qualifications by the Competent Person.

The coal tenement known as Baruun Naran is located in the south Gobi desert of the Umnogovi Province of Mongolia. The project area is situated approximately 600 kilometers ("km") south of Ulaan Baatar the capital city of Mongolia and approximately 60km east of Dalanzadgad the capital town of Umngovi province.

This Statement of Coal Reserve has been carried out according to SRK's interpretation of the JORC Code. The JORC Resource Statement by Mr Paul Harrison of MBGS (McElroy Bryan Geological Services Pty Ltd) in February 2010 was used to develop the Recoverable Reserve tonnes after the application of mining parameters, mine design and other modifying factors as summarised in the Table ES1 below:

Table ES1: Modifying Factors

Seam roof & floor coal loss	0.2m
Seam roof & floor dilution	0.2m
Mining loss including loss in transportation and handling at port	5%
Minimum mining thickness minable coal seam	0.3m
ROM Moisture, air dried	2%
In-situ Moisture (Estimated)	6%
Product Moisture, Coking	11%
Product Moisture, Thermal	9%
High Wall Batter Angle (Based on Geotechnical Report Ross Seedsman)	Varies as per Geo-tech report
Low Wall Batter Angle(Based on Geotechnical Report Ross Seedsman)	17^0
Mining Cost	SRK
Coal Processing – costs	DaDi Engineering
Power Costs Report	Sino Coal Institute
The Reserves for BN coal blocks are economic based on the information and costs used at the time of this report	SRK
Government Documents / approvals Supplied by Client	Client
JORC Resource Report McElroy Bryan Geological Services (MBGS)	MBGS
LOX Drilling Report for T & H Seams	MBGS
Environment Report	SMEC
Coal Quality Report	Bob Leach Pty Ltd
Geotechnical Report	Seedsman Geotechnics Pty Ltd
Hydrogeology Report - BUN West	SMEC
Hydrogeology Report - Mine Pit	Aquaterra
Water Pumping and Pipeline	Prestige Engineering

Reserves Summary

The following table summarises the Reserves estimates within the area of Baruun Naran Coal Project, as at February 2011.

Table ES2: Statement of Coal Reserves for Baruun Naran, February 2011

Seam	Average Thickness (m)	Coal Reserves, Mt (Million tonnes) With Mining Losses (0.2m) and Handling Losses (5%)		
		Probable (Mt)	Proved (Mt)	Total (Mt)
V500	4.61	2.60	-	2.60
U500	7.90	1.99	7.44	9.43
T500	16.20	0.08	24.73	24.82
R500	4.22	2.58	1.74	4.32
R400	3.12	1.15	0.25	1.40
R300	1.03	0.78	-	0.78
R200	3.03	2.11	-	2.11
Q500	4.39	1.27	2.52	3.79
N500	8.17	0.91	10.69	11.60
N400	7.07	1.49	7.50	8.98
K500	6.12	3.91	10.15	14.06
K400	2.17	0.57	1.18	1.75
J600	2.68	2.40	3.27	5.67
J500	4.40	4.84	4.93	9.78
J400	0.57	1.22	-	1.22
I500	4.83	2.54	10.37	12.91
H500	16.92	3.56	35.82	39.38
G500	6.82	0.97	10.32	11.29
G450	5.76	0.57	2.86	3.43
G400	7.79	1.23	7.26	8.49
F500	8.84	0.51	6.84	7.35
E500	5.54	0.02	0.10	0.12
Total Coal (Mt)		**37.30**	**147.97**	**185.27**
Total Waste (Mbcm)				**1156.99**
Average Stripping Ratio (bcm/t)				**6.24**

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Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Australasia) Pty Ltd (SRK) by Khangad Exploration LLC (Khangad). The opinions in this Report are provided in response to a specific request from Khangad to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this report apply to the site conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

List of Abbreviations

Abbreviation	Meaning
0	degrees
°C	degrees Celsius
admn	administration
AMSL	Above mean sea level
AusIMM	Australasian Institute of Mining and Metallurgy
bcm/t	bank cubic metre per tonne
cm	centimetre
Capex	Capital cost estimates
Dep	depreciation
Coal Reserve	A Coal Reserve is the economically mineable part of a Measured or Indicated Coal Resource. Coal Reserve estimates including diluting materials and are adjusted for losses that may occur when the coal is mined. Appropriate assessments, which may include feasibility studies, have been carried out. These assessments should include proper consideration of all relevant 'modifying factors' such as mining methods, beneficiation, and economic, marketing, legal, environmental, social and governmental factors. These assessments should demonstrate that at the time of reporting, economic extraction could reasonably be justified. Coal Reserves are subdivided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves.
JORC Code	Australia Code for Reporting of Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), September 1999. Updated December 2004. Internationally accepted reporting code.
JORC Committee	Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
ha	hectare
km	kilometre(s)
M$	million US dollars
m	metre(s)
mm	millimetre(s)
NPV	net present value
Opex	Operating cost estimates
ROM	Run of Mine
SRK	SRK Consulting (Australasia) Pty Ltd trading as SRK Consulting
BN	Baruun Naran Coal Project
MBGS	McElroy Bryan Geological Services Pty Ltd
Mt	million tonnes
Mtpa	million tonnes per annum
Mj/kg	million joules per kilogram
Mbcm	million bank cubic metre
t	tonnes

1. Introduction and Scope of Report

Khangad Exploration LLC requested SRK to prepare a JORC-compliant Reserve Statement for the Baruun Naran Coal deposit in Umnigovi province in southern Mongolia. This report covers the methods, parameters and results for the Reserve tonnage estimation of the Baruun Naran coal project.

1.1 Background of the Project

The Baruun Naran coal deposit was first explored in 1983. Two additional phases of drilling were completed on the property by Soviet-Mongolian teams in 1990 and 1993. The property was later abandoned and QGX was granted an exploration license in 2002, now held by the Kuok Group, through Khangad Exploration LLC.

In April 2005, QGX commenced a systematic drilling program and engaged Norwest Corporation to provide geological consulting services including supervision of drilling and trenching programs. In 2007 a drilling program was carried out to assess water availability in the region to support a mining/coal processing operation. An oxidation drilling program was completed during 2008.

Considerable exploration was carried out in the main deposit during 2009. This defined the deposit geometry, identified where seams are faulted at depth and improved the understanding of coal quality variation. Geotechnical studies were also carried out during 2009.

The Baruun Naran mining license 14493A (Figure 3.2), in the Umnogovi Aimag (province), covers 4,485.64 ha and was converted to a mining license on December 1st, 2008. Surrounding the Baruun Naran mining license is the “Baruun Naran” exploration concession 4326X (total area 90,782.36 ha).

2. Programme Objectives and Work Programme

2.1 Programme Objectives

The objective of this work is to provide an independent evaluation of the Coal Reserves contained within Baruun Naran mining license 14493A which covers 4,485.64 ha.

The evaluation will provide an objective assessment of the Reserve in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, 2004).

2.2 Coal Reserves Estimates

This Statement of Coal Reserves estimates for the Baruun Naran Coal Project has been prepared by Neville Terry of SRK. The purpose of this report is to provide an assessment of the coal reserves compliant with the Guidelines of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves", (the "JORC Code") December 2004, prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy ("AusIMM") and the Australasian Institute of Geoscientists and Minerals Council of Australia.

2.3 Reporting Code

This Statement of Coal Reserves has been carried out according to SRK's interpretation of the JORC Code. The Resource Statement: JORC Resource Report: Baruun Naran Coal Project, Umnogovi Province, Mongolia, used as the basis for reserves estimation has been compiled by Mr Paul Harrison of MBGS. Paul Harrison is a qualified geologist and is a Member of the AusIMM. He has sufficient experience in coal geology and resource evaluation to qualify as a Competent Person under the JORC code. Under the listing rules of the Australian Stock Exchange, a public report must be prepared in accordance with the 2004 JORC Code if it includes a statement of coal resources or coal reserves. The 2004 JORC Code has been accepted as the basis for consistent public reporting of resources and reserves by many international mining companies.

Under the JORC Code only Measured and Indicated Coal Resources can be considered for conversion to Coal Reserves after consideration of the "Modifying Factors" including mining, processing, economic, environmental, and social and government factors.

To convert Resources to Reserves it must be demonstrated that extraction could be justified after applying reasonable investment assumptions. The highest confidence level establishes Proved Reserves from Measured Resources and a lesser confidence level establishes Probable Reserves from Indicated Resources. A level of uncertainty in any one or more of the Modifying Factors may result in Measured Resources converting to Probable Reserves depending on materiality. A high level of uncertainty in any one or more of the Modifying Factors may preclude the conversion of the affected Resources to Reserves.

2.4 Methodology

This report was compiled from JORC Resource Report: Baruun Naran Coal Project, Umnogovi Province, Mongolia, February 2010.

2.5 Statement of SRK Independence

SRK has no prior association with Khangad Exploration LLC in regards to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

2.6 Statement of Competence

The estimates of Coal Reserves for the Baruun Naran Coal Project, Umnigovi Province, Mongolia presented in this report have been carried out in accordance with the Guidelines of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves", ("JORC Code") December 2004, prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy ("AusIMM") and the Australasian Institute of Geoscientists and Minerals Council of Australia.

The information in the report to which this statement is attached, that relates to Baruun Naran Coal Block Reserves, is based on information reviewed by Mr Neville Terry, who is a Member of the AusIMM and is a full time employee of SRK.

He is a Principal Consultant (Mining) and has almost 30 years' experience working in the mining industry. He has held positions including Mine Manager, Operations Manager, and Senior Mining Engineer and has also been Managing Director of his own consultancy firm

Mr Terry has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 JORC Code.

Mr Terry consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

(Signed) _____

Neville Terry, BEng (Mining)
BAppSc (Applied Geology)
BEd, Grad Dip Management

Date: 23 March 2011

2.7 Material Compliances and Qualifications

Mr Neville Terry, a Competent Person in accordance with the requirements of the JORC Code, has estimated the Coal Reserve of the Baruun Naran Coal Project.

Mr Terry has visited the site and it was a greenfield project at the time of the site visit.

The Reserve estimation reporting complies with all of the major requirements of the JORC Code, with the following qualifications:

- The effective date of the Baruun Naran Reserve as reported by SRK is February 2011.
- The Reserve model and estimations were developed using Minex mine planning software system, a worldwide industry-proven system used primarily for coal mining operations.
- Seam roof and floor coal loss and dilution considered to be 0.2 m.
- Mining loss envisaged at 5% including loss in transportation and handling at borders.
- Minimum mining thickness of 0.3 m of coal seam.
- Mine economics were considered when estimating the reserves for Baruun Naran coal project.
- The mine boundary limits are within the limiting boundaries of MBGS JORC Resource Report, February 2010 for the Baruun Naran Coal Project.
- Other modifying factors like environmental, social, legal and governmental factors may influence the reserves given below (See Table ES1 and Figure 4-1).

2.8 Limitations

After due enquiry in accordance with the scope of work and subject to the limitations of the Report hereunder, SRK confirms that:

- The input, handling, computation and output of the geological data and Coal Resource and Reserve information have been conducted in a professional and accurate manner, to the high standards expected.
- The interpretation, estimation and reporting of the Coal Reserve Statement has been conducted in a professional and competent manner, to the high standards expected within the Geosciences and mining professions, and in accordance with the principles and definitions of the JORC Code.
- In conducting this assessment, SRK has addressed and assessed all activities and technical matters that might reasonably be considered relevant and material to such an assessment conducted to internationally accepted standards. Based on observations and a review of available documentation, SRK has, after reasonable enquiry, been satisfied that there are no other relevant material issues outstanding.
- The conclusions presented in this report are professional opinions based solely upon SRK's interpretations of the documentation received and other available information, as referenced in this Report. These conclusions are intended exclusively for the purposes stated herein.
- For these reasons, prospective estimators must make their own assumptions and their own assessments of the subject matter of this Report.

Opinions presented in this report apply to the conditions and features as noted in the documentation, and those reasonably foreseeable. These opinions cannot necessarily apply to conditions and features that may arise after the date of this report, about which SRK have had no prior knowledge nor had the opportunity to evaluate.

2.9 Consents

SRK consents to this Report being included, in full, in the Khangad Exploration LLC prospectus, data room, and presentations etc, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report.

3. Location and Environment

The Baruun Naran property is located in southern Mongolia (Figure 3-1), in the Aimag (province) of Umnogovi approximately 500 km south of Ulaanbaatar, the capital of Mongolia. The town of Dalanzadgad (population 10,000), the provincial capital, is located 61 km to the west of the property. The property is being legally surveyed, and except for the commencement of certain mine works, is in an entirely natural state with no paved roads or permanent dwellings.

Figure 3-1: Location of Khangad's Baruun Naran coal project in southern Mongolia

The project area is characterized by gently rolling desert plains with scattered small hills and ridges. Scrubby desert plants and sparse grasses growing on a thin soil cover characterize the vegetation.

Topographic elevation in the project area ranges from 1500 to 1700 m above men sea level (AMSL). The deposit is located within a discrete, ENE-trending valley, herein referred to as the Baruun Naran valley. This valley, from which the coal deposit takes its name, is approximately 22 km long and 2 to 3 km wide. The floor of the valley is relatively flat and is bounded to the north and south by low hills and ridges that rise approximately 25 m to 100 m above the valley floor.

The deposit is located in the South Gobi desert where the climate is generally hot and dry in the summer and cold and dry in the winter. The annual average maximum daily and minimum daily temperatures are +38°C and -36°C respectively. The area receives most of its rain from June to September. The prevailing winds are generally from the northwest and west and dust storms often occur during the spring and summer months. Winds are strongest in spring and summer whereas the autumn and winter winds are generally light.

The Baruun Naran mining license 14493A (Figure 3-2), in the Umnogovi Aimag (province), covers 4,485.64 ha and was converted to a mining license on December 1st, 2008. Surrounding the Baruun Naran mining license is the "Baruun Naran" exploration concession 4326X (total area 90,782.36 ha).

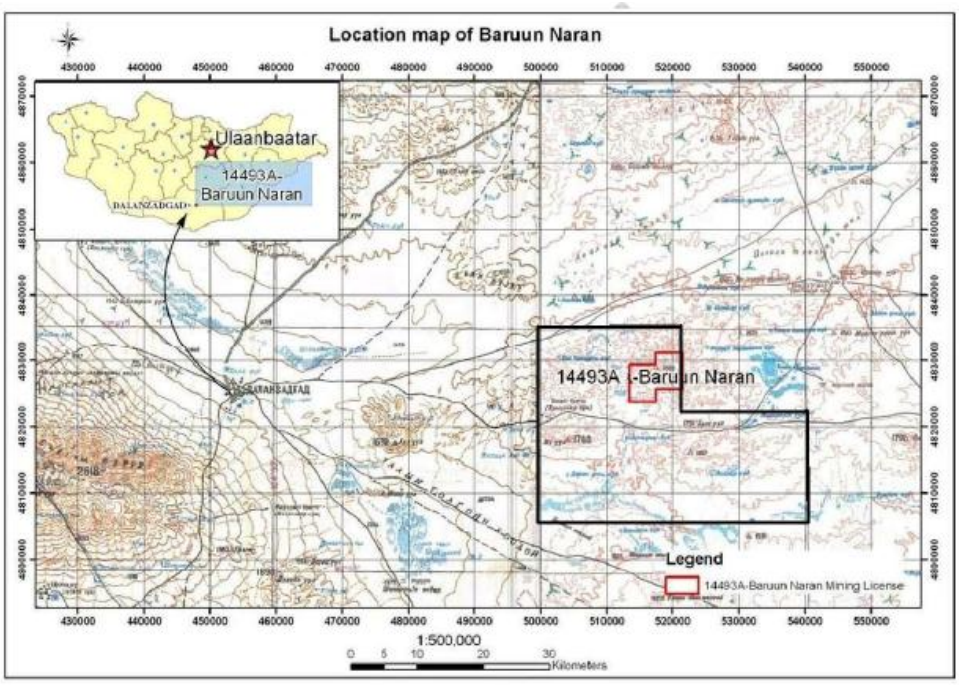

Figure 3-2: Location of Baruun Naran Mining and Exploration Licenses in Southern Mongolia

4. Basis for Reserves Estimate

4.1 Estimation Methodology

The geological model that has been used to prepare the current JORC Resource Report for the Baruun Naran Coal Project, has also been used to generate pit designs and estimate the reserves. In the estimation of Coal Reserves a number of issues/parameters /Modifying Factors have to be addressed.

Examples of possible Modifying Factors are

- Mining Parameters;
- Cost Revenue Factors;
- Metallurgical factors;
- Cut off Parameters and Pit Limits;
- Geo-technical parameters.

A more comprehensive list the various Modifying Factors that may be considered in developing an estimate of Reserve tonnes when converting Resource Tonnes to Reserves, is shown below.

4.2 Modifying Factors

Figure 4-1 outlines the factors used to estimate the Reserve Tonnage for the Baruun Naran operation.

Table 4-1: Summary of Modifying Factors

Seam roof & floor coal loss	0.2m
Seam roof & floor dilution	0.2m
Mining loss including loss in transportation and handling at port	5%
Minimum mining thickness minable coal seam	0.3m
ROM Moisture, air dried	2%
In-situ Moisture (Estimated)	6%
Product Moisture, Coking	11%
Product Moisture, Thermal	9%
High Wall Batter Angle (Based on Geotechnical Report Ross Seedsman)	Varies as per Geo-tech report
Low Wall Batter Angle(Based on Geotechnical Report Ross Seedsman)	17^0
Mining Cost	SRK
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Government Documents / approvals Supplied by Client	Client
JORC Resource Report McElroy Bryan Geological Services (MBGS)	MBGS
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Geotechnical Report	Seedsman Geotechnics Pty Ltd
Hydrogeology Report - BUN West	SMEC
Hydrogeology Report - Mine Pit	Aquaterra
Water Pumping and Pipeline	Prestige Engineering

4.2.1 Reserves

This Statement of Coal Reserves has been carried out according to SRK's interpretation of the JORC Code. The JORC Resource Statement by Mr Paul Harrison of MBGS in February 2010 was used to develop the Recoverable Reserve tonnes after the application of mining parameters, mine design and other modifying factors.

The Statement of Coal Reserves for Baruun Naran is shown in Table 4-2.

Table 4-2: Statement of Coal Reserves for Baruun Naran, February 2011

Seam	Average Thickness (m)	Coal Reserves, Mt (Million tonnes)		
		With Mining Losses (0.2m) and Handling Losses (5%)		
		Probable (Mt)	Proved (Mt)	Total (Mt)
V500	4.61	2.60	-	2.60
U500	7.90	1.99	7.44	9.43
T500	16.20	0.08	24.73	24.82
R500	4.22	2.58	1.74	4.32
R400	3.12	1.15	0.25	1.40
R300	1.03	0.78	-	0.78
R200	3.03	2.11	-	2.11
Q500	4.39	1.27	2.52	3.79
N500	8.17	0.91	10.69	11.60
N400	7.07	1.49	7.50	8.98
K500	6.12	3.91	10.15	14.06
K400	2.17	0.57	1.18	1.75
J600	2.68	2.40	3.27	5.67
J500	4.40	4.84	4.93	9.78
J400	0.57	1.22	-	1.22
I500	4.83	2.54	10.37	12.91
H500	16.92	3.56	35.82	39.38
G500	6.82	0.97	10.32	11.29
G450	5.76	0.57	2.86	3.43
G400	7.79	1.23	7.26	8.49
F500	8.84	0.51	6.84	7.35
E500	5.54	0.02	0.10	0.12
Total Coal (Mt)		**37.30**	**147.97**	**185.27**
Total Waste (Mbcm)				**1156.99**
Average Stripping Ratio (bcm/t)				**6.24**

Figure 4-1 summarises the estimated Reserve tonnes by seam.

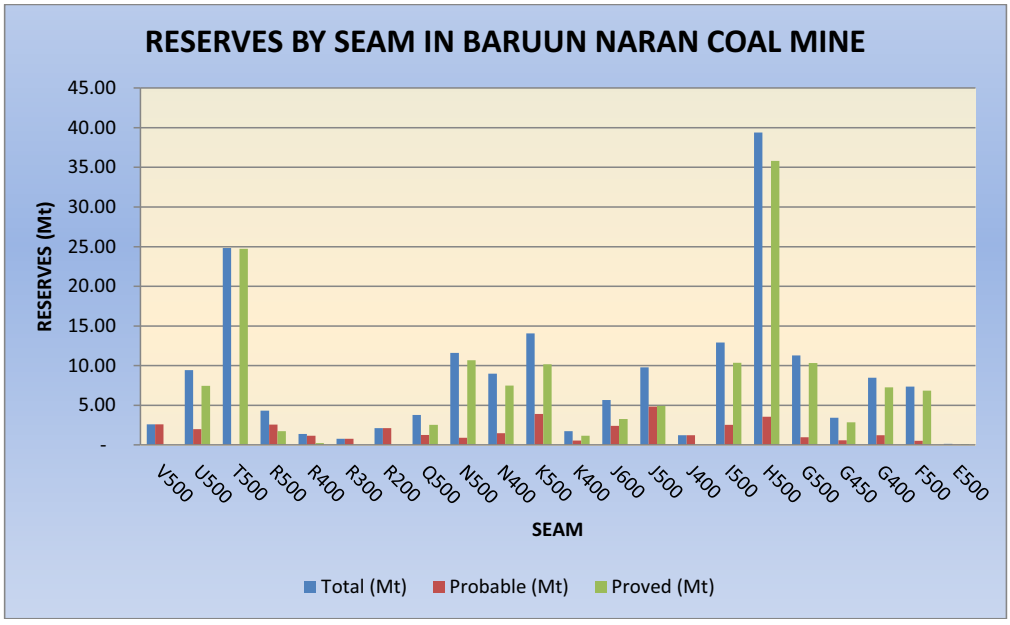

Figure 4-1: Reserves by Seam

In summary, there is an estimated total of 185.27 Mt of Reserves, comprising of 37.30 Mt of Probable and 147.97 Mt of Proved Reserves. Of these Reserves, there is an estimated 120.82 Mt of Coking Coal and 64.45 Mt of Thermal Coal as shown in Table 4-3 below.

Table 4-3: Summary of Estimated Reserve Tonnes

Coal Reserves (Mt)			
Type	**Total (Mt)**	**Probable (Mt)**	**Proved (Mt)**
Coking	**120.82**	**20.85**	**99.97**
Thermal	**64.45**	**16.45**	**48.00**
Total	**185.27**	**37.30**	**147.97**

4.2.2 Annual Production Rate

The total Reserves Proven and Probable are 185.27 Mt at an average stripping ratio of 6.24. (See Figure 4-2) Based on this tonnage and coal production target suggested by the client, the annual production was estimated at 10 million tonnes per annum (Mtpa) giving a 20+ year life of mine. Figure 4-4 outlines the assumed annual production rate. It will be achieved by mining seam T500 initially in the central part of the block and later from Seams H500 and others in the eastern part of the block.

The following is the production rate given in Table 4-4 which gives total mine life of 21 years for Baruun Naran coal project.

Table 4-4: Annual Production Rate

Year	1	2	3	4	5	6	7	8	9	10	11-21	Total
Coal Production (Mt)	1.02	3.06	7.09	10.03	10.03	10.00	10.00	10.01	10.02	10.05	103.97	**185.27**

4.3 Parameters and Pit Limits

4.3.1 The Pit Limit Restrictions

Figure 4-2 shows a plan of the Baruun Naran mine lease area and final pit layout. The pit limit restrictions are governed by the geological resource boundary. The mining limits have been determined by considering physical limitations within the geological resource, mining parameters, economic factors and general modifying factors as outlined in Table 4-1.

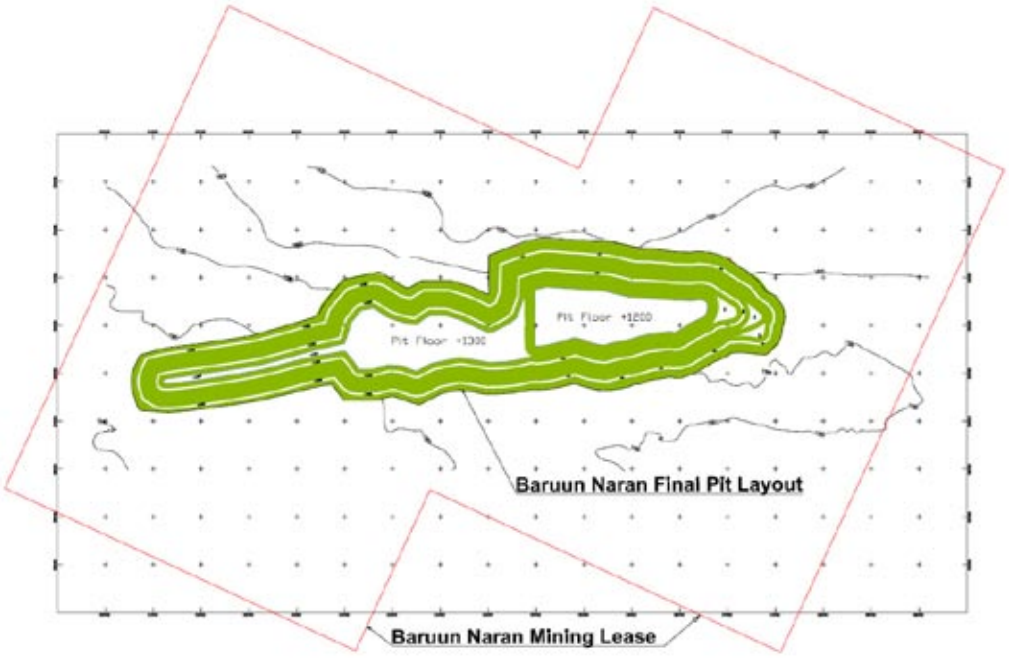

Figure 4-2: Final Pit Layout, Baruun Naran Coal Project

4.3.2 Batters

The high wall batters (slope) adopted were those recommended by the Geotechnical Investigation conducted by the ***Seedsman Geotechnics Pty Ltd.***

To facilitate mine planning at feasibility level, a design line for high wall slope with the form of maximum bench height = 68.8-0.6* bedding dip has been recommended by the study. Recognising the presence of small scale normal faults and the possibility of buckling of thin slabs, a 6-8 m wide bench has been used at the final wall. This resulted in the inter-ramp slopes in between 32^{o} and 50^{o} (Recommended 37^{o} – 68^{o}).

Surficial deposits and the weathered strata were laid back at 45^{o} on batters of 20 m height, with benches of a minimum of 5 m width.

The **low wall batter** has been set at an average of 17^{0} based on the horizontal pit floor. SRK recommends that further geotechnical investigations should be conducted to investigate the stability of the toe of the low wall and the maximum height of the low wall dump which has been designed at this stage at about 380-400 m. The Ex-pit dump has been designed at 14-17^{o} for the varying dump height of 60-100 m.

4.4 Mining Parameters

The mining parameters applied to the resource model for deriving mining quantities were selected based on the use of excavators and trucks.

An allowance of 5% loss has been made to modelled opencut coal tonnages to cater for geological losses which are not defined at this time. The 5% loss also considers general mining losses which are separate from and additional to seam loss and dilution due to exposure and mining (which are estimated separately below). These general mining losses includes strip edge losses, blasting losses, and losses around access ramps etc.

Because of the number of plys and partings in many of the seams it has been assumed that partings less than 300 mm will be mined as coal.

Coal seam/ply losses due to exposure and mining have been estimated based on the proposed excavator and truck mining method at 0.1 m on the roof and 0.1 m on the seam/ply floor, making a total loss of 0.2 m per seam/ply. Dilution has been allowed of 0.1 m on the roof and 0.1 m on the seam floor, making a total waste gain of 0.2 m per seam/ply.

Table 4-5: Mining Parameters

Mining Parameters for Baruun Naran Coal Project			
Sl. No.	**Particulars**	**Unit**	**Value**
1	Roof loss	cm	10
2	Floor loss	cm	10
3	Roof dilution	cm	10
4	Floor dilution	cm	10
5	Minimum Mining Thickness	cm	30
6	Overall Mining Loss	%	5

4.5 Blasting

Coal will be free dig but overburden and interburden will require drilling and blasting for its removal.

4.6 Mining Method

The shape of the Baruun Naran coal deposit delineates the mining area of Baruun Naran project. The deposit is a plunging synclinal structure. Coal seams at Baruun Naran are folded into an asymmetrical syncline which plunges west at approximately 24º. Coal seams subcrop from east to west and can be traced from the southern to the northern limb, around the syncline nose (Figure 4-3). The north limb is very steep, dip averaging 75^{o}. The south limb has a gentler dip of about 40º near the syncline nose (east) but progressively steepens to 75º dip towards the west.

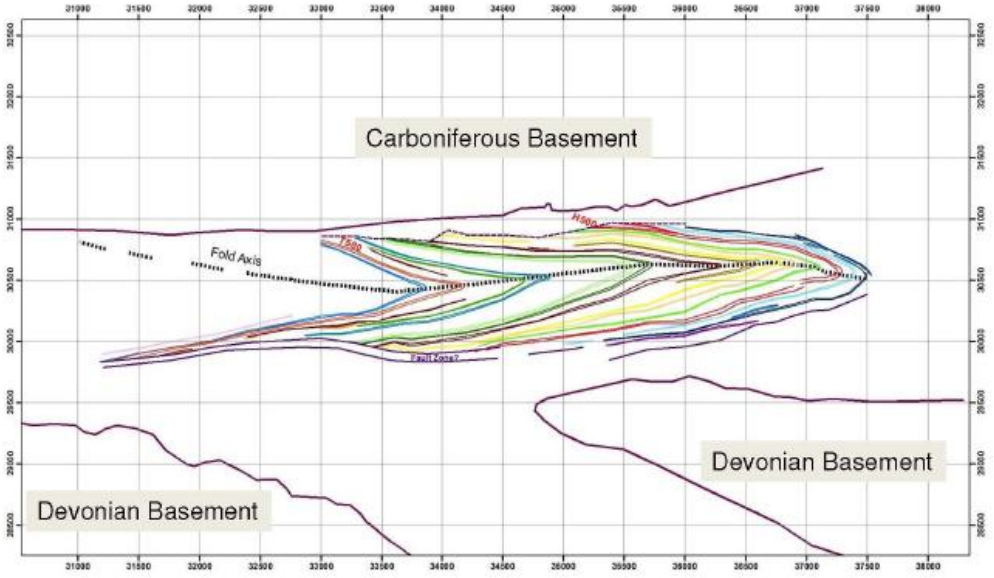

Figure 4-3: Syncline Axis, Bounding Faults & Seam subcrops at 1500m RL, Baruun Naran Coal Project

There are 22 seams identified and within these seam there exists multiple plies of coal, interburden and partings. Some 120 to 130 coal plies have been identified. Some of these plies are thick enough to be mined separately while others are thin and have thin partings of waste in-between. Any parting within a seam that is less than 300 mm will be mined as coal any parting above 300 mm has been planned to be mined separately as waste material.

The open cut operation will consist of a multi seam strip mining operation, utilising trucks and excavators. It is anticipated that all mining and coal handling and preparation will be carried on an owner operator basis.

4.7 Mine Plan

The open cut operation will consist of opening of two box cuts both in the central part of the property on T seam and in the eastern part of the block over H seam. Mining will continue simultaneously in both the pits for next 2 years. However, from year 3, mining will be concentrated in the central pit, which will also move towards in the western area and continue up-to year 8. From Year 9, mining activities will be carried out only in the eastern pit. In both the pits, multi seam strip mining operation will be carried out by utilising trucks and excavators.

The basic assumption for the selected mining sequence was to get optimum steady annual quantities of coking coal as well as thermal coal from the Baruun Naran pit. Mining sequences have been developed in such a way that the overall stripping ratio is consistent over longer period of mine life. The proposed mining sequence is also consistent with the annual product coking coal requirement, mine equipment requirement, early back fill and ease of mine operation.

This exposes low ratio coal and offers the shortest haul distance for the waste to the out of pit waste dump. Mining will progress in a westerly direction initially in the central pit. In pit dumping will commence as soon as possible from year 9 when mining operations shift in the eastern pit thus keeping the out of pit dumping of waste to a minimum.

Coal will be mined and transported to the Run of Mine ("ROM"), where it will be stockpiled. The ROM Coal will be crushed and washed at the CHPP at site before selling it to the market in China. Initially, product coal will be transported by road trucks to the buyer but it is proposed to be transported by rail which is upcoming at nearby Mongolian Mining Corporation "Ukhaa Hudog" mine about 40 km from the Baruun Naran mine for which a spur will be built to the Baruun Naran mine. There will be two types of product coal available from the Baruun Naran mine, coking coal and thermal coal.

Figure 4-4 shows the mining sequence over the life of the mine.

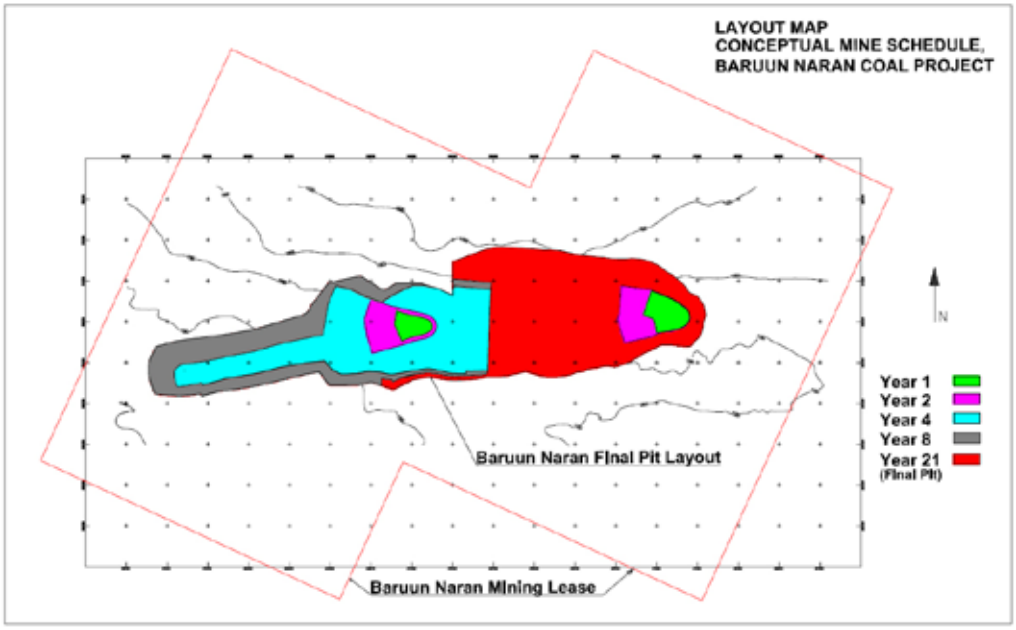

Figure 4-4: Mining Sequence, Baruun Naran Coal Project

4.7.1 Waste Dumps

Initially, waste will be trucked to an out of pit waste dump located in the south of the Baruun Naran central and east pit within the lease boundary. Back filling of previously mined out areas will commence from year 9.

4.7.2 Mining Volume/Tonnage

Table 4-6 and Figure 4-5 summarizes the waste and coal mined over the mine life of 21 years. Annual ROM coking and thermal coal production is given in Table 4-7 and Table 4-6.

Table 4-6: Production Summary, Baruun Naran Coal Project

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	Total
Waste, Mbcm	9.38	25.40	59.00	66.66	68.47	69.56	69.56	70.25	73.35	73.57	70.79	67.69	50.04	53.57	53.22	51.17	51.17	51.17	51.97	52.30	18.68	**1156.99**
Coal, Mt	1.02	3.06	7.09	10.03	10.03	10.00	10.00	10.01	10.02	10.05	10.06	10.05	10.03	10.04	10.04	10.03	10.03	10.03	10.02	10.06	3.59	**185.27**
Stripping Ratio, bcm/t	9.20	8.30	8.32	6.65	6.83	6.96	6.96	7.02	7.32	7.32	7.04	6.74	4.99	5.34	5.30	5.10	5.10	5.10	5.19	5.20	5.20	**6.24**

Table 4-7: ROM Coking and Thermal Coal Production Summary, Baruun Naran Coal Project

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	Total
Coking Coal, Mt	0.99	2.61	4.51	6.29	6.24	6.19	6.19	6.27	6.64	6.66	6.61	6.21	6.20	6.25	6.34	6.79	6.79	6.79	6.87	6.91	2.47	**120.82**
Thermal Coal, Mt	0.03	0.45	2.58	3.74	3.79	3.81	3.81	3.74	3.38	3.39	3.44	3.84	3.83	3.79	3.70	3.24	3.24	3.24	3.15	3.15	1.12	**64.45**
Total Coal, Mt	1.02	3.06	7.09	10.03	10.03	10.00	10.00	10.01	10.02	10.05	10.06	10.05	10.03	10.04	10.04	10.03	10.03	10.03	10.02	10.06	3.59	**185.27**

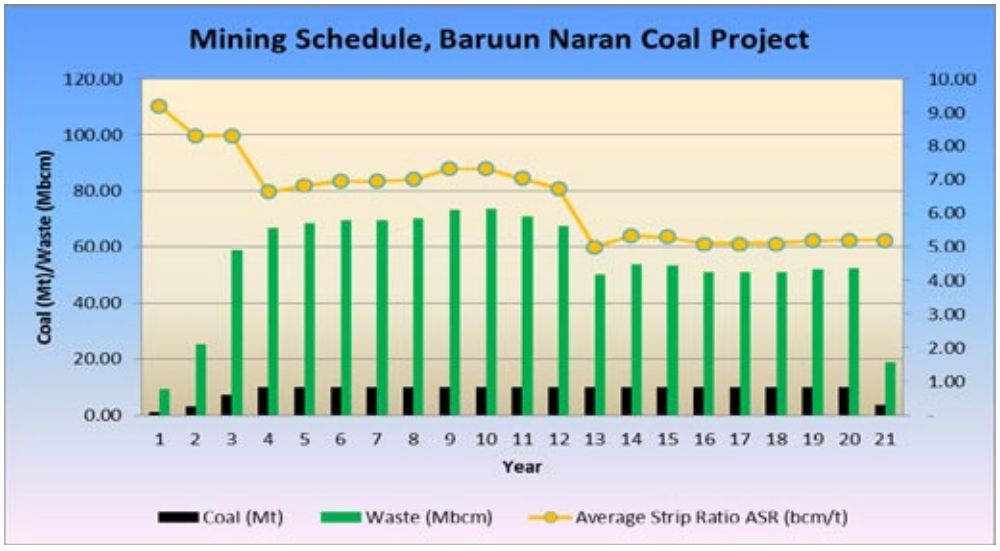

Figure 4-5: Coal Mining, Waste Removal Schedule with Annual Stripping Ratio

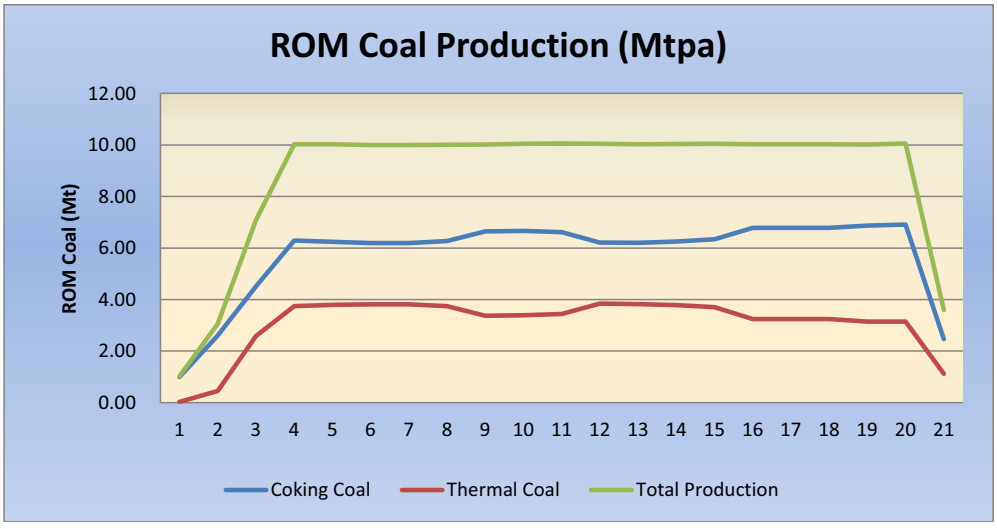

Figure 4-6: ROM Coking Coal & Thermal Coal Production from Baruun Naran Mine

4.8 Cost and Revenue Factors

SRK estimated the operating and capital costs (see Appendix 1) and also used an in-house NPV based economic model (see Appendix 4) to show the project and reserves are “economic".

4.9 Marketing and Product Specifications

Appendix 2 summarises the in-situ quality of the seams.

It has been assumed that the coal will be processed after crushing. It is also assumed that the two types of product coal, coking coal and thermal coal will be sold in the market.

4.10 Other Relevant Factors

This mining lease, Baruun Naran, will be a standalone mine.

It is anticipated that further work including additional exploration/production drilling, optimisation studies and detailed mine planning will occur in the region which may then require further updated Coal Resources and Coal Reserves estimates. If this is the case, then the results may impact on the conclusions contained in this report by the resource and reserve tonnes being increased.

4.10.1 Hydrogeology

Khangad Exploration LLC has completed a hydrology and hydro geological study for the area and it is concluded that no issues will impede the operation.

4.10.2 Environmental

SMEC have conducted the environmental study for Baruun Naran area and have submitted the draft report. SRK have reviewed the report and believe it provides adequate guidelines to facilitate mining the Baruun Naran area.

4.10.3 Social and Political

Khangad Exploration LLC is in possession of the land within the Baruun Naran Mining Lease and also has the land use right.

4.11 Results

Total Open Cut Recoverable Coal Reserves allowing for mining and handling losses are 185 Million tonnes (“Mt”) including 148 Mt of Proved Recoverable Coal Reserves and 37 Mt of Probable Recoverable Coal Reserves.

The Summary of Recoverable Reserve estimates are shown by seam in Appendix 3.

As started earlier, this Statement of Coal Reserves has been carried out according to SRK’s interpretation of the JORC Code. The JORC Resource Statement by Mr Paul Harrison of MBGS in February 2010 was used to develop the Recoverable Reserve tonnes after the application of mining parameters, mine design and other modifying factors.

It is worthy of note that, based on the above modifying factors, virtually all of the Resource Tonnes, as identified in the resource report by MBGS, were Measured or Indicated. These were able to be converted to Reserve Tonnes after the application of the modifying factors as stated in Section 4.2.

In addition, it is reasonable to say that the depth of drilling limited the economic pit-shell. And, it is reasonable to determine that with further geologic work and drilling, the reserves and pit could be extended.

Therefore, there is a potential that further ongoing infill and deeper drilling between existing drill holes and further exploration drilling could result in additional coal tonnes being located at depths below the current designed pit shell. This may then lead to an update/increase of the Coal Resources and Coal Reserves estimates.

It must also be noted that, this will result in the final depth of the open cut to be significantly deeper than the current designed depths. This will lead to additional modifying factors that will have to be applied.

The major anticipated modifying factor will be the Geotechnical Parameters/Issues. A detailed and extensive Geotechnical Study will have to be conducted, and at these depths, one may have to revise the mining method.

These are only two factors and there will be others. However, considering the possible the current coal price trend and future price of coal it is worthy to consider a preliminary investigation estimating the possible addition tonnes that could be mined at a deeper depth.

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5. Conclusions and Recommendations

Total Open Cut Recoverable Coal Reserves allowing for mining and handling losses are 185 Million tonnes ("Mt") including 148 Mt of Proved Recoverable Coal Reserves and 37 Mt of Probable Recoverable Coal Reserves. Of these total reserves, 121 Mt is Coking Coal and 64 Mt is Thermal Coal.

6. References

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Appendices

Appendix 1: Capital Costs and Operating Costs

Capital Expenditure on Baruun Naran Mine Fleet (US$M)

Equipment	Size		Unit price	Total capital
		Population	US$M	US$M
Waste				
Hydraulic Excavator	550+ tonne	2	11.42	22.84
Hydraulic Excavator	350 tonne	4	6.65	26.60
Hydraulic Excavator	250 tonne	3	4.91	14.74
Haul Truck	240 Ton	14	4.15	58.14
Haul Truck	150 Ton	44	2.49	109.77
Drill	219-279 mm hole dia.	3	1.54	4.61
Track Dozer	860 HP "U" blade	4	1.76	7.04
Track Dozer	580 HP "SU" blade	5	1.25	6.25
Sub-total (Waste)				249.99
Coal				
Hydraulic Excavator	250 tonne	2	4.67	9.34
Haul Truck	150 Ton	10	2.49	24.95
Track Dozer	580 HP coal blade	2	1.47	2.93
ROM Wheel Dozer	500 HP coal blade	1	1.33	1.33
Sub-total (Coal)				38.55
Support				
Grader	280HP	7	0.78	5.48
Diesel B'hoe	2.8 m3 bucket	1	0.59	0.59
Front End Loader	7 to 12m3 coal bucket	2	0.72	1.44
Front End Loader	20 to 25m3 coal bucket	2	2.22	4.44
Diesel Fuel Truck	100 Ton	2	0.96	1.93
Service Lube/Fuel/Coolant	50 Ton	2	0.62	1.24
Boom Truck		2	0.35	0.70
120 T Crane		1	1.23	1.23
Fire Tender		1	0.06	0.06
Tyre handler (Front-end Loader)		2	0.92	1.83
Water Truck fitted with fire fighting	100 Ton	6	0.90	5.39
Sub-total (Support)				24.33
Total Capital (Mine Fleet), US$M as at 11th February 2011				**312.87**

Estimates on Baruun Naran Mine Infrastructure Capital Expenditure (US$)

Particulars	Unit	Capex
Road works including 25 km coal road to ER to china	USD	345,000
Industrial building Including Admn facilities	USD	11,575,320
Accommodation camp	USD	9,397,370
Coal laboratory	USD	920,290
Communications & IT	USD	3,029,729
Water works and pipeline incl. BN Well	USD	21,288,381
Generator sets and Light towers	USD	3,596,900
Power supply incl BN Power plant	USD	59,742,082
Rail Spur to BN	USD	55,200,000
Light Vehicles	USD	4,297,978
Furniture & fittings, computers and softwares	USD	652,128
Survey equipments etc	USD	2,010,000
Feasibility and other studies incl. production drilling	USD	5,200,000
Concrete Batching Plant, Weighbridges & crusher	USD	2,371,760
Mine Fencing	USD	122,733
Mine Dewatering & Surface Water Management	USD	14,957,554
CHPP	USD	174,029,226
Total Capital Expenditure on Mine Infrastructure (US$M) as at 11th February 2011		**368.74**

Unit Cost Summary for Baruun Naran Coal Project

A. Cash Cost		
Direct Mining Operating Cost		
Labour Cost	USD/ROM t	2.12
Repair & Maintenance	USD/ROM t	5.99
Fuel	USD/ROM t	7.57
Explosives	USD/ROM t	1.84
Insurance, land and admn overhead	USD/ROM t	3.10
Direct Mining Opex	**USD/ROM t**	**20.62**
Mine Infra Operating Cost		
CHPP	USD/ROM t	4.17
BN Power Plant	USD/ROM t	0.43
Other Mine Infrastructure Cost	USD/ROM t	1.74
Mine Infra Opex	**USD/ROM t**	**6.34**
Mine Operating Cost (Opex)	**USD/ROM t**	**26.96**
Mine Operating Cost (Opex)	**USD/Product t**	**39.57**
B. Unit Capital and Loan Interest Cost		
Unit cost on Capex (Depreciation)	USD/ROM t	5.54
Unit cost on Loan (Interest)	USD/ROM t	1.08
Unit Cost of Production (Dep & Interest)	**USD/ROM t**	**6.62**
Unit Cost of Production (Dep & Interest)	**USD/Product t**	**9.72**
Baruun Naran Cost of Operations		
Total Unit Cost of Production	**USD/ROM t**	**33.58**
Total Unit Cost of Production	**USD/Product t**	**49.29**

Appendix 2: In-situ Quality

Raw Coal Quality, Baruun Naran Coal Project

- Air dried moisture (ad) 2%,
- Variable ash ply by ply (8% to 40%),
- Total Sulphur (TS) varying from 0.4% to 1.5%,
- Calorific value typically 34Mj/kg to 35Mj/kg on a dry, ash free basis (CVdaf),
- Raw CSN 2 to 7. All seams showed some capacity to provide caking swell indicating the coal is generally be suited to coking coal production (subject to the influence of other properties).
- Chlorine averaged 0.03% to 0.04%.

Seam	In-situ density g/cc @ 6% in-situ Moisture	Average ash % ad	Raw CSN (Average)
V500	1.48	20.00	3
U500	1.55	33.00	3
T500	1.42	15.80	4
R500	1.54	28.20	3
R400	1.55	33.50	3
R300	1.55	40.00	3
R200	1.54	30.30	3
Q500	1.53	28.20	3
N500	1.48	27.20	3
N400	1.54	30.00	3
K500	1.53	29.60	3.5
K400	1.64	36.20	3.5
J600	1.46	22.30	3
J500	1.41	18.30	3
J400	1.55	30.80	3
I500	1.40	18.80	4
H500	1.40	19.90	4
G500	1.57	34.90	3
G450	1.59	38.00	3
G400	1.60	36.90	3
F500	1.51	26.20	2
E500	1.56	37.10	

Appendix 3: Recoverable Reserves

Seam	Recoverable Coal Reserves, Mt (Million tonnes)		
	With Mining Losses (0.2m) and Handling Losses (5%)		
	Probable (Mt)	Proved (Mt)	Total (Mt)
V500	2.60	-	2.60
U500	1.99	7.44	9.43
T500	0.08	24.73	24.82
R500	2.58	1.74	4.32
R400	1.15	0.25	1.40
R300	0.78	-	0.78
R200	2.11	-	2.11
Q500	1.27	2.52	3.79
N500	0.91	10.69	11.60
N400	1.49	7.50	8.98
K500	3.91	10.15	14.06
K400	0.57	1.18	1.75
J600	2.40	3.27	5.67
J500	4.84	4.93	9.78
J400	1.22	-	1.22
I500	2.54	10.37	12.91
H500	3.56	35.82	39.38
G500	0.97	10.32	11.29
G450	0.57	2.86	3.43
G400	1.23	7.26	8.49
F500	0.51	6.84	7.35
E500	0.02	0.10	0.12
Total Coal (Mt)	**37.30**	**147.97**	**185.27**
Total Waste (Mbcm)			**1156.99**
Average Stripping Ratio (bcm/t)			**6.24**

Appendix 4: Baruun Naran Economic Model