

MONGOLIA ENERGY CORPORATION

(HKEx Stock Code: 276)

Board lot: 1,000

Number of issued shares: 6,102,797,828

FROM THE CEO'S DESK

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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 <u>meter/day</u>
Surface mine, 3 million mt/yr	2,727.3
Coal preparation plant, 3 million mt/yr	1,818.2
Power plant, 30 MW	<u>1,993.2</u>
	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 2008. 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.