COURT FILE NUMBER	1401 - 06625
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANTS	IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36, AS AMENDED AND IN THE MATTER OF THE *BUSINESS CORPORATIONS ACT*, R.S.A. 2000, c. B-9 AND IN THE MATTER OF MONGOLIA MINERALS CORPORATION
DOCUMENT	**FIRST REPORT OF THE MONITOR** **July 14, 2014**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>**MONITOR**</u> ERNST & YOUNG INC. 1000, 440 - 2nd Avenue SW Calgary, Alberta T2P 5E9 Attention: Neil Narfason / Nick Purich Telephone: 403-206-5067 / 403-206-5170 Fax: 403-206-5075 Email: neil.narfason@ca.ey.com nick.jb.purich@ca.ey.com <u>**COUNSEL**</u> Borden Ladner Gervais LLP Centennial Place, East Tower 1900, 520 - 3rd Avenue SW Calgary, Alberta T2P 0R3 Attention: Josef G. A. Krüger, Q.C. Phone: 403-232-9563 Fax: 403-266-1395 Email: jkruger@blg.com

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INTRODUCTION

1. On June 16, 2014, Mongolia Minerals Corporation ("MMC" or the "Company") sought and obtained protection from its creditors under the Companies' Creditors Arrangement Act, R.S.C. 1985 c. C-36, as amended, (the "CCAA") pursuant to an order of this Honourable Court (the "Initial Order").

2. Pursuant to the Initial Order, Ernst & Young Inc. was appointed monitor of MMC (the "Monitor").

3. The purpose of this first report (the "First Report") of the Monitor is to provide this Honourable Court with the Monitor's comments in respect of the following:

   a) the Company's restructuring progress since the Initial Order;

   b) the Monitor's activities since the granting of the Initial Order;

   c) the budget to actual cash flow results for the period for June 16, 2014 to July 13, 2014 (the "Reporting Period");

   d) the cash flow projections (the "Cash Flow Projection") from July 14, 2014 to August 15, 2014 (the "Forecast Period");

   e) the Monitor's comments regarding the Company's request for an extension of the stay period; and

   f) the Monitor's recommendation.

4. Capitalized terms not defined in this First Report are as defined in the Initial Order.

5. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

6. MMC is an exploration and development stage company. Its most significant assets are the exploration and mining licenses (the "Licenses") granted to certain of its indirect subsidiaries by the Mineral Resources Authority of Mongolia.

7. MMC generates no cash flow from operations and previously relied upon debt and equity financing to continue to develop its Licenses. The Company experienced

setbacks in obtaining the necessary financing to develop its Licenses which resulted in the Company seeking protection from its creditors under the CCAA.

8. Additional background information on MMC and these CCAA proceedings is available on the Monitor's website at www.ey.com/ca/mongoliaminerals

TERMS OF REFERENCE

9. In preparing this First Report, the Monitor has relied upon unaudited financial information, company records and discussions with the management of the Company. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of the information. Future orientated financial information relied upon in this report is based on management's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

RESTRUCTURING PROGRESS

10. The Company intends to run a sales and investment solicitation process ("SISP") where current investors will be provided an opportunity to further invest in the Company, financing alternatives will be sought and certain or all of its assets will be marketed for sale. The Company with the assistance of the Monitor is in the process of developing the SISP.

11. As shown below in the Cash Flow Projection, the Company has limited financial resources available to fund its cash needs while running a SISP. Since the Initial Order, the Company has actively been seeking a financing solution which would allow it to run a fulsome SISP.

12. The Company is currently marketing one of its non-core assets, the Dalan Project which is described further in the Affidavit of William J. Foster sworn July 11, 2014 (the "Foster Affidavit").

13. The Company is in negotiations for the sale of the Dalan Project with a number of parties and expects that it will be able to reach an agreement, subject to approval of this Honourable Court, by August 15, 2014.

14. Further details of the Company's restructuring efforts are outlined in the Foster Affidavit.

MONITOR'S ACTIVITIES

15. Pursuant to the terms of the Initial Order, the Monitor:

    a) made the Initial Order publicly available on the Monitor's website on June 17, 2014;

    b) mailed the notice to creditors (the "Notice") to every known creditor identified to it by the Company (the "Known Creditors") as having a claim on June 20, 2014;

    c) prepared a list showing the names and addresses of the Known Creditors and made the list publicly available on the Monitor's website on June 20, 2014; and

    d) placed newspaper advertisements in the Calgary Herald on June 20, 2014 and June 27, 2014 in accordance with the Initial Order providing notice of these CCAA proceedings.

16. The Notice also advised that if a creditor was unable to obtain a copy of this Order from the Monitor's website, it could request a copy be delivered.

17. The Monitor has been working with the Company and its legal counsel on the development of the SISP as noted above.

18. The Monitor has been in contact with Dundee Resources Limited ("Dundee") who is the largest secured creditor and a significant equity holder in the Company. The Monitor has advised Dundee of the Company's activities and maintained open communication with Dundee and its legal counsel.

COMPARISON OF CASH FLOW PROJECTION TO ACTUAL RESULTS

19. Attached as Appendix A to this First Report is a summary of MMC's actual receipts and disbursements for the Reporting Period with an analysis of variances from the cash flow forecast (the "Initial Forecast") previously provided to this Honourable Court in the affidavit of William J. Foster dated June 13, 2014. A summary budget to actual analysis is provided in the table below:

Mongolia Minerals Corporation
Cash Flow Projection - Forecast vs Actuals
$CAD, unaudited

	For the Period: June 16, 2014 - July 13, 2014		
	Forecast	**Actual**	**Variance**
Total cash receipts	30,000	60,000	30,000
Total cash disbursements	200,250	166,846	(33,404)
Net cash flows	(170,250)	(106,846)	63,404
Opening cash balance	361,651	361,651	
Net cash flows	(170,250)	(106,846)	
Closing cash balance	191,401	254,805	

20. As set out in the table above, MMC's total receipts for the Reporting Period were approximated $60,000, which is $30,000 higher than the Initial Forecast. The variance is a result of the Company selling its two remaining vehicles in Mongolia during the Reporting Period.

21. MMC's disbursements for the Reporting Period totalled $166,846, which is $33,404 lower than the Initial Forecast. The variance results from lower than expected personnel costs and the deferral of certain administrative costs.

22. The ending cash balance as at July 14, 2014 was $254,805.

CASH FLOW FORECAST THROUGH AUGUST 15, 2014

23. The Company, with the assistance of the Monitor, has prepared a Cash Flow Projection for the Forecast Period which is attached as Appendix B to this report. Management has prepared the Cash Flow Projection based on the most current information available. The following is a summary of the Cash Flow Projection:

Mongolia Minerals Corporation
Cash Flow Projection
$CAD, unaudited

For the period:	July 14 - August 15, 2014
Cash Receipts	
Non-core asset sale	-
Total receipts	-
Cash Disbursements	
Personnel costs	45,384
Administrative costs	111,000
CCAA professional fees	100,000
Administrative charge offset	(100,000)
Operating costs	6,500
Maintenance capital expenditures	29,545
Total disbursements	192,429
Net cash flows	(192,429)
Opening cash balance	254,805
Net cash flows	(192,429)
Closing cash balance	62,376

24. As summarized above, MMC is projecting no cash receipts against cash disbursements of $192,429, resulting in a net decrease in cash of $192,429 during the Forecast Period.

25. Significant assumptions made by MMC management with respect to the Cash Flow Projection are:

a) As described in paragraph 13 and the Foster Affidavit, the Company expects to close a non-core asset sale during the Forecast Period; however, the amount is unknown and has therefore not been included in the Cash Flow Projection;

b) Salaries and related personnel costs for the Company's remaining employees will remain consistent with historical amounts;

c) Administrative costs including director and officer insurance and consulting costs will be as quoted by the providers;

d) CCAA professional fees which will be incurred during the Forecast Period but which will be beneficiaries of the Administration Charge; and

e) Minimal capital expenditures to preserve the Company's mining licenses.

26. Based on the above assumptions, the Cash Flow Projection indicates that MMC will have sufficient cash throughout the Forecast Period.

27. The Monitor has reviewed the assumptions supporting the Cash Flow Projection and believes the assumptions to be reasonable.

THE COMPANY'S REQUEST FOR AN EXTENSION OF THE STAY PERIOD

28. Pursuant to the Initial Order, as amended, the Stay Period expires on July 16, 2014. MMC is seeking an extension of the Stay Period up to and including August 15, 2014 (the "Stay Extension").

29. The Stay Extension is necessary to allow MMC to continue and complete negotiations for the sale of the Dalan Project and seek the approval of this Honourable Court for such a sale, and to fully develop a sales and investment solicitation process and seek the approval of this Honourable Court for the same.

30. In the Monitor's view, MMC is acting in good faith and with due diligence.

RECOMMENDATION

31. The Monitor recommends that this Honourable Court approve the Stay Extension.

Dated at Calgary, this 14th day of July, 2014

ERNST & YOUNG INC.
in its capacity as Monitor of Mongolia Minerals Corporation and not in its personal or corporate capacity

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

Nick JB Purich, CA
Senior Staff

Appendix A

Mongolia Minerals Corporation
Cash Flow Projection - Forecast vs Actuals
$CAD, unaudited

	For the Period: June 16, 2014 - July 13, 2014			
	Forecast	Actual	Variance	Notes
Cash receipts				
Operating receipts	-	-	-	
Other receipts	30,000	60,000	30,000	1
Total cash receipts	30,000	60,000	30,000	
Cash disbursements				
Personnel costs	136,129	119,205	(16,924)	2
Administrative expenditures	59,229	37,034	(22,195)	3
Foreign exchange	-	(4,695)	(4,695)	4
Operating costs	4,892	6,412	1,520	5
Maintenance capital expenditures	-	8,890	8,890	5
Total cash disbursements	*200,250*	*166,846*	*(33,404)*	
Net cash flows	(170,250)	(106,846)	63,404	
Opening cash balance	361,651	361,651		
Net cash flows	(170,250)	(106,846)		
Closing cash balance	191,401	254,805		

Notes to the Forecast to Actual Analysis:

1. As forecasted MMC redeemed an investment and received proceeds the week commencing June 16, 2014. The variance of $30,000 is the result of the sale of the last two remaining vehicles in Mongolia, owned by the company. These funds were received the week commencing June 23, 2014.

2. Personnel costs were approximately $17,000 below forecast as the Company's payroll and statutory remittances as well as the termination allowance for certain employees was lower than forecast.

3. Administrative expenditures including accounting and trust company fees which total $37,200 were deferred to preserve cash. The Company incurred approximately $15,000 which was not originally included in the forecast including the cost of a consultant related to sale negotiations occurring in Asia to connect with contacts who may potentially purchase certain of the Company's coal licenses and insurance costs for a net variance of approximately $22,000.

4. The previous forecast was reported in Canadian dollars. The Company maintains the majority of its cash in Canadian dollars which are converted to USD and then sent from Canada to Mongolia in USD. Mongolia receives the funds and exchanges USD to MNT (Mongolian Tugrik) to pay payables which resulted in a foreign exchange variance.

5. MMC has endeavoured to minimize its operating and capital expenditures to preserve its financial resources. The variance in operating and maintenance capital expenditures relates to higher than forecast storage rentals and environmental consulting costs.

Appendix B

Mongolia Minerals Corporation
Cash Flow Projection
$CAD, unaudited

For the week commencing:	14-Jul	21-Jul	28-Jul	04-Aug	11-Aug	Total	Notes
Cash Receipts							
Non-core asset sale	-	-	-	-	-	-	1
Total receipts	-	-	-	-	-	-	
Cash Disbursements							
Personnel costs	-	-	43,184	2,100	100	45,384	2
Administrative costs	95,000	-	4,150	11,850	-	111,000	3
CCAA professional fees	-	-	100,000	-	-	100,000	4
Administrative charge offset	-	-	(100,000)	-	-	(100,000)	4
Operating costs	2,500	-	2,800	200	1,000	6,500	5
Maintenance capital expenditures	-	-	23,412	3,500	2,633	29,545	5
Total disbursements	97,500	-	73,546	17,650	3,733	192,429	
Net cash flows	(97,500)	-	(73,546)	(17,650)	(3,733)	(192,429)	
Opening cash balance	254,805	157,305	157,305	83,759	66,109	254,805	6
Net cash flows	(97,500)	-	(73,546)	(17,650)	(3,733)	(192,429)	
Closing cash balance	157,305	157,305	83,759	66,109	62,376	62,376	

Notes to the cash flow projection:

Management of Mongolia Minerals Corporation ("MMC") has prepared this Cash Flow Projection based on the probable and hypothetical assumptions detailed in Notes 1 to 6. Consequently, actual results will likely vary from performance projected and such variations may be material.

1. MMC is an exploration-stage mining company, and, as such, has no operating revenues.

2. Personnel costs include payroll in Mongolia as well as all statutory payroll remittances.

3. Administrative costs include office rental, IT costs, consultant and professional costs. $95,000 of costs is for director and officer insurance which is driven by the Company entering these CCAA proceedings.

4. The Company anticipates incurring approximately $100,000 in professional fees for its counsel, the Monitor and the Monitor's counsel during the Forecast Period. These costs will be offset by the CCAA Administration Charge.

5. MMC has endeavoured to minimize its operating and capital expenditures to preserve its financial resources. The costs included in the projection include license fees and land lease fees which must be paid in order to preserve the value of MMC's assets.

6. MMC's opening cash balance includes cash held by MMC and cash held in trust with its counsel, the use of which is restricted for salaries, wages, payroll remittances and director's insurance. Of the opening cash balance held by MMC, approximately $30,000 is held in Mongolia with the remainder held in Canada.