COURT FILE NUMBER	1401 - 06625	Clerk's Stamp CLERK OF THE COURT FILED AUG 15 2014 JUDICIAL CENTRE OF CALGARY
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	**SECOND REPORT OF THE MONITOR** **AUGUST 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	

TABLE OF CONTENTS TO THE SECOND REPORT

APPENDICES TO THE SECOND REPORT

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 second report (the "Second 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 first report (the "First Report") of the Monitor dated July 14, 2014;

    b) the budget to actual cash flow results for the period for July 14, 2014 to August 13, 2014 (the "Reporting Period");

    c) the cash flow projections (the "Cash Flow Projection") from August 15, 2014 to September 15 (the "Forecast Period");

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

    e) the Monitor's recommendation.

4. Capitalized terms not defined in this Second 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 Second 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. Since the First Report, the Company has been marketing one of its non-core assets, the Dalan Project which is described further in the Affidavit of William J. Foster sworn August 14, 2014 (the "Foster Affidavit").

11. The Company has held negotiations for the sale of the Dalan Project with a number of parties. The Monitor is informed by the Company that it has nearly reached agreement on an offer which will be subject to the approval of this Honourable Court.

12. The Company anticipates bringing a sale transaction for the Dalan Project before this Honourable Court during the Forecast Period.

13. Further details of the Company's restructuring efforts are outlined in the Foster Affidavit. The Company has not involved the Monitor in the attempts by the Company to find a purchaser for the Dalan Project, nor has the Monitor been involved in the other negotiations about the assets of the Company to which the Foster Affidavit refers. The Monitor is unable to comment on the Company's complaints regarding alleged third party interference in its affairs.

COMPARISON OF CASH FLOW PROJECTION TO ACTUAL RESULTS

14. Attached as Appendix A to this Second 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 previously provided to this Honourable Court in the First Report. 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: July 14, 2014 - August 13, 2014		
	Forecast	**Actual**	**Variance**
Cash receipts	-	-	-
Cash disbursements	*192,429*	*100,161*	*(92,268)*
Net cash flows	(192,429)	(100,161)	92,268
Opening cash balance	254,805	254,805	
Net cash flows	(192,429)	(100,161)	
Closing cash balance	62,376	154,644	

15. As set out above, MMC had no cash receipts during the Reporting Period. As noted in the First Report and described above, the Company had anticipated closing a non-core asset sale during the Reporting Period. The Company has made significant progress towards such a sale and expects it to occur during the Forecast Period.

16. MMC's disbursements for the Reporting Period totalled $100,161, which is $92,268 lower than the Initial Forecast. The variance results primarily from the deferral of certain administrative costs.

17. The ending cash balance as at August 13, 2014 was $154,644.

CASH FLOW FORECAST THROUGH SEPTEMBER 15, 2014

18. 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

	August 14 - September 15, 2014
Cash receipts	
Non-core asset sale	-
Total cash receipts	-
Cash disbursements	
Personnel costs	69,375
Administrative costs	39,146
CCAA professional fees	100,000
Administrative charge offset	(100,000)
Operating and maintenance capital expenditures	35,417
Total cash disbursements	143,938
Opening cash balance	154,644
Net cash flows	(143,938)
Closing cash balance	10,706

19. As summarized above, MMC is projecting no cash receipts against cash disbursements of $143,938, resulting in a net decrease in cash of $143,948 during the Forecast Period.

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

   a) As described in the Foster Affidavit, the Company expects to close a non-core asset sale during the Forecast Period; however, the amount is unknown and any such sale will be subject to approval of this Honourable Court. It 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 are consistent with historical amounts. The Company is deferring the payment of certain administrative costs to preserve cash;

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.

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

22. CCAA professional fees incurred to date which remain beneficiaries of the Administration Charge total approximately $204,000 which includes:

a) Approximately $153,000 for the Company's counsel; and

b) Approximately $51,000 for the Monitor and the Monitor's counsel.

The Initial Order created an Administration Charge of $300,000 which the Monitor believes will be sufficient to cover professional fees for the Forecast Period. Further, both the Monitor and the Company's counsel hold retainers of $50,000 respectively.

23. 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

24. Pursuant to the Initial Order, as amended, the Stay Period expires on August 15, 2014. MMC is seeking an extension of the Stay Period up to and including September 5, 2014 (the "Stay Extension").

25. 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.

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

RECOMMENDATION

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

Dated at Calgary, this 14th day of August, 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: July 14, 2014 - August 13, 2014			
	Forecast	Actual	Variance	Notes
Cash receipts				
Operating receipts	-	-	-	1
Other receipts	-	-	-	1
Total cash receipts	-	-	-	
Cash disbursements				
Personnel costs	45,384	47,617	2,233	2
Administrative expenditures	111,000	35,166	(75,834)	3
Foreign exchange	-	(2,265)	(2,265)	4
Operating costs	6,500	388	(6,112)	5
Maintenance capital expenditures	29,545	19,255	(10,290)	5
Total cash disbursements	*192,429*	*100,161*	*(90,003)*	
Net cash flows	(192,429)	(100,161)	90,003	
Opening cash balance	254,805	254,805		
Net cash flows	(192,429)	(100,161)		
Closing cash balance	62,376	154,644		

Notes to the Forecast to Actual Analysis:

1. As forecasted MMC did not receive proceeds from the sale of non-core assets during the period.

2. Personnel costs were approximately $2,200 above forecast as the Company had an adjustment to statutory payroll taxes for the prior month.

3. Administrative expenditures including directors and officers insurance and consultant fees of $105,000 were deferred to preserve cash. The Company incurred approximately $35,200 of accounting services fees and information technology consulting fees which were not included in the forecast for a net variance of approximately $82,800.

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 was caused by the deferral of certain less urgent expenditures.

Appendix B

Mongolia Minerals Corporation Cash Flow Projection $CAD, unaudited	Notes	2014 Aug 15-30	 Sept 1-15	Forecast Period Total
Cash receipts				
Non-core asset sale	1	-		-
Total cash receipts		-	-	-
Cash disbursements				
Personnel costs	2	48,659	20,716	69,375
Administrative costs	3	17,670	21,476	39,146
CCAA professional fees	4	50,000	50,000	100,000
Administrative charge offset	4	(50,000)	(50,000)	(100,000)
Operating and maintenance capital expenditures	5	25,358	10,059	35,417
Total cash disbursements		91,687	52,251	143,938
Opening cash balance		154,644	62,957	154,644
Net cash flows		(91,687)	(52,251)	(143,938)
Closing cash balance		62,957	10,706	10,706

Notes to the cash flow projection:

1. MMC is an exploration-stage mining company, and, as such, has no operating revenues. The Company anticipates entering into a sale agreement for its Dalan property; however, the proceeds are not included as the timing and value are unknown at this time.

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

3. Administrative costs include accounting support, IT costs, and consultant costs.

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.