

ASX Code: MOU
29 July 2013

June 2013 Quarterly Report

Highlights:

- **The Mineral Resources Authority of Mongolia (MRAM) granted approval for a Mining Licence for the Nuurst Project in July 2013**
- **Mining Licence No MV-017349 issued covering 2,497 hectares issued for 30 years plus the potential for two 20 year extensions**
- **Modun selected as a preferred supplier of coal briquettes to the Mongolian Government as part of their Clean Air Initiative to reduce air pollution in Ulaanbaatar**
- **Negotiations commenced to formalise a Product Sale and Purchase Agreement with the Mongolian Government for Nuurst coal briquettes**
- **Briquette testing indicates substantial upgrade in coal quality for Nuurst Project**
- **Briquettes created from Nuurst coal has resulted in a significant increase in calorific value to 5,648 kcal/kg on an as received basis (compared to 4,178 kcal/kg for the raw coal sample)**

The Directors of Modun Resources Ltd (ASX: MOU) (Modun) are pleased to provide you with an update of activities during the June 2013 quarter.

Approval of Mining Licence

On 11 July 2013, MRAM approved Modun's application for a Mining Licence over the Nuurst Thermal Coal Project (**Nuurst Project**). The Mining Licence was granted over a total area of 2,497 hectares covering the planned open pit mine plus an encompassing area for surface infrastructure. The licence area also includes the Resource area that remains open to the North of the planned mine.

The granting of the Mining Licence is a significant achievement and critical milestone for Modun as it moves towards the development of the mine. It also provides Modun with greater certainty over the time frame to progress with the development of a mine and the first production of coal.

Modun will commence the feasibility work for the Nuurst project during the September 2013 quarter which will expand on the Initial Mining Study (previously announced to the ASX on 5 March 2013). The feasibility work will seek to confirm the overall infrastructure and mine costs and the final mine plan in order to maximise the economic benefits from the mine. This will include some hydrogeological drilling on site. The feasibility work is also an important step for obtaining the financing required for the mine development.

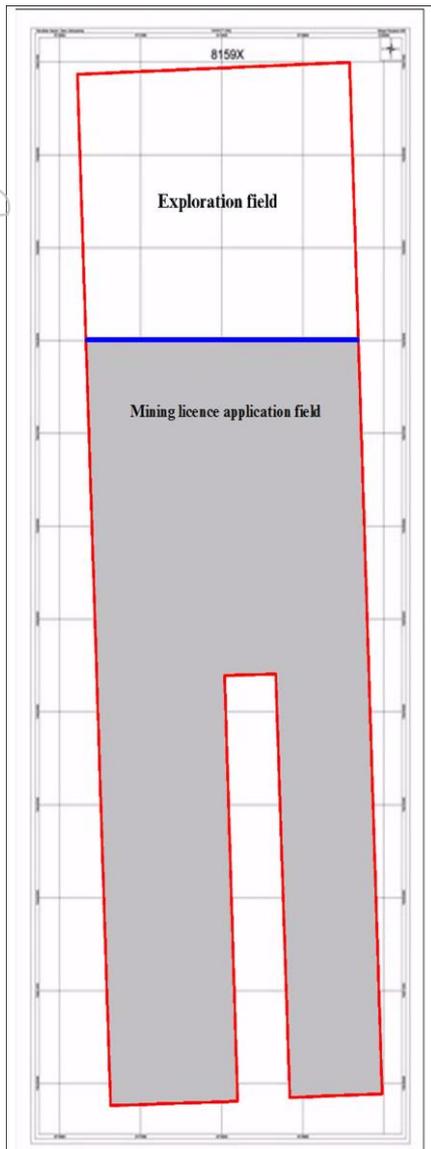


Figure 1: Mining licence area mapped onto existing exploration licence

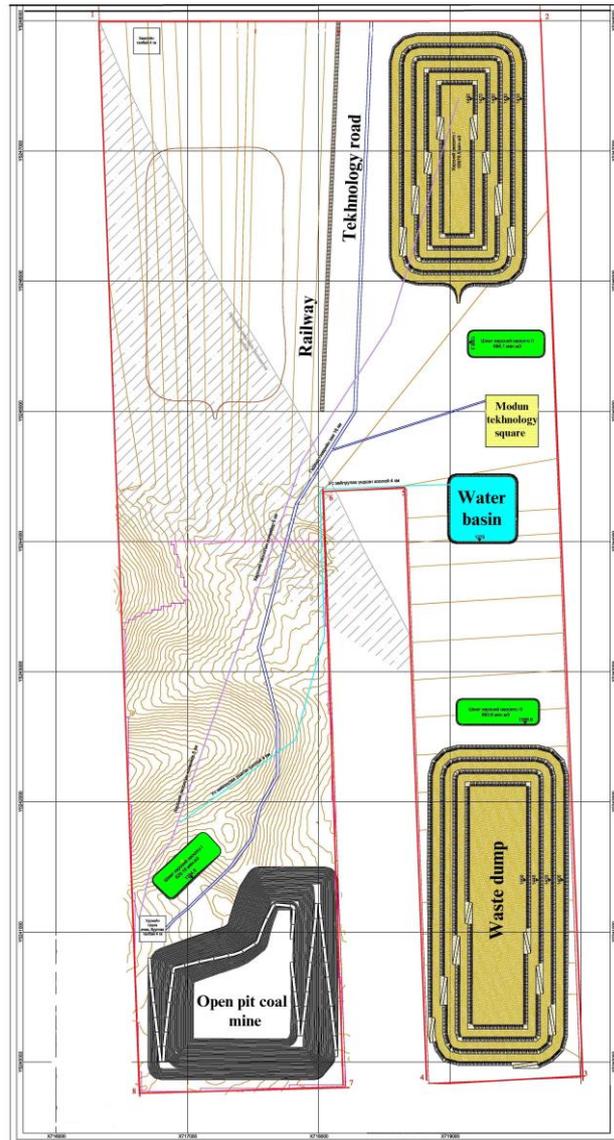


Figure 2: Mine design and pit layout for mining licence

Selected as Preferred Supplier of Coal Briquettes to Mongolian Government

During the June quarter, Modun's wholly owned subsidiary, Modun Resources LLC, was selected as a preferred supplier for the supply of coal briquettes to the Mongolian Government as part of their Clean Air Initiative to reduce air pollution in Ulaanbaatar.

Modun was selected as one of four preferred suppliers following a tender process undertaken by the Mongolian Government through the Mongolian National Committee for Air Pollution Reduction (Government **Committee**). The tender process sought domestic and international expressions of interest to establish a new cleaner fuel production facility. The Resolution passed by the Government Committee instructs the Ministry of Environment and Green Development and the Ulaanbaatar City Mayor's Office to negotiate a Product Sale and Purchase Agreement with Modun for the supply of Modun's Nuurst Project coal briquettes. Negotiations on the terms and conditions of this Agreement have commenced.

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The Resolution also requires the Ministry of Environment and Green Development, Ministry of Energy, Ministry of Mining and the Ulaanbaatar City Mayor's Office to provide support to Modun in the development of the infrastructure required to ensure sustainable supply of the Nuurst coal briquettes.

Modun's successful proposal was based on using thermal coal from its Nuurst Project and creating briquettes using a binderless coal briquetting process. The briquettes produced from the Nuurst coal have been independently tested in Australia and Mongolia and have resulted in a substantial increase in energy as well as a significant decrease in emissions. The emissions produced fall within the Clean Air Guidelines required by the Mongolian Government enabling Modun to be successful with the tender and be selected as a preferred supplier to the Government.

The key terms and conditions of the Product Sale and Purchase Agreement are being negotiated directly with the Mongolian Government. Modun was provided with the following information that was used to help support its proposal:

- The briquette plant is to have an initial name plate capacity of 200,000 to 250,000 tonnes per annum;
- Total demand for domestic raw coal usage in the Ger District is between 700,000 to 900,000 tonnes per annum; and
- The pricing for domestic briquettes approved by the Committee for last years winter was between MNT150,000 to MNT170,000 per tonne (approx. \$US105 to \$US119 per tonne) (source: www.air.president.mn). Pricing for next years and future winters are being negotiated as part of the Product Sale and Purchase Agreement.

Briquette Testing Indicates Substantial Upgrade in Coal Quality

During the June 2013 quarter, Modun announced that the test results of briquettes created from Nuurst coal resulted in a significant upgrade in coal energy.

The test work was conducted at the request of the Mongolian Government and was carried out independently by ALS Group LLC and the City Air Quality Agency laboratory in Ulaanbaatar. The test results from ALS are as follows:

Sample ID	PROXIMATE ANALYSIS																
	AS RECEIVED BASIS						AIR DRIED BASIS					DRY BASIS					
	Total Moisture (TM)	Ash (CPAA)	Volatile Matter (CPAV)	Fixed Carbon	Total Sulphur (TS)	Calorific Value (CV)	Moisture (CPAM)	Ash (CPAA)	Volatile Matter (CPAV)	Fixed Carbon	Total Sulphur (TS)	Calorific Value (CV)	Ash (CPAA)	Volatile Matter (CPAV)	Fixed Carbon	Total Sulphur (TS)	Calorific Value (CV)
						cal/g						cal/g					cal/g
					%						%					%	
Raw Coal	30.71	6.90	28.60	33.79	0.77	4178	9.90	8.97	37.18	43.94	1.01	5432	9.96	41.27	48.77	1.12	6029
Briquettes	6.45	8.87	39.14	45.54	1.00	5648	6.02	8.91	39.32	45.75	1.00	5674	9.48	41.84	48.68	1.07	6037

This significant improvement in coal quality has been achieved via a very cost-effective beneficiation process and brings the Nuurst coal briquettes up to the Newcastle thermal coal energy benchmark, ensuring a far more efficient burning coal.

Briquette Technology

The Nuurst briquettes were created in Australia using a binderless coal briquetting process. This proven technology crushes the raw coal and uses hot gas to dry the coal to extract

moisture. The dry coal is then pressed under extreme pressure to bind it together into briquettes. The briquettes produced have a substantial increase in energy as well as a significant decrease in emissions.



Figure 1: Nuurst coal briquettes

Corporate

Modun has implemented a cost reduction programme aimed at reducing corporate office costs. This includes, but is not limited to a reduction in salaries, consulting and directors' fees for senior executives, senior consultants and non-executive directors of between 10% to 50%. The combined impact of these savings represent a 20% reduction in personnel costs across the company.

In accordance with ASX Listing Rule 3.16.4, Mr Rick Dalton, Managing Director, has varied his existing Executive Services Agreement with a 10% reduction from his previous pay level of \$290,000 per annum to \$261,000 per annum inclusive of all entitlements.

Modun is managing the timing of the feasibility work to be conducted for the development of the Nuurst project to ensure work progresses whilst managing cash reserves. If appropriate financing is available to Modun, it may accelerate the timing of the feasibility work required.

At the end of the quarter, Modun has total cash reserves of \$0.93 million

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About Modun Resources Limited

ASX-listed Modun Resources (ASX: MOU) is developing the 100%-owned Nuurst Coal Project in central Mongolia. Nuurst is a thermal coal project, which encompasses a 2,497 hectare Mining Licence area. In November 2012, Modun announced a 478 million tonne JORC reported Coal Resource at Nuurst (326 million tonnes Measured, 104 million tonnes Indicated, 48 million tonnes Inferred). The Nuurst Coal Project is located 120 kilometres south of Mongolia's capital Ulaanbaatar and six kilometres from existing rail infrastructure which links directly into China.

Competent Person Statement

The information in this announcement that relates to the Nuurst Coal Resource is based on information compiled by Mr Dwiyoiko TU. Taruno of CSA Global Pty Ltd, who is a member of the Australasian Institute of Mining and Metallurgy. Mr. Dwiyoiko TU. Taruno has sufficient experience 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 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Dwiyoiko TU. Taruno consents to the inclusion of such information in this report in the form and context in which it appears.

The information in this announcement that related to exploration results is based on information obtained from drilling and trenching activities on site undertaken by Modun in 2011 & 2012. This information has been reviewed by Ms Dierdre Westblade of CSA Global Pty Ltd, Western Australia. Ms Westblade is a member of the Australian Institute of Geoscientists and 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 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Westblade consents to the inclusion in the report of the matters based on his information in form and context in which it appears.