Scott Wilson Ltd.

GOBIMIN INC. AND FAITHFUL MILLION LIMITED

NI43-101 TECHNICAL REPORT ON BALIKUN COAL PROJECT, XINJIANG, CHINA

February 4, 2010

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1. SUMMARY

1.1 EXECUTIVE SUMMARY

Scott Wilson Ltd. (Scott Wilson) was retained by GobiMin Inc. (GobiMin) and Faithful Million Limited to prepare an independent NI 43-101 Technical Report on the Balikun Coal Project, located in Xinjiang, People's Republic of China (PRC).

The Project comprises:

- A single coal seam deposit.

Scott Wilson conducted a site visit from April 15 to April 28, 2009.

The Balikun Coal Project (or Heiyanquan Minefield, Balikun) is located in a late Palaeozoic geosynclinal basin in Balikun County in eastern Xinjiang, People's Republic of China. The project area is about 265 kilometres by road northwest of the city of Hami, Xinjiang, on a plateau with an elevation of about 1,600 metres above mean sea level. The area is very arid and very lightly vegetated. The project area is centred about 44^{O} 11′ 00″N, 92^{O} 07′ 23″E.

Exploration of the property began in 2006 and the last drilling program occurred in 2007. These data are the culmination of two drilling programs, a seismic reflection study as well as various metallurgical/analytical testing programs, and preliminary environmental and geotechnical studies. Other studies, including a 3-D seismic profiling program, are currently on-going.

This Technical Report incorporates all applicable data, interpretations and conclusions which were in hand as of April 28, 2009.

This NI43-101 compliant report was prepared for GobiMin and Faithful Million Limited and presents the estimated *in situ* coal resources for the Balikun Coal Project. The report encompasses information and studies generated over a period of four years.

Active preliminary work on the minefield is proceeding and during the site visit for this report, a 3-D seismic reflection survey was underway.

1.2 CONCLUSIONS

The Heiyanquan Minefield is located in eastern Xinjiang, People's Republic of China, and until 2005 no serious coal exploration work had been conducted near this coal property. There is no infrastructure, except a poorly maintained district two-lane highway near this property, no cultural resources nearby and no active coal mines within 30 kilometres of the minefield. A "mining permission lease" has been issued for the Heiyanquan Minefield and remains in effect until December 25, 2011.

Based on documents reviewed, interviews conducted and the site visit completed, as well as computer modelling, the Heiyanquan Minefield contains an estimated “measured and indicated” (M&I) coal resource of 88.1 million *in situ* tonnes within the A1 coal seam. Inferred resources of coal are estimated to total 0.3 million *in situ* tonnes. These estimates used Western classification criteria which are different than the National classification criteria of the People’s Republic of China. Table 1-1 presents more detail of the above estimated figures as prepared by Scott Wilson. Note that the estimates account for the spatial distribution (drill-hole location) of the analytes examined as a result of using the computer model.

Table 1-1: Estimated Coal Resources Prepared by Scott Wilson

	Tonnes	Coal Thick m	H_2O %	Ash % Dry	Volatiles MAF %	Sulphur % Dry	MJ/KG MAF
Measured	37,992,200	3.49	0.00	20.70	37.75	0.74	33.24
Indicated	50,062,800	3.44	0.00	20.59	37.52	0.76	33.32
TOTAL M & I	88,055,000	3.46	0.00	20.64	37.62	0.75	33.29
Inferred	259,700	2.42	0.00	20.10	36.72	0.38	34.01

The pre-survey/reconnaissance/detailed survey for the Heiyanquan Minefield lasted 17 months from April 12, 2006, to September 24, 2007, with all planned field work completed. This program was conducted and managed by the 156 Coalfield Geological Brigade of Xinjiang Coalfield Geological Bureau (the 156 Brigade). At the end of the study period, the 156 Brigade presented its estimate of the *in situ* coal resources contained within the minefield. The 156 Brigade estimated that the minefield contains a “measured and indicated” (M&I) coal resource of 79.1 million *in situ* tonnes within the A1 coal seam. Inferred resources of coal are estimated to total 46.8 million *in situ* tonnes. These estimates used the National coal classification criteria of the People’s Republic of China which are more conservative and restrictive than the Western standards utilized by Scott Wilson. Table 1-2 presents the estimates of the 156 Brigade. Note that the methods of calculation and presentation prevent the examination of coal quality attributes by classification. The presented coal quality attributes are simply arithmetic averages of drill-hole values calculated by the 156 Brigade and applied to the entire resource.

Table 1-2: Estimated Coal Resources as Presented by the 156 Brigade

		tonnes	Coal	H_2O	Ash	Volatiles	Sul	MJ/KG
			Thk m	%	%Dry	MAF %	%Dry	MAF
TOTAL	**331 (Mea)**	61,349,500	NA	NA	NA	NA	NA	NA
RESOURCE	**332 (Ind)**	17,790,500	NA	NA	NA	NA	NA	NA
	333 (Inf)	46,755,300	NA	NA	NA	NA	NA	NA
***	**TOTAL**	125,895,300	3.80	1.98	21.15	37.90	0.75	33.13
M & I	**331 (Mea)**	61,349,500	NA	NA	NA	NA	NA	NA
RESOURCE	**332 (Ind)**	17,790,500	NA	NA	NA	NA	NA	NA
	TOTAL	79,140,000	NA	NA	NA	NA	NA	NA

Considering the differences in the classification criteria used to complete the two estimates above, the “M&I” tonnages agree within 12%. Using Western standards, the “M&I” tonnes are the only tonnes which are allowed to be used in presentations and future mine planning efforts, if any. It should be emphasized that this property is located in the People’s Republic of China and is subject to the many and varied standards imposed by that entity at all levels of property development. Furthermore, there is no reason to doubt the accuracy of the estimates prepared by the 156 Brigade given the limits of property development and the data developed to date.

From a coal quality viewpoint, the A1 coal is at a low metamorphic stage and is mainly a gas coal, with the quality properties of very low-high ash, low-very high calorific value, very low—mid-high sulphur, low-high phosphorus and eutectic-dystectic ash, which can be used for power generating, for industrial boilers, for civil use and for coke blending.

The exploration and preliminary development of the Heiyanquan Minefield has just concluded and Scott Wilson believes that there are no “additional requirements” to report for a project at this stage of development. This document is the reporting of coal resources only. No economic, marketing or environmental studies have been completed. These probably will be the focus of the next stage of development and should culminate with the issuance of a Feasibility Report and accompanying NI43-101 document. No timetable has been presented for the initiation or conclusion of these activities.

1.3 RECOMMENDATIONS

Plans for the continued development of the Heiyanquan Minefield are being formalized. Scott Wilson assumes that any future field work will be conducted and managed by the 156 Brigade because it has the most on-site experience and an intimate knowledge of the Project. Certain specialty disciplines will need to be addressed and the 156 Brigade has knowledge of which entity(s) are best suited to fill the needs of those selected disciplines. It is important that only one entity - Scott Wilson recommends it be the 156 Brigade - has responsibility for direction and management of the entire field program and the full integration of the collected data.

Discussions during the site visit indicate that the Wuhan Design and Research Institute of SinoCoal International Engineering Group has provided informal mining engineering input to the planning of mining engineering and operational planning. Scott Wilson recommends that, if this entity is selected for future formal work, it strongly considers the drilling of a pilot hole for the mine access ramp construction as well as boreholes for structural and coal quality control in the areas designated for production during the first five to eight years of full mine production. These holes should be completed between the time of planning and the start of production.

Since Scott Wilson has no background in the costing of field programs in China, Scott Wilson cannot estimate the cost of any field program.

Scott Wilson recommends that all future resource and reserve compilations for the planned project estimate the coal quality which accompanies the tabular listings of tonnages. These analyses should be tied directly to the tonnages that are estimated for every working level of the proposed mine, in each of the proposed production areas, and to the tonnages estimated for an annual, or smaller, time period of the mine plans. This effort will likely result in the need for computer modelling and the acquisition of appropriate computer software. This effort will more properly address the success, or failure, of alternative evaluations and provide ample planning time for any required changes to the then existing plans.

The report, "*Exploration Report on Balikun County Heiyanquan Minefield of Balikun Coalfield, Xinjiang*", by the 156 Brigade was issued in November 2007. This report carries several recommendations some of which are repeated below. These recommendations provide good insight and Scott Wilson concurs with those repeated below.

The recommendations suggested that a detailed 3-D seismic survey be completed quickly on the Heiyanquan Minefield in order to resolve any structural geology issues that remain undefined. This includes the single break found, using 2-D seismic methods, in 2006. During the site visit for this Technical Report in April 2009, a 3-D seismic survey was being undertaken.

During the rock mechanics test work conducted for the 17-month program in 2006 and 2007, the roof and floor of the A1 coal seam were found to have poor stability. Scott Wilson recommends that further work and alternative planning be conducted to more fully define and properly plan for these conditions.

In the future excavations, the production management should attach importance to the mine hydrogeological work and current findings; follow the relevant regulations and requirements, and deal with the work of mine hydrogeology. Effective measures must be planned and taken to prevent serious water inflows and other mining accidents. Scott Wilson concurs with these plans.

Although the coal mine gas is a type of "low-level gas", as the mining depth increases, ventilation management should be strengthened to prevent ignitions in the mine due to accumulations of the "low-level gas".

Complete enhanced testing of coal quality, through additional drilling, should be planned. As stated above, the program should examine thoroughly the coal quality variations and take necessary planning measures. This work will likely require changing evaluation techniques to include the use of computer software techniques.

As a result of the site visit and discussions during travel, it is understood that a Feasibility Study is planned and will be accompanied by detailed underground mine plans and cost estimates. To date, there are no formal mine plans which were presented for review.

2. INTRODUCTION

Scott Wilson Ltd. (Scott Wilson) was retained by GobiMin Inc (GobiMin) and Faithful Million Limited to prepare an independent NI 43-101 Technical Report on the Balikun Coal Project (or Heiyanquan Minefield), located in the Xinjiang, People's Republic of China (PRC).

The purpose of this report is to review the geological exploration, geological report, and updated mineral resource estimate.

The Project comprises:

- A single coal seam deposit.

James Spalding, Professional Geologist, Senior Consulting Geologist, Scott Wilson, conducted a site visit from April 15 to April 28, 2009. Mr. Spalding authored all items of this report.

During the site visit, Mr. Shi Yexin, Consulting Geologist with Scott Wilson, acted as an interpreter in discussions with company personnel.

The documentation reviewed, and other sources of information, are listed at the end of this report in Section 21: References.

2.1.1 List of abbreviations

Units of measurement used in this report conform to the SI (metric) system. All currency in this report is US dollars ($) unless otherwise noted.

μ	micro (one-millionth)	km/h	kilometre per hour
°C	degree Celsius	km^2	square kilometre
°F	degree Fahrenheit	kPa	kilopascal
μγ	microgram	kVA	kilovolt-amperes
A	Ampere	kW	kilowatt
a	annum	kWh	kilowatt-hour
bbl	barrels	l	litre
Btu	British thermal units	l/s	litres per second
C$	Canadian dollars	lb	pound
cal	calorie	m	metre
CFM	cubic feet per minute	M	mega (million)
cm	centimetre	m^2	square metre
cm^2	square centimetre	m^3	cubic metre
ct	carat (0.2 grams)	m^3/h	cubic metres per hour
d	day	min	minute
dia.	diameter	mm	millimetre
dmt	dry metric tonne	mph	mile per hour
dwt	dead-weight ton	MVA	megavolt-amperes

ft.	foot	MW	megawatt
ft./s	foot per second	MWh	megawatt-hour
$ft.^2$	square foot	opt, oz/st	ounce per short ton
$ft.^3$	cubic foot	oz.	troy ounce (31.1035g)
g	gram	oz./dmt	ounce per dry metric tonne
G	giga (billion)	ppm, ppb	part per million; billion
gal	Imperial gallon	psia	pound per square inch absolute
g/l	gram per litre	s	second
g/t	gram per tonne	st	short ton
gpm	Imperial gallons per minute	stpa	short ton per year
$gr/ft.^3$	grain per cubic foot	stpd	short ton per day
gr/m^3	grain per cubic metre	t	metric tonne
ha	hectare	tpa	metric tonne per year
hp	horsepower	tpd	metric tonne per day
hr	hour	$	United States dollar
in.	inch	USg	United States gallon
$in.^2$	square inch	USgpm	US gallon per minute
j	Joule	v	volt
k	kilo (thousand)	W	watt
kcal	kilocalorie	wmt	wet metric tonne
kg	kilogram	$yd.^3$	cubic yard
km	kilometre	yr	year

3. RELIANCE ON OTHER EXPERTS

This report has been prepared by Scott Wilson for GobiMin Inc. and Faithful Million Limited. The information, conclusions, opinions, and estimates contained herein are based upon:

- Information available to Scott Wilson at the time of preparation of this report,
- Assumptions, conditions, and qualifications as set forth in this report, and
- Data, reports, and opinions supplied by GobiMin Inc. and Faithful Million Limited and third party sources listed as references.

Scott Wilson has relied on GobiMin Inc. and Faithful Million Limited for information regarding the current status of legal title, property agreements, corporate structure, taxes, and environmental information and status. Scott Wilson has not researched property title or mineral rights for the Balikun Coal Project and expresses no opinion as to the ownership status of the Balikun Coal Project.

Except for the purposes legislated under provincial securities laws, any use of this report by any third party is at that party's sole risk.

This technical report (NI 43-101 compliant) on the Heiyanquan Minefield (Balikun Coal Project) has been completed with reliance on numerous geological and technical studies prepared by various quasi-government and government organizations in the People's Republic of China. These references are listed in Section 21 "References".

In addition to these references, due diligence visits were made by Scott Wilson to the project site, to the project library and to the coal testing laboratories. Interviews were held with the primary Chinese geological consulting firm, the 156 Coalfield Exploration Brigade of Xinjiang Coalfield Geological Bureau, and with the coal testing firm, the Comprehensive Laboratory of Xinjiang Coalfield Geological Bureau, both of which are located in the city of Urumqi, Xinjiang.

Scott Wilson assessed the project data and geology as well as directed the construction of the computer model and coal resources assessment for this project. Scott Wilson engaged Gemcom Software Europe Limited (UK) and its experts, Damian Baranowski and Glenn Barlow, to complete the computer modelling of the coal deposit, to carry out the resource assessment, as well as classification of the resources, and to assist in the preparation of Figures for this report on the Heiyanquan Minefield. Gemcom's work was supervised by Scott Wilson.

While Scott Wilson has not verified all the assays completed for the previous field programs, the geological work was completed by experienced and well-regarded exploration personnel and the writer found no reason for doubting the accuracy of their work or their conclusions. Approximately 10% of the historical drilling and analytical data have been individually reviewed by Scott Wilson and these data support the conclusions previously reached.

In the future, additional drilling and sample collection will be required to define the geology and coal quality near the access ramp, or shaft, to be developed during mine construction (“pilot hole”). Limited drilling and sampling, two to four holes, might be required for mine planning during the initial years of mine operation. These activities should be completed during the Feasibility Study. It is reported that currently un-named experts and Qualified Person(s) for this probable study may come from the Wuhan Design and Research Institute of SinoCoal International Engineering Group which has provided some input and guidance to the project thus far.

4. PROPERTY DESCRIPTION AND LOCATION

The Heiyanquan Minefield (the "Balikun Coal Project") is situated on a plateau consisting of low hills and a relatively flat plain. The elevations, in the immediate area, range from 1,700 m above mean sea level (amsl) in the SW to about 1,550 m amsl in the NE, with the terrain generally sloping in that direction. The property is defined by surveyed coordinates used for the 2007 exploration permit, which was replaced by a mining permit in December 2008. The differences in area of the two permits reflect some minor boundary adjustments near the subcrop between the expired exploration permit and the newly issued mining licence.

The structure of coal bearing strata does not vary too much along strike and dip within the minefield. The dip angle is normally at 10-20^{O}, and the basic structure was defined to be gently inclined monocline. The 2-D seismic data indicate that faulting is poorly developed with only one breakpoint found on the seismic lines, which is at the southwest part of the minefield. The interpreted dip of this undefined feature is 70^{O} and the interpreted throw, 29 m. This undefined structure is of Category I of simple-medium type.

There is one mineable seam in the minefield, namely the "A1", of the Badaowan Formation of Lower Jurassic age, and it appears to be of mineable thickness over 85 to 90% of the minefield area, with unmineable thicknesses concentrated at depth and in the southern portion of the property. There are regular and predictable fluctuations, based on drilling data and seismic reflections, of thickness and a simple monoclonal structure. The coal is a gas coal with long-flame coal and weak-glued coal appearing in incidental quantities and isolated locations. The seam is geologically "stable" in terms of structure and thickness.

The Heiyanquan Minefield ranges from 2.3 to 5.0 km wide E-W and is 7.4 km long N-S. Its area, as stipulated by the expired exploration permit, is approximately 29.80 km^2. The area of the minefield specified by the newly issued mining permit (December 2008) is about 29.77 km^2 and uses essentially the same boundary and is nearly coincident.

The minefield is situated in the Balikun County, a north-eastern portion of Xinjiang between the eastern residual ranges of the Tianshan and Altai Mountains. Balikun County is under the overall jurisdiction of Hami County. Its neighbours are Yiwu County to the east, Hami City to the south, and Mulei County to the west. The licence area borders the Gobi Altai Province of the Mongolia Republic, whose boundary is defined by the Altai Mountains.

The minefield itself is located about 30 km west of the Balikun County Coal Mine located in the Balikun Hazak Autonomous County, Xinjiang Uyghur Autonomous Region.

The Project's geographic location is:

92°05′30″ - 92°09′15″E
44°09′00″ - 44°13′ 00″ N
Centred at: 44°11′00″N, 92°07′23″E

The Project is about 265 km NW, by asphalt road, from the city of Hami via the Balikun County. The Boerqiangji Town Charcoal Colliery is 30 km to the east of the minefield and is connected by an asphalt road which passes through the minefield at its eastern boundary. Continual use by local traffic and coal trucks, from mines further to the west, has placed this asphalt road in desperate need of re-engineering and repair (See Figure 4-1 and Figure 4-2).

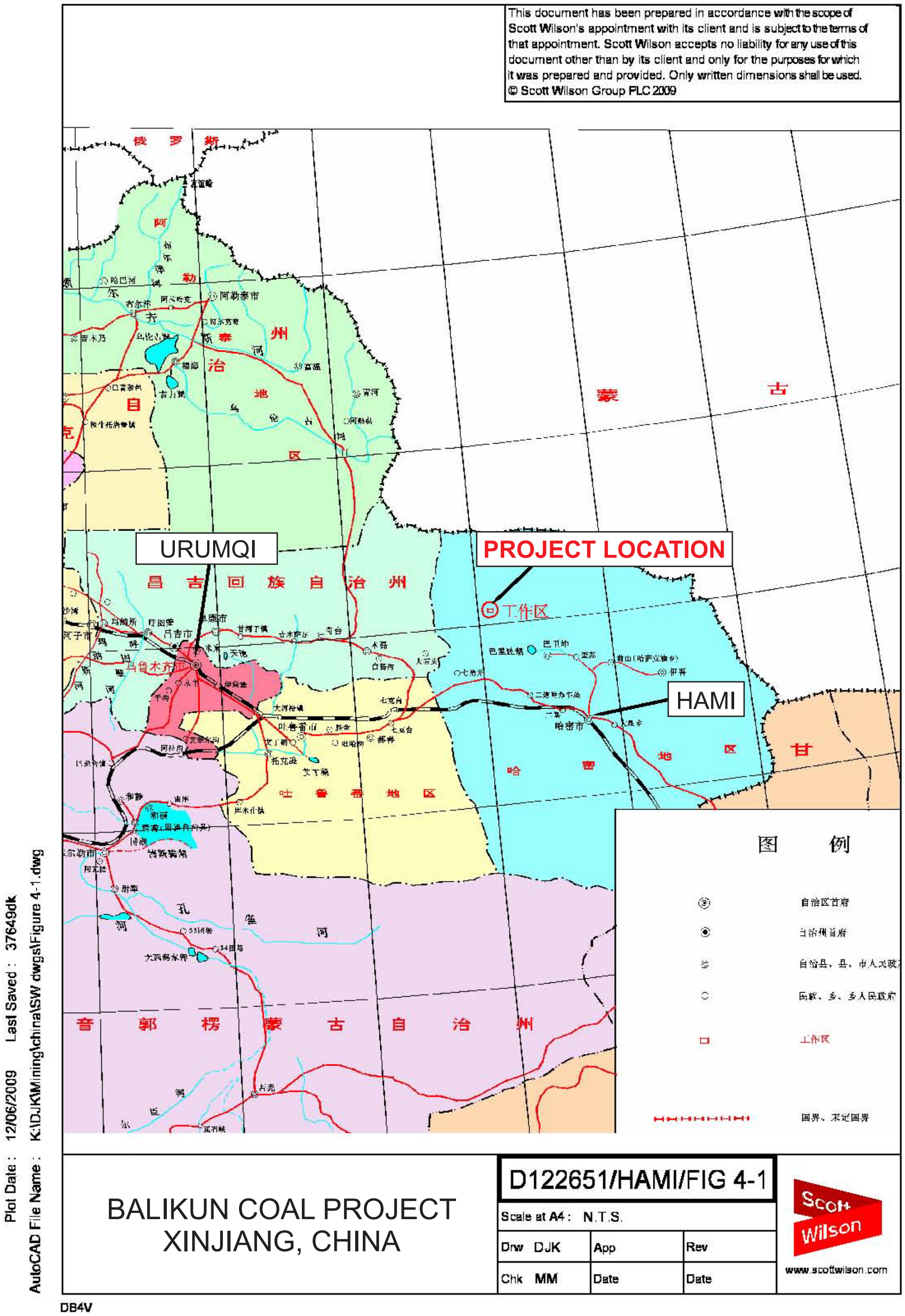


Figure 4-1: Balikun Coal Project Location Plan

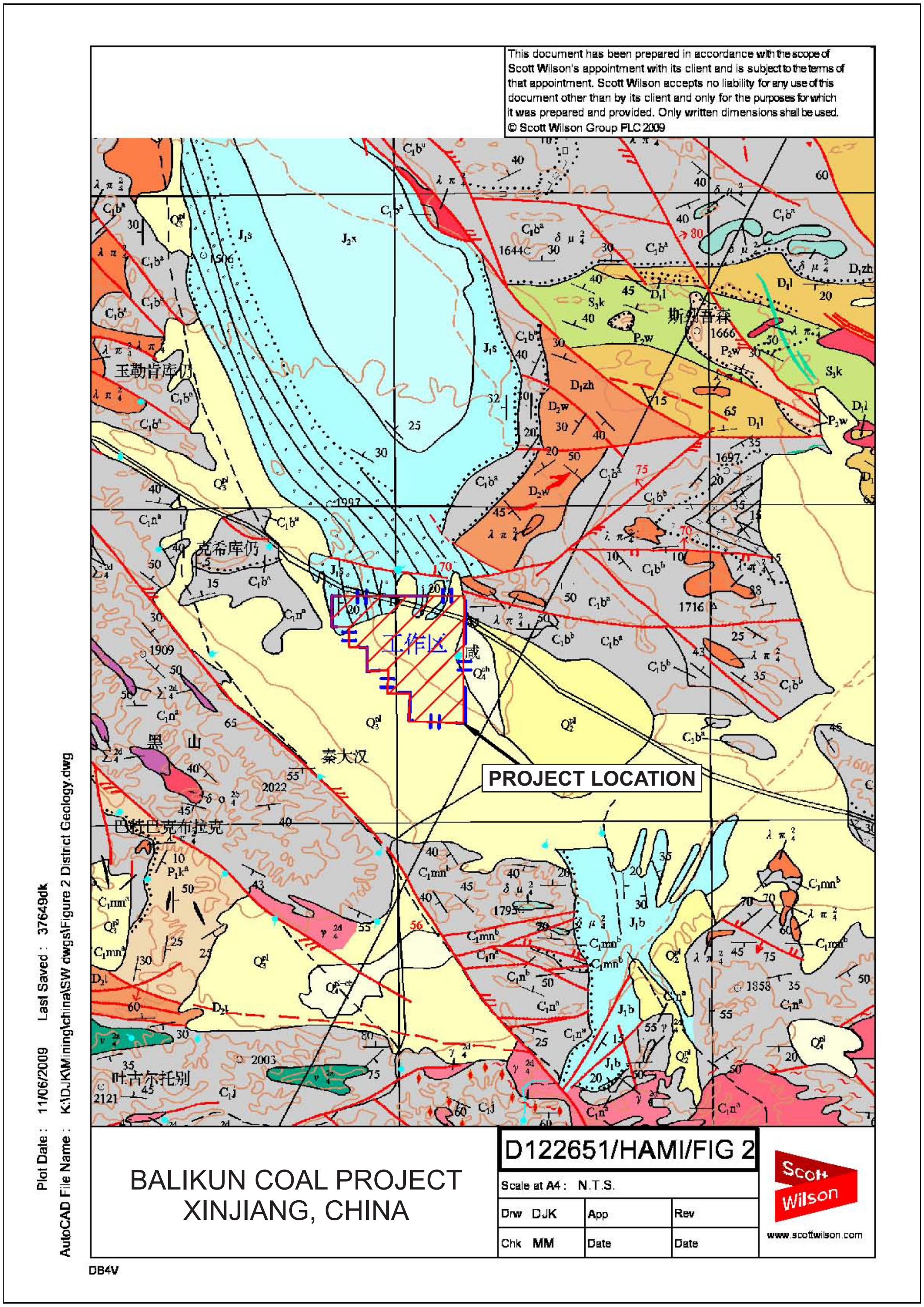


Figure 4-2: Balikun Coal Project Detailed Location Plan

5. ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY

The Heiyanquan Minefield is located about 30 km west of Balikun County Coal Mine, Xinjiang, under the jurisdiction of Boerqiangji Town, Balikun Hazak Autonomous County, Xinjiang Uyghur Autonomous Region.

The Project is about 265 km NW from the city of Hami via Balikun County. The Boerqiangji Town Charcoal Colliery is 30 km to the east of the minefield and is connected by an asphalt road which passes through the minefield at its eastern boundary.

The area, enclosed within a 130 km radius from Balikun County, has been connected by various communication networks (cell phone and telephone land lines) making the accessibility and communication to the minefield very convenient. There is a network of rough roads within the minefield that provides access to all portions of the property.

The Balikun region is divided by topographic features which affect the local micro-climates in any given area. At the northern part of the region, which includes the Heiyanquan Minefield, there is a typical continental climate which experiences extremely hot summers and cold winters. The region experiences rare precipitation and intense evaporation and has a dry climate. The highest temperature in summer can exceed +40^{O}C, and the lowest temperature in winter is on the order of -35^{O}C. There are large diurnal temperature differences. The annual average temperature for this region is only about 1^{O}C. The frost-free period averages 104 days and the windiest period is in the spring, with the prevailing winds from the northeast, north-northeast and north, of moderate intensity with an average velocity of 3 to 4 m/s. Vegetation is sparse in the minefield and there is no surface runoff. It is estimated that, at the minefield, the average annual precipitation is about 200 mm, with an annual evaporation rate of about 1,700 mm. It is also reported that during the winter, October through March, the frost level generally reaches 1.5 to 1.7 m in depth.

The middle and southern parts of the Balikun region, but north of the Tianshan Mountains, are moist, with long cold winters and short cool summers. Snow comes at the beginning of October in the mountain areas, and melts in next March.

Although the Balikun County is currently converting its industry from light animal husbandry and resource exploitation to intensive animal husbandry and mining, the area is largely undeveloped from an industrial viewpoint. There is no inhabitation within and around the minefield, and open herb plants cover the ground surface. There is a series of small, and intermittent, springs along the foothills in the SW area of the minefield and in some depressions elsewhere on the property. In summer and fall, some herdsmen trail their livestock through the area. During the site visit for this report in April 2009, a herd of camels was being grazed on the minefield vegetation. The closest industry, and minor habitation, is the Balikun

County Coal Mine (Boerqiangji Town Charcoal Colliery) approximately 30 km to the east.

The Heiyanquan Minefield is north of the eastern Tianshan Mountain Range, where a small intermontane basin is located within a plain/hilly topography. The altitude of the minefield is between 1,552 and 1,700 m, with the topography sloping from SW to NE. The highest altitude of 1,700 m is within the SW portion of the property, adjacent to prospecting line 2; the lowest altitude of 1,552 m is NE of borehole ZK 14-1. The area is mostly overlain by Quaternary alluvium/colluvium and desert pavement particles and cobbles.

There is no surface water within and around the minefield. From the very few springs near the outcrops on the SW portion of the property the flow is observed at between 14-76 l/s which, subject to further investigation, could be used for coal washing facilities required on site.

6. HISTORY

The 156 Coalfield Exploration Brigade of the Coalfield Geological Bureau of the former Xinjiang Coal Industry Administration (the 156 Brigade) conducted reconnaissance, detailed and "intensive" surveys in phases in the western part of the Charcoal Kiln Coal Mine area, 30 km west of the Heiyanquan Minefield, from 1958 to 1959. The Intensive Survey Geological Report on the Western Part of Charcoal Kiln, Balikun Coalfield, was filed in December 1959.

The Heiyanquan Minefield was included in the Balikun coalfield predictions, based on regional and district mapping and other data, conducted by Xinjiang Coalfield Geological Bureau from 1980s to 1990s.

From April to October 1992, the 161 Brigade of Xinjiang Coalfield Geological Bureau conducted an extensive survey of the geography, geology, existing mine infrastructure, mine design criteria, etc., for the Hongshan Colliery, which is 33 km east of the Heiyanquan Minefield. As a result of this work, the Geological Report on Xinjiang Balikun Hongshan Colliery's Production was completed.

The No. 1 Regional Survey Brigade of Xinjiang Geological & Mineral Bureau completed the 1:200,000 regional geological survey of Dongquan mapsheet, and established basic data with respect to the regional geology during the 1990s.

The Heiyanquan Minefield is located in an undeveloped area of the Balikun coalfield that is reportedly free of disputes over mining rights. The Xinjiang Jingxin Mining Development Co., Ltd. initially applied for an exploration permit in September 2005, which was issued by Xinjiang Uygur Autonomous Region Land & Resources Department with Sheet Nos. L46E024009, L46E023009 and Certificate No. 6500000511333, valid from September 03, 2005 to September 03, 2006, for an area of 37.25 km^2. The field surveys were conducted by the 156 Brigade. The locations of coal seam outcrop were discovered by a pre-survey, reconnaissance, detailed survey and interpretation of concealed coal seams by 2-D seismic survey in 2006, which was located outside the limits of the permit. Adjustments were therefore made to the area and scope during the modification and extension of the exploration permit. The area of the exploration permit was decreased to 29.94 km^2 at the same time. Certificate No. 6500000720330 was again modified in September 2007, Certificate No. 6500000724117, and extended the prospecting right tenure for an area of 29.80 km^2, which was valid from November 26, 2007 to November 26, 2008. Field surveys were conducted by the 156 Brigade from April 12, 2006 to September 24, 2007. On December 26, 2008, a "mining permission licence" was issued to the Balikun Yinxin Mining Investment Co. Ltd., Certificate No. 6500000813201. The area of the mining licence is 29.77 km^2 and the boundary is nearly coincident with the previous exploration permit boundary. The "mining permission licence" is in effect through December 25, 2011.

In November 2007, the report summarizing in detail the results of the 17-month, two-part program (reconciliation and initial survey in 2006 and detailed survey in

2007) was issued by the 156 Brigade and presented to the Xinjiang Jingxin Mining Development Co., Ltd. The title of the report is "*Exploration Report on Balikun County Heiyanquan Minefield of Balikun Coalfield, Xinjiang*".

During the site-visit trip, April 2009, the Xi'an Research Institute was conducting a detailed 3-D seismic survey of the minefield. This 3-D seismic survey was recommended as part of the above-referenced report.

7. GEOLOGICAL SETTING

7.1 REGIONAL GEOLOGY

In this area of Balikun County, the regional strata belong to Beitashan Stratigraphic Zone, eastern Zhunger Subregion of Tianshan Fold Belt. In the region, the Devonian, Silurian, Carboniferous and Permian strata of Paleozoic are present, which form the basement of the intermontane depressions for the deposits of Mesozoic (Triassic, Jurassic, Cretaceous) and Cenozoic (Tertiary, Quaternary). The stratigraphic record for the Paleozoic is little understood, with extremely few outcrops and most information derived from isolated and widely spaced deep drill holes. From existing information, it appears that the strata form a more or less continuous sediment record from the Upper Silurian through the Permian Ages, with only the Middle and Upper Carboniferous records missing. There appears to be a major disconformity near the middle of the Lower Carboniferous strata.

Regionally, the Mesozoic strata, which contain the Lower Jurassic Badaowan Formation, of interest at the Heiyanquan Minefield, are briefly described below. The Middle and Upper Triassic strata are distributed in the areas of Santang Lake and Sandaoling Minefield. The strata are defined in deep exploration holes, with no surface outcrops and unclear thicknesses. There is a disconformity contact with the overlying Lower Jurassic Badaowan Formation. The Lower Jurassic Badaowan Formation is mostly concealed in the middle of the region and is about 680 m thick, with an unconformable contact with the overlying Lower Jurassic Sangonhe Formation. This formation is concealed in the middle of the region, with sparse outcrops elsewhere, and is in conformable contact with the overlying Middle Jurassic Xishanyao Formation. The Xishanyao Formation outcrops in some locations but is mostly concealed in the middle part of the region. The Lower Cretaceous Qingshuihe is intermittently distributed in the middle of the region. The strata of the Cenozoic are, on the whole, widely spread in the region, with the lower components distributed in the middle and NE parts of the area. The Quaternary is in disconformable contact with any formation below and has thicknesses ranging from 0 to 100 m.

The Balikun County regional tectonic unit belongs to the Baitashan structural belt in the eastern Zhunger tectonic zone of Northern Tianshan geosyncline fold belt, which was formed by a series of complex folds. As mentioned above, it is composed of geosynclinal sediment with large thicknesses and volcanic lithologies. Especially well developed are the Carboniferous-Devonian volcanic rocks which contain frequent intrusions of various Variscan strata of later Paleozoic ages. The folds are linear structures mostly E-W in direction.

The Balikun Heiyanquan Minefield is located in an intermontane depression in this fold belt. This is a comparatively independent coal bearing basin formed in the northwestern part of the regional plate, the basement of which is mainly composed of Devonian-Carboniferous mid-acidic volcanic rocks. On the edges of this basin, there are faults F1, F3 and F4 (basin-controlling structures). Within the basin there is a broad and gentle synclinal structure (M1) approximately 20 km long. A fault, F2, with a 70^{O} dip and unclear throw cuts the coal seam in the middle and bisects the basin into two different structural units.

Concealed deeply in the Heiyanquan Minefield is a set of lake-facies sedimentary strata, topped by yellow green mudstone, tuffaceous silicate and tuffaceous sandstone with limestone lenses. These Upper Permian strata are mainly tuffaceous sandstone, calcareous sandstone and pelitic siltstone, with tuffs sandwiched in between in the middle portions. The lower parts of this strata pack are mainly dark grey, grey black sandstone, tuff, tuffaceous sandstone with jasper, which form the basement of the coal bearing basin.

Within the minefield, the Mesozoic strata sequence from bottom to top is: Upper and Middle Triassic – Xiaoquangou Group (T2+3xq), the Lower Jurassic Badaowan Formation (J1b), the Lower Jurassic Sangonhe Formation (J1s), the Middle Jurassic Xisshanyao Formation (J2x) and the Quaternary.

The Middle and Upper Triassic Xiaoquangou Group (T2+3xq) occurs in the Heiyanquan Minefield in a fashion similar to the regional strata. It lies over the Permian strata, with no outcrops on surface. The lithologies include yellow-green and grey-green conglomerate, sandstone and sandy mudstone. The thickness ranges from 9.5 to 19.5 m and is defined by boreholes ZK10-5 and ZK10-1. The contact with the overlying Lower Jurassic Badaowan Formation is a disconformity.

The Lower Jurassic Badaowan Formation (J1b) is not exposed, and contains the only coal bearing stratum in the minefield. This stratum, which is the target of this report, represents a set of lake and peat swamp facies which consist of grey siltstone and mudstone, with small lenses of sandy conglomerate. During the survey only one coal seam, “A1”, was found within this stratigraphy. This single seam is located in the upper and middle portions of the Badaowan Formation. It has a total thickness of 0.23 to 6.92 m, averaging 3.30 m. In the areas proposed for mining, the seam has a thickness ranging from 2.16 to 6.92 m and averaging about 3.71 m. The formational contact with the overlying Sangonghe Formation is a disconformity. The thickness of the entire Badaowan Formation ranges from 4.72 to 70 m as defined by the drilling programs and averages 50.33 m.

The Lower Jurassic Sangonghe Formation (J1s) is generally not exposed within the minefield, with outcrops found only in the hilly land at the northwestern corner of the minefield. The lithology of the formation includes brown-red, variegated sandy conglomerate, with thin interlayers of siltstone, coarse sandstone and mudstone. The conglomerate consists of metamorphic and granite debris showing good roundness and diameters between 1 and 5 cm. The conglomerate is cemented with argillo-arenaceous cement. The thickness, as identified by drilling, ranges between 205.26 m and 326.20 m, averaging 235.09 m. The contact with the overlying Middle Jurassic Xishanyao Formation strata is conformable.

The Middle Jurassic Xishanyao Formation (J2x) is mostly concealed under the minefield surface and is a set of fluvial and alluvial flat facies and clastic deposits.

The formation can be identified only in boreholes, as there are no outcrops of these facies, and has a lithology of interbedded grey, off-white, dark grey conglomerate, coarse sandstone, siltstone, fine sandstone, with thin interlayers of mudstone and carbonaceous mudstone. The formation thickness is defined only by drilling and ranges between 35.52 m and 494.89 m, averaging 243.45 m. The contact with the overlying Quaternary strata is a disconformity.

The Quaternary strata, including suspected minor, non-mappable elements of the Pliocene and Holocene, are widely distributed on and near the surface of the minefield. Primary constituent is sabulous clay capped by a desert pavement. The thickness, as identified by drilling, is between 0.40 m and 40.67 m, averaging 12.85 m.

The coal bearing stratum in the Badaowan Formation (J1b) of Lower Jurassic is composed of mudstone, siltstone, packsand, coarse sandstone, carbonaceous mudstone and the coal seam, "A1", of lakeshore facies—peat swamp facies sediments. The A1 seam has a total thickness ranging from 0.23 to 6.92 m and averaging 3.30 m. In five drill holes, one or two layers of gangue material, carbonaceous mudstone, appear with a thickness ranging from 0.14 to 0.48 m. The A1 seam is mainly gas coal, with long flame coal and weak glued coal only appearing sporadically and contributing no significant tonnage.

The A1 seam has a NE-SW strike, with secondary undulations. In general, the dip is approximately 10^{O} to 20^{O}, but reaches 45^{O} in the southern end of the minefield. Specifically from the north, between exploration lines 14 and 6 (1,000 m between lines), the dip is gentle at 10^{O} to 13^{O}; between exploration lines 6 and 4, the dip is 20^{O}; and between exploration lines 4 and 2, the dip is approximately 25^{O} to 35^{O}. To the south of exploration line 2, the dip is 45^{O}.

According to the 2-D seismic data from the Heiyanquan Minefield, fracture structures are not well developed in the minefield as only one breakpoint was identified on the seismic lines. Breakpoint #1, a possible normal fault, is in the SW portion of the mining lease, and has a possible dip of 70^{O} and throw of 29 m. One seismic line, L1, detected this point which was projected onto the surface about 50 m due north of drill hole ZK 6-1. Due to the large grid size of the 2-D seismic survey of this program (2,000 m between lines), and the fact that there is no other breakpoint nearby for resolution, the strike of this possible fault could not be determined. Thus, this breakpoint was processed as an isolated one and further definition is recommended to be completed in future using 3-D seismic techniques.

There are no magmatic events evident in the Mesozoic and Cenozoic strata of the minefield.

8. DEPOSIT TYPES

The Lower Jurassic Badaowan Formation (J_{1b}) is located in the subsurface of the Heiyanquan Minefield, and contains the only coal bearing stratum in the minefield. Within this formation is a set of lake and peat swamp sedimentary facies consisting of grey siltstone and mudstone, with small lenses of sandy conglomerate. During the course of exploration, only one coal seam, “A1”, was found within this stratigraphy.

The coal bearing strata in the minefield are lake shore—peat swamp facies deposits. Except for the coal seam, the strata formed in the same sedimentary environment and appear to have the same lithology and physical properties.

The A1 seam has a thickness ranging from 0.23 m to 6.92 m and averaging 3.30 m. In five drill holes, one or two layers of gangue material, carbonaceous mudstone, appear with total thicknesses ranging from 0.14 m to 0.48 m. The lack of the waste interlayers, gangue, over much of the minefield indicates that the coal swamp was relatively stable in elevation, with regard to the lake surface, and relatively distant from fluvial sources which might otherwise have transported terrigenous materials into the swamp. It is very probable that the terrain surrounding the lake was of low relief and very gently sloping.

The A1 seam is mainly gas coal, with long flame coal and weak glued coal only appearing sporadically and contributing no significant tonnage.

9. MINERALIZATION

The "A1" seam, located in the upper and middle portions of the Lower Jurassic Badaowan Formation, is the only mineable coal seam in the Heiyanquan Minefield. This seam was intersected by 29 boreholes at relatively shallow to mid-deep depths, including 25 boreholes which returned mineable thicknesses and four which showed unmineable thicknesses. Under Chinese National and Xinjiang Provincial standard, the mineable thickness of a seam is to be more than 0.7 m. Within the minefield, the minimum mineable thickness is 2.16 m and the maximum is 6.92 m and the average thickness is 3.71 m in the remaining 25 hole locations. There are up to two layers of gangue 0.14 m to 0.48 m thick. These gangue layers were encountered in five of the 25 holes which returned mineable coal thickness and their lithology consists primarily of carbonaceous mudstone. The mineable area (coal seam distribution) is 25.64 km^2 and covers most of the minefield, or about 86% of the total area of the mining lease. The remaining 14% of the total mining lease area contains unmineable coal thicknesses and is located mainly in the southern part of the lease area, at and to the south of prospecting line 2.

The A1 seam has a NE-SW strike, with secondary undulations. In general, the dip is around 10-20^{O}, but reaches 45^{O} in the southern end of the minefield.

The A1 coal seam has a simple structure and is mainly gas coal, with long flame coal and weak glued coal only appearing sporadically and not always in mappable units.

Table 9-1 presents the true thickness of the A1 coal seam for the intercepts from the 29 drill holes (first row). The second row of the table shows the data for only the 25 drill holes where the coal is of mineable thickness. The "averages" are arithmetic means and do not account for the spatial distribution of the data. Table 9-1 shows the thickness contours for the A1 coal seam. All data shown in the following tables are arithmetic averages.

Table 9-1: True Thickness of the "A1" Coal Seam

Item	Symbol	Points	Units	Low	High	Average	Notes
Coal Thk	m	29	m	0.23	6.92	3.33	All Holes
Coal Thk	m	25	m	2.16	6.92	3.71	Mineable

Table 9-2 presents the salient analytical values of the A1 coal seam. Note that only those holes with a mineable thickness have been analyzed. "MAF" is an abbreviation for "moisture and ash free". As stated elsewhere in this report, all gangue material greater than 10 mm in thickness was removed prior to analysis. This affected the samples from five of the 25 drill holes. The "averages" are arithmetic means and do not account for the spatial distribution of the data. Figure 9-2 presents the contours for the dry ash content within the minefield boundary. Figure 9-3 shows the contours for the total dry sulphur percent within the minefield boundary. The contours for the MAF volatile matter are shown on Figure 9-4. Figure 9-5 depicts the contours for the calorific values (heating values) for the MAF coal in terms of MJ/kg.

Table 9-2: Salient Analytical Data of the "A1" Coal Seam

Item	Symbol	Points	Units	Low	High	Average	Notes
Density	ARD	16	t/m^3	1.26	1.38	1.32	
Moisture	M_{ad}	25	%	0.73	7.69	1.98	
Dry Ash	A_d	25	%	8.41	35.93	21.15	
Dry Sulphur	$S_{t.d}$	25	%	0.22	1.55	0.75	Total S
Vols MAF	V_{daf}	25	%	29.40	43.15	37.90	
MJ/kg MAF	$Qb._{daf}$	24	MJ/kg	25.05	34.96	33.13	

As shown in Table 9-2, there are 25 sampling points: the water content (Mad) of A1 seam is between 0.73% and 7.69% and the dry volatile matter (Vdaf) yield is between 29.6% and 41.9%. Thus, the coal is defined as a mid-high to high volatile by the Provincial coal industrial standards MT/T 849-2000.

Table 9-2 also shows the coal ash (Ad) yield is between 8.41% and 35.93%, which is in the category of low ash to high ash coal according to the Provincial standards GB/T 15224. 1-2004.

In the ash of the A1 coal seam, the content of SiO_2 is between 32.71% and 57.40%, the Fe_2O_3 between 2.37% and 8.60%, the Al_2O_3 between 9.80% and 22.33%, the CaO between 9.02% and 27.30%, the MgO between 0.70% and 9.64%, the SO_3 between 0.77% and 3.01%, and the TiO_2 between 0.35% and 1.24%. The ash is therefore of the Al-Si type. These results are derived from five of the 25 drill holes with mineable thickness.

For the various contents of SiO_2 and Al_2O_3 in the ash, the ash fusibilities are different. The "ST" (mid-range temperature) of ash fusibility is at 1240-1350^{O}. Therefore this is a eutectic-dystectic ash coal. These results are derived from five of the 25 drill holes with mineable thickness.

In general, for the A1 coal seam, the organic percentage is high in the macerals of coal. Using visual inspection, a large amount of plants' carbon fragments were found in the roof and footwall of coal seam. This inspection suggests that the original materials forming coal were higher plants. The genetic coal type is a humus coal for the A1 coal seam within the minefield.

As a result of testing, it has been determined that the clarain's maximum reflectance is approximately 0.48-0.57% and the metamorphic stage of the coal is from 0 to I.

There are "toxic" elements present in the A1 coal seam. These consist of phosphorus, fluorine, chlorine, arsenic and sulphur (including total and all varieties of sulphur), with phosphorus content approximately 0.012-0.253% in the coal. It is defined as low-high phosphorus coal by the Provincial coal industry standards MT/T 562-1996.

In the coal, the chlorine content is normally at 0.019-0.085%; fluorine 24–188 µg/g, which is commonly high; arsenic 1–98 µg/g, which is high in the areas of ZK14-1 and ZK14-4, with values at 74–98 µg/g, and low at other boreholes at 1-24 µg/g.

Table 9-3 shows the “toxic” element content and distribution for the A1 coal seam at the Heiyanquan Minefield.

Table 9-3: “Toxic” Element Contents of the “A1” Coal Seam

Item	Symbol	Points	Units	Low	High	Average	Notes
P	P_d	18	%	0.012	0.253	0.074	
F	F_{ad}	20	ppm	24	188	85.5	
Cl	Cl_d	20	%	0.019	0.085	0.040	
As	As_{ad}	19	ppm	1	98	13.63	
S	$S_{t.d}$	25	%	0.22	1.55	0.75	Total Dry

Table 9-4 shows that the calorific value of A1 seam raw coal is between 16.51 and 30.27 MJ/kg, which is a low to very high calorific value coal according to Provincial standard GB/T 15224.3-2004.

Table 9-4: Calorific Value Content of the “A1” Coal Seam

Item	Symbol	Points	Units	Low	High	Average	Notes
MJ/Kg	$Q_{gr.d}$	25	MJ/Kg	16.51	30.27	26.17	Raw
MJ/Kg	$Q_{b.d}$	25	MJ/Kg	16.55	30.36	26.28	Dry
MJ/Kg	$Q_{b \cdot daf}$	24	MJ/Kg	25.05	34.96	33.13	MAF

As a result of low-temperature carbonization testing of the A1 coal seam, the raw coal tar (Tarad) yield ranges between 3.2% and 16.4%; the gross distilled water content ranges between 3.1% and 12.5%; the char yield is between 64.0% and 81.5%. The coal is defined as “oil bearing–high-oil” according to its tar yield. These data are based on testing 13 of the 25 holes with a mineable thickness.

The raw coal assay results for the A1 seam show that gallium content ranges from 1.64 to 21.42 ppm (7 holes), while the germanium (4 holes) and vanadium (7 holes) range between 1.62 and 6.68 ppm and 4.85 and 71.86 ppm, respectively. These are of very little relevance industrially.

In summary, the A1 coal is at a low metamorphic stage and is mainly a gas coal, with the quality properties of very low–high ash, low–very high calorific value, very low–mid-high sulphur, low–high phosphorus and eutectic-dystectic ash, which can be used for power generating, for industrial boilers, for civil use and for coke blending.

10. EXPLORATION

Recent exploration at the Heiyanquan Minefield included a 17-month pre-survey/reconnaissance/detailed program that started in April 2006. A 2-D seismic survey and geological prospecting were designed to gain a preliminary understanding of the minefield stratigraphy, which then was confirmed by drilling and sampling.

The 2-D seismic survey was completed by the Shandong China Coal Geophysical Survey Co., with a contract signed in April 2006. The scope of the survey was the preliminarily examination of the fundamental structural configuration and its complexity in the minefield, as well as the distribution of coal bearing strata within the minefield. On April 22, 2006, the Shandong China Geophysical Survey Co. completed preparation of the 2-D Seismic Survey Design for Xinjiang Balikun Hazak Autonomous County Heiyanquan report, with the working team entering the site on April 27. The onsite tests were conducted on April 30 and the field seismic program was completed on May 5.

The pre-survey/reconnaissance/detailed survey for the Heiyanquan Minefield lasted 17 months from April 12, 2006, to September 24, 2007, with all planned field work completed. A total of 31 boreholes (8 for extensive-detailed survey [2006], 23 for exploration [2007]) were completed, for a total of 11,702.69 m (including mechanical core drilling of 3,168.04 m [2006], 6,808.35 m [2007] and hydrological drilling of 1,043.87 m, 682.43 m in 2006 and 2007, respectively). Detailed topographic and physical detail surveys were completed as part of the 2006 “extensive-detailed” survey program, at a scale of 1:10,000.

In 2006, as part of the “extensive-detailed” survey program, four prospecting lines (lines 2, 6, 10 and 14) were completed with an average spacing of 2,000 m across the strike of the coal seam of the minefield. These lines coincide with the lines of the 2-D seismic program. A total of eight boreholes were drilled, two for hydrological purposes, on the prospecting lines along with other prospecting engineering. The deepest borehole reached 697 m.

In 2007, three infill exploratory lines (line 4, 8 and 12) were completed spaced at 1,000 m. A total of 23 boreholes were drilled, one for hydrological purposes, with the deepest reaching 746 m. This program, combined with the 2006 program, provided a drilling grid of basically 1 km centres.

During the 17-month “pre-survey/reconnaissance/detailed survey” program, a total of three pumping test boreholes were completed: ZK6-2 (2006); ZK10-3 (2006); and ZK12-4 (2007), as well as one inflow monitoring hole, ZK 14-2 (2006). Drill-hole lines 6, 10, 12 and strike section line I-I’ are geohydrological and geotechnical section lines.

During the program, a 1:10,000 geological survey [2006] was conducted to control seam outcrops and exposures of other strata. A total of 20 samples for testing rock dynamic properties of seam roof and floor, including a few for coal dust explosibility and ignition temperature testing, were collected to investigate other mining technical and geotechnical conditions.

During the 17-month program, a total of 25 coal-seam samples were collected from the borehole cores for assessing coal usages. The samples were tested and evaluated in accordance with specific National criteria.

In November 2007, the report summarizing in detail the results of the 17-month, two-part program, was issued by the 156 Brigade and presented to the Xinjiang Jingxin Mining Development Co., Ltd.. The title of the report is "*Exploration Report on Balikun County Heiyanquan Minefield of Balikun Coalfield, Xinjiang*".

During the Scott Wilson site visit, April 2009, the Xi'an Research Institute was conducting a detailed 3-D seismic survey of the minefield. This 3-D seismic survey was recommended as part of the above-referenced report.

11. DRILLING

11.1 GENERAL

The pre-survey/reconnaissance/detailed survey for the Heiyanquan Minefield lasted 17 months from April 12, 2006, to September 24, 2007, with all planned field work completed. A total of 31 boreholes (8 for extensive-detailed survey [2006], 23 for exploration [2007]) were completed, for a total of 11,702.69 m (including mechanical core drilling of 3,168.04 m [2006], 6,808.35 m [2007] and hydrological drilling of 1,043.87 m, 682.43 m in 2006 and 2007, respectively).

For all boreholes, the drilling equipment and hole design were basically the same, namely: an “xy-5” drilling machine, NBB250/40 slurry pump, both vertical and inclined Worthy pipe rig (XT-18) manufactured by the brigade and powered by T2XW-75-4 diesel generators. The down-hole drill system was comprised of a DMD-1 single rotary double barrel corer with a 95 mm inner and exterior bladed bit, 95 mm 4-wing rib bit, 95 mm double-barrel coring bit, 102 mm rib bit. The collar diameter was 146 mm, with the casing diameter at 127 mm and end hole diameter at 95 mm. Although this down-hole equipment is manufactured in China, it closely approximates western “HQ” wireline standards with the recovered core a few millimetres larger than “HQ”.

The drilling rigs were set up and accepted upon inspection in accordance with the established procedure and criteria. All through the drilling procedure, from collar to depth, quality was strictly inspected and accepted.

The rock and coal core recoveries were accepted upon inspection in accordance with the *Quality of Coalfield Exploratory Drilling* issued by the Land and Resource Ministry (the *Standards*). The recovery of length and weight for the mineable coal seam, “A1”, reached or exceeded the *Standards*. The recovery for unmineable seam thicknesses (less than 0.7 m) was not individually calculated; it was jointly calculated with rock stratum, with results exceeding the *Standards*.

To determine precise depths of the borehole, coal seam location, coal-seam floor and seam thickness, the drilling string was accurately measured once at about 10 m above the anticipated roof or below the floor of the seam during the drilling. In borehole sections with no coal, the drilling string was measured every 100 m of drilling length. This was aided by a hole-depth measurement at the end of hole, with errors all less than 0.15%, which were reasonably adjusted to ensure reliable data recording.

The azimuth and dip of a drill hole were measured every 50 m of drilling, with any problems corrected promptly and good results attained. The hole inclination of the 31 boreholes drilled during this 17-month program ranged from 1° to 11°, falling within the category of the “super degree” as defined in the Quality *Standards* and the “*Supplementary Companion Policies*” stipulated by Xinjiang Coalfield Geological Bureau.

All coal cores, and other samples as appropriate, from drilling were hand-washed and put into the core box in sequence. All core-log forms were completed and well kept in the field, which meets the requirements for assay, photography and sampling standards. When the completed hole was geophysically logged, inspected and accepted by geological staffs of all disciplines, it was sealed in accordance with appropriate standards. For sealing, mortar was prepared by ratio of 1:0.7:2 of 425# cement, water and fine sand and pumped through the drill pipe, to seal the coal seam in accordance with design. All boreholes in the minefield had permanent cement stakes buried at the collar, after sealing of the coal, with the hole number, date and team of drilling marked on the stake.

All 31 drill holes completed as part of the 17-month program were geophysically logged at the end of drilling activities at each location. Every effort was made to strictly abide by the *Criteria on Coalfield Geophysical Logging* and the *Quality Standards on Coalfield Exploratory Drilling*, with integrated acceptance standards, and to collect complete and accurate first hand information in accordance with the "Criteria". All instruments for the logging operation were regularly adjusted and calibrated in accordance with the *Companion Policies on Coalfield Logging Instruments Adjustment and Calibration*, to ensure the fulfillment of operation demands and Quality Control. The logs completed for the drill holes are: long spacing gamma-gamma (GGL); short spacing gamma-gamma (GGS); natural gamma (GR); apparent resistance potential (NR); self-potential (SP); borehole inclination; borehole diameter (CAL); and borehole temperature (TEM). During the 2006 program, 93.4% of the drilled thickness was successfully logged; during the 2007 program, 96.7% of the drilled thickness was successfully logged. No abnormalities were found as a result of geophysical logging.

All original records were completed in accordance with stipulations and Standards, and basically provided an accurate, complete, clear and timely record of events and results. The drilling-shift records were accepted upon inspection by three levels of supervision and management. Other original records that were completed include procedures of compilation, inspection and proofreading. The quality of original records is reliable, which provides a precisely reliable firsthand source of basic information for the preparation of the geological report.

The boreholes were formally accepted after checking and evaluation in accordance with the Ministerial Standards on Coalfield Exploratory Drilling and relevant companion policies.

11.2 2006 DRILLING PROGRAM

In 2006, as part of the "extensive-detailed" survey program, four prospecting lines (lines 2, 6, 10 and 14) were completed at an average spacing of 2,000 m across the strike of the coal seam. These lines coincide with the lines of the 2-D seismic program completed in April 2006. A total of eight boreholes were drilled, two for hydrological purposes, on the prospecting lines, along with other prospecting engineering data collected. The deepest borehole reached 697 m.

The 2006 program utilized two drilling rigs to complete the eight holes. The average drilling rate was about 15 m per day. The 2006 drill program totalled 4,211.91 m for an average of about 526.5 m per hole.

Of the eight holes drilled in 2006, seven discovered coal. All seven recovered seam samples of mineable thickness and high quality. For the coal seams of mineable thickness, the length recovery was 94.97%, while weight recovery was at 77.47%. The rock core recovery was 97.15%. Confirmed by geophysical well logging, all rock, coal core recoveries, thickness and depth differences of seam roof and floor meet the Ministerial standards.

Table 11-1: Summary of 2006 Field Campaign

Name	Units	Completed	Notes
Permanent Control Survey	Point	20	
1:5000 Profiling	km	26.7	4-lines
Geological Observation	Piece	326	
1:10,000 Integral Geo. Survey	km^2	40	
1:10,000 topo mapping	km^2	40	
2-D Seismic	km	30.02	5-lines
Boreholes		8	Includes 2 hydro holes
Drilled Thickness	Metres	4,211.91	
Geophysical Logging	Metres Surveyed	3,952.45	
Coal Core Samples	Piece	7	
Gas Measurement Samples	Piece	4	
Water Samples	Piece	3	
Rock Mechanics Samples	Set	8	

Drill holes ZK 6-2 and ZK 10-3 were completed as hydrogeological test holes. Hole ZK 14-2 was pump tested in 2007.

Rock mechanics, coal seam roof and coal seam floor. samples were collected from the following drill holes: ZK 6-2; ZK10-2; ZK 10-3; and ZK 14-2.

The drill hole which did not encounter the “A1” coal seam is ZK 2-1. It was reported that this drill hole “stopped early” due to drilling problems.

11.3 2007 DRILLING PROGRAM

In 2007, three infill exploratory lines (line 4, 8 and 12) were designed with a spacing of 1,000 m in total between all lines from 2006 and 2007. A total of 23 boreholes were drilled, one for hydrological purposes, with the deepest reaching 746 m. This program, combined with the 2006 program, provided a drilling grid of basically 1 km centres. The deepest drill hole reached 766.6 m.

The 2007 program utilized nine drilling rigs to complete the 23 holes. The average drilling rate was about 12 m per day. The 2007 drill program totalled 7,490.78 m for an average of about 325.7 m per hole.

Of the 23 holes drilled in 2007, 22 discovered coal. Of these 22, 18 recovered seam samples of mineable thickness, including 11 of high quality coal and seven of passable coal quality. The core recovery for the 18 samples of mineable thickness was 90.3% while the weight recovery was at 75.6%. The rock core recovery was 80.4%. Confirmed by geophysical well logging, all rock, coal core recoveries, thickness and depth differences of seam roof and floor meet the Ministerial Standards.

Table 11-2: Summary of 2007 Field Campaign

Name	Units	Completed	Notes
Permanent Control Survey	Point		
1:5000 Profiling	km	15.03	3 Lines
Geological Observation	Piece		
1:10,000 Integral Geo. Survey	km^2	3.0	
1:10,000 topo mapping	km^2		
2-D Seismic	km		
Boreholes		23	Includes 1 Hydro Hole
Drilled Thickness	Metres	7,490.78	
Geophysical Logging	Metres Surveyed	7,261.1	
Coal Core Samples	Piece	18	
Gas Measurement Samples	Piece	2	
Water Samples	Piece	3	
Rock Mechanics Samples	Set	12	

Drill hole ZK 12-4 was completed as a hydrogeological test hole.

Geotechnical samples from coal seam roof and coal seam floor were collected from the following drill holes: ZK 8-1; ZK 10-4; ZK 12-2; ZK 12-3; ZK12-4 and ZK 14-5.

The drill hole which did not encounter the “A1” coal seam is: ZK 8-4. Its location was beyond the “sub-crop” and the coal has been eroded.

12. SAMPLING METHOD AND APPROACH

For the samples derived from the 17-month Heiyanquan Minefield program, sample collection was conducted on the premise of completing detailed records of depth, thickness and core length, along with statements of physical property of coal seam, macrolithotype and core conditions. The “A1” seam was wholly sampled as an independent seam. Samples were weighed on site to ensure its representativeness. Core of “grind burning” (result of drilling operations) and other intervals obviously contaminated from drilling operations were not sampled. With the intact “cylinder core” recovered from drilling, intervals with gangue of 10 mm, or more, were rejected as were intervals of core in very small fragments or powder form. Collected coal samples were washed and dried, placed into core boxes and then sent to the Comprehensive Laboratory of Xinjiang Coalfield Geological Bureau in Urumqi for assay within the set transportation time limit established by Provincial standards.

Collection, packaging and transportation of all types of samples were in accordance with the Ministerial criteria and the design of detailed survey. In total, there were 47 samples (groups) collected during the 17-month program, including 25 coal cores, 20 groups (sets) of rock samples for physical and mechanical testing, six samples for gas coal examination, and six water samples for total hydrochemical analysis. All of the above mentioned samples were stated by the Laboratory to have been received in “excellent” condition except for samples from drill holes ZK 2-2, ZK 4-2, ZK 6-4, ZK 8-2, ZK 8-5 and ZK 12-4 which were judged to be “passable”.

13. SAMPLE PREPARATION, ANALYSES AND SECURITY

Sample preparation and all analytical routines were conducted at the Comprehensive Laboratory of Xinjiang Coalfield Geological Bureau and its subsidiary Xinjiang Coal Products Quality Testing Centre, namely the Supervision & Inspection Station on Coal Products Quality of Xinjiang Uyghur Autonomous Region with implementation of Provincial standards and/or current industrial standards for assay methods and standards. Both organizations are housed in the same facility in the city of Urumqi, Xinjiang. All tasks of sample collection, packaging and assay determination were under the guidance of the *Criteria on Coal, Peat Geological Survey* (issued by the Land & Resources Ministry in December 2002), the *Collection Procedures on Coal Resources Exploratory Samples* (issued by the former Coal Industrial Ministry in November 1987) and other currently relevant criteria.

After typical sample preparation procedures, individual analytes were quantified using wet chemical methods, and atomic adsorption and other testing as required, in the Comprehensive Laboratory. During the analytical procedures, quality assurance and quality control (QA/QC) were checked on a continuing basis. Internal laboratory checking, which is actually a reanalysis of the individual samples, was completed on 5% of the samples received. “Standard” samples (knowns) were inserted into the set of samples being tested. These “standards”, inserted about once every day, were used for internal laboratory procedure control and checking of analytical accuracy. In addition to checking overall laboratory performance, about once per year, a National Standard is analyzed by all coal laboratories in China and the results compared. Such actions and reforms as necessary are completed immediately under both Provincial and National supervision. This facility is authorized and certified by both the National and Provincial governments. All differences accounted for in the QA/QC programs are rectified either through reanalysis or through mathematical procedures which account for analytical “drift.”

By laboratory standards, the entire core is prepared for use in the analytical procedures to be employed. The residual and reference samples are retained for one year at the lab and then discarded. There are no samples remaining from the 17-month Heiyanquan Minefield program which could be used for reference or check analyses.

For the samples derived from the 17-month Heiyanquan Minefield program, a whole set of coal sample assays were completed, such as: industrial analysis, calorific value, minor element analysis, total sulphur, various sulphur forms, phosphorus, chlorine, arsenic, ash content, ash fusibility, caking index, low temperature carbonization, transmittance, dust explosibility, fire point ignition test, volume weight, rare elements assay (spectral analysis), clean coal recovery, coal reaction to carbon dioxide, thermal stability, slag yield, grindability index, gas assay, etc. In total, 25 coal seam samples were examined with 18 determined to be of “high quality”, which is 72 % of the total.

A total of six water samples were collected during the 17-month program from ZK14-2 and hydrological pilot holes of ZK 6-2, ZK 10-3, ZK 12-4, and Heiyanquan spring, as well as 2# spring. The water samples were put in clean plastic containers directly, then wax sealed and labelled, and sent to the Comprehensive Laboratory in a timely manner for chemical analysis.

The gas samples were collected by samplers, from the drilling profession, with gas content assayed by desorption methods at the Comprehensive Laboratory. After on-site analysis, by a FHJ-2 field desorption analyzer, of the gas in a sealed can, the samples were sent to the lab in a timely manner to meet the requirements of desorption testing and evolved gas determination.

A total of 20 groups (sets; "A1" roof and floor) of rock samples were collected from 10 boreholes during the 17-month program to examine the rock mechanics of the rock strata which form the roof and floor of coal seam. All samples were marked with the orientation of top and bottom, the block number, the specifications and sampling depth. The individual samples were then packed in wax paper and kraft paper, wax sealed and sent to the lab in a timely fashion.

The coal, water and rock samples are not considered "high value" assets and as such do not require the extra precautions of physical security that other more valuable minerals might require. However, the QA/QC procedures implemented by the Comprehensive Laboratory of Xinjiang Coalfield Geological Bureau and its subsidiary Xinjiang Coal Products Quality Testing Centre do provide "security" for the accuracy of the analyses and the results which are reported. The following are a few of the steps employed by the QA/QC system:

- Every sample is analyzed in duplicate; retests are completed by two technicians in parallel.
- The results of the analyses are rechecked by the assayer, by the group leader and finally by the "technician-in-charge" – a total of three checks.
- For results in dispute, the reanalysis must be conducted simultaneously with a standard to verify accuracy.
- "Standard" samples are all certified as are the sub-level standards.
- Duplicate assays are by the same or different analytical methods as required.
- Implementation of assay results verification is organized by the person in charge of techniques at the lab and in accordance with the protocol XM 0200030 – "Quality Verification & Control Program".
- The person in charge (see above) is to complete a statistical analysis of the verification data to discover trends and to appraise the results with statistical measures.

14. DATA VERIFICATION

As part of this NI 43-101 site visit and report preparation, Scott Wilson interviewed personnel of the 156 Brigade, including the Heiyanquan Minefield project team leader. Scott Wilson also inspected over 10% of the drill hole files which include all aspects of the data collected from the drill holes as well as individual interpretations resulting from those data. In addition, Scott Wilson interviewed personnel from the Comprehensive Laboratory of Xinjiang Coalfield Geological Bureau and its subsidiary Xinjiang Coal Products Quality Testing Centre while conducting a tour of the facility in Urumqi.

Field work conducted by the 156 Brigade has many internal and external checks for data verification for each task being performed and protocols in place for rectifying any discrepancies. The same is true for the laboratory procedures employed by the Comprehensive Laboratory. Current interviews primarily focused on data handling procedures, data storage and data transfer among other items of import.

References to various guidelines for data verification are found throughout this report especially in Sections 11, 12 and 13. Specific and general criteria and guidelines for conducting coal fieldwork, and data verification, as followed by the 156 Brigade, are briefly listed below.

- State standards GB/T 5791-93 1:5000, 1:10,000 Topographic Map Schemes;
- State Standards GB/T 18314-2001: Global Positioning System (GPS) Survey Criteria;
- Industrial Standards: Criteria on Geological Exploration and Survey;
- State Standards GB/14912-94: Specifications for Computer-aided Mapping of Large-scale Topographic Maps;
- Design Paper on Professional Techniques of 1:10000 Digital Topographic Mapping of Xinjiang Balikun County Heiyanquan Coal Mine.

The pre-survey/reconnaissance/detailed field survey in the Heiyanquan Minefield lasted 17 months from April 12, 2006 to September 24, 2007, with all planned field work completed. A total of 31 boreholes (8 for extensive-detailed survey [2006], 23 for exploration [2007]) were completed, for a total of 11,702.69 m (including mechanical core drilling of 3,168.04 m [2006], 6,808.35 m [2007] and hydrological drilling of 1,043.87 m, 682.43 m in 2006 and 2007 respectively).

Listed below are specific field tasks that have not been reported in detail in other sections of this report. This shows that, in all aspects, the field work, and its data, has been verified at multiple levels of inspection.

To ensure the survey quality, all instruments for the survey were tested and qualified by the Xinjiang Survey Product Quality Supervision & Testing Station.

Handwritten records of every instance of field surveying were 100% inspected and reported with the inspection conclusion and signature. The “inspection verified” original records are the bases for calculation.

As demanded by the design, a total 20 “E degree” GPS points were laid out, including 10 monument stations with one station for the horizontal and three for the vertical control networks and two stations of National grade closure (with utilizable intact monuments). With calculation, the minimum relative mean square error is 1/619020, and the maximum is 1/84557 of the control network. Every tolerance meets the design and standard criteria with good accuracy.

During the reconnaissance-detailed survey in 2006, 1:10,000 topographic mapping was conducted for an area of 36 km^2; in the exploration of 2007, 1:10,000 topographic mapping for 3 km^2 was conducted. The basic contour interval is one metre. The field work collected a total of 7,575 topographic detail points. Every tolerance meets the criteria with good accuracy.

A total of four section lines (#2, #6, #10, and #14) were surveyed at a scale of 1:5,000 in the detailed survey in 2006. The lines are numbered progressively increasing from south to north. In the field work, geological and topographical points were all staked; the endpoints of the prospecting lines were all marked by monuments. The sections were closed at section control points. The total length of sections is 26,700 m. The maximum section length closing error is 1/2800 below the tolerance of 1/800; the maximum section elevation closing error is 0.28 m, below the standards of 1/3 contour interval.

A total of three section lines (#2, #6, and #12) were surveyed at a scale of 1:5000 in 2007. In the field work, geological and topographical points were all staked and the endpoints of prospecting lines were all marked by monuments. Sections closed at section control points. Total length of sections is 15,024.55 m. The maximum section length closing error is 1/2600 below the tolerance of 1/800 and the maximum section elevation closing error is 0.26 m, below the standards of 1/3 contour interval

Eight boreholes were surveyed during the detailed survey in 2006, while 23 were surveyed during exploration in 2007. The borehole collar survey is conducted by distance measurement polar coordinate method based on the local control points. The collar location is measured to the centre of the hole sealing mark, elevation at the surface of monument with ground surface elevation data supplied. Every tolerance meets the design and standard criteria with good accuracy.

For the samples derived from the 17-month Heiyanquan Minefield program, the Comprehensive Laboratory of Xinjiang Coalfield Geological Bureau and its subsidiary Xinjiang Coal Products Quality Testing Centre provided the testing and analytical results. As explained in Section 13 of this report, there is an intense and extensive data verification protocol that is dictated by internal, Provincial and National sets of standards. This facility holds both a “China Authorization Certificate” (#210) and a National “Metrology Accreditation Certificate” (#T0101) which were issued in February 2005. A brief inspection of analytical records found no evidence of obvious errors.

15. ADJACENT PROPERTIES

The Heiyanquan Minefield is in an undeveloped area in the Balikun coalfield that is reportedly free of disputes over exploration and/or mining rights. During the site visit, no mention was made about permits or licences for adjacent parcels of land. No maps showing "ownership" for adjacent lands were observed. During discussions, the nearest parcels of land under ownership by others discussed were the coal operations some 30 km to the west and 25 km to 30 km to the east. These operations are mentioned elsewhere in this report.

During the site inspection trip for this report on April 19, 2009, three exploration drilling rigs were observed some 3 km to 4 km to the east of the Heiyanquan Minefield. Personnel accompanying on the trip had no information regarding the origin of the rigs, the permit holders or other information regarding the status of the ground or the target mineral. Due to the proximity of the rigs to the minefield, it is assumed that the exploration target is coal.

16. MINERAL PROCESSING AND METALLURGICAL TESTING

The pre-survey/reconnaissance/detailed survey for the Heiyanquan Minefield lasted 17 months from April 12, 2006, to September 24, 2007. During this period, the washability characteristics of the A1 coal seam were tested on a single sample from a single drill hole, ZK 8-3. The testing was conducted by the Comprehensive Laboratory of Xinjiang Coalfield Geological Bureau and its subsidiary Xinjiang Coal Products Quality Testing Centre in Urumqi, Xinjiang. The results of this testing were published in the report "*Exploration Report on Balikun County Heiyanquan Minefield of Balikun Coalfield, Xinjiang*".

In order to determine any benefit from particle sizing, a sieve test and accompanying simple analysis was completed. Table 16-1 presents the results of that test.

Table 16-1: Sieve Test Results

Size Fraction	% Yield	% Dry Ash	% Dry Sulphur
13 by 6 mm	40.88	18.53	0.47
6 by 3 mm	18.23	18.76	0.47
3 by 0.5 mm	28.73	21.12	0.47
< 0.5 mm	12.15	25.21	0.51
TOTAL	100.00	20.13	0.47

Further testing examined the "sink and float" character within each of the size fractions. Table 16-2 presents the results of those tests. The "% Yield" is the percentage of the total sample which was 9.05 kg.

Table 16-2: Sieve and Sink-Float Test Results

	13 by 6 mm		6 by 3 mm		3 by 0.5 mm		13 by 0.5 mm	
	% Yield	% Dry Ash	% Yield	% Dry Ash	% Yield	% Dry Ash	% Yield	% Dry Ash
	40.88	18.53	18.23	18.76	28.73	21.12	87.85	19.42
Density	% Yield	% Dry Ash	% Yield	% Dry Ash	% Yield	% Dry Ash	% Yield	% Dry Ash
<1.30								
1.30-	21.29	9.82	7.36	10.34	8.39	10.39	36.48	10.21
1.40-	6.18	17.56	2.83	17.88	4.04	19.17	13.08	18.08
1.50-	1.69	24.70	0.80	26.89	2.45	26.67	4.93	27.62
1.60-	0.84	35.13	0.89	36.58	1.70	37.38	3.58	35.13
1.70-	1.07	33.86	0.40	38.06	0.87	41.08	2.31	37.74
1.80-	3.02	41.14	1.00	45.38	1.15	48.79	5.08	44.45
>2.00	1.73	72.71	0.54	73.72	0.75	74.47	2.96	74.96

Table 16-3 provides a summary of the "sink-float" tests for the 13 by 0.50 mm size fraction from the single sample tested.

Table 16-3: Sieve and Sink-Float Test Results of 16 By 0.50 mm Fraction

			Accumulation			
			Floatables		Sinkables	
	% Yield	% Dry Ash	% Yield	% Dry Ash	% Yield	% Dry Ash
Density						
<1.30	17.46	4.82	17.46	4.82	100.00	17.80
1.30-1.40	44.01	10.21	61.47	8.67	82.54	20.54
1.40-1.50	15.78	18.08	77.25	10.60	38.53	32.35
1.50-1.60	5.94	27.62	83.19	11.81	22.75	42.26
1.60-1.70	4.32	35.13	87.51	12.96	16.81	47.43
1.70-1.80	2.79	37.74	90.30	13.73	12.49	51.69
1.80-2.00	6.13	44.45	96.43	15.68	9.70	55.69
>2.00	3.57	74.96	100.00	17.80	3.57	74.96
Coal Slurry	5.65	39.39				

Based on the above results from tests on this single sample, an investigative effort was made to ascertain the results of setting the dry ash content to 10% and 13% using charts and graphs. At the 10% dry ash target, the theoretical separating density would be at 1.47 with a yield of about 33.2%. For the 13% dry ash target, the theoretical separating density would be at 1.70 with a yield of about 77.2%.

The results of this single series of tests on the benefits of coal washing do not seem to be necessarily encouraging. Perhaps this test series and the general lack of available water, along with consideration of intended coal markets, are the reasons that more tests were not conducted and, during interviews, the use of coal washing technology in the Heiyanquan Minefield was “downplayed”.

17. MINERAL RESOURCE ESTIMATE

17.1 GENERAL

The Heiyanquan Minefield resource estimate prepared by Scott Wilson is presented in Section 17.2 and is compared with the estimate prepared by the 156 Brigade in Section 17.3. While the input values for both estimates are the same, the methodologies and design criteria for the estimates are quite different. The Scott Wilson model uses U.S. Geological Survey classification criteria and the estimate prepared by the 156 Brigade uses Chinese National classification criteria. Consequently, the values reported here are different.

Use of the computer model allows for the evaluation of trends in thickness and analytical values in the resource classification process. The Chinese classification criteria do not. In fact, the report issued by the 156 Brigade presents only tonnage estimates with no associated values for thickness and coal quality. The 156 Brigade only offers arithmetic averages of drill-hole values for a presentation of coal-seam thickness and associated analytical values in total.

Nevertheless, the tonnage values of Scott Wilson and the 156 Brigade agree rather well given the different classification criteria used. For measured and indicated resources (M&I), the two estimating approaches agree within 12% with regard to tonnage. The estimate from the 156 Brigade, using Chinese estimating criteria, is the more conservative of the two and is absolutely in line with Chinese National policy and approach.

The Scott Wilson estimate, based on the same data, is presented using classification criteria which are more familiar to Western analysts and should provide confirmation that the basic data from the 156 Brigade are accurate, trustworthy and somewhat conservative from a Western viewpoint.

Also presented in Section 17.4 is a “rough” estimate using the polygonal estimating method. This estimate is only a cross check and is not meant to supersede either the Scott Wilson computer model estimate or the 156 Brigade estimate. These are much more reliable and supportable estimates.

17.2 COAL RESOURCE ESTIMATE BY SCOTT WILSON

The Scott Wilson resource estimate includes the following categories:

- Measured – Coal for which estimates of rank, quality, and quantity have been computed, within a margin of error of less than 20%, from sample analyses and measurements from closely spaced and geologically well-known sample sites. This study used a 400 m radius around each of the sample sites; similar, but not exact, to the Chinese classification #331.

- Indicated – Coal for which estimates of the rank, quality and quantity have been computed partly from sample analyses and measurements and partly from reasonable geologic projections. This study used a 1,200 m radius around each of the sample sites; somewhat similar in concept to Chinese classification #332.

- Inferred – Coal in unexplored extensions of the “indicated” classification for which estimates of the quality and size are based on geologic evidence and projection. Due to the drilling density and the proximity of the mining lease boundary, the influence limit was dictated by the mining lease boundary before any linear extent could be reached; somewhat similar in concept to Chinese classification #333.

Figure 17-1 shows the resource classification plan.

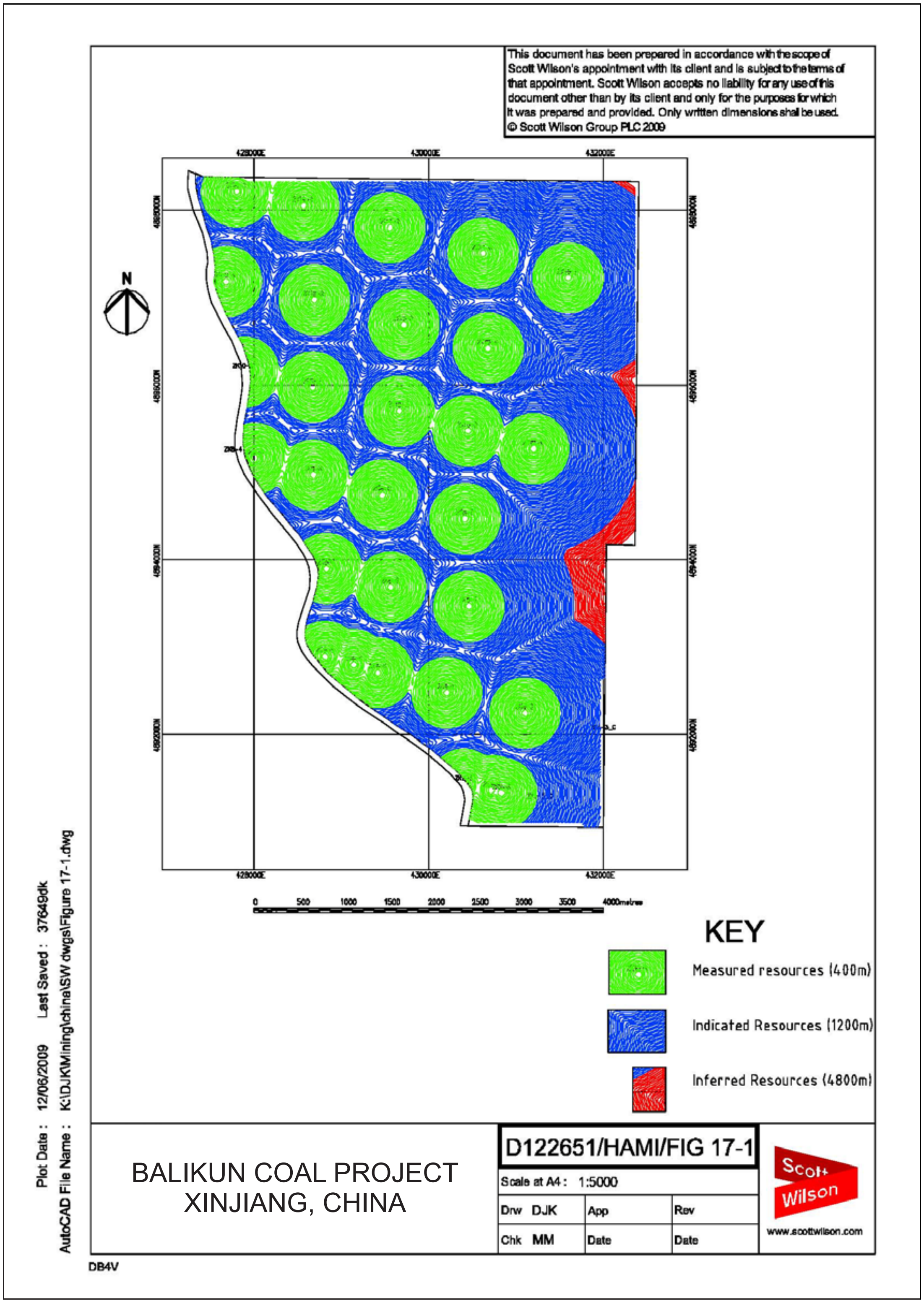


Figure 17-1: Resource Classification Plan

Other limited computer model design criteria are as follows:

- Coal Density – A constant 1.32 tonnes per cubic metre; the same as the 156 Brigade;
- Minimum Coal Thickness – 0.7 metres which is the same used by the 156 Brigade;
- Coal Subcrop – From the 156 Brigade report as shown on their Figure 19;
- Coal Analyses – From the 156 Brigade report as shown in individual drill hole analyses;
- Gridding Algorithm – Inverse Distance with no anisotropy;
- Gridding Search Distance – 2,500 m;
- Outside Boundary – The mining lease boundary.

Table 17-1 presents the resource estimate prepared by Scott Wilson for the Heiyanquan Minefield. Moisture (H_2O) was not modelled; "MAF" is the abbreviation for "moisture and ash free".

Table 17-1: Estimated Coal Resources Prepared by Scott Wilson

	Tonnes	Coal Thk m	H_2O %	Ash % Dry	Volatiles MAF %	Sulphur % Dry	MJ/KG MAF
Measured	37,992,200	3.49	0.00	20.70	37.75	0.74	33.24
Indicated	50,062,800	3.44	0.00	20.59	37.52	0.76	33.32
TOTAL M & I	88,055,000	3.46	0.00	20.64	37.62	0.75	33.29
Inferred	259,700	2.42	0.00	20.10	36.72	0.38	34.01

The thickness and analytical values in Table 17-1 are derived from grid nodes specifically within each of the resource classification areas. These data are modelled data.

17.3 COAL RESOURCE ESTIMATE BY THE 156 BRIGADE

The coal classification categories were determined according to the Provincial standards of *Classification of Solid Mineral Resources/Reserve* (GB/T17766-1999) and the *Temporary Stipulations on Solid Mineral Pre-Survey* issued by the China Geological Survey Bureau. This work was also completed in accordance with the requirements of *Criteria on Coal, Peat Geological Survey* issued by the Land & Resources Ministry in 2003, taking into consideration the geological characteristics of the minefield.

The Chinese coal resource classifications for the program and issued report are "verified intrinsic economical resources" (331), "controlled intrinsic economical resources" (332), "inferred intrinsic economical resources" (333).

- "Verified intrinsic economical resources" (331) – Thickness, structure of the coal seams are ascertained with reliable correlation; the continuity of mineable seams is determined and complete; the type, quality, and technological performances of the coal made clear through adequate sampling; there are over 4 control points (sample sites) within 1,000 m of the resource block being evaluated. All exploration tasks (geophysics, drilling, sampling and others) meet the requirements of specific exploratory stage criteria.

- "Controlled intrinsic economical resources" (332) – Thickness, structures of seams are fundamentally ascertained with reliable correlation; the continuity of mineable seams is fundamentally determined; the type, quality, and technological performances of coal is fundamentally made clear; all exploration tasks (geophysics, drilling, sampling and others) meet the requirements of detailed survey, with four sample points within 2,000 m of the resource block or borehole; estimation is by prospecting lines and horizontal delineation.

- "Inferred intrinsic economical resources" (333) – Thickness and structure are preliminarily ascertained with fundamentally reliable correlation of seams; the type and quality of coal are roughly determined; all exploration tasks (geophysics, drilling, sampling and others) met the requirements of a reconnaissance survey; a minimum of two coal sampled points within the distance of 4,000 m; estimation is horizontally delineated.

For the Heiyanquan Minefield, the development of resource blocks for the various classifications was conducted based on the prospecting lines and connection lines of sample points combined with the coal-seam floor contour lines, on the premise of controlling the extent of coal seam and elevation of the block.

The geological reliability was defined as "reasonable" according to the reliability of structure and coal seam, by means of singly analyzing various elements of the field program and integrally evaluating all of the tasks (surveying, drilling, seismic, etc). Firstly, the structural types in the minefield were defined according to the working levels and complexity of the structure; then the controlling grid size was determined by the stability of the "A1" seam and exploration types; finally, the geological reliability and classification of resources of the "A1" seam was determined.

As estimated by the 156 Brigade, the total coal resources of the Heiyanquan Minefield are 125,895,300 tonnes including verified resources (331) of 61,349,500 tonnes, controlled resources (332) of 17,790,500 tonnes and inferred resources of 46,755,300 tonnes. The classification percentages are as follows: (331)/(331+332+333)=48.73% and (331+332)/(331+332+333)=62.86%.

Table 17-2: Estimated Coal Resources as Presented by the 156 Brigade

		tonnes	Coal Thk m	H2O %	Ash %Dry	Volatiles MAF %	Sulphur %Dry	MJ/KG MAF
TOTAL RESOURCE	331 (Mea)	61,349,500	NA	NA	NA	NA	NA	NA
	332 (Ind)	17,790,500	NA	NA	NA	NA	NA	NA
	333 (Inf)	46,755,300	NA	NA	NA	NA	NA	NA
***	TOTAL	125,895,30	3.80	1.98	21.15	37.90	0.75	33.13
M & I RESOURCE	331 (Mea)	61,349,500	NA	NA	NA	NA	NA	NA
	332 (Ind)	17,790,500	NA	NA	NA	NA	NA	NA
	TOTAL	79,140,000	NA	NA	NA	NA	NA	NA

*** Note: Thickness and analytical values are arithmetic averages of drill-hole values

As can be seen in Table 17-2, the estimating methods used by the 156 Brigade do not provide for the presentation of coal quality data for the individual resource classifications. Likewise, the reviewer is not able to easily ascertain the variation of each of the analytes. The thickness and analytical values presented above are arithmetic averages derived from the individual drill-hole values. Although there is close agreement of the analytical value totals from the Scott Wilson computer model presented in Table 17-1, Scott Wilson believes that future resource summaries prepared by the 156 Brigade should include an evaluation of the analytes and thickness by resource category.

17.4 COAL RESOURCE ESTIMATE BY THE POLYGONAL METHOD

As an “unsophisticated” cross-check of both the Scott Wilson computer model and the 156 Brigade resource estimate, a polygonal estimate of the Heiyanquan Minefield resources by classification was completed as part of this report. This polygonal method is not meant to duplicate values but is used to check on the general order of magnitude of the other two estimates.

Briefly, the method uses polygons constructed around each individual drill hole and spreads the values from the drill hole across the entire area of the polygon. The search radii for the polygon construction were set at 400 m for “measured” resources and 1,200 m for “indicated” resources. “Inferred” resources occur beyond the “indicated” but within the mining lease boundary. These are the same distances used in the Scott Wilson computer model. While this polygonal method is generally acceptable for determining resources for a “stable” stratiform deposit, it provides neither the trend analysis required nor the data tools needed for the efficient mine planning required for associated and follow-on studies. At the Heiyanquan Minefield, there are 31 polygons for the “A1” coal seam for the “measured” resource and 31 polygons for the “indicated” resource, and fewer polygons for the “inferred” resource due to the drilling density and the location of the mining lease boundary.

Other design criteria for the polygonal estimate remain basically the same as was used for the Scott Wilson computer model.

Table 17-3: Estimated Coal Resources Using the Polygonal Method

	Tonnes	Coal Thk m	H_2O %	Ash %Dry	Volatiles MAF %	Sulphur %Dry	MJ/KG MAF
Measured	53,971,304	3.69	1.84	19.71	37.42	0.75	32.36
Indicated	64,793,864	3.60	1.68	18.70	36.86	0.76	32.67
TOTAL M & I	118,765,167	3.64	1.75	19.16	37.11	0.75	32.53
Inferred	10,658,533	3.35	0.93	18.50	36.79	0.63	34.49

As can be seen from Table 17-3, this method demonstrates that both the Scott Wilson estimate and the estimate prepared by the 156 Brigade are conservative in comparison. However, the thickness and analytical values are in close comparison to the Scott Wilson estimate and the Brigade's arithmetic averages for the same values.

18. OTHER RELEVANT DATA AND INFORMATION

Scott Wilson is not aware of any additional information or explanations necessary to make the Technical Report understandable and not misleading. There is a large database available for the Balikun Coal Project focusing on the Heiyanquan Minefield. These data are compiled into a series of geological and technical reports by various sub-contractors and housed at the headquarters of the 156 Coalfield Exploration Brigade of Xinjiang Coalfield Geological Bureau, in Urumqi, Xinjiang, People's Republic of China.

The writer is not aware of any social or environmental issues, which would affect exploration, development, and exploitation of the Heiyanquan Minefield deposit.

A Feasibility Study focusing on the production of coal from the Heiyanquan Minefield is currently in the planning stages. Although this study will likely be conducted by Chinese contractors, it will most likely meet the requirements of NI 43-101 guidelines and a report, including the determination of mineral reserves, will likely be issued.

19. INTERPRETATION AND CONCLUSION

The Heiyanquan Minefield is located in eastern Xinjiang, People's Republic of China, and until 2005 no serious coal exploration work had been conducted near this coal property. There is no infrastructure, except a poorly maintained district two-lane highway near this property, no cultural resources nearby and no active coal mines within 30 kilometres of the minefield. A "mining permission lease" has been issued for the Heiyanquan Minefield and remains in effect until December 25, 2011.

Based on documents reviewed, interviews conducted and the site visit completed, as well as computer modelling, the Heiyanquan Minefield contains an estimated "measured and indicated" (M&I) coal resource of 88.1 million *in situ* tonnes within the A1 coal seam. Inferred resources of coal are estimated to total 0.3 million *in situ* tonnes. These estimates used Western classification criteria which are different from the National classification criteria of the People's Republic of China. Table 19-1 presents more detail of the above estimated figures as prepared by Scott Wilson. Note that the estimates account for the spatial distribution (drill-hole location) of the analytes examined as a result of using the computer model.

Table 19-1: Estimated Coal Resources Prepared by Scott Wilson

	Tonnes	Coal Thk m	H_2O %	Ash % Dry	Volatiles MAF %	Sulphur % Dry	MJ/KG MAF
Measured	37,992,200	3.49	0.00	20.70	37.75	0.74	33.24
Indicated	50,062,800	3.44	0.00	20.59	37.52	0.76	33.32
TOTAL M & I	88,055,000	3.46	0.00	20.64	37.62	0.75	33.29
Inferred	259,700	2.42	0.00	20.10	36.72	0.38	34.01

The pre-survey/reconnaissance/detailed survey for the Heiyanquan Minefield lasted 17 months from April 12, 2006, to September 24, 2007, with all planned field work completed. This program was conducted and managed by the 156 Brigade. At the end of the study period, the 156 Brigade presented its estimate of the *in situ* coal resources contained within the minefield. The 156 Brigade estimated that the minefield contains a "measured and indicated" (M&I) coal resource of 79.1 million *in situ* tonnes within the A1 coal seam. Inferred resources of coal are estimated to total 46.8 million *in situ* tonnes. These estimates used the National coal classification criteria of the People's Republic of China which are more conservative and restrictive that the Western standards utilized by Scott Wilson. Table 19-2 presents the estimates of the 156 Brigade. Note that the methods of calculation and presentation prevent the examination of coal quality attributes by classification. The presented coal quality attributes are simply arithmetic averages of drill-hole values calculated by the 156 Brigade and applied to the entire resource.

Table 19-2: Estimated Coal Resources as Presented by the 156 Brigade

		tonnes	Coal	H_2O	Ash	Volatiles	Sul	MJ/KG
			Thk m	%	%Dry	MAF %	%Dry	MAF
TOTAL	331 (Mea)	61,349,500	NA	NA	NA	NA	NA	NA
RESOURCE	332 (Ind)	17,790,500	NA	NA	NA	NA	NA	NA
	333 (Inf)	46,755,300	NA	NA	NA	NA	NA	NA
***	TOTAL	125,895,300	3.80	1.98	21.15	37.90	0.75	33.13
M & I	331 (Mea)	61,349,500	NA	NA	NA	NA	NA	NA
RESOURCE	332 (Ind)	17,790,500	NA	NA	NA	NA	NA	NA
	TOTAL	79,140,000	NA	NA	NA	NA	NA	NA

Given the differences in the classification criteria used to complete the two estimates above, the “M&I” tonnages still agree within 12%. Using Western standards, the “M&I” tonnes are the only tonnes which are allowed to be used in presentations and future mine planning efforts, if any. It should be emphasized that this property is located in the People’s Republic of China and is subject to the many and varied standards imposed by that entity at all levels of property development. Furthermore, there is no reason to doubt the accuracy of the estimates prepared by the 156 Brigade given the limits of property development and the data developed to date.

From a coal quality viewpoint, the A1 coal is at a low metamorphic stage and is mainly a gas coal, with the quality properties of very low–high ash, low–very high calorific value, very low–mid-high sulphur, low–high phosphorus and eutectic-dystectic ash, which can be used for power generating, for industrial boilers, for civil use and for coke blending.

The exploration and preliminary development of the Heiyanquan Minefield has just concluded and Scott Wilson believes that there are no “additional requirements” to report for a project at this stage of development. This document is the reporting of coal resources only. No economic, marketing or environmental studies have been completed. These probably will be the focus of the next stage of development and should culminate with the issuance of a Feasibility Report and accompanying NI43-101 document. No timetable has been presented for the initiation or conclusion of these activities.

20. RECOMMENDATIONS

Plans for the continued development of the Heiyanquan Minefield are being formalized. Scott Wilson assumes that any future field work will be conducted and managed by the 156 Brigade because it has the most on-site experience and an intimate knowledge of the Project. Certain specialty disciplines will need to be addressed and the 156 Brigade has knowledge of which entity(s) are best suited to fill the needs of those selected disciplines. It is important that only one entity - Scott Wilson recommends it be the 156 Brigade - has responsibility for direction and management of the entire field program and the full integration of the collected data.

Discussions during the site visit indicate that the Wuhan Design and Research Institute of SinoCoal International Engineering Group has provided informal mining engineering input to the planning of mining engineering and operational planning. Scott Wilson recommends that, if this entity is selected for future formal work, it strongly consider the drilling of a pilot hole for the mine access ramp construction as well as boreholes for structural and coal quality control in the areas designated for production during the first five to eight years of full mine production. These holes should be completed between the time of planning and the start of production.

Since Scott Wilson has no background in the costing of field programs in China, Scott Wilson cannot estimate the cost of any field program.

Scott Wilson recommends that all future resource and reserve compilations for the planned project estimate the coal quality which accompanies the tabular listings of tonnages. These analyses should be tied directly to the tonnages that are estimated for every working level of the proposed mine, in each of the proposed production areas, and to the tonnages estimated for an annual, or smaller, time period of the mine plans. This effort will likely result in the need for computer modelling and the acquisition of appropriate computer software. This effort will more properly address the success, or failure, of alternative evaluations and provide ample planning time for any required changes to the then existing plans.

The report, "*Exploration Report on Balikun County Heiyanquan Minefield of Balikun Coalfield, Xinjiang*", by the 156 Brigade was issued in November 2007. This report carries several recommendations some of which are repeated below. These recommendations provide good insight and Scott Wilson concurs with those repeated below.

The recommendations suggested that a detailed 3-D seismic survey be completed quickly on the Heiyanquan Minefield in order to resolve any structural geology issues that remain undefined. This includes the single break found, using 2-D seismic methods, in 2006. During the site visit for this Technical Report in April 2009, a 3-D seismic survey was being undertaken.

During the rock mechanics test work conducted for the 17-month program in 2006 and 2007, the roof and floor of the A1 coal seam were found to have poor stability.

Scott Wilson recommends that further work and alternative planning be conducted to more fully define and properly plan for these conditions.

In the future excavations, the production management should attach importance to the mine hydrogeological work and current findings; follow the relevant regulations and requirements; and deal with the work of mine hydrogeology. Effective measures must be planned and taken to prevent serious water inflows and other mining accidents. Scott Wilson concurs with these measures.

Although the coal mine gas is a type of “low-level gas”, as the mining depth increases, ventilation management should be strengthened to prevent ignitions in the mine due to accumulations of the “low-level gas”.

Complete enhanced testing of coal quality, through additional drilling, should be planned. As stated above, thoroughly the program should examine the coal quality variations and take necessary planning measures. This work will likely require changing evaluation techniques to include the use of computer software techniques.

As a result of the site visit and discussions during travel, it is understood that a Feasibility Study is planned and will be accompanied by detailed underground mine plans and cost estimates. To date, there are no formal mine plans which were presented for review.

21. REFERENCES

1976: "Coal Resource Classification System of the U.S. Bureau of Mines and U.S Geological Survey" in Geological Survey Bulletin 1450-B, by United States Geological Survey.

1980: "Principles of a Resource/Reserve Classification For Minerals" in Geological Survey Circular 831, by United States Geological Survey.

1983: "Coal Resource Classification System of the U.G. Geological Survey" in Geological Survey Circular 891, by United States Geological Survey.

2005 December: "CIM Definition Standards – On Mineral Resources and Mineral Reserves" (adopted by CIM Council on 12/11/05) by Canadian Institute of Mining, Metallurgy and Petroleum (CIM).

2005 December: "NI 43-101 – Standards of Disclosure for Mineral Projects" by the Canadian National Government.

2007 November: "Exploration Report on Balikun County Heiyanquan Minefield of Balikun Coalfield, Xinjiang" by the 156 Coal Field Geological Brigade of Xinjiang Coal Field Geological Bureau.

2008 May: "Estimation of Mineral Resources & Mineral Reserves Best Practices Guidelines" by Canadian Institute of Mining, Metallurgy and Petroleum (CIM).

2009 May: "Geological Modeling" by Gemcom Software Services, Gemcom Software Europe Limited, Coalville, UK.

22. DATE AND SIGNATURE PAGE

This report titled "NI43-101 Technical Report on the Balikun Coal Project, Xinjiang, China", prepared for GobiMin Inc. and Faithful Million Limited and dated February 4, 2010, was prepared and signed by the following author:

(Signed & Sealed)

Dated at Blackfoot, Idaho, USA
February 4, 2010

James S. Spalding, P. Geo.
Senior Consulting Geologist

23. CERTIFICATE OF QUALIFIED PERSON

James S. Spalding, M.SC., P.GEO.

I, James S. Spalding, M.Sc., hereby certify that:

I am an independent Consulting Geologist and Professional Geoscientist residing at 15 N. Shilling, Blackfoot, Idaho, USA 83221, with my office at the same address.

I graduated from Ohio University in 1966 with a Bachelors Degree of Science (B.Sc.) in the field of geology, and received a further Degree of Master of Science (M.Sc.) in the field of geology from Utah State University in 1974. I have practiced my profession as a Geologist for the past 43 years since graduation, in the field of Mining and Exploration. I have written a considerable number of Qualifying Reports, Technical Reports, and Opinions of Value for mining companies in the last 37 years.

I have worked on evaluation and exploitation of coal and other mineral properties in Australia, Brazil, Canada, China, Colombia, Costa Rica, Egypt, Ethiopia, Guyana, Indonesia, Jordan, Morocco, Mexico, Pakistan, The Philippines, Saudi Arabia, Senegal, Syria, Trinidad, Tunisia, Turkey, Venezuela, and Zaire, as well as the United Sates.

My specific experience concerning the Heiyanquan Minefield project is related to the work on many coal projects, including site visits, in Canada, Columbia and throughout the United States. I have been the manager of a coal mine in the eastern United States and have held several other responsible positions in coal production operations.

I have been a Registered Professional Geologist (#59) in the State of Idaho, USA, since 1972 and currently serve as a Board Member. I served as a member of Florida Institute of Phosphate Research's Mining Technical Advisory Committee for 9 years. I am entitled to use the Seal, which has been affixed to this report.

I visited the subject property, the project library, and the interviewed the responsible parties at the 156 Coal Field Exploration Brigade of Xinjiang Coal Field Geological Bureau and the Comprehensive Laboratory of Xinjiang Coalfield Geological Bureau and its subsidiary Xinjiang Coal Products Quality Testing Center both of which are located in Urumqi, Xinjiang, People's Republic of China between April 17, 2009 and April 22, 2009. I have personally reviewed more than 10% of the available data concerning the exploration programs on the subject property. I have no direct or indirect interest in the property, which is the subject of this report. I do not hold, directly or indirectly, any shares in Scott Wilson Ltd or the current property owner entities, nor do I intend to acquire any such shares.

I am not aware of any material change with respect to this Technical Report which is not reflected in the report.

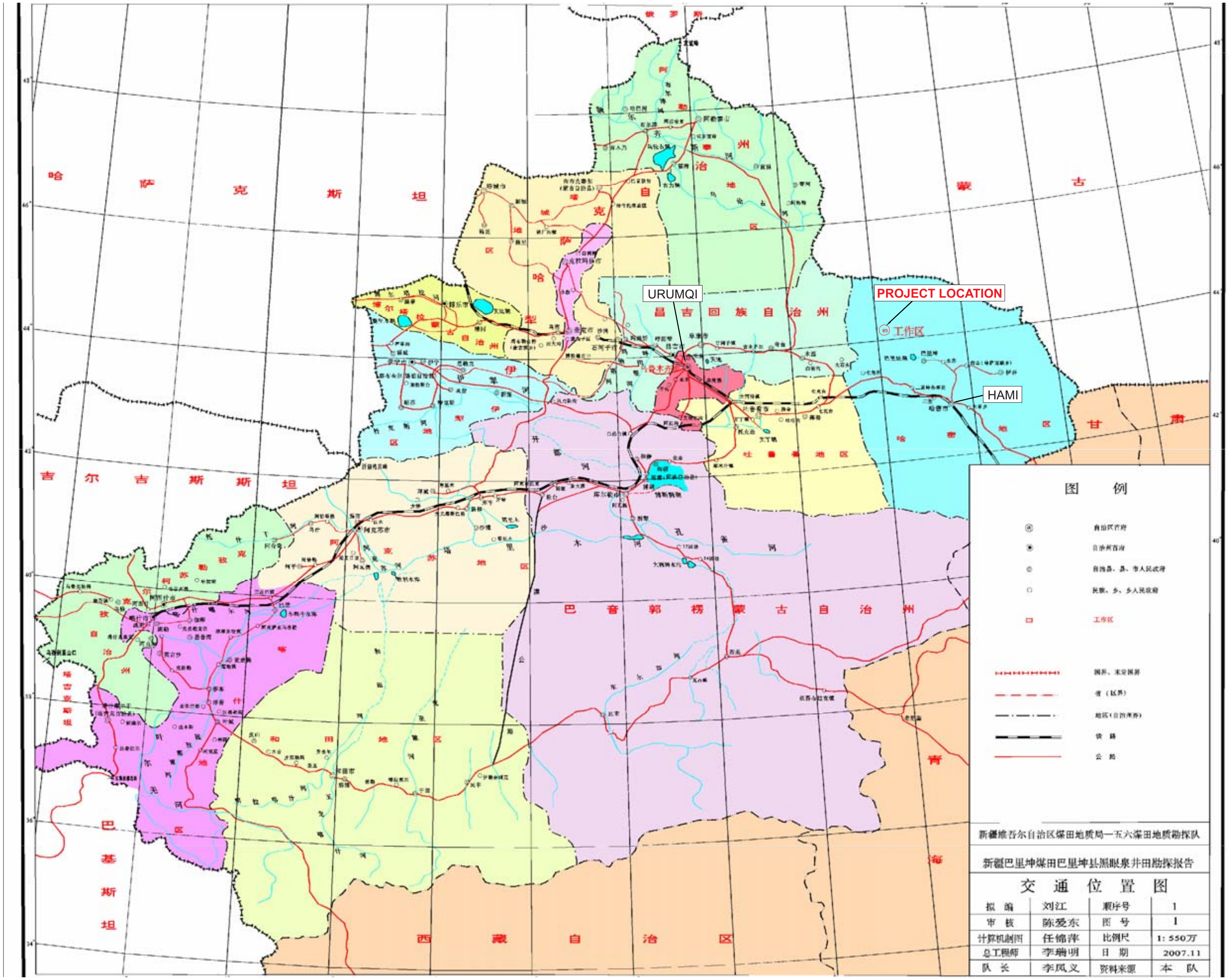
I have read N.I. 43-101 and Form 43-101F1 and this Technical Report has been prepared in compliance with this Instrument and Form 43-101F. I hereby give my permission to use this technical report in its entirety, or in summary, by Scott Wilson Ltd and/or its clients.

Respectfully Submitted (Dated at Blackfoot, Idaho, USA this 4th day of February 2010)

(Signed & Sealed)

James S. Spalding, M.Sc.
Professional Geologist

Appendices



NOTES

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BALIKUN COAL PROJECT
XINJIANG, CHINA

Drawing Title

PROJECT
LOCATION
PLAN

Scale at A1			
NTS			
Drawn		Approved	
DJK			
Stage 1 check	Stage 2 check	Originated	Date
MM			

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D122651/HAMI/FIGURE 4-1

DB1V CH05-V1 Plot Date : 15-Jun-09 12:23 PM BY : 37649dk
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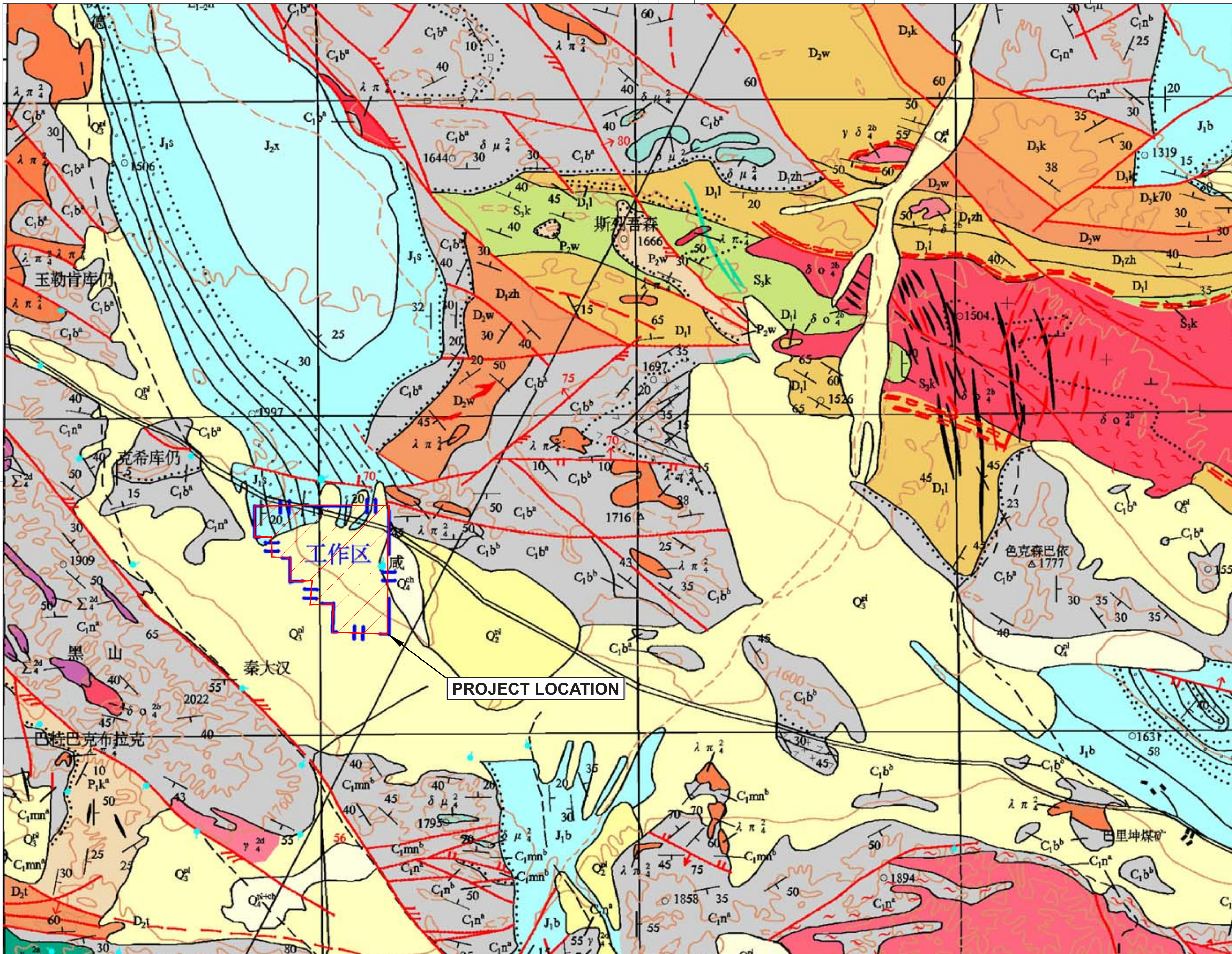

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Revision Details	By / Check	Date	Suffix

Drawing Status

BALIKUN COAL PROJECT
XINJIANG, CHINA

Drawing Title

DISTRICT GEOLOGY

Scale at A1: NTS

Drawn	Approved
DJK	

Stage 1 check	Stage 2 check	Originated	Date
MM			

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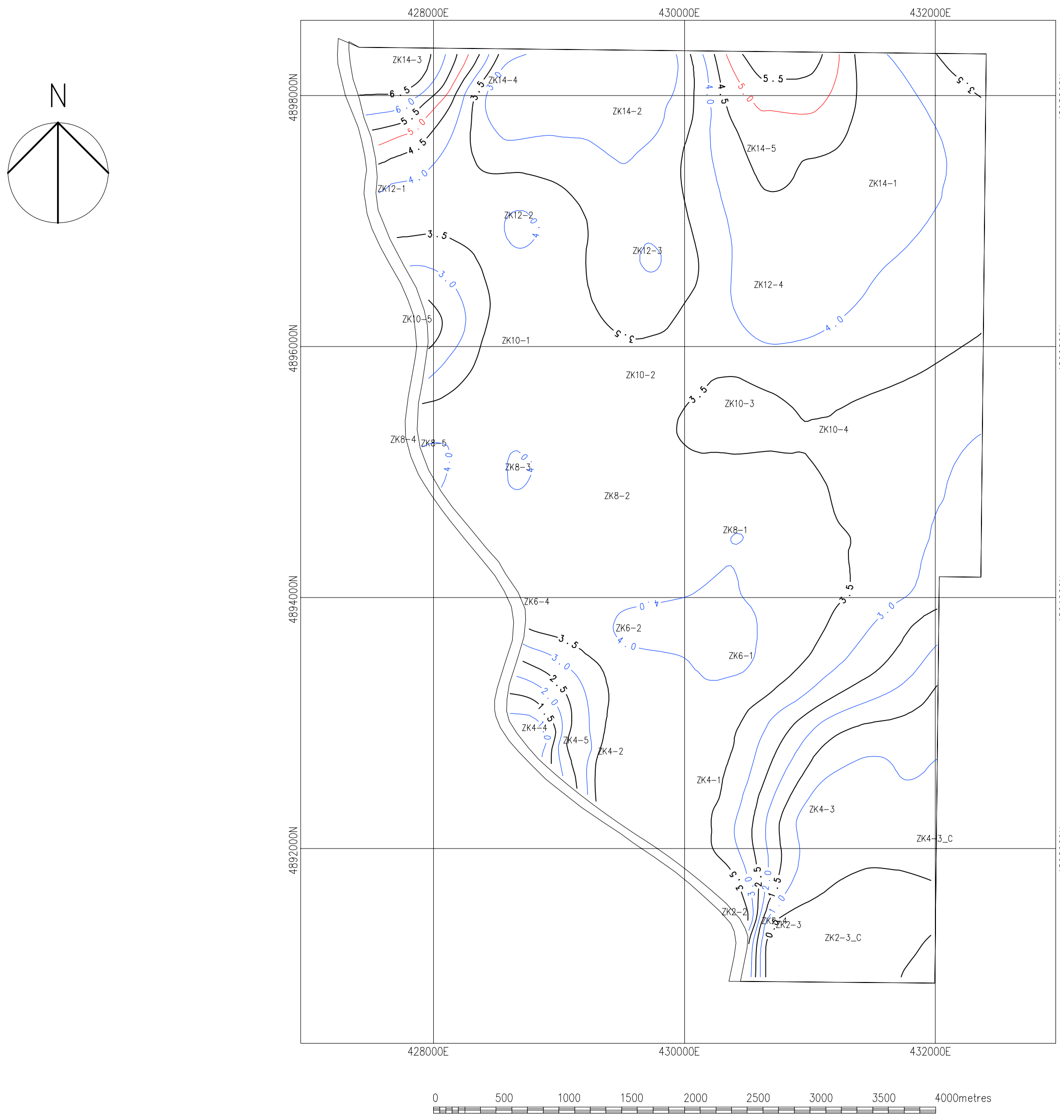

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NOTES

KEY

2.5 (m)
3
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Revision Details	By / Check	Date	Suffix

Drawing Status

BALIKUN COAL PROJECT
XINJIANG, CHINA

Drawing Title

COAL SEAM "A1" THICKNESS (metres) PLAN

Scale at A1
1:2000

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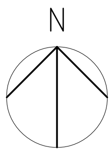
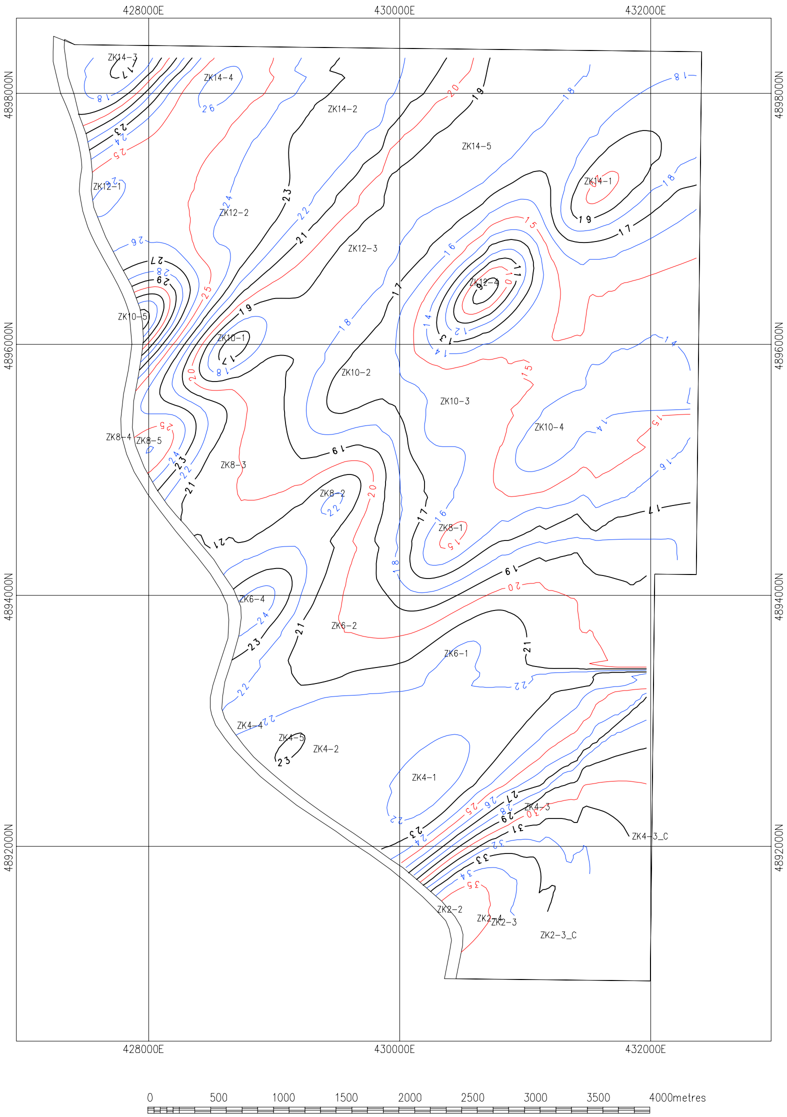
Rev





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KEY

2.5
3
4
% ASH

ZK14-1 BOREHOLE LOCATIONS

Revision Details	By / Check	Date	Suffix

Drawing Status

BALIKUN COAL PROJECT
XINJIANG, CHINA

Drawing Title
COAL SEAM "A1"
DRY ASH CONTENT
(%)
PLAN

Scale at A1
1:2000

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DJK	

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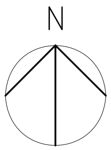

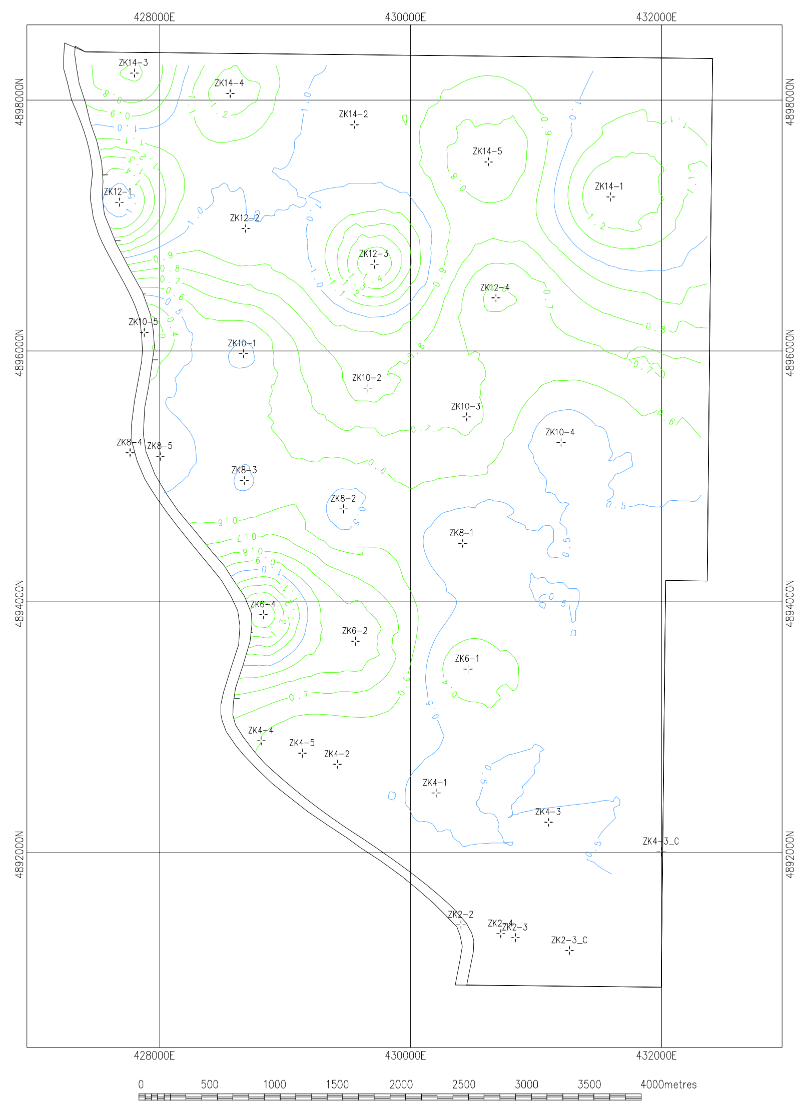

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KEY

1.2 % SULPHUR
1.0

Revision Details	By / Check	Date	Suffix

Drawing Status

BALIKUN COAL PROJECT
XINJIANG, CHINA

Drawing Title

COAL SEAM "A1"
TOTAL DRY SULFUR
(%)
PLAN

Scale at A1			
1:2000			
Drawn: DJK		Approved	
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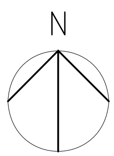

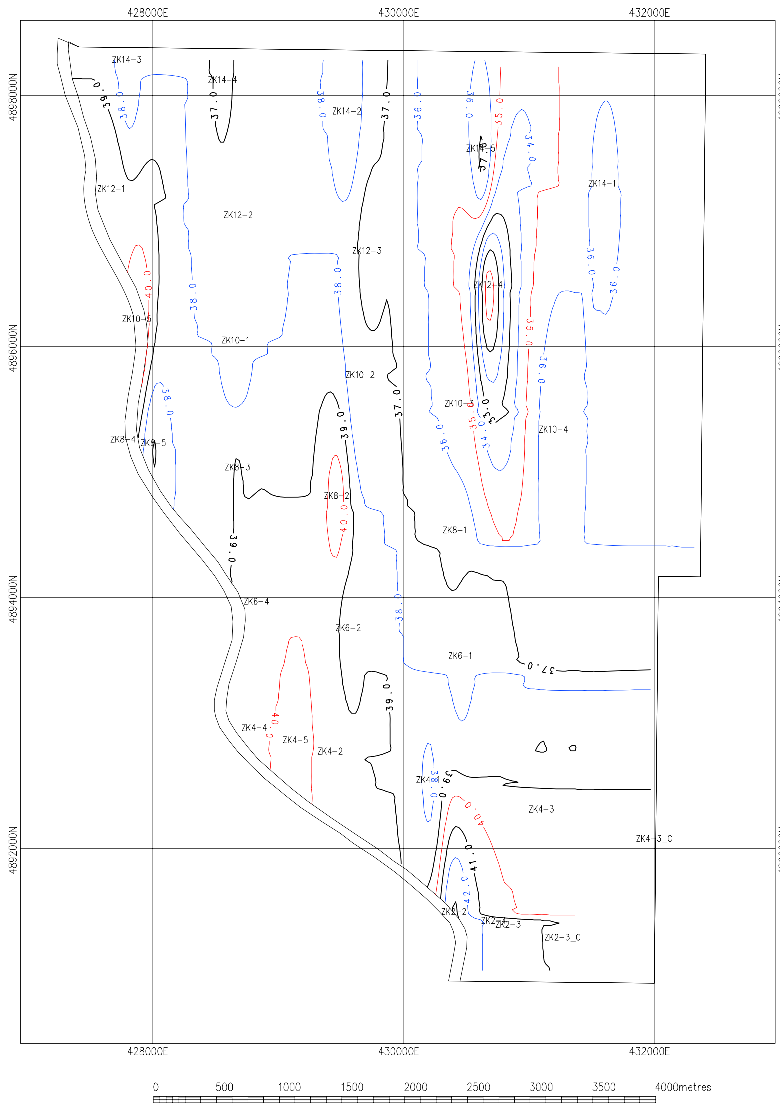

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36.0
35.0
33.0
% VOLATATES

Revision Details	By	Check	Date	Suffix

Drawing Status

BALIKUN COAL PROJECT
XINJIANG, CHINA

Drawing Title

COAL SEAM "A1" VOLATILE MATTER (MAF) % PLAN

Scale at A1	
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Drawn: DJK	Approved
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Rev

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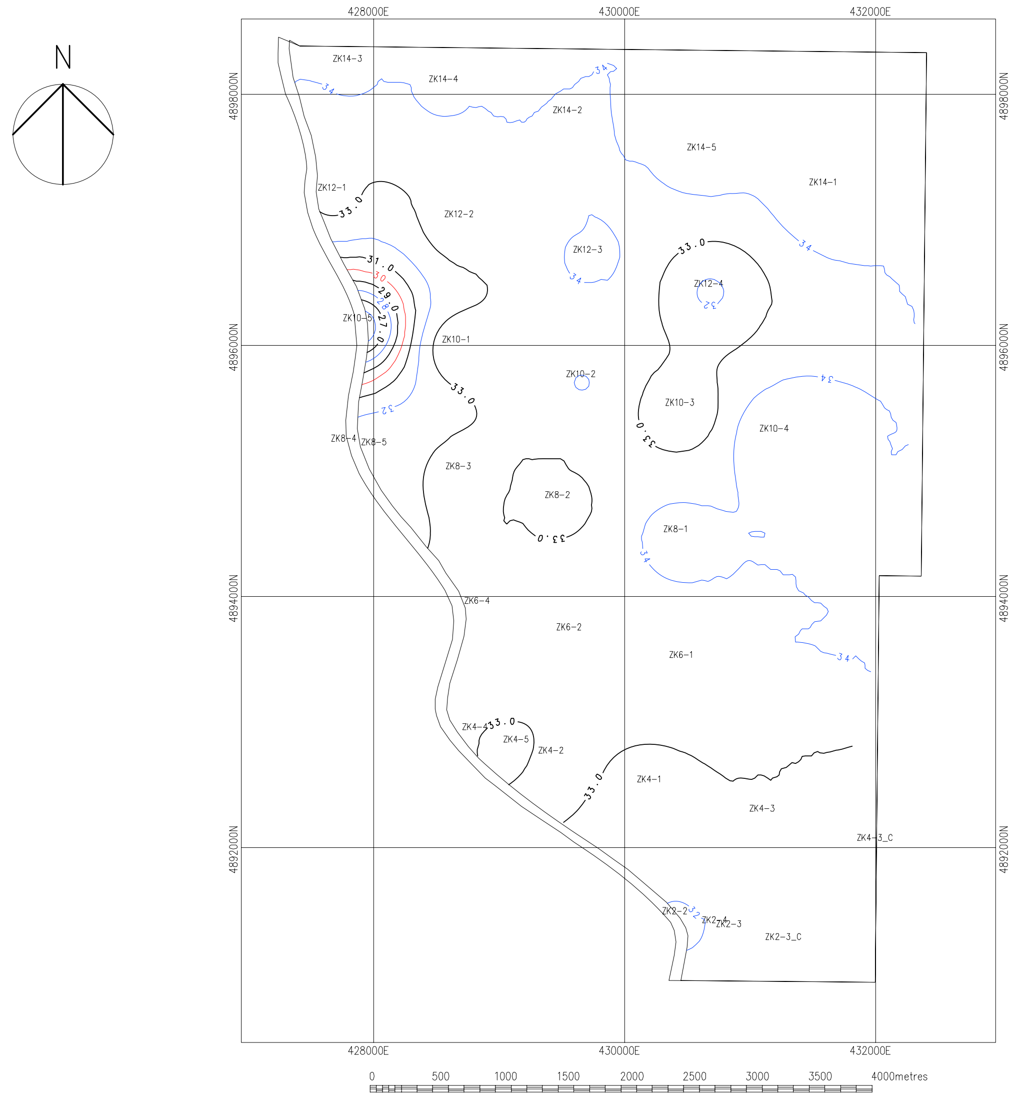

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2.5
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MJ/kg

Revision Details	By / Check	Date	Suffix

Drawing Status

BALIKUN COAL PROJECT
XINJIANG, CHINA

Drawing Title
COAL SEAM "A1"
CALORIFIC VALUES
(MAF) (MJ/Kg)
PLAN

Scale at A1
1:2000

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DJK	

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MM			

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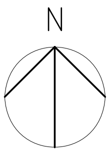
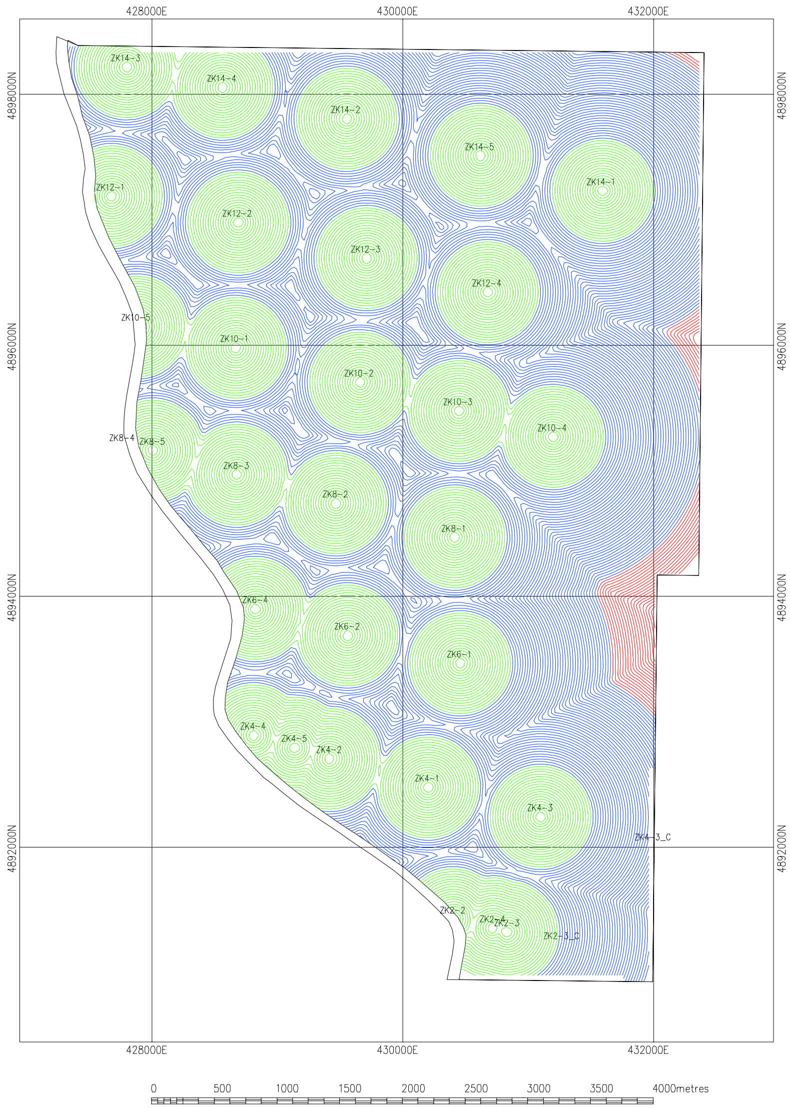
Rev





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NOTES

KEY

ZK10-4 — Measured resources (400m)

Indicated Resources (1200m)

Inferred Resources (4800m)

Revision Details	By / Check	Date	Suffix

Drawing Status

BALIKUN COAL PROJECT
XINJIANG, CHINA

Drawing Title

COAL SEAM "A1" RESOURCE CLASSIFICATION PLAN

Scale at A1 1:2000			
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Stage 1 check MM	Stage 2 check	Originated	Date

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