ASX Code: MOU
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June 2012 Quarterly Report

Highlights:

- **Drilling re-commences on Nuurst Project**
- **Nuurst Project progresses towards the granting of Mining license**
- **New Foreign Investment Law approved**
- **Elections completed and coalition government being formed**
- **Cash balance of $3.5 m**

The Directors of Modun Resources Ltd (ASX: MOU) (Modun) are pleased to provide you with an update of activities during the June quarter 2012. It has been a challenging three month period with significant uncertainty created by the introduction of new foreign investment laws into Mongolia and a general election that is likely to result in a new coalition government led by the centre right Democratic Party coming to power. These events and the market response to them have compounded the challenges of operating in Mongolia. Despite these challenges, Modun has continued to progress the Nuurst Project towards the granting of a mining licence as well as putting in place plans to broaden its geographical focus when searching for additional projects to add to its portfolio.

Nuurst Coal Project

Modun is continuing to develop its Nuurst Project in Central Mongolia which has a current JORC reported Coal Resource of 489 million tonnes (417 million tonnes indicated, 72 million tonne inferred).

During July a drilling programme has re-commenced to assist in the mining license application process. The focus of the program will be to complete some in-fill drilling in the south-eastern corner of the current Coal Resource. This work will be used to increase the level of confidence of the resource and provide important hydrological, geotechnical and structural information for the Scoping Study. Modun continues to expect that the mining licence will be granted later this calendar year.

In addition to the in-fill drilling, a reconnaissance exploration drilling programme 6 km to the north of the existing resource area will be conducted to follow up historical exploration in that area to identify the potential for coal seam development on the remainder of the licence area.

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Figure 1: Diamond Drilling at the Nuurst Project July 2012

During the quarter, exploration plans were lodged with government authorities and approved to allow commencement of exploration activities during the September quarter.

Paleontological and archaeological surveys have been completed with neither study finding any sites of significance on the Nuurst Project area.

We look forward to the lodging of the resource registration documents in the September quarter on the back of receipt of new information from the exploration programme currently underway.

Figure 2: Diamond Drilling Team at the Nuurst Project July 2012

Status of Tsagaan Tolgoi Acquisition

A key focus for Modun during the June quarter was on the proposed acquisition (subject to shareholder and regulatory approvals and other conditions precedent) of 100% of the Tsagaan Tolgoi coal deposit (10,500 Ha mining licence MV-015041) and 100% of exploration licence Ajlyn Talbai (26,700 Ha, XV-00762) **(Tsagaan Tolgoi Coal Project)** from SouthGobi Resources Ltd (TSX: SGQ, HK: 1878) **(SouthGobi)**.

On 16 April 2012 the Mineral Resources Authority of Mongolia (MRAM) had requested SouthGobi suspend exploration and mining activity on certain licences owned by SouthGobi Sands LLC, a wholly-owned division of SouthGobi. As a result, on 24 April 2012 Modun and SouthGobi announced that they had agreed to extend the time to complete the proposed acquisition of the Tsagaan Tolgoi Coal Project from 1 June 2012 to 31 December 2012.

It remains unclear as to whether the actions of MRAM will impact the proposed acquisition and Modun continues to work with SouthGobi to seek clarification regarding SouthGobi's ability to obtain the necessary approvals to transfer the Tsagaan Tolgoi Mining Licence.

As a result, Modun is currently undertaking a review of the commercial and regulatory aspects of the proposed transaction to ensure the Company acts in the best interests of existing Modun shareholders. During this review phase all expenditure associated with any work on the Tsagaan Tolgoi licences has been restricted to the minimal requirements until the commercial and regulatory review is complete.

New Foreign Investment Legislation

On 17 May, the Mongolian Government approved a new Foreign Investment Law to regulate foreign investment into Mongolia's mineral resources sector. This Foreign Investment Law formalises a process of Mongolian Government approval for significant investments into industries of strategic importance to the country. The legislation is designed to assist Mongolia in controlling the ownership of significant mineral resource assets to secure their economic future. Mongolia's Foreign Investment Legislation's approval regime is based on the following levels of investment:

1. All foreign direct investments in excess of 5% in an entity operating in a sector of strategic importance must register with the Foreign Investment Agency of Mongolia.

2. Foreign direct investments in excess of 33% in an entity operating in a sector of strategic importance must obtain Mongolian Government approval.

3. Foreign direct investments in excess of 49% in an entity operating in a sector of strategic importance and in excess of 100bn MNT (approximately AUD$75m) will require approval from the Mongolian Parliament.

4. Foreign direct investments made by a company with State ownership will require Mongolian Government approval.

The legislation does not apply retrospectively (for example to the Nuurst Project) and is similar to foreign investment regimes in other resource rich jurisdictions such as Australia (FIRB) and Canada.

Mongolian Election

The result of the election held on 28 June has seen a change of Government in Mongolia with the Democratic Party, Justice Coalition and Civil Will-Green Parties likely to form a new Coalition Government. The elections proceeded without incident and followed due democratic processes, however due to no party achieving a clear majority, negotiations between the political parties are continuing and the final make up of the coalition Government and the appointment of Cabinet Ministers are yet to be confirmed.

Relevance to the Nuurst Coal Project:

Under the new foreign investment legislation, Modun is required to notify the Foreign Investment Agency within 180 days of its existing investment in the Nuurst Coal Project. No further Mongolian Governmental approvals are anticipated. However, the newly formed Government is yet to provide details as to how the new Foreign Investment Law will be administered and implemented and Modun continues to work with the relevant Government authorities to ensure that all the requirements to progress the Nuurst Project towards the granting of a mining licence continue to be met.

Relevance to the Tsagaan Tolgoi Coal Project:

Modun anticipates that it will be required to obtain Mongolian Government Approval under the new Foreign Investment Legislation in order to complete the Tsagaan Tolgoi Coal Project acquisition.

Modun continues to believe that Mongolia is an attractive investment destination, with a significant supply of largely untapped mineral resources and a highly competitive market advantage given its proximity to Mongolia's "resource-hungry" southern neighbour China. However, given the uncertainty over the new Governments intentions as to how it will implement the new Foreign Investment Law and the likely impact this will have on the timing of receiving approval for new acquisitions, Modun plans to broaden its geographical focus when searching for additional resource projects to add to its portfolio.

Strong Financial Position

At the end of the quarter, Modun remains in a strong financial position with total cash reserves of $3.45 million.

Exploration costs were low for the quarter as the main focus was on the proposed acquisition of the Tsagaan Tolgoi Coal Project as well as progressing the Nuurst project towards the granting of a mining licence, neither of which required significant exploration work to be carried out. Administration costs were high during the quarter due to the transaction costs associated with the acquisition of the Tsagaan Tolgoi Coal Project. Due to the uncertainty surrounding the practical implementation of the Foreign Investment Law by the newly elected coalition Government, future expenditure in Mongolia will be tightly managed and will focus on the progression of the Nuurst mining license application.

Modun will continue to keep the market informed of any material developments.

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About Modun Resources Limited
ASX-listed Modun Resources (ASX: MOU) is developing the 100%-owned Nuurst Coal Project in central Mongolia. Nuurst is a thermal coal project, which encompasses a 34.5 square kilometre licence area. In late 2011, Modun announced a maiden 489 million tonne JORC reported Coal Resource at Nuurst (417 million tonnes Indicated, 72 million tonnes Inferred). The Nuurst Coal Project is located 120 kilometres south of Mongolia's capital Ulaanbaatar and six kilometres from existing rail infrastructure.

In 2012, Modun will continue its exploration program at Nuurst, as well as a Scoping Study, to drive the Project towards development.

Competent Person Statement
The information in this announcement that relates to the Nuurst Coal Resource is based on information compiled by Mr Dwiyoko TU. Taruno of CSA Global Pty Ltd, who is a member of the Australian Institute of Geoscientists and the Australasian Institute of Mining and Metallurgy. Mr. Dwiyoko TU. Taruno has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Dwiyoko TU. Taruno consents to the inclusion of such information in this report in the form and context in which it appears.