

INTRODUCTION OF THE PETROLEUM SECTOR OF MONGOLIA

The MRPAM is responsible for all matters related to petroleum sector in Mongolia and cooperation with foreign countries and entities in this sector. The MRPAM is authorized by the Government of Mongolia to enter into contracts on the matters of oil and gas exploration, development, production, processing, marketing and supply of petroleum products in Mongolia, and to exercise supervision and assistance towards the implementation of such contracts.

In 1991, the Petroleum Law of Mongolia was ratified by the Parliament and the Regulation for implementing the Petroleum Law was adopted by the Government of Mongolia. The Law established a legal foundation for new development of petroleum exploration in Mongolia. The Petroleum Law of Mongolia was ranked to be within the Top 10 favorable petroleum laws in the world, according to the Van Meurs rates in 1995.

The Government policy in the petroleum sector is aimed at developing exploration of the petroleum potential of Mongolia, increasing its production and stable supplying oil products within a framework of national Laws and Regulations while promoting economic and social developments.

Since 1993, 13.8 thousand straight kilometers of 2D seismic and 472 square kilometers of 3D seismic were acquired, 61 petroleum exploration wells and 15 coal bed methane wells were drilled and 20 petroleum exploration wells are being tested for production. 152.5 million USD has being invested in petroleum exploration operations. The investment in Mongolian petroleum sector will reach 253 million USD by the end of 2006.

In 2006, Petrochina Daqing Tamsag Mongolia, LLC which is conducting petroleum operations on Toson-Uul XIX, Tamsag XXI, Buir XXII blocks is planning to conduct 420 straight kilometers of 2D seismic, 1000 square kilometers of 3D seismic surveys and drill 35 exploration wells and 20 appraisal wells and invest 78 million USD.

In 2006 Dongsheng Jinggong Petroleum Mongolia which is conducting petroleum operations on portion of Tsagaan Els XIII and Zuunbayan XIV blocks is planning to drill 9 exploration wells at the Tsagaan Els Oilfield and 9 exploration wells and carry out fracturing of 23 wells and invest 23 million USD.

The Mineral Recourses and Petroleum Authority of Mongolia is ready to conclude to Production Sharing Contracts with Mongolian company "PetroMatad", Chinese company "China Golden Sea" and Canadian company "Shaman Resources" on Matad XX, Nyalga XVI and Tariach XV blocks, respectively. These companies will invest in total of 24 million USD from 2007 to 2012 years.

