

C @ LIMITED
(TO BE RENAMED DRAIG RESOURCES LIMITED)

ACN 110 439 686

NOTICE OF ANNUAL GENERAL MEETING

TIME: 9:30am (WST)
DATE: 30 November 2011
PLACE: Pan Pacific Perth
207 Adelaide Terrace
Perth, Western Australia

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on + 61 89321 6988.

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CRITICAL DATES*

Event	Date
Execution of Share Sale Agreement	26 October 2011
Dispatch Notice of Meeting	31 October 2011
Lodgement of Prospectus with the ASIC	7 November 2011
Suspension of the Company's securities from trading on the ASX (at the opening of trade)	17 November 2011
Annual General Meeting	30 November 2011
Closing Date for Offer	1 December 2011
Despatch Date – Consolidation	12 December 2011
Despatch of holding statements – Capital Raising	12 December 2011
Settlement of Acquisition	12 December 2011
Expected date for re-quotation of the Company's securities on ASX	19 December 2011

* This timetable is indicative only and subject to change. The directors of C @ Limited reserve the right to amend the timetable

IMPORTANT INFORMATION

TIME AND PLACE OF MEETING

Notice is given that the annual general meeting of the Shareholders to which this Notice of Meeting relates will be held at 9:30am (WST) on 30 November 2011 at:

Pan Pacific Perth
207 Adelaide Terrace
Perth WA 6000

YOUR VOTE IS IMPORTANT

The business of the Annual General Meeting affects your shareholding and your vote is important.

VOTING ELIGIBILITY

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders at 9:30am (WST) on 28 November 2011.

VOTING IN PERSON

To vote in person, attend the Annual General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Annual General Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes is set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and

- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

LETTER TO SHAREHOLDERS

Dear Shareholder

I have pleasure in presenting an exciting opportunity which promises the potential of significant future growth for the Company.

C @ Limited (the "**Company**" or "**C @**") has negotiated an agreement to acquire eight coal licences located in the Ovorhangay province and adjoining South Gobi province in southern Mongolia, which cover a vast area of approximately 625km² ("**Project**"). The agreement is subject to Shareholder approval. The Project's potential for growth is assisted by strong demand for coal from the Asian region and in particular from the neighbouring Chinese economy.

The Ovorhangay province licences are located within the Ongi River Basin, where coal bearing sediments are considered to be of Jurassic age and are in general characterised by coking properties.

The Company's recent due diligence exploration program discovered two massive black coal seams on the Teeg licence, Ovorhangay.

The potential extent of the massive seam intersected in BTE-001 (60m coal) and BTE-002 (40m coal), located 280m apart, along the southern boundary still remain unknown. This particular licence is situated immediately south of the locally operated Bayanteeg open-cut coal mine which has been in operation for 50 years, targeting shallow surface coal for the domestic markets. These coal discoveries have the potential to produce a soft coking and high energy thermal coal. In addition there is also potential for older Permian coals to exist at depth within the same sequence.

Upon approval of the acquisition, the Company plans to undertake an immediate exploration program consisting of geophysics and drilling to demonstrate the economic potential of the coal seams on the Teeg licence, Ovorhangay province. The purpose of the program will be to define an initial JORC compliant resource. Should the drilling program define a JORC resource which meets the Company's expectations, then work to commence on a scoping study will quickly follow.

Although limited work has occurred on the other Ovorhangay licences, the Directors consider these licences to be prospective given they are located in close proximity to Teeg, together with evidence of the coal-bearing Jurassic formation on some of these licences.

The four licence areas in South Gobi province sit within the South Gobi Basin which is characterised by the largest concentration of major black coal deposits in Mongolia, including the major coal deposit at Tavan Tolgoi (coal resources of > 5 billion tonnes), as well as other substantial deposits including the >200 Mt deposits at Baruun Nuran and Ovoot Tolgoi. Although to date limited exploration work has been undertaken on these licences, the Directors consider these licences to be prospective.

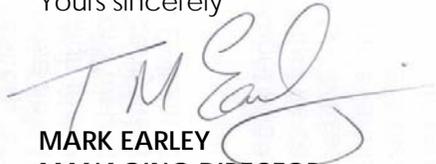
The acquisition is subject to the satisfaction of a number of conditions including Shareholder approval which is being sought at the forthcoming Annual General Meeting. I ask that you read the Notice of Meeting and attached Explanatory Statement carefully, including the associated risks, advantages and disadvantages of the transaction.

The size of the proposed acquisition and resultant change in both activities and the scale of the Company's main undertaking represents a significant change in C @'s activities.

Your Board believes this is a unique opportunity to participate in a coal project which has the potential to generate significant organic growth and widespread market support for both the Project and Company.

I would also like to take this opportunity to thank my fellow Directors for their support and advice throughout the processes required in developing this opportunity.

Yours sincerely



MARK EARLEY
MANAGING DIRECTOR

For personal use only

BUSINESS OF THE MEETING

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report of the Company for the financial year ended 30 June 2011 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

"That, for the purposes of Section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the remuneration report as contained in the Company's Annual Report for the financial year ended 30 June 2011."

Note: the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or*
- (b) a Closely Related Party of such a member.*

However, a person described above may vote on this Resolution if:

- (c) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and*
- (d) the vote is not cast on behalf of a person described in sub-paragraphs (a) or (b) above.*

2. RESOLUTION 2 – RE-ELECTION OF MR ANDREW HARRISON AS A DIRECTOR

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of clause 13.2 of the Constitution and for all other purposes, Mr Andrew Harrison, being a Director who retires by rotation, and being eligible for re-election, be re-elected as a Director of the Company."

3. RESOLUTION 3 – RE-ELECTION OF MS JADE STYANTS AS A DIRECTOR

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purpose of clause 13.4 of the Constitution and for all other purposes, Ms Jade Styants, being a Director of the Company who was appointed on 19 January 2011, retires in accordance and, being eligible, is re-elected as a Director."

4. RESOLUTION 4 – CHANGE TO NATURE AND SCALE OF ACTIVITIES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolutions 5 and 6, for the purpose of ASX Listing Rule 11.1.2 and for all other purposes, approval is given for the Company to make a significant change in the nature and scale of its activities as described in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may obtain a benefit, except a benefit solely in the capacity of a shareholder, if this Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

5. RESOLUTION 5 – CONSOLIDATION OF CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolutions 4 and 6, for the purpose of Section 254H of the Corporations Act, Listing Rule 2.1 Condition 2 and for all other purposes, the issued capital of the Company be consolidated on the basis that:

(a) every twenty (20) Shares be consolidated into one (1) Share; and

(b) every twenty (20) Options be consolidated into one (1) Option,

and where this consolidation results in a fraction of a Share or Option being held by a Shareholder or Optionholder (as the case may be), the Directors be authorised to round that fraction up to the nearest whole Share or Option, with the Consolidation taking effect as described in the Explanatory Statement."

6. RESOLUTION 6 – CAPITAL RAISING

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolutions 4 and 5, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue (on a post-Consolidation basis) up to that number of Shares which, when multiplied by the issue price, will raise up to \$28,000,000 on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a

benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. RESOLUTION 7 – CHANGE OF COMPANY NAME

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

“That, subject to the passing of Resolution 4, for the purpose of Section 157(1) of the Corporations Act and for all other purposes, the name of the Company be changed to “Draig Resources Limited”.”

8. RESOLUTION 8 – ISSUE OF OPTIONS TO ADVISORS AND LEAD MANAGERS TO THE CAPITAL RAISING

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue (on a post-Consolidation basis) up to 750,000 Options to advisers and consultants of the Company on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

9. RESOLUTION 9 – ISSUE OF PERFORMANCE RIGHTS TO MR ANDREW HARRISON

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to issue (on a post-Consolidation basis) 250,000 Performance Rights to Mr Andrew Harrison (or his nominee), and to allot and issue Shares on the vesting of those Performance Rights in accordance with the terms and conditions set out in the Explanatory Statement.”

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Harrison or his nominee and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) *the proxy is either:*
- (i) *a member of the Key Management Personnel; or*
 - (ii) *a Closely Related Party of such a member; and*
- (b) *the appointment does not specify the way the proxy is to vote on this Resolution.*

However, the above prohibition does not apply if:

- (c) *the proxy is the Chair of the Meeting; and*
- (d) *the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.*

10. RESOLUTION 10 – ISSUE OF PERFORMANCE RIGHTS TO MS JADE STYANTS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to issue (on a post-Consolidation basis) 250,000 Performance Rights to Ms Jade Styants (or her nominee), and to allot and issue Shares on the vesting of those Performance Rights in accordance with the terms and conditions set out in the Explanatory Statement.”

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Ms Styants or her nominee and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) *the proxy is either:*
- (i) *a member of the Key Management Personnel; or*
 - (ii) *a Closely Related Party of such a member; and*
- (b) *the appointment does not specify the way the proxy is to vote on this Resolution.*

However, the above prohibition does not apply if:

- (c) *the proxy is the Chair of the Meeting; and*
- (d) *the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.*

11. **RESOLUTION 11 – ISSUE OF DIRECTOR OPTIONS TO MR MARK EARLEY**

To consider and, if thought fit, to pass, the following resolution as an **ordinary resolution**:

“That, for the purpose of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval be given for the Directors to allot and issue (on a post-Consolidation basis) 1,100,000 Director Options to Mr Mark Earley (or his nominee) on the terms and conditions set out in the Explanatory Statement”.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Earley or his nominee and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or*
 - (ii) a Closely Related Party of such a member; and**
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.*

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and*
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.*

12. **RESOLUTION 12 – ISSUE OF DIRECTOR OPTIONS TO MR ANDREW HARRISON**

To consider and, if thought fit, to pass, the following resolution as an **ordinary resolution**:

“That, for the purpose of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval be given for the Directors to allot and issue (on a post-Consolidation basis) 550,000 Director Options to Mr Andrew Harrison (or his nominee) on the terms and conditions set out in the Explanatory Statement”.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Harrison or his nominee and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

13. RESOLUTION 13 – ISSUE OF DIRECTOR OPTIONS TO MS JADE STYANTS

To consider and, if thought fit, to pass, the following resolution as an **ordinary resolution**:

“That, for the purpose of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval be given for the Directors to allot and issue (on a post-Consolidation basis) 550,000 Director Options to Ms Jade Styants (or her nominee) on the terms and conditions set out in the Explanatory Statement”.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Ms Styants or her nominee and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and

- (d) *the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.*

14. RESOLUTION 14 – ADOPTION OF EMPLOYEE SHARE OPTION PLAN

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of and in accordance with ASX Listing Rule 7.2 (Exception 9), and for all other purposes, approval is given for the Company to:

- (a) *establish and maintain the Draig Resources Limited Employee Share Option Plan (“Plan”), as per the terms and conditions detailed in the Explanatory Statement; and*
- (b) *issue Options from time to time under the Plan*

Voting Exclusion: The Company will disregard any votes cast on this resolution by a Director (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) *the proxy is either:*
- (i) *a member of the Key Management Personnel; or*
- (ii) *a Closely Related Party of such a member; and*
- (b) *the appointment does not specify the way the proxy is to vote on this Resolution.*

However, the above prohibition does not apply if:

- (c) *the proxy is the Chair of the Meeting; and*
- (d) *the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.*

15. RESOLUTION 15 – PARTICIPATION BY RELATED PARTY IN CAPITAL RAISING – MR MARK EARLEY

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolution 6, for the purpose of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and

issue (on a post-Consolidation basis) up to 25,000 Shares to Mr Mark Earley (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Earley or his nominee and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

16. RESOLUTION 16 – PARTICIPATION BY RELATED PARTY IN CAPITAL RAISING – MR ANDREW HARRISON

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 6, for the purpose of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue (on a post-Consolidation basis) up to 25,000 Shares to Mr Andrew Harrison (or his nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Harrison or his nominee and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

17. RESOLUTION 17 – PARTICIPATION BY RELATED PARTY IN CAPITAL RAISING – MS JADE STYANTS

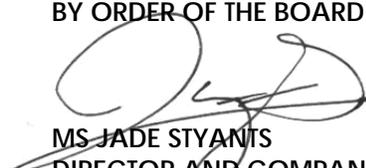
To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to the passing of Resolution 6, for the purpose of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to allot and issue (on a post-Consolidation basis) up to 25,000 Shares to Ms Jade Styants (or her nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Ms Styants or her nominee and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

DATED: 31 OCTOBER 2011

BY ORDER OF THE BOARD


MS JADE STYANTS
DIRECTOR AND COMPANY SECRETARY
C @ LIMITED

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting to be held at Pan Pacific Perth, 207 Adelaide Terrace, Perth WA at 9:30am (WST) on 30 November 2011.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions numbered in the Notice of Meeting.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2011 together with the declaration of the director, the directors' report, the remuneration report and the auditor's report.

Members will be given the opportunity to ask questions of the Board of Directors and the Auditors in relation to the annual financial report for the financial year ended 30 June 2011, at the Annual General Meeting.

The Company will not provide a hard copy of the Company's annual financial report to Shareholders unless specifically requested to do so.

C @ Limited's annual financial report for the financial year ended 30 June 2011 is available on its website at www.cnow.com.au.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the Shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

Under recent changes to the Corporations Act which came into effect on 1 July 2011, if at least 25% of the votes cast on Resolution 1 are voted against adoption of the Remuneration Report at the Annual General Meeting, and then again at the Company's 2012 annual general meeting, the Company will be required to put to Shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of directors of the Company ("**Spill Resolution**").

If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the extraordinary general meeting ("**Spill Meeting**") within 90 days of the Company's 2012 annual general meeting. All of the Directors who were in office when the Company's 2012 Directors' report was approved, other than the managing director of the Company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

The remuneration report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The remuneration report

is part of the Directors' report contained in the annual financial report of the Company for the financial year ended 30 June 2011.

A reasonable opportunity will be provided for discussion of the remuneration report at the Annual General Meeting.

Proxy Restrictions

Pursuant to the Corporations Act, if you elect to appoint the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or any Closely Related Party of that member as your proxy to vote on this Resolution 1, *you must direct the proxy how they are to vote*. Where you do not direct the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or Closely Related Party of that member on how to vote on this Resolution 1, the proxy is prevented by the Corporations Act from exercising your vote and your vote will not be counted in relation to this Resolution 1.

3. RESOLUTION 2 – RE-ELECTION OF DIRECTOR – MR ANDREW HARRISON

Clause 13.2 of the Company's Constitution requires that if the Company has three or more Directors, one-third (or the number nearest one-third) of those Directors must retire from office at each annual general meeting, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election.

In accordance with the Constitution, Mr Harrison retires from office and offers himself for re-election as a Director.

A profile of Mr Harrison is contained in the Company's Annual Report for the year ended 30 June 2011.

4. RESOLUTION 3 – RE-ELECTION OF DIRECTOR – MS JADE STYANTS

Clause 13.4 of the Company's Constitution requires that a Director appointed to fill a casual vacancy or as an addition to the existing Directors shall hold office until the next annual general meeting and then be eligible for re-election.

Ms Jade Styants was appointed as an addition to the existing directors on 19 January 2011. In accordance with Clause 13.4 of the Company's Constitution, Ms Styants retires from office and offers herself for re-election as a Director.

A profile of Ms Styants is contained in the Company's Annual Report for the financial year ended 30 June 2011.

5. RESOLUTION 4 - APPROVAL FOR CHANGE IN NATURE AND SCALE OF ACTIVITIES

5.1 Background

C @ Limited is a public company listed on the official list of the ASX (ASX code: CEO).

The Australian based Company and its subsidiary, C @ Logistics Pty Ltd (registered in Australia), predominately operate in the optical retail industry in Australia.

On 20 April 2011 the Company announced the proposed acquisition of eight coal licences located in the Ovorhangay province and adjoining South Gobi province in southern Mongolia ("Project") which cover a vast area of approximately 625km². C @ intends to change the nature and scale of its activities to include coal exploration and development.

Accordingly, Resolution 4 seeks approval from Shareholders for a change in the nature and scale of the activities of the Company to become a coal exploration and development company.

As outlined in Sections 5.3 and 5.10 of this Explanatory Statement, the Company has entered into the Share Sale Agreement for the purpose of acquiring the Project, via the acquisition of BDBL.

Detailed descriptions of the Project and the Share Sale Agreement are outlined in Section 5.10 below. Other information considered material to Shareholders' decision on whether to pass Resolution 4 is set out in this Explanatory Statement, and Shareholders are advised to read this information carefully.

5.2 ASX Listing Rule 11.1

ASX Listing Rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature and scale of its activities, it must provide full details to ASX as soon as practicable and comply with the following:

- (a) provide to ASX information regarding the change and its effect on future potential earnings, and any information that ASX asks for;
- (b) if ASX requires, obtain the approval of holders of its shares and any requirements of ASX in relation to the notice of meeting; and
- (c) if ASX requires, meet the requirements of Chapters 1 and 2 of the ASX Listing Rules as if the company were applying for admission to the official list of ASX.

ASX has indicated to the Company that, given the change in the nature and scale of the Company's activities upon completion of the acquisition of the Project, ASX requires the Company to:

- (a) obtain Shareholder approval; and
- (b) re-comply with the admission requirements set out in Chapters 1 and 2 of the ASX Listing Rules.

For this reason, the Company is seeking Shareholder approval for the Company to change the nature and scale of its activities under ASX Listing Rule 11.1.2.

5.3 Acquisition of Mongolian Coal Assets

C @ has entered into a conditional share sale agreement ("**Share Sale Agreement**") with Peabody-Winsway Resources LLC ("**Peabody-Winsway**") to purchase all of its shares in BDBL LLC, a company incorporated in Mongolia, which owns 100% of the Project ("**Acquisition**"). Please refer to Section 5.10 for further details regarding the terms of the Share Sale Agreement.

The Company has also entered into a memorandum of understanding with a private Australian company, Trinity Mongolia Pty Ltd, and its wholly owned Mongolian subsidiary, Trinity Development LLC (together "**Trinity**") ("**Trinity MOU**") relating to exploration, development or mining opportunities (including the Project) jointly identified by the parties. Pursuant to the Trinity MOU, the Company and Trinity have agreed to establish a joint venture over the Project in which Trinity shall have a 10% free carried participating interest, with the right to increase its participating interest in 15% by reimbursing to C @ all costs paid by C @, up to the time of Trinity's election, that are attributable to the Project on a proportionate basis. Please refer to Section 5.10 for further details regarding the terms of the Trinity MOU.

Upon completing the Acquisition, BDBL LLC will be a 100% owned Mongolian subsidiary of C @. The Company will own 90% of the Project through BDBL LLC, with a 10% minority interest owned by Trinity, as per the Trinity MOU.

In consideration for the Acquisition, C @ will pay Peabody-Winsway an amount of US\$7,870,000, less US\$100,000 which was paid by the Company to Peabody-Winsway on 20 April 2011 to secure exclusive rights in relation to the Project and the deposit of US\$100,000 which was paid on 26 October 2011 at the time of signing the Share Sale Agreement), plus any assessable value added tax attributable to the sale of shares, payable in cash.

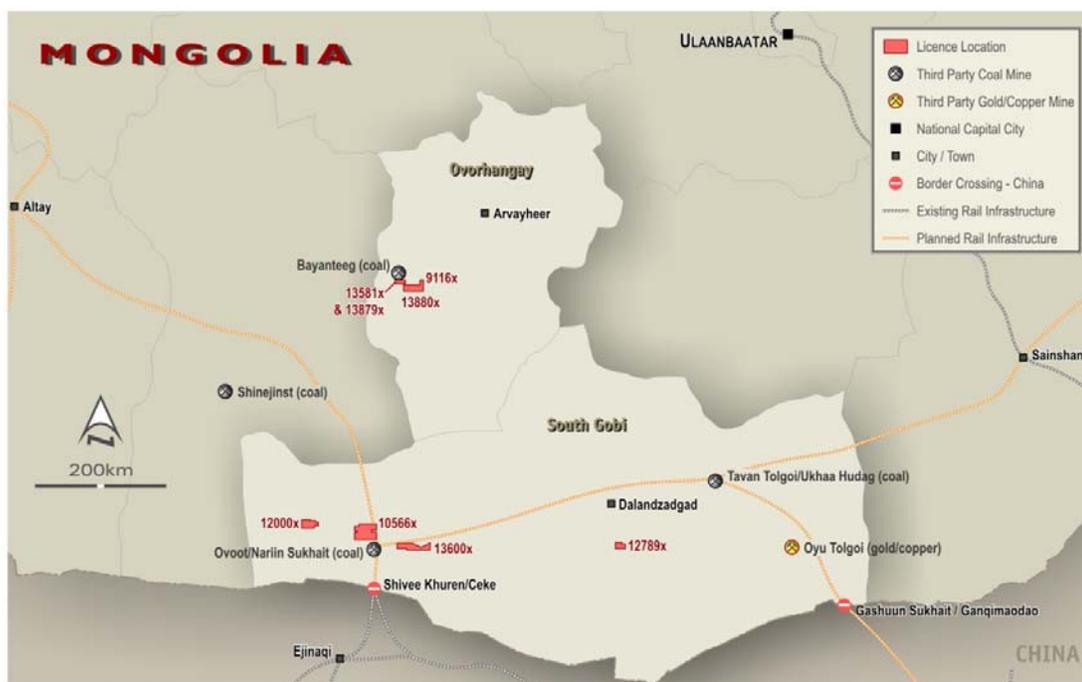
In addition, from the completion of the Acquisition, the Company must assume the responsibility to pay a 1% royalty based on the free on board ("**FOB**"), mine load out, value of any coal mined from the licence areas, to Polo Resources Limited.

Completion of the Acquisition is subject to Shareholder approval, the Company raising a minimum of \$10,000,000, there being no material breaches of the seller warranties provided in the Share Sale Agreement in respect of the licences and the registration of the licences to BDBL LLC in accordance with the Minerals Law of Mongolia. The Acquisition will require the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

In conjunction with the Acquisition, the Company plans to raise up to \$28,000,000 in working capital through the issue of new Shares. The proceeds raised, in addition to the Company's existing cash balance of approximately \$300,000, will be used to fund the Acquisition, along with an immediate exploration programme to demonstrate the continuity of an economic coal deposit and define an initial JORC compliant resource. The proceeds will also contribute to the funding of future acquisitions as detailed in Section 5.8.

5.4 Mongolian Coal Licences

The licences are located in Central and Southern Mongolia and cover a total area of 624.97km². Four licences are located in the Ongi River Basin, Overhangay province and four are located in the South Gobi Basin, South Gobi province.



Location map of the eight exploration licences in Mongolia

Ovorkhangai Licences

Four of the Project licences are located within the Ongi River Basin, located in Ovorkhangai province in central-southern Mongolia. The coal basins' architecture is similar in nature to the South Gobi Basin, although approximately only 70% of its size. Coal seams in the Ongi River Basin are hosted in the Upper Permian, Lower-Middle Jurassic and Lower Cretaceous sedimentary sequences.

The coal-bearing sediments in the four exploration licences are considered to be of Jurassic age and are in general characterised by coking properties. The Jurassic system in the Ongi River Basin contains the economically important Lower-Middle Jurassic Bakhar formation, which is composed of conglomerates, sandstone, shale and coal and is substantial in areas being up to 2700m, with the base of the formation being characterised by high energy alluvial fan deposits.

The most advanced Jurassic coal project in Mongolia is Gobi Coal and Energy Ltd's Shinejinst soft coking coal project, located southwest of the Ovorkhangai licences, which has identified 299Mt of JORC coal resources which it intends to bring into production towards the end of 2011.

During June and July 2011, the Company undertook a due diligence exploration program which included a six hole drilling program on the Ovorkhangai licences. Five of these holes were drilled on the Teeg licence, which is located directly south of the Bayanteeg open-cut coal mine. The mine has been in operation for 50 years extracting an estimated 4.6Mt of coal during this period from shallower coal seams to meet local demand.



Major Coal Seam Exposed in Bayanteeg Coal Mine

Prior exploration work on the Teeg licence has been limited, with some partial field mapping and a trench located along the southern licence boundary, which uncovered a small outcrop of coal which was subsequently trenched by Peabody-Winsway.

The first hole drilled by C @ was BTE-001 which was located close to the trench along the southern boundary. This hole intersected a massive 60m coal seam characterised by vitrinite-rich massive hard black coal in the lower part of the seam. The hole was terminated at 100m depth within a sequence of organic-rich sediments, not representative of the Jurassic Bakhar Formation base, which could suggest further seams down dip.

BTE-002 was drilled 280m to the northwest of BTE-001 to a total depth of 207m, noting that this entire section remained within the Jurassic Bakhar Formation. The hole intersected 40m of thick black coal seam from a depth of 89m, of which 30m was logged as consistently hard coal. As per BTE-001, the base of the Bakhar Formation was not encountered in this hole which could suggest additional seams down dip.

The potential extent of the massive seam intersected in BTE-001 (60m coal gross) and BTE-002 (40m coal gross) along the southern boundary still remain unknown, but will be the focus of the Phase II exploration program planned immediately upon completion of the Acquisition.

A random core sample was taken from BTE-002 to establish the view that the coal seams within the Teeg licence displayed coking properties due to the visible high vitrinite content. Testing in Australia showed that the massive coal seams intersected have the potential to produce a soft coking and high energy thermal coal. It is expected that the coal will benefit from washing in terms of reducing ash and improving coking properties (i.e. the CSN).



Drill core taken from BTE-001 on Teeg Licence, Ovorhangay Mongolia

Very little exploration work has been carried out on the other Ovorhangay licences at this time, although wide spread sediments of the coal-bearing Jurassic Bakhar Formation outcrop is present on some of these licences, warranting further exploration.

South Gobi Licences

The four licence areas located in the South Gobi are geologically located within the South Gobi Basin which is characterised by the largest concentration of major black coal deposits in Mongolia, including the major coal deposit at Tavan Tolgoi (coal resources of > 5 billion tonnes), as well as other substantial deposits including the >200 Mt deposits at Baruun Nuran and Ovoot Tolgoi.

Although the South Gobi Basin boast some significant coal discoveries in recent times, the area still remains largely underexplored, with little systematic exploration work having been conducted in the basin. This is evident in the fact that the basin only has three open-cut mining operations, compared to mining regions such as Australia's Bowen basin, which is similar in dimension to the South Gobi Basin, although the South Gobi Basin is considered more structurally complex. The long term economic potential of the South Gobi Basin is therefore very substantial and provides the potential for the further discovery of significant high rank coal deposits.

South Gobi is located next to the Chinese border. China's energy market and demand is expanding. Mongolia's developing mining industry is becoming of significant economic importance to China.

Exploration work on the licences, which includes eleven drill holes, has been very limited to date. Limited drilling work on the South Gobi licences intersected coal seams on two licences.

The Company undertook an exploration program as part of its due diligence on the licences during May and June 2011. A total of eight holes were drilled by C @ within the four licences in the South Gobi Basin. Although the drill results from the program presented only a few modest coal intersections, all four South Gobi

licences remain underexplored and potential exists to uncover concealed coal extension, particularly in the Zamt Uul and the Gurvantes licences which will be given priority on the next drilling program conducted by the Company in the South Gobi.

An Independent Geologist's Report providing further information on the Project has been prepared by independent geological consultant Nordic Geological Solutions LLC, in accordance with the Valmin Code and the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. A copy of the Report is set out in Appendix 1 to this Notice of Meeting.

5.5 Location, Access and Development

The Ongi River Basin licences are located in central-southern Mongolia, in the eastern part of Ovorkhangai province, approximately 130km from the province capital Arvayheer and approximately 520km south-west of the capital Ulaanbaatar. The town of Bayanhongor is located just over 50km from the licences and connects to Arvayheer on Highway AO302. The licences are situated immediately south of an operating coal mine called Bayanteeg, which is serviced by roads, water, telecommunications and power from a 110 kV line from the Mongolian Central Electricity System. Typically the travel time in the summer is about five hours non-stop from Ulaanbaatar. The Chinese border is directly south of the licence area, approximately 340km by road.

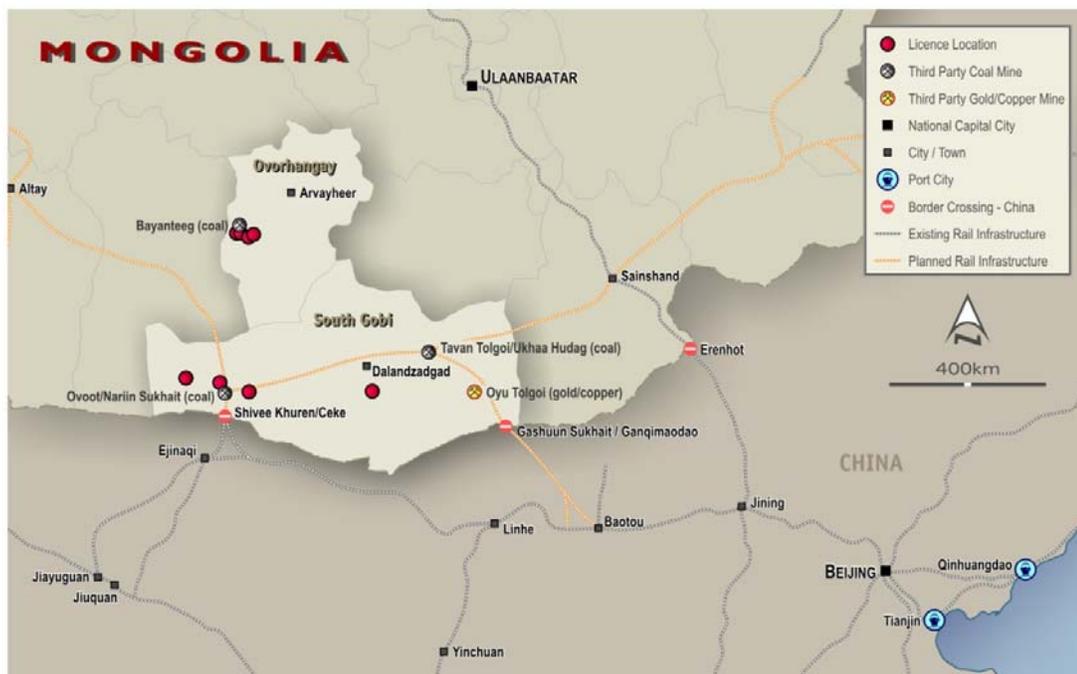
South Gobi Basin licences are located in southern Mongolia, with the majority located in the south western block of South Gobi province. The closest town to these licences is Gurvantes, located approximately 276km from the provinces capital Dalandzadgad. Access to these licences is typically by rural dirt roads. The south western licences are located less than 80km from the Chinese border crossing at Shivee Khuren/Ceke.

5.6 Rail infrastructure planned by the Mongolian Government

To support the mining industry, the Mongolian government has approved plans for an approximate 5700km long railway to be built in three stages. The first stage will see 1530km of track built from Nariin Sukhait in the South Gobi through the cities of Sainshand and Choybalsan into Russia connecting to the existing Russian railway line system that extends to the Russian Pacific ports of Zarubino, Vanino and Vladivostok. The distance between Choybalsan and the port at Zarubino is 3713km.

Construction on the first stage of the railway is expected to commence in 2012 and will be built over two years. The second stage will see the expansion of the first stage from Tavan Tolgoi in a south easterly direction to the Chinese border crossing some 267km away at Gashunn Sukhait and a further link only 50km south of Nariin Sukhait to Shivee Khuren/Ceke, in the south western corner of the South Gobi. These links will allow access to the Chinese rail system with shorter distances to open ports of Tianjin, Jinzhou and Qinhuangdao. The distance from Tavan Tolgoi to Qinhuangdao will be an estimated 1720km. Work on stage two is expected to commence in 2015.

The third phase is planned for the western section of the country from Nariin Sukhait, heading north through Shinejinst and Alati to Tsagaan Tolgoi located in the north of Mongolia. This line has the potential for use by mines operating in both the South Gobi, Bayanhongor and Ovorkhangai provinces.



Mongolia's Major Rail Infrastructure Existing and Planned

5.7 Proposed Exploration Program

Upon completion of the Acquisition, C @ plans to undertake an immediate exploration program consisting of geophysics and drilling, to demonstrate the economic potential of the coal seams, with the aim of defining an initial JORC compliant resource.

Priority will be given to the Teeg licence located in Overhangay province, which intersected two significant coal seams during the Company's due diligence exploration program. The Company intends to undertake a geophysical survey to identify the potential black coal extensions concealed on the licence that will support the key targets of the drilling program.

The drilling will be designed to define an initial JORC compliant resource. Should the drilling program define a JORC compliant resource which meets the Company's expectations, work to commence a scoping study will quickly follow.

The Directors consider the Project prospective for the discovery of high quality coal. Further details of the direct costs of the exploration programme intended to bring the Project to a pre-feasibility study level over the next two years are set out in the Independent Geologist's Report in Appendix 1 to this Notice of Meeting.

5.8 Future Acquisitions

As announced on 28 April 2011, the Company currently has in place a heads of agreement with PT Ethica Trada Cermelang ("**Ethica**") which is focused on accelerating the identification and development of coking and high energy thermal coal projects in Indonesia.

Ethica is a leading professional services firm to the coal industry in Indonesia with extensive local market intelligence.

The agreement provides the Company with a strategic partner in Indonesia that brings along expertise, capabilities and local support to identify and evaluate suitable Indonesian coal asset development opportunities.

A number of opportunities in Indonesia are under review.

The Company intends to pursue further project opportunities in line with its investment strategy of acquiring and developing high quality coal assets. The Company will continue to focus its efforts on Mongolia and Indonesia.

5.9 Summary of the Mineral Rights

At completion of the Acquisition the Project will consist of eight registered mineral exploration licences as set out in the following table:

	LICENCE NUMBER	PROPERTY NAME	REGISTERED HOLDER	AREA (km ²)	CURRENT TERM EXPIRY DATE	ULTIMATE EXPIRY DATE	SUBSTANCE	LOCATION
1.	9116X	Ergen Usny Khundag-2	BDBL LLC	8.84	09 Jan 2014	09 Jan 2014	Coal	Ovorhangay Province
2.	10566X	Gurvantes	BDBL LLC	257.82	02 Oct 2014	02 Oct 2014	Coal	South Gobi Province
3.	12000X	Shavan	BDBL LLC	73.65	11 Sep 2012	11 Sep 2015	Coal	South Gobi Province
4.	12789X	Olomgui	BDBL LLC	22.54	08 Oct 2013	08 Oct 2016	Coal	South Gobi Province
5.	13581X	Urtyn Am	BDBL LLC	5.41	20 Apr 2014	20 Apr 2017	Coal	Ovorhangay Province
6.	13600X	Zamt Uul	BDBL LLC	89.92	22 Apr 2014	22 Apr 2017	Coal	South Gobi Province
7.	13879X	Teeg	BDBL LLC	22.20	15 Jul 2014	15 Jul 2017	Coal	Ovorhangay Province
8.	13880X	Khonkhor	BDBL LLC	144.61	15 Jul 2014	15 Jul 2017	Coal	Ovorhangay Province

The licences are governed by the 2006 Minerals Law of Mongolia ("**Minerals Law**"). In Mongolia an exploration licence is granted by the Minerals Resources Authority of Mongolia ("**MRAM**"), a subordinate agency of the Ministry of Mineral Resources and Energy, and issued through the Department of Geological and Mining Casdastre ("**DGMC**"), a subordinate of MRAM. MRAM is the Mongolian government agency primarily responsible for the implementation of government policy on minerals and ensuring the enforcement of Mongolian legislation in respect of minerals and of the orders and resolutions of the government of Mongolia with regard to the implementation of such legislation.

An exploration licence grants the licence holder the right to explore for any and all minerals discovered within the licence area with the exception of radioactive minerals. An exploration licence is granted for an initial period of three years and the licence holder may apply for an extension of such licence for two successive periods of three years each.

The maximum period that an exploration licence may be held by one or more holders is nine years from the date of issue. Upon the expiration of the maximum period that an exploration licence may be held, the exploration licence will expire and the rights of the licence holder under such licence will revert to the government of Mongolia unless the exploration licence holder enters into a pre-mining agreement with MRAM or is eligible to apply for (and is issued) a mining licence. Each exploration licence is subject to revocation if applicable licence fees are not paid in a timely manner, the minimum requirement for exploration cost has not been satisfied, or other requirements of the Minerals Law are not complied with.

A minerals exploration licence holder has the right to conduct exploration activities throughout the land area covered by the relevant licence ("**Licence Area**"), to gain access to the Licence Area, to construct temporary structures within the Licence Area related to its exploration activities, to transfer and surrender all or part of a Licence Area, and if gaining access to the Licence Area requires passing over land which is owned or possessed by other, to traverse such land subject to terms and conditions negotiated with such owners or possessors. All such activities must be conducted in compliance with relevant laws pertaining to protection of the environment and reclamation.

Under the Minerals Law, the holder of a mineral licence may not sell the licence, however in the case of an exploration licence, the holder may sell the underlying original materials and reports on prospecting and exploration work ("**Licence Area Data**") in respect of the licence. Upon completion of the sale of the Licence Area Data, and payment of applicable taxes, the holder may transfer the licence for no consideration.

Under the Foreign Investment Law of Mongolia, where 25% or more of the paid in capital of a Mongolian company is contributed from foreign sources, the company is deemed to be a business entity with foreign investment ("**BEFI**") and must register with the Mongolian Foreign Investment Department of the Ministry of Foreign Affairs and Trade (the "**FID**"). BDBL will be converted to a BEFI after CEO acquires the shares of BDBL and accordingly must comply with the requirements of the Foreign Investment Law. The FID may terminate the BEFI status of, or order the cessation of activities by, any BEFI that the FID determines has not met various specified requirements or is deemed by FID to have breached Mongolian laws.

5.10 Material Contracts

- **Summary of the Share Sale Agreement**

On 26 October 2011, the Company entered into a Share Sale Agreement with Peabody-Winsway, being the sole shareholder of BDBL LLC (**BDBL**), to acquire 100% of the shares in BDBL. The material terms and conditions of the Share Sale Agreement are as follows:

- (a) (**Consideration**): in consideration for the acquisition of BDBL, the Company shall pay Peabody-Winsway US\$7,870,000 (which includes a payment of US\$100,000 which was paid by the Company to Peabody-Winsway on 20 April 2011 to secure exclusive rights in relation to the Project and a deposit of US\$100,000 deposit paid on signing of the Share Sale Agreement), plus any assessable value added tax that may be attributable to the sale of BDBL shares;

- (b) **(Conditions Precedent):** the Share Sale Agreement is conditional upon the following key conditions:
- (i) C @ obtaining Shareholder approval for the purpose of ASX Listing Rule 11.1.2 for the transaction Acquisition;
 - (ii) C @ completing a minimum capital raising of \$10,000,000;
 - (iii) there being no material breach of the warranties provided by Peabody-Winsway in respect of the licences between the date of the Share Sale Agreement and the date of completion of the Acquisition; and
 - (iv) the licence transfer to BDBL LLC has been registered correctly in accordance with the Minerals Law of Mongolia.

If these conditions are not satisfied by 10 December 2011 (or such later date agreed by the parties), the Share Sale Agreement shall terminate and the parties will be released from their obligations there under;

- (c) **(Royalty):** on and from completion of the Acquisition, BDBL must pay to Polo Resource Limited a royalty of 1% of the FOB mine site price (exclusive of any value added tax) per tonne of coal mined within the Licence Area; and
- (d) **(Warranties):** Peabody-Winsway has provided warranties to C @ in respect of BDBL and the Project that are customary for an agreement of this nature.

- **Summary of the Trinity MOU**

On 10 November 2010, the Company entered into a memorandum of understanding (**Trinity MOU**) with a private Australian company, Trinity Mongolia Pty Ltd, and its wholly owned Mongolian subsidiary, Trinity Development LLC (together, **Trinity**). The purpose of the Trinity MOU is to outline the terms upon which the parties propose to identify and develop exploration and mining projects (and in particular, coking coal deposits), in Mongolia.

Mr Mark Earley, a Director of C @, currently has an interest in approximately 10% of Trinity Mongolia Pty Ltd.

The material terms and conditions of the Trinity MOU, as it relates to the Acquisition, are as follows:

- (a) **(Acquisition of Interests and formation of joint venture):** if either of the parties acquires an interest in an exploration or mining project which meets the agreed criteria as set out in the Trinity MOU (**Interest**), the party shall hold the Interest for the benefit of an unincorporated joint venture to be formed between the Company and Trinity from the date of the acquisition of the Interest (**Joint Venture**);

- (b) **(Joint Venture – initial participating interests):** upon the formation of the Joint Venture, the participating interests of the parties shall be:

C @ - 90%; and

Trinity - 10%.

Trinity shall not be required to contribute to budgeted Joint Venture expenditure in respect of this 10% participating interest until the resource defined within the Joint Venture area is estimated to be 200Mt or greater of JORC compliant indicated or inferred resources. Upon reaching this milestone, Trinity will be required to contribute to its pro rata share of Joint Venture expenditure in respect of its initial 10% participating interest;

- (c) **(Joint Venture – additional participating interest):** Trinity shall have the right to acquire an additional 15% participating interest in the Joint Venture by paying to C @ an amount equal to 15% of all expenditure incurred by C @ that is attributable to the identification, evaluation and acquisition of the Interest. Trinity must make this payment within 60 business days following the formation of the Joint Venture. Trinity shall, at all times, be obliged to contribute its pro rata share of Joint Venture expenditure in respect of this 15% participating interest;
- (d) **(Operating committee):** the Joint Venture shall be managed by an operating committee that is constituted by representatives of the Joint Venture participants, with each representative's voting power being proportionate to the corresponding participant's Joint Venture participating interest from time to time. The operating committee may appoint an operator to operate the Joint Venture; and
- (e) **(Formal Joint Venture agreement):** the parties shall enter into a Joint Venture agreement to formalise the terms of the Joint Venture.

The Company anticipates that it will enter into a formal joint venture agreement in respect of the Project with Trinity in or about November 2011.

5.11 Re-compliance with Chapters 1 and 2 of the ASX Listing Rules

On the basis that approval pursuant to Resolution 4 is obtained, the Company will seek to re-comply with the requirements of Chapters 1 and 2 of the ASX Listing Rules.

In accordance with these requirements, the Company will issue a prospectus in respect of the Capital Raising the subject of Resolution 6.

The securities of the Company will be suspended approximately two weeks prior to the Annual General Meeting, and will remain in suspension until the Company satisfies the requirements of Chapters 1 and 2 of the ASX Listing Rules. It is anticipated that this will occur in mid December 2011.

5.12 Capital structure

The capital structure of the Company following completion of the Consolidation, the Share Sale Agreement and the Capital Raising is as follows:

Shares	Number
Opening balance	502,954,223
Total Shares after Consolidation ¹	25,147,711
Issue of Shares pursuant to Capital Raising – General Offer ²	18,115,942
Issue of Shares pursuant to Capital Raising - Priority Offer 2	2,173,913
Total Issue of Shares pursuant to Capital Raising ²	20,289,855
Total Shares	45,437,566

Options		Number
Exercise Price	Expiry Date	
1 cent	30 April 2012	128,241,897
1 cent	15 September 2013	45,900,000
Total Options currently on issue		174,141,897
Effect of Consolidation		
20 cents ¹	30 April 2012	6,412,095
20 cents ¹	15 September 2013	2,295,000
Total Options after Consolidation ³		8,707,095
Issue of Options to Advisors and Lead Managers to the Capital Raising after Consolidation ⁴		
Capital Raising Issue Price	3 yrs from allotment	750,000
Issue of Options to Directors of the Company ⁵		
Various	3 yrs from allotment	2,200,000
Total Options		11,657,095

Performance Rights	Number
Issue of Performance Rights to Directors of the Company after Consolidation ⁶	500,000
Total Performance Rights	500,000

Notes:

1. Refer to Section 6 of this Explanatory Statement for details of the Consolidation.
2. The capital raising of up to \$28,000,000 will consist of a priority offer to Shareholders of up to \$3,000,000 and a general offer of up to \$25,000,000. For illustration purposes only, this table assumes a capital raising of 20,289,855 Shares on a post-Consolidation basis, consisting of 2,173,913 Share issued under the priority offer to shareholders and 18,115,942 Shares issued under the general offer, based on the closing share price on 26 October 2011. The actual number of Shares issued pursuant to the Capital Raising may vary. Refer to Section 7 of this Explanatory Statement for details of the Capital Raising.

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3. The exercise price of these Options will increase to \$0.20 under the terms of the Consolidation.
 4. Refer to Section 9 of this Explanatory Statement for details of the Options to be issued to Advisors and Lead Managers to the Capital Raising.
 5. Refer to Section 11 of this Explanatory Statement for details of the Option to be issued to Directors.
 6. Refer to Section 10 of this Explanatory Statement for details of the Performance Rights to be issued to Directors.

5.13 Advantages of the Acquisition

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the proposed Resolutions:

- (a) the Acquisition represents a significant opportunity for the Company to increase the scale of its activities which should increase the number and size of the investor pool that may invest in the Company's shares;
- (b) the Acquisition provides an opportunity for the Company to diversify into coal exploration and development;
- (c) the Company will be positioned in a major coal project in an emerging coal province in Mongolia, with significant coal companies developing in the surrounding region;
- (d) whilst this is an exploration project, coal with coking properties has been identified on the Project;
- (e) high acquisition prices paid recently for coal projects located nearby demonstrates value in the current offer. Should the Company be successful with its exploration there is an opportunity to build substantial value for investors with money spent on ground;
- (f) the Mongolian Government is aware of the substantial mineral opportunities in the region and is currently building further rail and port infrastructure to support and develop this region; and
- (g) the combined management of the Company has a successful track record in creating wealth in the coal industry with extensive expertise and experience in the resource sector and access to significant funding from global capital markets.

5.14 Disadvantages of the Acquisition

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the proposed Resolutions:

- (a) the Company will be changing the nature of its activities to become a company focused on coal exploration activities, which may not be consistent with the objectives of all Shareholders;
- (b) there are many risk factors associated with the change in nature of the Company's activities, including sovereign risk, and risks associated with the requirement to obtain environmental and other regulatory approvals;

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- (c) a significant future outlay of funds will be required which will increase funding pressure on the Company in order to continue exploration of the Project;
 - (d) current Shareholders will have their interests in the Company diluted by the Capital Raising and any further equity funding undertaken by the Company; and
 - (e) the Project is at a very early stage of exploration and there is no guarantee that exploration on the Project by the Company will result in the discovery of a coal resource.

5.15 Risk Factors

Shareholders should be aware that if the proposed Acquisition is approved, the Company will be subject to various risk factors. Based on the information available, a list of the identified major risk factors is set out below. The list is not exhaustive:

Risks relating to the change in nature and scale of activities

- **Re-Quotation of Shares on ASX**

The acquisition of the Project constitutes a significant change in the nature and scale of the Company's activities and the Company needs to re-comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking admission to the official list of ASX.

There is a risk that the Company may not be able to meet the requirements of the ASX for re-quotation of its Shares on the ASX. Should this occur, the Shares will not be able to be traded on the ASX until such time as those requirements can be met, if at all. Shareholders may be prevented from trading their Shares should the Company be suspended until such time as it does re-comply with the ASX Listing Rules.

- **Counterparty and Contractual Risk**

Pursuant to the Share Sale Agreement (summarised above) the Company has agreed to acquire 100% of BDBL LLC subject to the fulfilment of certain conditions precedent.

The ability of the Company to achieve its stated objectives will depend on the performance by Peabody-Winsway of its obligations under this agreement. If Peabody-Winsway or any other counterparty defaults in the performance of its obligations, it may be necessary for the Company to approach a court to seek a legal remedy.

Legal action instituted in Australia or overseas can be costly. Furthermore, the Share Sale Agreement is governed by laws of Mongolia. There is a risk that the Company may not be able to seek the legal redress that it could expect under Australian law, and generally there can be no guarantee that a legal remedy will ultimately be granted on the appropriate terms.

Risks relating to the Company's operations

- **Future capital requirements**

Significant future funding will be required by the Company to develop the Project. There can be no assurance that such funding will be available on satisfactory terms or at all. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities.

If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its exploration program as the case may be, which may adversely affect the business and financial condition of the Company and its performance.

- **Sovereign and Political Risks Associated with Operating in Mongolia**

The Project is located in Mongolia and the Company will be subject to the risks associated with operating in that country, including various levels of political, economic and other risks and uncertainties.

The Mongolian Parliament has previously passed laws that may restrict or limit the Company's operations or make them uneconomic. These include the laws that impose the right to participate in 'mineral deposits of strategic importance'. Should the Company's exploration activities lead to an economically viable mineral deposit, there is a risk that the Mongolian State may seek to acquire an interest in those deposits. This interest can be up to 34% (or 50% where the deposit was identified using State funding). Furthermore, there is a risk that the Mongolian Parliament may attempt to pass further laws that may prejudicially affect the Company's operations.

On or around 10 May 2011, the Mineral Resources Authority of Mongolia announced that more than 100 Mongolian companies were in danger of having their mineral licences revoked due to non-payment or late payment of annual licence fees, damage to the environment, failure to submit compliance reports, violations of land ordinances, improper transfers of the licence to another entity, or failure to adhere to safety measures. While government intervention such as revocations may be warranted if a licence holder violated applicable laws, these revocations sometimes appear to be politically motivated.

More general risks include economic, social or political instability or change, hyperinflation, currency non-convertibility or instability and changes of law affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, export duties, repatriation of income or return of capital, environmental protection, mine safety, labour relations as well as government control over mineral properties or government regulations that require the employment of local staff or contractors or require other benefits to be provided to local residents.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

Outcomes in courts in Mongolia may be less predictable than in Australia, which could affect the enforceability of contracts entered into by the Company or its subsidiaries in Mongolia.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations or profitability of the Company.

- **Legal Risks Associated with Operating in Mongolia**

The Company's Mongolian operations are subject to the jurisdiction of Mongolia's courts. To the extent that laws and regulations exist in Mongolia, they are often poorly drafted and inconsistent with other laws existing laws. Rarely, if ever, have any of the laws and regulations been interpreted by a court of law.

The legal system operating in Mongolia is developing which may result in risks such as:

- (i) political difficulties in obtaining effective legal redress in the courts whether in respect of a breach of law or regulation, or in an ownership dispute;
- (ii) a higher degree of discretion on the part of governmental agencies;
- (iii) the lack of political or administrative guidance on implementing applicable rules and regulations including, in particular, as regards local taxation and property rights; or
- (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions.

The commitment to local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that the licences and other legal arrangements will not be adversely affected by the actions of the government authorities or others and the effectiveness of an enforcement of such arrangements cannot be assured.

In the case where the Company disputes the actions of the State with regard to its Tenements, it is unlikely that the Company would be successful in raising a claim in Australian courts for reasons of comity or the doctrine of sovereign immunity.

- **Mineral Licence Title Risks**

There are a number of conditions that the Company must satisfy with respect to the Mongolian mineral licences it will acquire an interest in, including minimum expenditure and annual reporting requirements to keep the licences in good standing. There is a risk that the Company (through BDBL LLC) may not be able to satisfy these requirements, in which case the Company may forfeit title to those licences.

Licences are also subject to periodic renewal and may only be renewed a limited number of times for a limited period of time. While the Company anticipates that such renewals will be given as and when sought, there can be no assurance that these renewals will be given as a matter of course and that new conditions will not be imposed in connection therewith.

Furthermore, the Company will require mining licences, land use leases, and permits to mine in order to conduct mining operations in Mongolia. There can be no assurance, however, that such licences, leases and permits will be obtained on terms favourable to the Company or at all for the Company's future intended mining and/or exploration targets in Mongolia.

- **Application of the Mongolian Water and Forests Law**

In July 2009 the Mongolian Parliament enacted what is commonly referred to as the Water and Forests Law. This law authorises the Government of Mongolia to revoke all mineral exploration and mining licenses located within the areas described in the law. These areas include within 200 metres of:

- (i) headwaters of rivers and lakes;
- (ii) forest areas defined in the Forest Law of Mongolia 31 March 1995; and
- (iii) land areas adjacent to rivers and lakes as defined in the Water Law of Mongolia dated 22 April 2004,

(Restricted Areas).

The Water and Forests Law provides that:

- (i) new minerals exploration and mining licenses covering Restricted Areas; and
- (ii) previously granted licenses that overlap Restricted Areas will be terminated.

To date, a definitive list of affected licenses has not yet been published. However four of the Tenements (12000X, 13581X, 13879X and 13880X) (**Affected Tenements**) partially fall within areas of land which appear in unofficial information currently in circulation in Mongolia as areas that may be defined as Restricted Areas.

The future of the Water and Forest Law is unclear due to the lack of financial resources available to the Mongolian Government to pay any compensation for any revoked license as well as significant pressure from Mongolian citizens, Mongolian businesses and foreign persons.

As a result, there is a risk, if the Water and Forests Law is enforced, that the Affected Licenses will be terminated and no compensation paid to the Company for the termination.

- **Special Needs Land**

The Tenements are subject to the risk that the land covered by the license may be declared "special needs land".

Land may be declared as “special needs” land for various reasons including purposes of converting the land into special protected areas, land allocated for defence and security and sites for conducting research.

Where land is declared as “special needs” land, any mineral licenses existing over the land will be terminated. There is an obligation to pay compensation in relation to the terminated license. However, it is not clear whether the compensation to be provided to the license holder is intended to compensate the license holder for:

- (i) the fair value of the minerals that would have been mined in the absence of the special needs designation;
- (ii) merely reimburse the license holder for any expenditure to date; and or
- (iii) something in between.

- **Potential Enactment of a New Minerals Law**

Various factions within Mongolia have recently called for major changes to the current minerals law and other related laws and governmental policies. On 26 April 2011 an open discussion on new mineral laws was conducted by the Office of the President of Mongolia. It appears likely that a new minerals law will be considered by the Mongolian parliament before the conclusion of 2011. However, there is uncertainty as to what effect, if any, a new minerals law may have on issues such as state participation in the minerals sector and the Water and Forests Law.

- **Operating Risks**

The current and future operations of the Company, including exploration, appraisal and possible production activities may be affected by a range of factors.

The Company's Mongolian projects will be subject to extreme climatic conditions which restrict the period within which exploration; appraisal and possibly production activities may take place and may also place Company personnel at risk if exposed to these extreme conditions.

Mongolia has a foreign worker quota system that may make it difficult to hire qualified personal even where local manpower is unavailable.

A summary of factors that may affect the operations of the Company, include:

- (i) geological conditions;
- (ii) unanticipated operational and technical difficulties encountered in geophysical surveys, drilling and production activities;
- (iii) mechanical failure of operating plant and equipment, industrial and environmental accidents, acts of terrorism or political or civil unrest and other force majeure events;
- (iv) industrial action, disputation or disruptions;

- (v) unavailability of aircraft or drilling equipment to undertake airborne electromagnetic and other geological and geophysical investigations;
- (vi) unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment;
- (vii) prevention or restriction of access by reason of political unrest, outbreak of hostilities, and inability to obtain consents or approvals;
- (viii) current exploration operations and future mine development of the tenements are subject to the Company's ability to obtain a wide range of permits, licences, and approvals and there is no guarantee that such permits, licences and approvals will be granted or will be granted in a timely matter;
- (ix) advancement of the exploration operations to mine development can be a lengthy process taking a number of years where the Company's projects may be subject to new laws, regulations, and taxes which may have a material impact on the Company; and
- (x) restriction of access to infrastructure by Russian, Chinese or Mongolian authorities.

- **Exploration Success**

There can be no assurance that exploration of the Project will result in the discovery of economic coal deposits. Even if an apparently viable deposit is identified, there is no guarantee it can be economically exploited.

- **Coal price volatility**

Substantially all of the Company's revenues and cash flow (should the Company enter production) will be derived from the sale of coal. Therefore, the financial performance of the Company would be exposed to fluctuations in the coal price. Historically, the coal price has fluctuated widely and has experienced periods of significant decline.

Coal prices are affected by numerous factors and events that are beyond the control of the Company. These factors and events include general economic activity, world demand, forward selling activity as well as general global economic conditions and political trends.

If coal prices should fall below or remain below the Company's costs of production for any sustained period due to these or other factors and events, the Company's exploration and proposed production could be delayed or even abandoned. A delay in exploration or production or the abandonment of one or more of the Company's projects may require the Company to write-down its coal resources and may have a material adverse effect on the Company's production, earnings and financial position.

- **Foreign exchange risk**

The Company will be exposed to the volatility and fluctuations of the exchange rate between the United States dollar, the Mongolia togrog and the Australian dollar.

Global currencies are affected by a number of factors that are beyond the control of the Company. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. These factors may have a positive or negative effect on the Company's exploration, project development and production plans and activities together with the ability to fund those plans and activities.

- **Environmental risks**

The operations and proposed activities of the Project are subject to Mongolian laws and regulation concerning the environment. As with most exploration projects and mining operations, the Company's activities are expected to have an impact on the environment. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws.

General risks

- **Insurance risks**

The Company intends to insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect of the business, financial condition and results of the Company.

Insurance against all risks associated with mining exploration and production is not always available and where available the costs can be prohibitive.

- **Competition risk**

The industry in which the Company will be involved is subject to domestic and global competition. While the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, whose activities or actions may, positively or negatively, affect the operating and financial performance of the Company's projects and business.

- **Market risk**

Share market conditions may affect the value of the Company's quoted Securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) commodity price fluctuations;
- (v) changes in investor sentiment toward particular market sectors;
- (vi) the demand for, and supply of, capital; and

(vii) terrorism and other hostilities.

- **Government**

Government action or policy change, both in Australia and Mongolia, particularly in relation to lands and infrastructure, compliance with environmental regulations, taxation and royalties, may adversely affect the Company's operations and financial performance.

- **Potential Acquisitions**

As part of its business strategy, the Company intends to make acquisitions of, or significant investments in, complementary companies or projects. Any such future transactions would be accompanied by the risks commonly encountered in making such acquisitions.

- **Reliance on Key Personnel**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

5.16 Directors' Recommendation

The directors of C @ Limited unanimously recommend the Acquisition and that Shareholders vote in favour of Resolutions 4, 5 and 6. It is the view of C @ Limited directors that the Acquisition will give the Company's Shareholders the opportunity to participate in a potentially significant exploration program in a prospective coal region.

5.17 Competent Person

The information in this Notice that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Wade Robinson, who is a member of the American Institute of Professional Geologists (8018).

Mr Robinson has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Mr Robinson consents to the inclusion in this Notice of the matters based on his information in the form and context in which it appears.

5.18 Pro Forma Balance Sheet

A pro forma balance sheet of the Company showing the effect of the transactions contemplated by this Notice is set out in Schedule 6.

6. RESOLUTION 5 – CONSOLIDATION OF CAPITAL

6.1 Background

The Directors are seeking Shareholder approval to consolidate the number of Shares and Options on issue on a one (1) for twenty (20) basis. The Consolidation of the capital structure of the Company is required to ensure that the Company can comply with Chapters 1 and 2 of the Listing Rules and obtain re-quotations of its Shares on the official list of ASX.

Section 254H of the Corporations Act provides that a company may, by a resolution passed in a general meeting of shareholders, convert all or any of its shares into a larger or smaller number of shares.

ASX Listing Rule 7.22 also requires that the number of options on issue be consolidated in the same ratio as the ordinary capital and the exercise price amended in inverse proportion to that ratio.

If Resolution 5 is passed, the number of Shares on issue will be reduced from 502,954,223 to approximately 25,147,711. The number of Options on issue will be reduced from 174,141,897 to approximately 8,707,095 and the exercise price of the Options will be increased by a multiple of twenty, to be exercisable at \$0.20 per Option.

As from the effective date of the Resolution (being the date of the Annual General Meeting), all holding statements for Shares and Options will cease to have any effect, except as evidence of entitlement to a certain number of post-consolidation Shares and Options. After the Consolidation becomes effective, the Company will arrange for new holding statements to be issued to Shareholders and Optionholders.

The effect the Acquisition, the Consolidation and the other Resolutions contained within the Notice will have on the capital structure of the Company is set out in Section 5.12 of this Explanatory Statement.

6.2 Fractional entitlements and taxation

Not all Shareholders and Optionholders will hold that number of Shares and Options which can be evenly divided by twenty. Where a fractional entitlement occurs, the Directors will round that fraction up to the nearest whole Share or Option.

It is not considered that any taxation consequences will exist for Shareholders or Option holders arising from the Consolidation. However, Shareholders and Optionholders are advised to seek their own tax advice on the effect of the Consolidation, and neither the Company, nor the Directors (or the Company's advisers) accept any responsibility for the individual taxation consequences arising from the Consolidation.

7. RESOLUTION 6 – CAPITAL RAISING

7.1 General

Resolution 6 seeks Shareholder approval to enable the Company to issue and allot up to that number of Shares which, when multiplied by the issue price, will raise up to \$28,000,000 (**Capital Raising**).

The Capital Raising will comprise a priority offer to Shareholders as well as a general offer. All Shares to be issued under the Capital Raising will be issued pursuant to a prospectus to satisfy the admission requirement in Condition 3 of Listing Rule 1.1.

The Company intends to offer up to \$3,000,000 of the Capital Raising to existing and eligible Shareholders of the Company (**Priority Offer**), on a first-come, first-served basis. Further details of the Priority Offer will be provided in the prospectus.

The balance of the Capital Raising, being \$25,000,000, will form part of the general offer (**General Offer**) and will be offered predominately to Institutional Investors. Further details of the General Offer will be provided in the prospectus.

Subject to the issue of up to 75,000 of the Capital Raising Shares to each of Mr Terence Mark Earley, Mr Andrew Harrison and Ms Jade Styants in accordance with the terms and conditions of the Priority Offer to be made to Shareholders under the Capital Raising (approval for which is being sought pursuant to Resolutions 15, 16 and 17), none of the subscribers for Shares under the Capital Raising will be related parties of the Company for the purpose of Listing Rule 10.11.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 6 will be to allow the Directors to issue the Shares pursuant to the Capital Raising during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

7.2 Technical information required by ASX Listing Rule 7.3

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Capital Raising:

- (a) the maximum number of Shares to be issued is up to that number of Shares which, when multiplied by the issue price, equals \$28,000,000;
- (b) the Shares will be issued and allotted no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (c) the issue price will be not less than 80% of the average market price for shares calculated over the 5 days on which sales in the Shares are recorded before the day on which the issue is made or, if there is a prospectus, over the last 5 days on which sales in the securities were recorded before the date the prospectus is signed;
- (d) the Directors will determine to whom the Shares will be issued but these persons will not be related parties of the Company, other than Mr Terence Mark Earley, Mr Andrew Harrison and Ms Jade Styants for whom approval is being sought pursuant to Resolutions 15, 16 and 17;

- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) the Company intends to use the funds raised from the Capital Raising towards:
- (i) the cost of the Acquisition, as detailed in Section 5.3 of this Explanatory Statement;
 - (ii) a drilling program for the purpose of defining a JORC compliant resource on the Project;
 - (iii) additional project evaluation and future acquisitions;
 - (iv) the costs of the Capital Raising; and
 - (v) working capital.

8. RESOLUTION 7 – CHANGE OF COMPANY NAME

The new name proposed to be adopted under Resolution 7 is "Draig Resources Limited".

The Directors believe that this new name more accurately reflects the proposed future operations of the Company.

9. RESOLUTION 8 – ISSUE OF OPTIONS TO ADVISORS AND LEAD MANAGERS TO THE CAPITAL RAISING

9.1 General

The Company has agreed to allot, subject to the completion of the Capital Raising the subject of Resolution 6, a total of 750,000 Options (on a post Consolidation basis) to Company's advisers and the lead managers of the Capital Raising (**Advisors and Lead Managers Options**).

Each Option will be exercisable at the Capital Raising Issue Price and exercisable within 3 years from the Capital Raising Allotment Date on the terms and conditions set out in Schedule 1 of this Explanatory Statement.

A summary of ASX Listing Rule 7.1 is set out in Section 7.1 above.

Resolution 7 seeks Shareholder approval for the allotment and issue of up to 750,000 Advisors and Lead Managers Options.

The effect of Resolution 7 will be to allow the Company to issue the Advisor and Lead Managers Options during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's annual 15% placement capacity.

9.2 Technical information required by ASX Listing Rule 7.3

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the Advisors and Lead Managers Options:

- (a) the maximum number of Advisors and Lead Managers Options to be issued is 750,000 (on a post Consolidation basis);
- (b) the Advisors and Lead Managers Options will be issued and allotted no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (c) the Advisors and Lead Managers Options will be issued for nil cash consideration;
- (d) the Advisors and Lead Managers Options will be allotted and issued on the terms and conditions set out in Schedule 1;
- (e) no funds will be raised from the issue of Advisors and Lead Managers Options as the Options are being issued in consideration for corporate advisory and lead manager to the placing services (although funds will be raised to the extent that the Options are eventually exercised, with any such funds to be used for working capital purposed of the Company); and
- (f) the Advisors and Lead Managers Options will be allotted and issued to advisers and lead managers to the capital raising, pursuant to service agreements in place. The number of Options (on a post Consolidation basis) to be issued to each party is as follows:

Name	Capacity	Number of Options to be issued
Azure Capital Investments Pty Ltd	Advisor	250,000
BGF Equities	Joint Lead Manager to Capital Raising	250,000
Renaissance Capital ¹	Joint Lead Manager to Capital Raising	250,000

10. RESOLUTIONS 9 AND 10 – ISSUE OF PERFORMANCE RIGHTS TO MR ANDREW HARRISON AND MS JADE STYANTS

10.1 Background

The Company has agreed, subject to Shareholder approval, to issue 250,000 Performance Rights (on a post Consolidation basis) to each of Mr Andrew Harrison and Ms Jade Styants, to provide recognition for their work in identifying, securing and acquiring the Project. Mr Harrison and Ms Styants have worked tirelessly and dedicated extensive and unpaid time to ensure the Project opportunity materialised for the Company.

The Performance Rights have been structured to also continue to provide incentive for Mr Harrison and Ms Styants to assist the Company to achieve prescribed performance milestones.

¹ Renaissance Capital (Hong Kong) Limited, part of Renaissance Capital

Mr Harrison and Ms Styants will only benefit from the issue of the Performance Rights if the relevant performance conditions attaching to the Performance Rights are fulfilled and they are issued with Shares on vesting of the Performance Rights.

10.2 ASX Listing Rule 10.11

ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained.

Accordingly, Shareholder approval is required for the issue of the Performance Rights to Mr Harrison and Ms Styants because Mr Harrison and Ms Styants are related parties of the Company by virtue of being Directors.

Resolutions 9 and 10 seek Shareholder approval to issue up to 250,000 Performance Rights (on a post Consolidation basis) to each of Mr Harrison and Ms Styants on the terms and conditions set out in this Explanatory Memorandum.

If Shareholders approve Resolutions 9 and 10 the Performance Rights will be issued on completion of the Capital Raising, however, the Performance Rights will only vest if the performance conditions attaching to the Performance Rights are met.

The Directors consider that the issue of the Performance Rights falls within the exception in Section 211 of the Corporations Act, and accordingly, Shareholder approval is not being sought for the purpose of Section 208 of the Corporations Act.

10.3 Key Details of the Performance Rights

The Company has agreed, subject to Shareholder approval, to issue 250,000 Performance Rights (on a post Consolidation basis) to each of Mr Andrew Harrison and Ms Jade Styants. The Performance Rights will expire 36 months from the date of issue and will vest at the time the Company's share price exceeds 120% of the Capital Raising share price.

The other terms and conditions of the Performance Rights are summarised in Schedule 2 to this Explanatory Memorandum.

10.4 Technical information required by ASX Listing Rule 10.13

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to Resolutions 9 and 10:

- (a) the related parties are Andrew Harrison and Jade Styants, who are related parties by virtue of being Directors of the Company;
- (b) the maximum number of Performance Rights that may be issued to the related parties is 500,000, comprising 250,000 Performance Rights (on a post Consolidation basis) to Mr Harrison and 250,000 Performance Rights (on a post Consolidation basis) to Ms Styants. If all 500,000 Performance Rights vest, the related parties will be entitled to 500,000 Shares;
- (c) the Performance Rights will be issued no later than 1 month after the date of the Meeting and it is anticipated that the allotment will be

made simultaneously with the Capital Raising issued and will be on one date;

- (d) the Performance Rights will be issued to the related parties as a retrospective bonus but are also in nature structured to maintain incentive, for no cash consideration. Any Shares issued on exercise of the Performance Rights will also be issued for no cash consideration. Accordingly, no funds will be raised by the issue of the Performance Rights or any subsequent issue of Shares to Mr Harrison or Ms Styants on exercise of those Performance Rights;
- (e) the Performance Rights to be issued to Mr Harrison and Ms Styants will not be quoted on the ASX. Any Shares issued to Mr Harrison and Ms Styants on exercise of those Performance Rights will rank equally in all respects with all other Shares in the Company and the Company will apply for the Shares to be quoted on the ASX; and
- (f) the proposed issue of Performance Rights to Mr Harrison and Ms Styants will be made pursuant to the terms and conditions set out in Schedule 2 to this Explanatory Memorandum.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Performance Rights to the related parties as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of the Performance Rights to the related parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

11. RESOLUTIONS 11, 12 AND 13 – ISSUE OF OPTIONS TO DIRECTORS

11.1 General

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue a total of 2,200,000 Options (**Director Options**), on a post Consolidation basis, to Mr Mark Earley, Mr Andrew Harrison and Ms Jade Styants (**Related Parties**) on the terms and conditions set out below.

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

The issue of the Director Options to the Related Parties requires the Company to obtain Shareholder approval because the issue of Director Options constitutes

giving a financial benefit and as Directors, Mr Mark Earley, Mr Andrew Harrison and Ms Jade Styants are related parties of the Company.

It is the view of the Directors that the exceptions set out in Sections 210 to 216 of the Corporations Act and ASX Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of Director Options to the Related Parties.

11.2 Trading Price of Shares

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are quoted on the ASX. The highest, lowest and most recent market sale prices of the Company's securities on the ASX in the 12 months immediately preceding the date of this Notice of Meeting and the respective date of those sales are:

	Price	Date
Highest	\$0.150	17 March 2011
Lowest	\$0.006	17 March 2011
Last	\$0.069	26 October 2011

11.3 Shareholder Approvals Required – Information required by Chapter 2E of the Corporations Act and ASX Listing Rule 10.13

For the purposes of sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided to allow Shareholders to assess the proposed issue of the Director Options:

- (a) the related parties are Mr Mark Earley, Mr Andrew Harrison and Ms Jade Styants who are related parties by virtue of being Directors;
- (b) the maximum number of Director Options (being the nature of the financial benefit being provided) to be issued to the Related Parties is:
 - (i) 1,100,000 Director Options (on a post Consolidation basis) to Mr Mark Earley;
 - (ii) 550,000 Director Options (on a post Consolidation basis) to Mr Andrew Harrison; and
 - (iii) 550,000 Director Options (on a post Consolidation basis) to Ms Jade Styants;
- (c) the Director Options will be issued for nil cash consideration, accordingly no funds will be raised from the issue of the Director Options;
- (d) the Director Options will be issued to the Directors no later than 1 month after the date of the meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules) and it is anticipated the Director Options will be issued on one date;
- (e) the terms and conditions of the Director Options are set out in Schedule 3;

- (f) the value of the Director Options and the pricing methodology is set out in Schedule 5;
- (g) the relevant interests of the Related Parties in securities of the Company are set out below:

Pre-Consolidation basis:

Related Party	Shares	Options
Mr Mark Earley	6,157,500	45,900,000 ¹
Mr Andrew Harrison	4,482,098	4,047,605 ²
Ms Jade Styants	131,782	459,450 ²

1. Options exercisable at \$0.01 each on or before 15 September 2013

2. Options exercisable at \$0.01 each on or before 30 April 2012

Post-Consolidation basis:

Related Party	Shares	Options
Mr Mark Earley	307,875	2,295,000 ¹
Mr Andrew Harrison	224,105	202,380 ²
Ms Jade Styants	6,589	22,972 ²

1. Options exercisable at \$0.20 each on or before 15 September 2013

2. Options exercisable at \$0.20 each on or before 30 April 2012

- (h) the remuneration and emoluments from the Company to the Related Parties for both the current financial year and previous financial period are set out below:

Related Party	Current Financial Year	Previous Financial Year ¹
Mr Terrence Mark Earley	\$109,000	\$576,907
Mr Andrew Harrison	\$60,000	\$120,000
Ms Jade Styants	\$57,000	\$74,796

1. Remuneration includes share based payments of \$331,657 to Mr Mark Earley

- (i) if the Director Options issued to the Related Parties are exercised, a total of 2,200,000 Shares would be allotted and issued. This will increase the number of Shares on issue (on a post consolidated, post Capital Raising basis) from 45,437,566 to 47,637,566 (assuming that no other Options are exercised and no other Shares issued other than an issue of 20,289,855 Shares as part of the Capital Raising, as detailed in Section 5.12) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 4.62%;
- (j) the market price for Shares during the term of the Director Options would normally determine whether or not the options are exercised. If,

at any time any of the Director Options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the Director Options, there may be a perceived cost to the Company;

- (k) information on the trading history of the Shares on ASX for the 12 months prior to the Meeting is set out in Section 11.2 above;
- (l) the primary purpose of the issue of the Director Options is to provide incentive to the Related Parties for their services in assisting the Company to develop the Company's strategy of acquiring and developing high quality coal project in Mongolia and Indonesia;
- (m) Mr Mark Earley declines to make a recommendation to Shareholders in relation to Resolution 11 due to his material personal interest in the outcome of the Resolution. However, in respect of Resolutions 12 and 13, Mr Earley recommends that Shareholders vote in favour of those Resolutions for the following reasons:
 - (i) the issue of the Director Options to the Related Parties will align the interests of the Related Parties with those of Shareholders;
 - (ii) the issue of the Director Options is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if the alternative cash forms of remuneration were given to the Related Parties; and
 - (iii) it is not considered that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Director Options upon the terms proposed;
- (n) Mr Andrew Harrison declines to make a recommendation to Shareholders in relation to Resolution 12 due to his material personal interest in the outcome of the Resolution. However, in respect of Resolutions 11 and 13, Mr Harrison recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraphs 11.3(m)(i) to 11.3(m)(iii);
- (o) Ms Jade Styants declines to make a recommendation to Shareholders in relation to Resolution 13 due to her material personal interest in the outcome of the Resolution. However, in respect of Resolutions 11 and 12, Ms Styants recommends that Shareholders vote in favour of those Resolutions for the reasons set out in paragraphs 11.3(m)(i) to 11.3(m)(iii);
- (p) in forming their recommendations, each Director considered the experience of each other Related Party, the current market price of Shares, the current market practices when determining the number of Director Options to be issued as well as the exercise price and expiry date of those Director Options; and
- (q) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 11 to 13.

12. **RESOLUTION 14 - ADOPTION OF EMPLOYEE SHARE OPTION PLAN**

To ensure that the Company has appropriate mechanisms to continue to attract and retain the services of directors and employees of a high calibre, the Board has established the "Draig Resources Limited Employee Share Option Plan" ("**Plan**").

Resolution 14 seeks Shareholder approval under exception 9(b) of ASX Listing Rule 7.2 to allow the issue of options under the Plan ("**Plan Options**"), and the issue of Shares on exercise of the Plan Options, as an exception to ASX Listing Rule 7.1.

The issue of Plan Options will only fall within exception 9(b) of ASX Listing Rule 7.2 if the Plan Options are issued under an employee incentive Plan Option plan approved by shareholders within three years before the date of issue.

If Resolution 14 is passed, the Company will have the ability to issue Plan Options to Eligible Participants under the Plan over a period of three years without impacting on the Company's 15% placement capacity under ASX Listing Rule 7.1. Any issues of Plan Options to Directors will require separate Shareholder approval.

The Directors and employees of the Company have been, and will continue to be, instrumental in the growth of the Company. The Directors consider that the Plan is an appropriate method to:

- (a) reward Directors and employees for their past performance;
- (b) provide long term incentives for participation in the Company's future growth;
- (c) motivate Directors and generate loyalty from senior employees; and
- (d) assist to retain the services of valuable Directors and employees.

The Plan will be used as part of the remuneration planning for executive Directors and employees. The Corporate Governance Council Principles and Recommendations recommend that executive remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the company's circumstances and goals. The Plan will also be used as part of the remuneration planning for non-executive Directors. Although this is not in accordance with the recommendations contained in the Corporate Governance Council Principles and Recommendations, the Company considers that it is appropriate for non-executive Directors to participate in the Plan given the size of the Company.

No Plan Options have yet been issued under the Plan.

The key terms of the Plan are set out in Schedule 7 to the Explanatory Memorandum. A full copy of the Plan is available for inspection at the Company's registered office until the date of the Meeting.

13. RESOLUTIONS 15, 16 AND 17 – PARTICIPATION BY RELATED PARTIES IN CAPITAL RAISING

13.1 General

Resolutions 15, 16 and 17 seek Shareholder approval to enable the Company to issue up to 75,000 of the Capital Raising Shares (on a post-Consolidation basis) the subject of Resolution 6 to Mr Mark Earley, Mr Andrew Harrison and Ms Jade Styants. The Capital Raising Shares will be issued to each of Mr Mark Earley, Mr Andrew Harrison and Ms Jade Styants in accordance with the terms and conditions of the Priority Offer to be made to Shareholders under the Capital Raising pursuant to Resolution 6 .

ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

Accordingly, the proposed issue of Shares to the Directors pursuant to the Capital Raising requires the Company to obtain Shareholder approval because Mr Terence Mark Earley, Mr Andrew Harrison and Ms Jade Styants are related parties of the Company by virtue of being Directors of the Company.

The Directors consider that the subscription for Capital Raising Shares falls within the exception in Section 210 of the Corporations Act, and accordingly, Shareholder approval is not sought for the purpose of Section 208 of the Corporations Act.

13.2 Technical information required by Listing Rule 10.13

Pursuant to ASX Listing Rule 10.13, the following information is provided in relation to the proposed participation by the Directors or their associates in the Capital Raising:

- (a) the related parties are Mr Mark Earley, Mr Andrew Harrison and Ms Jade Styants, who are related parties by virtue of being Directors of the Company;
- (b) the maximum number of securities to be issued and allotted to the Directors is:
 - (i) 25,000 Shares (on a post-Consolidation basis) to Mr Mark Earley;
 - (ii) 25,000 Shares (on a post-Consolidation basis) to Mr Andrew Harrison; and
 - (iii) 25,000 Shares (on a post-Consolidation basis) to Ms Jade Styants;
- (c) the securities will be issued to the Directors no later than 1 month after the date of the Annual General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the securities will be issued on one date;

- (d) the issue price of the Shares will be at the Capital Raising Issue Price per Share, being the price at which Shares will be issued to other investors pursuant to the Capital Raising;
- (e) the Company intends to use the funds raised from the issue of the Shares towards
- (i) the cost of the Acquisition as detailed in Section 5.3 of this Explanatory Statement;
 - (ii) a drilling program for the purpose of defining a JORC compliant resource on the Project;
 - (iii) additional project evaluation and future acquisitions;
 - (iv) the costs of the Capital Raising; and
 - (v) working capital; and
- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Shares to the Directors as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Shares to the Directors will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

14. RECOMMENDATION OF DIRECTORS

None of the Directors have a material personal interest in the outcome of any of the Resolutions, other than:

- (a) Mr Mark Earley who has an interest in the outcome of Resolutions 11 and 15;
- (b) Mr Andrew Harrison who has an interest in the outcome of Resolutions 2, 9, 12 and 16; and
- (c) Ms Jade Styants who has an interest in the outcome of Resolutions 3, 10, 13 and 17.

Mr Earley recommends that Shareholders vote in favour of Resolutions 1 to 10, 12 to 14 and 16 to 17. Mr Earley declines to make a recommendation in relation to Resolutions 11 and 15 due to his material personal interest.

Mr Harrison recommends that Shareholders vote in favour of Resolutions 1, 3 to 8, 10 to 11, 13 to 15 and 17. Mr Harrison declines to make a recommendation in relation to Resolution 2, 9, 12 and 16 due to his material personal interest.

Ms Styants recommends that Shareholders vote in favour of Resolutions 1, 2, 4 to 9, 11 to 12, and 14 to 16. Ms Styants declines to make a recommendation in relation to Resolution 3, 10, 13 and 17 due to her material personal interest.

Each of the Directors intends to vote his Shares in favour of the Resolutions. As at the date of this Notice, the relevant interests of the Directors in the securities of the Company are as follows:

Director	Number Shares	Number Options
Terence Mark Earley	6,157,500	45,900,000
Andrew Harrison	4,482,098	4,047,605
Jade Styants	131,782	459,450

GLOSSARY

\$ means Australian dollars.

Acquisition means the acquisition by the Company of BDBL pursuant to the Share Sale Agreement.

Advisors and Lead Managers Options means an Option having the terms set out in Schedule 1.

Annual General Meeting means the meeting convened by the Notice of Meeting.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

ASX Listing Rules means the Listing Rules of ASX.

BDBL means BDBL LLC a company registered in Mongolia.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Capital Raising means the offer by the Company to allot and issue of up to that number of Shares which, when multiplied by the Capital Raising Issue Price, will raise up to a total of \$28,000,000 as proposed in Resolution 6.

Capital Raising Issue Price means an issue price of not less than 80% of the average market price for Shares calculated over the 5 days on which sales in the Shares are recorded before the day on which the issue is made or, if there is a prospectus, over the last 5 days on which sales in the securities were recorded before the date the prospectus is signed.

Capital Raising Allotment Date means the date of the allotment and issue of Shares pursuant to the Capital Raising.

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the *Corporations Regulations 2001 (Cth)*.

Company or **C @** means C @ Limited (ACN 110 439 686).

Constitution means the Company's constitution.

Consolidation means the consolidation of the issued securities of the Company existing at the date of this notice on a 1 for 20 basis (rounded up to the nearest whole number), which consolidation is proposed to become effective on the date the resolution is passed.

Corporations Act means the Corporations Act 2001 (Cth).

Director Option means an Option having the terms set out in Schedule 3.

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

Key Management Personnel has the same meaning as in the accounting standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

Minerals Law means the minerals law of Mongolia effective 26 August 2006.

Notice of Meeting or **Notice of Annual General Meeting** means this notice of annual general meeting including the Explanatory Statement.

Option means an option to acquire a Share.

Optionholder means a holder of an Option.

Performance Rights means the performance rights having the terms set out in Schedule 2.

Project means the 8 coal licences located in Ovorhangay province and the adjacent South Govi province, Mongolia.

Remuneration Report means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 30 June 2011.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share Sale Agreement means the share sale agreement between the Company and the shareholder of BDBL, the material terms of which are summarised in Section 5.10 of the Explanatory Statement.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

Trinity means Trinity Mongolia Pty Ltd, and its wholly owned Mongolian subsidiary, Trinity Development LLC.

Trinity MOU means the memorandum of understanding between the Company and Trinity, the material terms of which are summarised in Section 5.10 of the Explanatory Statement.

US\$ means United States dollars.

WST means Western Standard Time as observed in Perth, Western Australia.

SCHEDULE 1 – TERMS AND CONDITIONS OF ADVISORS AND LEAD MANAGERS OPTIONS

The terms and conditions of the Advisors and Lead Managers Options are as follows:

- (a) Each Option entitles the holder to subscribe for one fully paid ordinary Share in the Company at the Capital Raising Issue Price.
- (b) The Options are exercisable at any time on or before 3 years from the Capital Raising Allotment Date by completing a notice of exercise and delivering it to the Company's share registry together with the payment for the number of Shares in respect of which the Options are exercised. Any Advisors and Lead Managers Options not exercised before this date will automatically lapse.
- (c) A notice of exercise is only effective when the Company has received cleared funds for the full amount for the number of Shares in respect of which the Options are exercised.
- (d) The Company will not apply for quotation of the Advisors and Lead Managers Options on ASX. However, the Company will apply for quotation by ASX of all Shares allotted pursuant to the exercise of Advisors and Lead Managers Options.
- (e) All Shares issued pursuant to the exercise of Advisors and Lead Managers Options will rank *pari passu* in all respects with the existing Shares.
- (f) There are no participating rights or entitlements inherent in the Options and the holder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 Business Days after the issue is announced. The Company will also notify holders of any proposed capital issue at least seven Business Days before the record date. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.
- (g) If there is a pro-rata issue of Shares to holders of Shares for which no consideration is payable by them (bonus issue), the number of Shares over which the Option is exercisable must be increased by the number of Shares which the holder of the Options would have received if the Options had been exercised before the record date for the bonus issue.
- (h) In the event of any reconstruction (including a consolidation, sub-division, reduction or return) of the issued capital of the Company, the Options will be reorganised in a manner required by the Listing Rules on a reorganisation of capital at the time of the reorganisation.

SCHEDULE 2 – TERMS AND CONDITIONS OF PERFORMANCE RIGHTS

The terms and conditions of the Performance Rights are as follows:

- (a) Each Performance Right entitles the holder to subscribe for one fully paid ordinary Share in the Company.
- (b) No consideration is payable for the issue of the Performance Rights.
- (c) The Performance Rights are not transferable.
- (d) The Performance Rights will vest at the time the Company's share price first exceeds 120% of the Capital Raising share price.
- (e) Unless and until the Performance Rights vest and have been exercised and the relevant Shares issued to the holder as a result of that exercise, the holder has no interest in those Shares.
- (f) In the event the Performance Rights vest, the exercise of the Performance Rights will be effected in a form and manner prescribed by the Board and no amount is payable by the holder to exercise the Performance Rights.
- (g) Performance Rights which have not vested will automatically lapse:
 - i. On their expiry date (36 months from their issue date); or
 - ii. If, in the opinion of the Board, the holder has acted fraudulently, dishonestly or has wilfully breached his/her duties.
- (h) The Company will not apply for quotation of the Performance Rights on ASX. However, the Company will apply for quotation by ASX of all Shares allotted pursuant to the exercise of the Performance Rights.
- (i) All Shares issued pursuant to the exercise of Performance Rights will rank pari passu in all respects with the existing Shares.
- (j) There are no participating rights or entitlements inherent in the Performance Rights and the holder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Performance Rights.
- (k) In the event of any reconstruction (including a consolidation, sub-division, reduction or return) of the issued capital of the Company, the Performance Rights will be reorganised in a manner required by the Listing Rules on a reorganisation of capital at the time of the reorganisation.
- (l) Any unvested Performance Rights will be deemed to automatically vest upon the occurrence of one of the following events (Trigger Event):
 - i. Upon a takeover bid (as defined in the Corporations Act) to acquire any Shares in the Company becoming, or being declared to be, unconditional, irrespective of whether the takeover bid extends to Shares issued and allotted after the date of the takeover bid;
 - ii. Upon approval of a merger by way of scheme of arrangement under the Corporations Act by the Court under section 411(4)(b) of the Corporations Act; or

- iii. The date upon which a person or group of associated persons becomes entitled to sufficient shares to give it or them the ability, in general meeting, to replace all or a majority of the Board in circumstances where such ability was not already held by the person or associated group of persons.
- (m) Upon a Trigger Event occurring, the Company shall notify each holder of Performance Rights in writing of the automatic vesting of his/her Performance Rights and that if the holder wishes to exercise any Performance Rights, he/she must do so within the period specified in the notice.

SCHEDULE 3 – TERMS AND CONDITIONS OF DIRECTOR OPTIONS

The terms and conditions of the Director Options are as follows:

- (a) Each Director Option entitles the holder to subscribe for one fully paid ordinary Share in the Company.
- (b) The exercise price payable upon exercise of each Director Option will be as per Schedule 4 of this Notice of Meeting.
- (c) The Director Options are exercisable at any time on or before 3 years from the Capital Raising Allotment Date by completing a notice of exercise and delivering it to the Company's share registry together with the payment for the number of Shares in respect of which the Options are exercised. Any Director Options not exercised before this date will automatically lapse.
- (d) A notice of exercise is only effective when the Company has received cleared funds for the full amount for the number of Shares in respect of which the Director Options are exercised.
- (e) The Director Options are not transferable.
- (f) The Company will not apply for quotation of the Director Options on ASX. However, the Company will apply for quotation by ASX of all Shares allotted pursuant to the exercise of Director Options.
- (g) All Shares issued pursuant to the exercise of Director Options will rank pari passu in all respects with the existing Shares.
- (h) There are no participating rights or entitlements inherent in the Director Options and the holder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Director Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 Business Days after the issue is announced. The Company will also notify holders of any proposed capital issue at least seven Business Days before the record date. This will give Option holders the opportunity to exercise their Director Options prior to the date for determining entitlements to participate in any such issue.
- (i) If there is a pro-rata issue of Shares to holders of Shares for which no consideration is payable by them (bonus issue), the number of Shares over which the Director Option is exercisable must be increased by the number of Shares which the holder of the Director Options would have received if the Director Options had been exercised before the record date for the bonus issue.
- (j) In the event of any reconstruction (including a consolidation, sub-division, reduction or return) of the issued capital of the Company, the Director Options will be reorganised in a manner required by the Listing Rules on a reorganisation of capital at the time of the reorganisation.

SCHEDULE 4 – EXERCISE PRICE AND VESTING CONDITIONS OF DIRECTOR OPTIONS

	Number Options	Exercise Price	Expiry
Mark Earley	366,667	Equivalent to the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date
	366,667	Equivalent to 120% of the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date
	366,666	Equivalent to 150% of the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date
Andrew Harrison	183,333	Equivalent to the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date
	183,333	Equivalent to 120% of the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date
	183,334	Equivalent to 150% of the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date
Jade Styants	183,333	Equivalent to the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date
	183,333	Equivalent to 120% of the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date
	183,334	Equivalent to 150% of the Capital Raising Issue Price	3 years from the Capital Raising Allotment Date

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SCHEDULE 5 – VALUATION OF DIRECTOR OPTIONS

The Director Options to be issued to the Related Party pursuant to Resolutions 11 -13 (inclusive) have been valued externally by BDO. Using the theoretical Black-Scholes option model and based on the assumptions set out below, the Director Options (to be issued post consolidation) were ascribed a value range, as follows:

	Options (to be issued post Consolidation)		
Number of Options	733,333	733,333	733,334
Exercise Price	Capital Raising Issue Price	Equivalent to 120% of the Capital Raising Issue Price	Equivalent to 150% of the Capital Raising Issue Price
Expiry Date	3 years from the Capital Raising Allotment Date	3 years from the Capital Raising Allotment Date	3 years from the Capital Raising Allotment Date
Indicative value (post Consolidation) per Director Option (cents)	0.764	0.705	0.631
Value of Options: Mr Terence Mark Earley	\$280,115	\$258,389	\$231,472
Value of Options: Mr Andrew Harrison	\$140,058	\$129,195	\$115,736
Value of Options: Ms Jade Styants	\$140,058	\$129,195	\$115,736
Total Value of Options	\$560,231	\$516,779	\$462,944
Assumptions:			
Valuation date	26 October 2011	26 October 2011	26 October 2011
Share price (adjusted for Consolidation) ¹	\$1.38	\$01.38	\$1.38
Volatility	83%	83%	83%
Risk free interest rate ²	3.64%	3.64%	3.64%

Note: The actual valuation of the Directors Options may vary. The valuation ranges noted above are not necessarily the market prices that the Directors Options could be traded at and they are not automatically the market prices for taxation purposes.

1. For illustration purposes only, the table assumes the Capital Raising Issue Price is equal to the Company's Shares closing market price on 26 October 2011, adjusted for consolidation.
2. The risk free interest rate adopted is the Australian Commonwealth Government Bond rate for a three year period as at the Option valuation date.

SCHEDULE 6 – PRO FORMA BALANCE SHEET AT 30 JUNE 2011

\$AUD	C @ Ltd 30 June 2011 Audited	Pro Forma Adjustments	Notes	PRO FORMA 30 June 2011 Unaudited
CURRENT ASSETS				
Cash and cash equivalents	1,125,309	18,038,993	(1), (2), (3), (4)	19,164,302
Trade and other receivables	31,046	-		31,046
TOTAL CURRENT ASSETS	1,156,355	18,038,993		19,195,348
NON-CURRENT ASSETS				
Inventory	-	-		-
Property, plant and equipment	2,631	-		2,631
Investment in controlled entities	-	7,770,000	(1)	7,770,000
Exploration and evaluation expenditure	-	354,320	(4)	354,320
TOTAL NON-CURRENT ASSETS	2,631	8,124,320		8,126,951
TOTAL ASSETS	1,158,986	26,163,313		27,322,299
CURRENT LIABILITIES				
Trade and other payables	48,646	-		48,646
TOTAL CURRENT LIABILITIES	48,646	-		48,646
TOTAL LIABILITIES	48,646	-		48,646
NET ASSETS	1,110,340	-		27,273,653
EQUITY				
Issued Capital	7,904,310	25,623,496	(2), (3)	33,527,806
Reserves	386,153	539,817	(3)	925,970
Retained Earnings/(Losses)	(7,180,123)	-		(7,180,123)
TOTAL EQUITY	1,110,340	26,163,313		27,273,653

Notes to the Pro Forma Balance Sheet:

- 1) In consideration for the acquisition of BDBL, the Company shall pay US\$7,870,000 less US\$100,000 which was paid by the Company to Peabody-Winsway on 20 April 2011 to secure exclusive rights in relation to the Project. The US\$100,000 paid on 20 April 2011 was expensed at 30 June 2011. A deposit of US\$100,000 of this Acquisition cost was paid on 26 October 2011 at the time of signing the Share Sale Agreement. Please refer to Section 5.10 Material Contracts which summarises the Share Sale Agreement.
- 2) The Company will issue Shares pursuant to the Capital Raising to raise up to \$28,000,000. Please refer to Section 7.1 for further details.
- 3) The estimated cost of the Capital Raising is \$2,376,504, of which \$1,836,687 will be payable in cash to the various suppliers. The balance of the cost will be settled with 750,000 options to Advisors and Lead Managers to the Capital Raising as per the terms and conditions detailed in Section 9, at an estimated value of \$539,817 (as valued under the Black-Scholes Option Pricing Model).
- 4) Exploration expenditure incurred to date from the Phase I exploration program undertaken in June and July 2011 is \$354,320.
- 5) USD = AUD

SCHEDULE 7 – TERMS AND CONDITIONS OF EMPLOYEE SHARE OPTION PLAN

The following is a summary of the key terms and conditions of the Plan to be adopted by Shareholders pursuant to Resolution 14:

- (a) **Entitlement to Participate:** The Board (or a committee to which the Board has delegated its powers and discretions under the Plan and responsibility for the management and administration of the Plan) may grant Options to any employee of the Company or an Associated Company (including Directors who hold a salaried office with the Company), and issue an Invitation and Application Form to that person. The Board will consider factors such as the seniority and position of the potential participant, length of service, record of employment and potential contribution to growth and profitability of the Company.
- (b) **Exercise Price:** The Board will determine in its discretion the exercise price of the Options, provided that the exercise price must not be less than the closing price of Shares sold on ASX on the last trading day on which the Shares were traded as at the date the Board decides to invite the Participant to apply for the Options.
- (c) **Option Period (expiry date):** The expiry date of an Option issued under the Plan is three (3) years after the date of the issue of the Option, or such other date as the Board determines in its discretion at the time of making an Invitation to a Participant to subscribe for one or more Options under the Plan.
- (d) **Exercise Conditions:** The Board may, in respect of an Option, determine any conditions that must be met before that Option can be exercised.
- (e) **Lapsing of Options:** The Options of a Participant in the Plan will lapse where:
- i. The Participant ceases to be an employee or director of, or to render services to, a member of the Group (other than because of a Qualifying Reason) and the Exercise Conditions have not been met;
 - ii. The Exercise Conditions are unable to be met;
 - iii. The Option Period has expired;
 - iv. The Board (in its absolute discretion) determines that the Options lapse on the basis that the Participant has engaged in dishonest, fraudulent, negligent or criminal misconduct; or
 - v. The Company commences to be wound up.
- (f) **Exercise of Options:** Options issued under the Plan are exercised by the Holder delivering to the Company (at a time when the Options may be exercised):
- i. A notice addressed to the Company and signed by the Holder stating that the Holder exercises the Options and specifying the number of Options being exercised; and
 - ii. Payment of an amount equal to the Exercise Price multiplied by the number of Options which are being exercised, by cheque, bank draft or postal order made out in favour of the Company, or by electronic payment in accordance with the directions on the Invitation and Application Form or such other directions given by the Company.

- (g) **Quotation:** The Company will make an application for the Shares issued as a result of the Options being exercised to be quoted in accordance with the Listing Rules.
- (h) **New Issues:** Holders may only participate in new issues of securities to holders of Shares in respect of an Option if that Option has been exercised, and in determining entitlements to the new issue, only Shares issued or transferred in respect of that Option before the Record Date will be taken into account.
- (i) **Limit on Options:** The Board must not invite a Participant to apply for an Option where to do so exceed the limit set out in ASIC Class Order 03/184.

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Geological Review of Exploration Licences 9116X, 10566X, 12000X, 12789X, 13581X, 13600X, 13879X & 13880X Mongolia

Report Prepared for
C @ Limited



Report Prepared by
Nordic Geological Solutions LLC



October 2011

Geological Review of Mongolian Exploration Licences

(9116X, 10566X, 12000X, 12789X, 13581X, 13600X, 13879X & 13880X)

Report Prepared for

C @ Limited

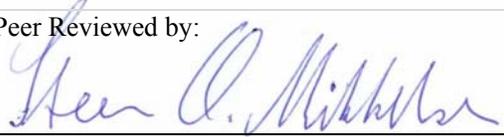
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Executive Summary

C @ Limited (“CEO”) commissioned Nordic Geological Solutions LLC (“NGS”) to review a total of eight exploration licences (9116X, 10566X, 12000X, 12789X, 13581X, 13600X, 13879X and 13880X) located in central and southern Mongolia. NGS was required to provide an Independent Technical Report (the “Report”) for CEO for inclusion in a Prospectus to be lodged by the Company with the Australian Securities and Investments Commission (“ASIC”) on or about October 2011 and in the Explanatory Statement to a Notice of Annual General Meeting in compliance with ASX Listing Rules 11 and 1.

The eight licences are at present owned by BDBL LLC. The licences were previously part of a large coal licence portfolio acquired by Polo Resources LLC (“Polo”) during 2007 and 2008.

In April 2009 Peabody Energy entered into a 50/50 joint venture with Polo for a cash contribution of c. \$25.8 million, to acquire 50% of the licences. This joint venture was incorporated under Peabody Polo LLC (“Peabody Polo”). In July 2010 Polo sold their remaining 50% to Winsway Coking Coal Holdings Limited (“Winsway”) for c. \$35 million. The licences have subsequently been transferred into BDBL LLC, a subsidiary of incorporated joint venture company Peabody-Winsway Resources LLC (“Peabody-Winsway”).

The author of this report had previously reviewed the coal licences as part of Winsway’s due diligence work in June 2010.

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Principal Objectives

The principle objective of this Report is to provide CEO with an independent technical review on the eight exploration licences, in particular; location of the licences; geological background; coal potential and possible extent of the seams as well as the quality of the coal.

Outline of Work Program

NGS work program for the review of the licences involved two phases:

1. Review information provided by CEO, site visit to the Ongi River Basin licence areas as well as the Bayanteeg coal mine. Discussions with staff at the project sites, collection and review of documents;
2. Analysis of the provided data, writing a draft technical report, review of additional coal quality data and finalisation of the report.

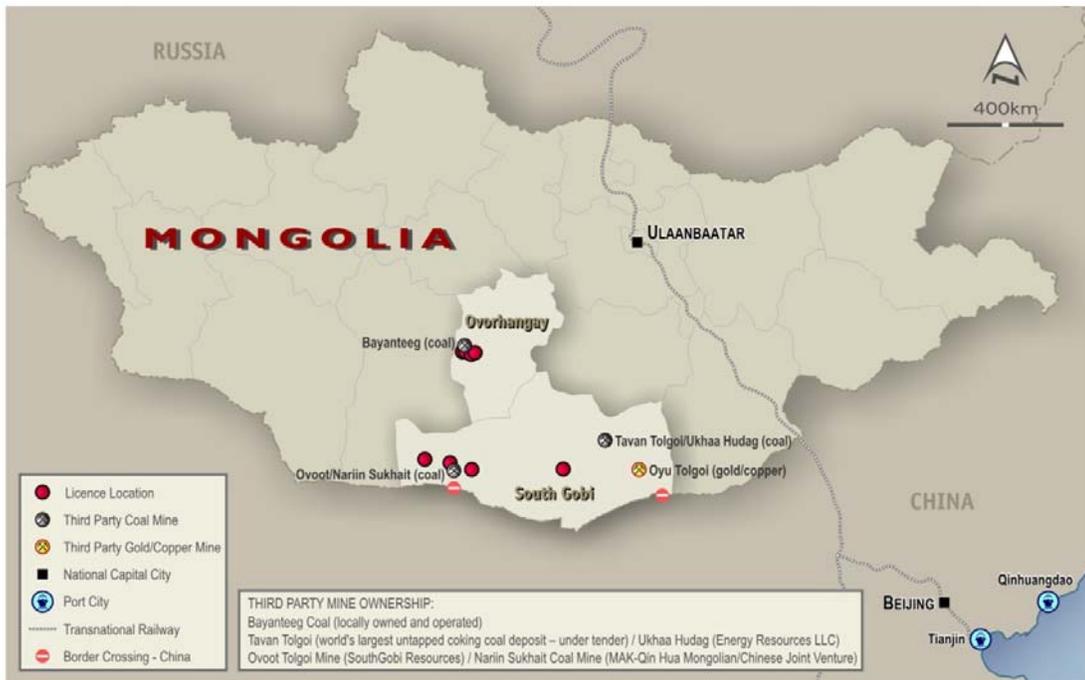


Figure 1 and 2: Location Maps of the Eight Exploration Licences in Mongolia

Results

Overall

The eight exploration licences reviewed in this document are located in the South Gobi Basin, South Gobi province in southern Mongolia and the Ongi River Basin, Overhanguy province in central Mongolia. Four exploration licences are located in the South Gobi Basin and four in the Ongi River Basin. They occupy a total area of 624.97 km²:

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- The four licences in the South Gobi Basin (10566X, 12000X, 12789X and 13600X) occupy a total area of 443.92 km².
- The four licences in the Ongi River Basin (9116X, 13581X, 13879X and 13880X) occupy a total of 181.05 km².

Table 1: Size and Expiry Status of the Eight Exploration Licences

Licence Number	Licence Name	Coal Basin	Licence Issue Date	Licence Exploration Date	Size of Licence Area (km ²)
13879X	Teeg	Ongi River	16 Jul 2008	15 Jul 2017	22.20
13880X	Khongor	Ongi River	16 Jul 2008	15 Jul 2017	144.61
13581X	Nariin Teeg	Ongi River	21 Apr 2008	20 Apr 2017	5.41
9116X	Ergen Usny Khudag-2	Ongi River	10 Jan 2005	9 Jan 2014	8.84
10566X	Gurvantes	South Gobi	03 Oct 2005	02 Oct 2014	257.82
12000X	Shavan	South Gobi	12 Sep 2006	11 Sep 2015	73.65
12789X	Olomgui	South Gobi	09 Oct 2007	08 Oct 2016	22.54
13600X	Zamt Uul	South Gobi	23 Apr 2008	22 Apr 2017	89.92

A total number of eleven exploration holes were drilled within the eight licence areas (prior to CEO's due diligence program). All of these holes were drilled in the South Gobi licences; five in licence area 10566X and six in licence area 12789X. The combined length of the eleven drill holes drilled was 1114.19 m, being an average total depth of 101.29 m per hole.

Prior exploration work carried out by Peabody Winsway on the licences includes sporadic trenching (one licence), seismic (one licence), ground magnetic survey (five licences), IP survey (one licence) and mapping (all eight licences). It clearly shows that the exploration licences are underexplored. Table 2 provides an overview of the historical exploration work conducted on the licences.

Table 2: Overview of Historical Exploration Work

Licence Number	Licence Name	Number of Drill Holes	Total Drill Hole Length (m)	Trenching	Seismic Line (m)	Magnetic Survey	IP Survey
13879X	Teeg	-	-	Yes	-	No	No
13880X	Khongor	-	-	No	-	Yes	Yes
13581X	Nariin Teeg	-	-	No	-	No	No
9116X	Ergen Usny Khudag-2	-	-	No	-	No	No
10566X	Gurvantes	5	394.2	No	-	Yes	No
12000X	Shavan	-	-	No	2.112	Yes	No
12789X	Olomgui	6	720.0	No	-	Yes	No
13600X	Zamt Uul	-	-	No	-	Yes	No

The limited historical exploration work by resulted in coal discoveries on the following licences:

- 10566X: Drill hole VAN002 intersected two minor Permian coal seams.
- 12789X: Drill hole OMD006 intersected a 1.5m thick coal seam at 108m. OMD006 was drilled proximal to the southern licence boundary.

- 13879X: Limited trenching along southern licence boundary uncovered top part of coal seam in 2010.

A total of eight holes with a combined length of 1035m were drilled by CEO during the time constrained due diligence program within the four licences in the South Gobi Basin (Table 3). Although the drill results from the program presented only modest coal intersections, all four South Gobi licences are still underexplored and the potential exists to uncover concealed extensions of Late Permian coal measures (especially in licence 13600X and licence 10566X).

Five holes were drilled by CEO within licence 13879X in the Ongi River Basin. NGS opines that the significant discovery of the massive black coal seam in BTE-001 and BTE-002 warrants a well planned exploration program to commence as soon as possible during the 2011 field season.

Table 3: Extent of Due Diligence Drilling by CEO (May - July 2011)

Licence Number	Licence Name	Hole ID	Northing	Easting	Total Depth (m)
13879X	Teeg	BTE-001	5060356	703688	100
		BTE-002	5060505	703450	207
		BTE-003	5061588	702575	174
		BET-004	5063184	698800	81
		BTE-005	5063202	699318	156
13880X	Khongor	KK-1	5054194	709038	174
13581X	Nariin Teeg	-	-	-	-
9116X	Ergen Usny Khudag-2	-	-	-	-
10566X	Gurvantes	GT-001	4787138	680058	100
		GT-002	4787246	680306	56
12000X	Shavan	SV-001	4786220	609282	77
12789X	Olomgui	OMG-007	4760996	469979	165
		OMG-008	4762514	472699	150
13600X	Zamt Uul	ZU-001	4765681	743346	174
		ZU-002	4764663	712317	113
		ZU-003	4764987	729852	200

The potential extent of the massive seam intersected in BTE-001 (55.67m net and 60m gross coal) and BTE-002 (35.7m net and 40m gross coal) along the southern boundary is uncertain. Detailed logging of Trench B (proximal to BTE-001) shows bedding dips of c. 45 degrees towards the south, whereas the dip direction in BTE-002 still remains unclear.

Further work is needed in order to gain a better understanding of the architecture, stratigraphy, sedimentary fill and the depositional dynamics of the coal-bearing basin.

Coal Quality

The coal quality of the economical coal seams intersected in drill holes BTE-001 (55.67m net and 60m gross coal) and BTE-002 (35.7m net and 40m gross coal) within the southern perimeter of licence area 13879X are summarised in the following table (nominal composite benches).

Table 4: Licence 13879X Drill Hole Results (BTE-001 and BTE-002)

Hole #	From (m)	To (m)	Thickness (m)	Total Moisture (AR)	Ash (AR)	Sulphur (AR)	Calorific Value (AR, Kcal/kg)	Calorific Value (DAF, Kcal/kg)	CSN
BTE-001	0.73	9.00	8.27	31.47	11.96	0.62	4,287	7,577	0.0
	9.00	18.30	9.30	9.92	8.16	0.78	6,118	7,554	2.0
	18.90	31.24	12.34	9.12	13.47	0.94	5,821	7,520	1.9
	31.54	35.10	3.56	8.10	21.57	1.83	5,231	7,439	1.5
	36.10	43.20	6.10	7.25	21.89	1.37	5,276	7,445	2.1
	43.20	60.00	16.10	6.84	42.32	0.89	3,658	7,195	0.5
Net Coal			55.67						
BTE-002	89.40	104.70	15.30	6.58	12.07	0.90	6,144	7,552	1.7
	105.30	117.50	12.20	7.63	15.04	2.15	5,818	7,523	1.1
	119.10	120.00	8.20	6.53	13.29	1.02	6,036	7,528	0.8
Net Coal			35.70						

It is noted by NGS that:

- Calorific values (DAF) are very consistent within the two intersections (i.e. 7,195 to 7,577 Kcal/Kg), with the highest values recorded at the top of the seams.
- The relatively high sulphur levels in some sections (up to 2.15%) argue for a marine influence. Most seam sections are below 1%.
- The ash content in BTE-001 shows a general marked decrease upwards (i.e. from 42.32% to 11.96%), whereas the ash component is more uniform in BTE-002.
- Moisture is consistently low (apart from the oxidised to semi-oxidised top section in BTE-001).
- Gieseler fluidity data from one sample (BTE-002) analysed at the ALS laboratory in Australia, shows no fluidity, which may be attributed to poor handling of the sample in the field.
- Maceral analysis from sample BTE-002 at the ALS laboratory in Australia, shows very high levels of vitrinite (90.1%), with subordinate liptinite (4.5%), inertinite (0.2%) and minerals (5.2%). These findings are consistent with NGS's observations from the Bayanteg Coal Mine as well as the results from Erdenetsogt et al. (2009).

Coal quality data from the two reported coal seams in BTE-005 was reviewed by NGS. However, the data shows consistently high ash values in all samples: 67.12% to 78.91% (AR).

In summary, the Jurassic coal seams within the 13879X licence area are in general characterised by some coking properties. The coal has potential to produce a soft coking and high energy thermal coal. The ash content varies from low to high; moisture is low, and the sulphur content from low to medium. The coal will benefit from washing, especially the lower part of the seam in BTE-001 with ash of 42.32% and overall expected improvement in CSN.

It is understood that due to the low ash content with much of the seam ply intersections, CEO will undertake coal washability testing with the view on producing a premium low ash (8%) semi coking coal which should display an increase in coking properties (CSN).

Coal Resource

The limited exploration work conducted to date on the eight licences is not sufficient to calculate a coal resource under the JORC Code at this point in time. However, it is noted that recent exploration work by CEO is considered to have followed JORC standards at the time of execution.

Location, Access and Development

The Ongi River Basin licences are located in central-southern Mongolia, in the eastern part of Ovorkhangai province, approximately 130km from the province capital Arvayheer; and approximately 520km south-west of the capital Ulaanbaatar (Figure 1-1 and 1-2). The town of Bayanhongor is located just over 50km from the licences and connects to Arvayheer on Highway AO302. The licences are situated immediately south of an operating coal mine called Bayanteeg, which is serviced by roads, water, telecommunications and power from a 110 kV line from the Mongolian Central Electricity System. Typically the travel time in the summer is about five hour's non-stop from Ulaanbaatar. The Chinese border is directly south of the licence area, approximately 340km by road.

South Gobi Basin licences are located in southern Mongolia, with the majority of the licences located in the south western block of South Gobi province. The closest town to these licences is Gurlants, located approximately 276km from the provinces capital Dalanzadgad. Access to these licences is typically by rural dirt roads. The south western licences are located less than 80km from the Chinese border crossing at Shivee Khuren/Ceke.

To support the mining industry, the Mongolian government has approved plans for an approximate 5700km long railway to be built in three stages (Figure 1-3). The first stage will see 1530km of track built from Nariin Sukhait in the South Gobi through the cities of Sainshand and Choybalsan into Russia connecting to the existing Russian railway line system that extends to the Russian Pacific ports of Zarubino, Vanino and Vladivostok. The distance between Choybalsan and the port at Zarubino is 3713km.

Construction on the first stage of the railway is expected to commence in 2012 and will be built over two years. The second stage will see the expansion of the first stage from Tavan Tolgoi in a south easterly direction to the Chinese border crossing some 267km away at Gashunn Sukhait and a further link only 50km south of Nariin Sukhait to Shivee Khuren/Ceke, in the south western corner of the South Gobi. These links will allow access to the Chinese rail system with shorter distances to open ports of Tianjin, Jinzhou and Qinhuangdao. The distance from Tavan Tolgoi to Qinhuangdao will be an estimated 1720km. Work on stage two is expected to commence in 2015.

The third phase is planned for the western section of the country from Nariin Sukhait, heading north through Shinejinst and Alati to Tsagaan Tolgoi located in the north of Mongolia. This line has the potential for use by mines operating in both the South Gobi, Bayanhongor and Ovorkhangai provinces.



Figure 3: Rail Infrastructure Planned by the Mongolian Government

Recommendations

Based on all available data and observations from the field, Nordic Geological Solutions LLC provides the following recommendations:

- NGS recommends to specifically focus the exploration drive in 2011 on licence areas 13879X and 13581X (located proximal to the Bayanteeg Coal Mine), as well as 13600X (located east of the Ovoot Tolgoi Coal Mine).
- Given the relatively complex geological fabric of the South Gobi Basin and Ongi River Basin, the exploration drive should be conducted in close consultation with geological coal experts.
- JORC compliant Standard Operating Procedures should be developed prior to the next exploration program.
- A 30 line kilometre geophysical survey is highly recommended for licence area 13879X, and a 15 line kilometre survey for licence area 13600X, in order to identify potential concealed black coal extensions. The work should be conducted, interpreted and reported by experts. Provided the geophysical survey identifies significant coal-bearing targets, it is recommended to immediately proceed with a JORC compliant drilling program.

Disclaimer

The opinions expressed in this Report have been based on the information supplied to Nordic Geological Solutions LLC (“NGS”) by C @ Limited (“CEO”). The opinions in this Report are provided in response to a specific request from CEO to do so. NGS has exercised all due care in reviewing the supplied information. Whilst NGS has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. NGS does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

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Glossary and Abbreviations

Abbreviation	Meaning
ASIC	Australian Securities and Investments Commission
AR	as received (includes all moisture)
ASX	ASX Limited, being the Australian Securities Exchange
AusIMM	Australasian Institute of Mining and Metallurgy
Bt	billion tonnes
c.	circa
°C	degree celsius
CEO	C @ Limited
CSN	crucible swelling number
DAF	dry ash free (excluding all moisture and ash)
deposit	Earth material of any type, either consolidated or unconsolidated, that has accumulated by some natural process of agent
Gt	gigatonne
JORC Code	Australasian Code for reporting of exploration results, mineral resources and ore reserves prepared by the Joint Ore Reserves Committee of AusIMM, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), December 2004.
kg	kilogram
km	kilometre
km ²	square kilometre
kV	kilovolt
m	metre
M	million
Ma	million annus (years)
MAusImm	member of AusIMM
MJ/kg	mega joules per kilogram
MRAM	Mineral Resource Authority of Mongolia
Mt	million tonne
Mtpa	million tonne per annum
MW	megawatt
NGS	Nordic Geological Solutions LLC
ORB	Ongi River Basin
OPEX	operating expenditure
PCD	poly crystalline diamond
Peabody	Peabody Energy
Peabody Polo	Peabody Polo LLC, an incorporated joint venture between Peabody and Polo
Peabody-Winsway	Peabody-Winsway Resources LLC, an incorporated joint venture between Peabody and Winsway
Polo	Polo Resources LLC

Abbreviation	Meaning
QA/QC	quality assurance / quality control
Report	Independent Technical Report
SGB	South Gobi Basin
soum	A Mongolian sub-provincial administrative division (similar to a county or local district)
t	tonne
TD	total depth
tpa	tonnes per annum
Valmin Code	Code for the technical assessment and valuation of mineral and petroleum assets and securities for Independent Expert Reports
vol.%	percentage by volume
Winsway	Winsway Coking Coal Holdings Limited
wt.%	percentage by weight
>	greater than
<	less than
%	percent
\$	United States Dollars, unless otherwise stated

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1 Introduction and Scope of NGS Report

1.1 Purpose of the NGS Report

C @ Limited (“CEO”) commissioned Nordic Geological Solutions LLC (“NGS”) to review a total of eight exploration licences located in central and southern Mongolia. NGS was required assess the licences and provide an Independent Technical Report (the “Report”) for CEO for inclusion in a Prospectus to be lodged by the Company with the Australian Securities and Investments Commission (“ASIC”) on or about October 2011 and in the Explanatory Statement to a Notice of Annual General Meeting in compliance with ASX Listing Rules 11 and 1.

1.2 Reporting Standard

This report has been prepared to the standard of and is considered by NGS to be, a Technical Assessment Report under the guidelines of the Valmin Code. The Valmin Code is the code adopted by the Australasian Institute of Mining and Metallurgy (“AusIMM”) and the standard is binding upon all AusIMM members. The author of this NGS report is a member of the AusIMM and, as such, is bound by the Valmin Code. This report is not a valuation report and NGS does not express an opinion regarding the specific value of the eight licences involved. NGS grants no permission to publish this Report without consultation with the author.

1.3 Professional Qualifications of Author

Dr Per Michaelsen, PhD, MAusIMM, is a senior geoscientist with a speciality in coal-bearing deposits. Dr Michaelsen completed his BSc at the University of Copenhagen, and doctoral and postdoctoral studies at James Cook University on the depositional dynamics of the coal-bearing Permian Blackwater Group in the Bowen basin. Scientific results were presented at international conferences in Australia, South Africa, Sweden, Indonesia, USA and China, and published in international journals such as COGEL, JSR, SedGeo, Palaeo3 and AJES.

Dr Michaelsen has more than 15 years’ experience in the fields of coal and coal bed methane (CBM) with extensive project work in Alaska, Australia, China, Indonesia, Mongolia and Russia. Recently Per was employed by SRK China as a senior consultant for almost 3 years - completing over 30 coal project reports (most as project manager).

Dr Michaelsen’s essential skills include: due diligence studies and compilation of Independent Technical Reports, data validation, JORC compliant exploration programme management, coal and CBM target generation, integrated image and map interpretation; field mapping and seismic analysis. Per has worked with a large number of international coal and CBM clients including Anglo Coal, BHP Billiton Petroleum, BMA, MIM Coal, Mitsubishi Gas Chemical Australia, New Hope, Shell Coal, Queensland Gas Company, Xstrata Coal, China Resources, Wing Hing, Kiu Hung and Winsway. Dr Michaelsen is permanently based in Ulaanbaatar. Most recently Per was the Project Manager for Ikh Mongol Mining’s Navtgar Uul Coking Coal Project in the South Gobi Basin (July – December 2010), and Country Manager for ASX listed Blina Minerals (December 2010 – April 2011). Dr Michaelsen is a founding partner of Nordic Geological Solutions LLC and currently the general director.

1.4 Statement of NGS Independence

NGS’s fee for completing this Report is based on its competitive professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of this Report. The relationship with CEO is solely one of professional association between client and independent consultant.

1.5 Intellectual Property

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2 Ongi River Basin: Geological Framework

Exploration licences 9116X, 13581X, 13879X and 13880X are located within the Ongi River Basin (“ORB”) in central-southern Mongolia (Figure 2-1). The general architecture of the coal basin is similar to the South Gobi Basin (“SGB”), however the size is approximately 70% that of the SGB (Figure 3-1). Coal seams in the ORB are hosted in Upper Permian, Lower-Middle Jurassic, and Lower Cretaceous sedimentary sequences.

The most advanced Jurassic coal project in Mongolia is Gobi Coal and Energy Ltd’s Shinejinst project, which has identified 299 Mt of JORC coal resources which it intends to bring into production towards the end of 2011. The Shinejinst project is located southwest of Bayanteg (Figure 2-1).



Figure 2-1: Location of coal licences in Ovorkhangai Province

The Mongolian Government plans to construct a railway link from the Chinese boarder Shivee Khuren/Ceke, which will head north through Shinejinst and Altai, towards northern Mongolia, which would be of future benefit for any coal production on the ORB licences.

The coal-bearing sediments in the four exploration licences is considered to be of Jurassic age (Figure 2-2). The ORB is intensively folded and faulted in places due to Cenozoic uplift and mountain building processes. According to Erdenetsogt et al. (2009), coal seams within the ORB varies in thickness from 5m to 49.7m, and the coal rank ranges from lignite (Cretaceous) to subbituminous coal (Permian and Jurassic).

The total coal resources of the ORB are estimated to be in the order of 1.5 Gt, of which 42.6 Mt are identified reserves. The average moisture and volatile matter contents of the ORB coals varies from 2.2 - 19.3 wt.%, and 33.8 - 51.9 wt.%, respectively. Ash contents and calorific value of the coals varies from 13.1 - 22.6 wt.% and 21.1 to 33.2 MJ/kg, respectively. Total sulphur ranges from 0.6 - 1.6 wt.%, with an average of 1.1 wt.%.

During the Early to Middle Jurassic period coal accumulated in western, northern and eastern Mongolia. In general, the base of the coal-bearing deposits is characterised by coarse-grained fluvial deposits, which are overlain by relatively well-sorted alluvial sediments. The coal-bearing upper part was, according to Erdenetsogt et al. (2009), deposited in lacustrine and lacustrine-swamp environments. During this time, peat forming conditions were considered by Erdenetsogt et al. (2009) to have been comparatively stable especially in northern Mongolia (i.e. Orkhon–Selenge area).

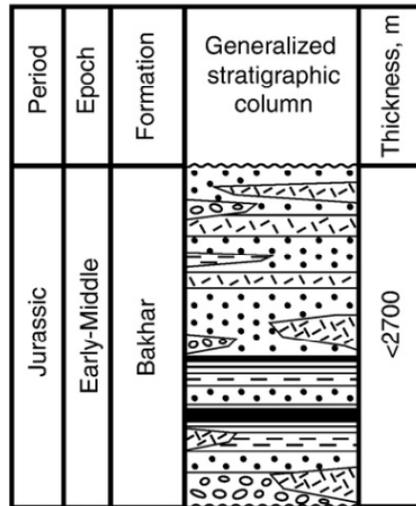


Figure 2-2: Schematic Stratigraphic Log of the Jurassic Bakhar Formation

The moist coal-forming environments were not restricted to Mongolia, but extended into Siberia (e.g. major Apsat deposit) and northern China (e.g. Xinjiang, Shanxi and Inner Mongolia), where very significant coal deposits have been preserved. An interesting example is the Early-Middle Jurassic coal-bearing Yan'an Formation, which is regionally developed within China's largest coal basin, the enigmatic intracratonic Ordos basin.



Figure 2-3: Bayanteeg Open-Cut Coal Mine (Looking West)



Figure 2-4: Major Coal Seam Exposed in Bayanteeg Coal Mine Highwall

Five coal super seams developed on a regional scale along the rim of a massive lacustrine system. Recent age data suggest that the Yan'an Formation developed from c. 180 – 168 Ma during the Early – Middle Jurassic, a period of major structural upheaval on a global scale. The age data thus indicates that peat mires accumulated during a prolonged period (c. 12 Ma) of relatively calm tectonic conditions. However, the long lived peat mire ecosystem was abruptly terminated. The overlying Middle Jurassic deposits are coal-barren and characterised by red beds and iron nodules (Michaelsen et al., 2004). These arid deposits are considered here to represent a dramatic environmental change, probably linked to the onset of uplift and a change in drainage patterns and climatic conditions. These dramatic changes may have extended into southern Mongolia.

The Jurassic system in the ORB contains the economical important Lower-Middle Jurassic Bakhar Formation (Figure 2-2). This stratigraphic unit is composed of conglomerates, sandstone, shale and coal, all of which interdigitate with volcanic rocks. The maximum thickness of the formation is 2700m in places (Figure 2-2).

The Bayanteeg coal deposit (Figure 2-3) was discovered while exploring for placer gold. In 1960 the Russian geologist Savanin conducted coal exploration at Bayanteeg and estimated a 60 Mt inferred coal resource.

According to internal BDBL LLC documents made available for this review, the Bayanteeg coal seam (Figure 2-4) has a maximum thickness of 17m, and the coal-bearing deposits strike c. 110 – 130 degrees.

NGS observed sedimentary structures, sulphur staining as well abundant mica on bedding planes above the coal seam in the Bayanteeg pit (Figure 2-5), which strongly suggest a marine influence (i.e. transgression). Coal seams formed in such an environment often appear in the stratigraphic record as transgressive – regressive couplets (e.g. Diessel, 2006), as such the potential exist for a second seam at Bayanteeg. However, historic drilling at Bayanteeg appears to be relatively shallow, only targeting the thick seam exposed in the coal mine.



Figure 2-5: Paralic Deposits Exposed Above Coal Seam in Bayanteeg Coal Mine

The petrographical compositions of the Bayanteeg and Tsagaan–Ovoo deposits in the Ongi River Basin were studied by Erdenetsogt et al. (2009). Bayanteeg coals have a 0.51% maximum vitrinite reflectance value. Coals are dominated by vitrinite group macerals (87.3 - 96.6 vol.%). There are up to 11.7 vol.% liptinite group, which is relatively high when compared to all the other Mongolian coal deposits. Inertinite group varies from 1 - 2 vol.%.

Coal petrographic analysis undertaken by ALS laboratories in Australia for CEO on a 380.96 gram random sample from BTE-002, supports the work by Erdenetsogt et al. (2009), except with raw coal reflectance values being higher at around 0.59%.

2.1 Teeg (13879X)

Exploration licence Teeg (13879X) is located within the Ongi River Basin in Ovorkhangai, central Mongolia, approximately 340km directly north of the Chinese border. The distance from Ulaanbaatar is approximately 520km; 150km from Arvaiheer and approximately 50km from Nariinteel.

Significantly, the 22.20km² licence area is situated immediately south of the Bayanteeg open-cut coal mine (Figures 2-6 and 2-7). The Bayanteeg coal mine has been in operation for approximately 50 years, generating large waste rock dumps to the north. However, the mining appears to have been very shallow, extracting coal from the oxidised to semi-oxidised zone. Nonetheless, according to government statistics, Bayanteeg's coal production in 2010 was 47,000 tonnes, up 30.5% from 36,000 tonnes in 2009. All coal produced from the Bayanteeg open-cut coal mine was sold domestically on a raw basis. During the site inspection by NGS there was no activity in the coal mine, which is operated seasonally and was understood to be on care and maintenance at the time of the visit.



Figure 2-6: View North from Bayanteeg Coal Mine showing the Teeg well site BTE-005, depicted by the white star

Infrastructure in the Bayanteeg district is very favourable. Highway AO302, which connects Arvaiheer and Bayanhongor, is located approximately 30km northwest of Bayanteeg. Electricity in the township and coal mine is sourced from a 110 kV line from the Mongolian Central Electricity System. Telecommunication and water are available in the area.

The landscape in the licence area is dominated by a prominent hill in the western sector (Neogene flood basalt), which cover approximately 40% of the entire area (Figures 2-6, 2-7 and 2-8). The northern and eastern part of the licence area is dominated by the Lower - Middle Jurassic Bakhar Formation. This formation is known to be up to 2700m thick in places within the ORB, and made up of conglomerate, sandstone, shale, coal and volcanics. In general, the bedding dips in the Bayanteeg coal mine, as well as in the Teeg licence area although it appears to be relatively gentle (c. 10-25 degrees).

NGS is unaware of any historic drilling within the Teeg licence area. In 2009 Peabody Polo inspected the Bayanteeg coal mine and conducted limited field mapping within the Teeg licence area. The field team discovered a wide zone of sooty coal in the southern area. It was noted that the

coal-bearing deposits dip towards the south, generally at 20-40 degrees, and strike approximately 180 – 190 degrees.

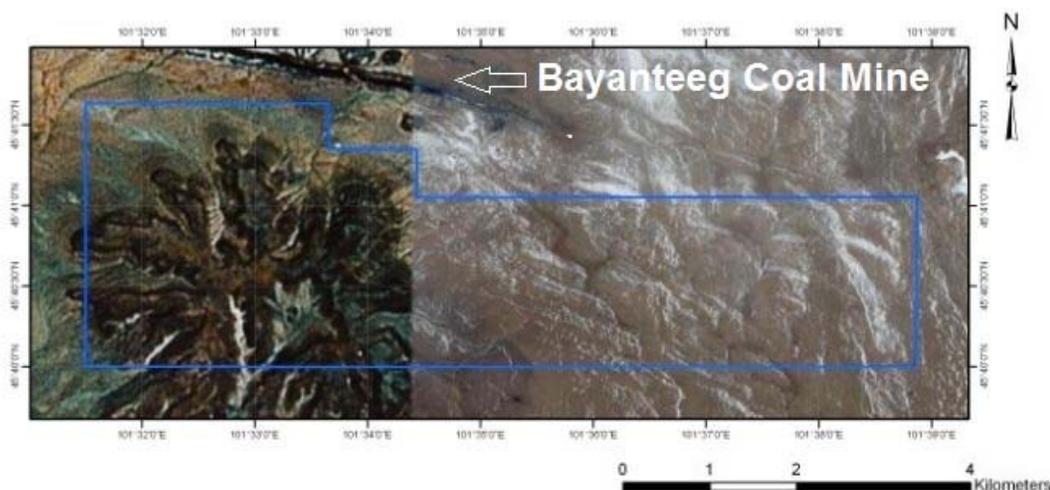


Figure 2-7: Satellite Image of the Teeg Exploration Area and Bayanteg Coal Mine

CEO drilled a total of five holes (BTE-001 to BTE-005) within the licence area during June and July 2011 as part of its due diligence program (Table 2-1). The combined length of the five holes was 718m. NGS inspected all five drill sites and photo-documented all available drill core.

The first hole drilled by CEO was BTE-001, which is located along the southern licence boundary proximal to Trench B where prior exploration work discovered coal in 2010 (Figures 2-8 and 2-10).

The hole intersected a massive coal seam from the surface to 60m depth. NGS did not inspect the coal core as it was dispatched to the SGS laboratory, Ulaanbaatar. However, the sequence below the massive coal seam is characterised by relatively low angle bedding dips (c. 20 degrees). The top part of the seam was oxidised, whereas the lower part was characterised by vitrinite-rich massive hard black coal with no clastic partings. The sediments beneath the major coal seam are characterised by fine-grained, organic-rich sediments, considered here to represent deposits from a fluvio - lacustrine low energy environment.

The massive nature of the seam strongly suggests that the seam represent a significant time span with steady subsidence in an area distal to clastic sediment flux. BTE-001 was terminated at a total depth of 100m within a sequence of organic-rich sediments, which could suggest additional seams further down dip.

It is worthy of note that: A) the thickness of the Bakhar Formation is substantial (up to 2700m in places), and B) the base of the formation is characterised by high energy alluvial fan deposits (i.e. not encountered in BTE-001).

Table 2-1: Due Diligence Drilling by CEO on Teeg Licence (June – July 2011)

Licence Number	Hole ID	Northing	Easting	Total Depth (m)	Gross Coal Intersections (m)
13879X	BTE-001	5060356	703688	100	60
	BTE-002	5060505	703450	207	40
	BTE-003	5061588	702575	174	<1m
	BET-004	5063184	698800	81	-
	BTE-005	5063202	699318	156	27



Figure 2-8: View of Wellsite BTE-001 Proximal to Trench B (2010)

BTE-002 was drilled 280m to the northwest of BTE-001 to a total depth of 207m (i.e. entire section within the Bakhar Formation). The hole intersected an approximate 40m thick black coal seam from a depth of 89m. The hole was geophysically logged, indicating 30m of consistent hard coal. The fluvio-lacustrine deposits are organic-rich and appears to be somewhat cyclic in nature, possibly high-frequency Milankovitch cycles (Figure 2-9). The bedding dips are low-moderate. The base of the Bakhar Formation was not encountered in this hole.



Figure 2-9: Drill Core Exposed at Wellsite BTE-002

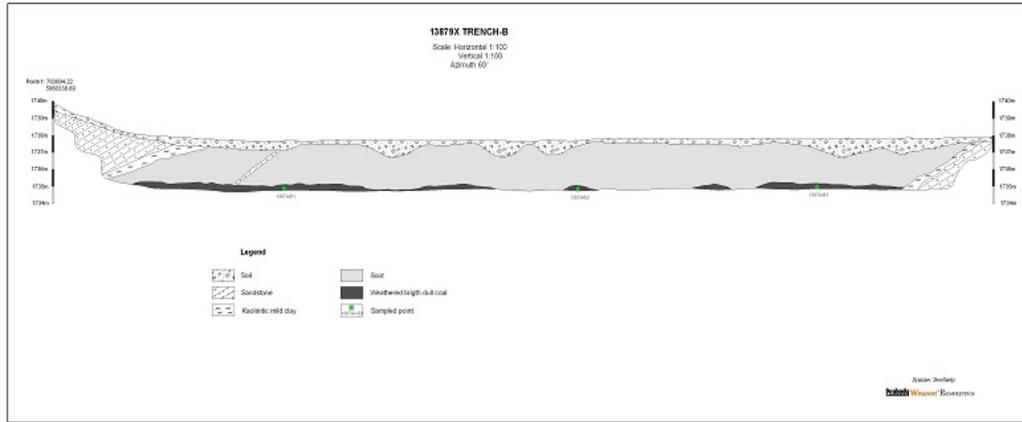


Figure 2-10: Trench B (2010) located along Southern Boundary

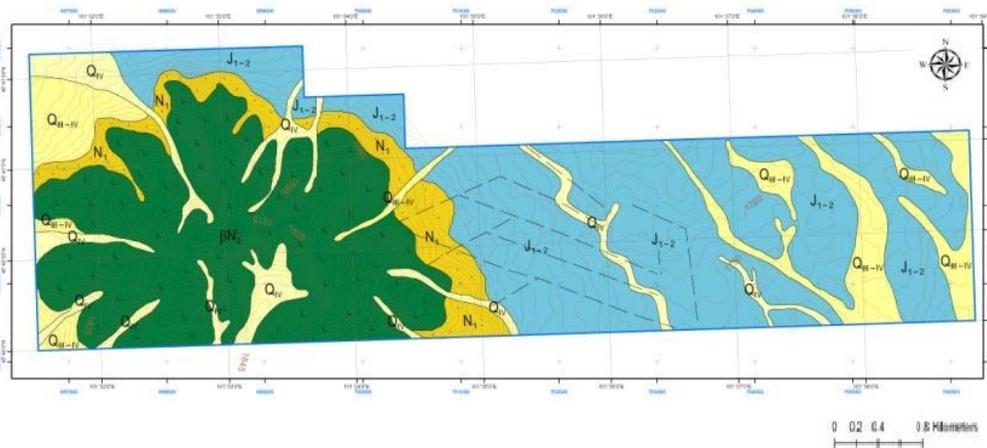


Figure 2-11: Geology Map of the Teeg Exploration Area

BTE-003 was drilled approximately 2km north of BTE-001 (Table 2-1). This hole uncovered a multi-seam sequence, significantly different from BTE-001 and BTE-002. The sequence is dominated by conglomerate and poorly sorted coarse-grained sandstone with subordinate siltstone, redbeds and thin coal seams (<30 cm). None of the coal seams in BTE-003 were sampled for coal quality testing. The interbedded siltstone and sandstone units are characterised by disturbed bedding with occasional trace fossils (Figure 2-12). The siltstone beds contain common mica on the bedding planes.

These deposits are considered here to represent a lower delta plain setting (perhaps similar to the modern Canterbury Plains in New Zealand), where high-frequency orbital climatic forcing prevented coal seams to accumulate to significant thickness in-between transgressive – regressive events. The presence of thin redbeds in BTE-003 is considered here to represent the onset of arid conditions. Similar deposits, but of Late Permian age, were documented at Navtgar Uul in the South Gobi Basin in 2010 by the author. Coal-bearing Permian deposits are also documented within the ORB, potentially forming the basement of the Bakhar Formation in places, with potential for these coals to be present further down dip in the licences.

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Figure 2-12: Lower Delta Plain Sequence from Drill Hole BTE-003

BTE-004 is located in the north western sector of the licence area, proximal to the northern border and the Bayanteeg Coal Mine. The total depth of this hole was 81m. The hole uncovered a steeply dipping (c. 70 – 85 degrees) section of fluvial deposits of the Bakhar Formation (Figure 2-13) with bright coal stringers (up to 1.3 cm thick) in places. The coal stringers are preserved within a poorly sorted pebbly feldspar-rich sandstone unit. Soft sediment deformation (i.e. slumping) was noted, indicating rapid sediment loading (commonly observed above major coal seams in other basins).



Figure 2-13: Steeply Dipping Proximal Overbank Deposits (BTE-004)

However, no coal seams were intersected in BTE-004. Due to the very steep bedding dips (Figure 2-13) this hole only penetrated a very limited stratigraphic section. The steep bedding dips might well indicate that the drill hole is located within the flank of the Bayanteeg sub-basin which architecture is poorly documented at present.

BTE-005 was drilled proximal east of BTE-004, and as such also in close proximity to the northern licence boundary. NGS was present during part of the drilling of this hole (Figure 2-15). The hole intersected a sequence of sandstone, siltstone and carbonaceous mudstone of the Bakhar Formation (Figure 2-14). Bedding dips measured in the drill core are generally around 20 degrees. Hints of wavy and lensen bedding in places, coupled with occasional mica on bedding planes in fine-grined sediments suggest a paralic to fluvial depositional setting.



Figure 2-14: Marginal Paralic Sequence Uncovered in BTE-005



Figure 2-15: Drilling Ahead at Well Site BTE-005

NGS opines that the significant discovery of the massive black coal seam in BTE-001 and BTE-002 warrants a well planned exploration program, to commence as soon as practical possible during 2011.

The potential extent of the seam uncovered along the southern boundary is uncertain. Detailed logging of Trench B (proximal to BTE-001) shows bedding dips of c. 45 degrees towards the south, whereas the dip direction in BTE-002 is unclear.

The lack of significant coal seams in BTE-003 (TD of 174 m) no coal in BTE-004 and no high quality coal in BTE-005 strongly suggest a somewhat complex distribution of coal deposits within Teeg (13879X). A north northwest – south southwest trending wrench fault within the central part of the licence area might well have shifted the Bayanteeg coal deposit towards the south, potentially with the northern flank located proximal to the southern licence boundary. Another theory is that two separate sub basins developed side by side, similar to the Tsaidam Nuur and Baganuur deposits (c. 150 km east of Ulaanbaatar). However, much work is needed in order to gain a better understanding of the architecture of the coal basin.

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2.2 Khongor (13880X)

Exploration licence area Khongor (13880X) is located in Khairhandulaan soum, approximately 520km southwest of Ulaanbaatar, and approximately 150km southwest of Arvaiheer and 36km from Khairhandulaan. The exploration area is situated approximately 20km east of the township of Bayantegg and the Bayantegg Coal Mine. The licence area is characterised by an elongate shape (Figure 2-16), encompassing a total of 144.61 km².

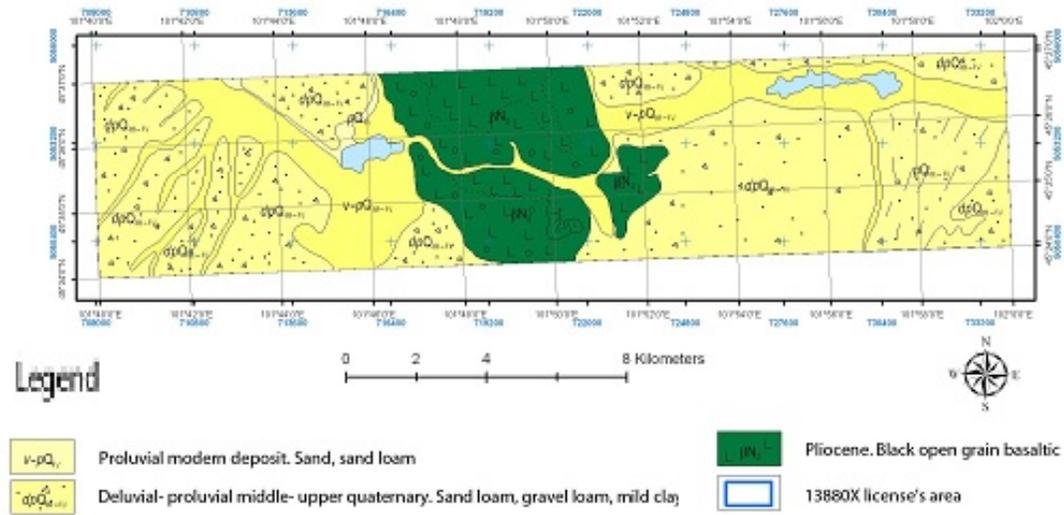


Figure 2-16: Geology Map of Khongor (13880X) Licence Area

The landscape in the exploration area is relatively flat, with a basalt hill rising up to 1760m above the floodplain, being an approximate 100 m elevation difference, in the central northern sector. The local geology is dominated by unconsolidated Quaternary sediments (e.g. clay, sand, sandy loam and gravel). The central sector of the exploration licence is characterised by Neogene basalt (Figure 2-17).

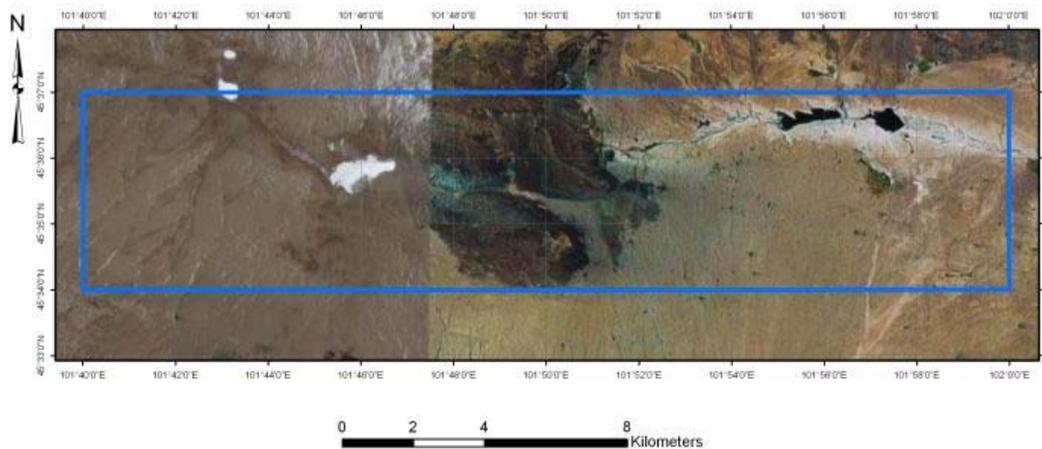


Figure 2-17: Satellite Image of the Khongor Exploration Area

Very little exploration work has been conducted within the Khongor licence area. No recent drilling has occurred and NGS is only aware of one historic drill hole, but no detailed information is available. During 2008 the licence area was mapped at 1:20,000 scale.

Subsequently, Nephrite LLC conducted a limited magnetic and electrical resistivity survey consisting of 3 lines in the northern area from 8 – 29 November 2010. The results from the one dimensional data indicated the presence of the Jurassic coal-bearing Bakhar Formation under Quaternary cover in the northern part of the survey area. Based on these encouraging results, Nephrite recommended drilling of three holes to a total depth of 150m in order to test the Bakhar target formation.

In May 2011, CEO enlisted Logantek LLC to review the relatively low-resolution data by Nephrite. Logantek concluded that Jurassic strata might indeed be present in the northern sector; however, the data suggest a thinner Quaternary cover than Nephrite LLC expected.

Anecdotal information suggests that a historic drill hole intersected coal within the licence area. However, no information has been presented which validates this information.

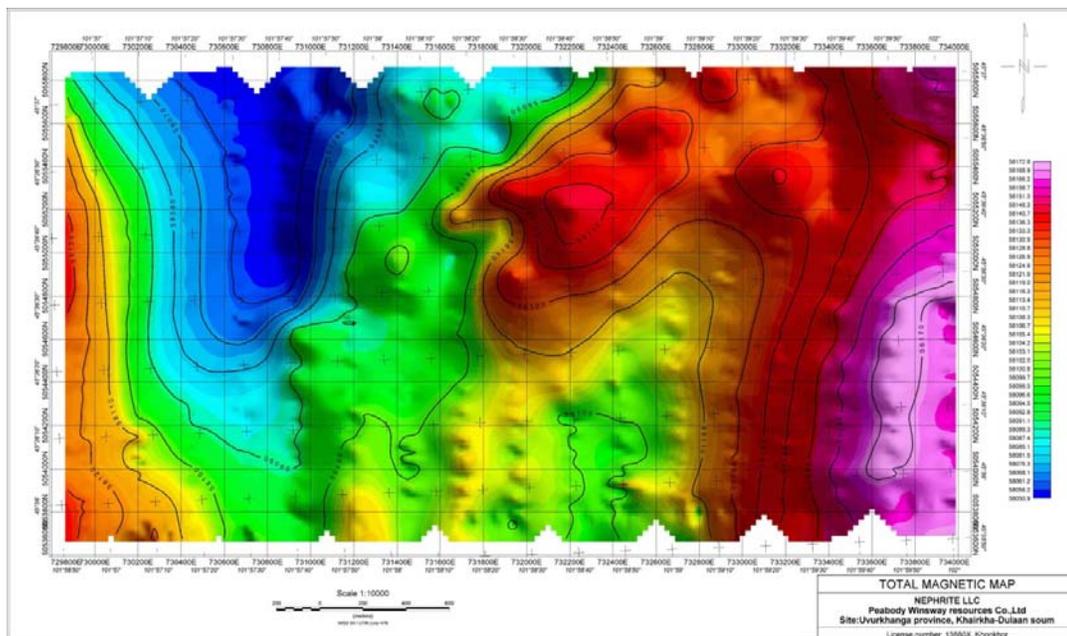


Figure 2-18: Total Magnetic Map by Nephrite LLC (2010)

CEO drilled only one hole being KK-1 during the due diligence program, due to time constraints. The hole was drilled at Northing 5054194 and Easting 709038 to a total depth of 174m. However, no coal was intersected in this hole.

2.3 Nariin Teeg (13581X)

The Nariin Teeg (13881X) licence area is located in Nariinteel soum, immediately to the west of the Teeg (13879X) licence and approximately 2 - 4 km southwest of the Bayanteeg Coal Mine (Figure 2-19). The licence area is relatively small in size at just 5.41 km².



Figure 2-19: View North from the Nariin Teeg Exploration Area

The exploration area is relatively flat with a prominent basalt hill to the east (Figure 2-20). The basalt hill is of Neogene age and extends into the Teeg licence area (13879X). The local geology is dominated by unconsolidated Quaternary sediments, mainly sand and sandy loam.

The previous geology map shows that most of the licence area is dominated by the Early-Middle Jurassic coal-bearing Bakhar Formation. However, field work undertaken in 2010 shows that the coal-bearing Jurassic sediments only cover the north-eastern part of the licence area. It is considered here that the Bakhar Formation might extend southwards under Quaternary cover, and possibly eastwards under relatively thick basaltic cover.

NGS is not aware of any historic drilling within the licence area, and did not observe any evidence of drilling activity during the site inspection. Reconnaissance field work was undertaken on the licence area in 2009, with reported sooty coal in an internal document. This map is shown in Figure 2-20.

Generated by time constraints no drilling was undertaken by CEO during the due diligence exploration program

NGS opines that the fact that relatively wide spread sediments of the coal-bearing Bakhar Formation outcrop in the northern sector of the licence area, coupled with the proximity to the Bayanteeg Coal Mine, warrants further exploration.

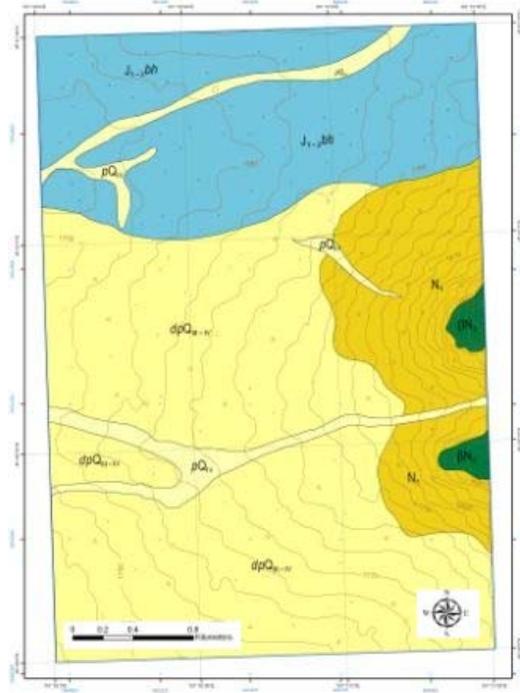


Figure 2-20: Geology Map of the Nariin Teeg Exploration Area

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2.4 Ergen Usny Khudag-2 (9116X)

The Ergen Usny Khudag-2 (9116X) exploration licence is situated within Ovorhangay province, in Khaikhandulaan soum. The exploration property is located in an area with well developed infrastructure, approximately 520km southwest of Ulaanbaatar, 130km southwest of Arvaiheer (the provincial capital of Ovorhangay province) and 36km from Khaikhandulaan. The distance to the Chinese border is approximately 350km. The exploration licence was issued on 10 January 2005 and will lapse on 10 January 2014 (if not converted to a mining licence).

The size of the Ergen Usny Khudag-2 exploration area is relatively small at 8.84 km². The shape of the licence area is elongate, approximately 1.1 km wide and extending approximately 8 km north – south (Figures 2-21 and 2-22). Importantly, the exploration property is bounded to the southwest by a small gold mine (Licence 5770A).



Figure 2-21: Satellite Image Showing Regional Context of Ergen Usny Khudag-2

According to internal BDBL documents, made available to NGS for this review, no recent or historic drilling has been conducted on this exploration property. The most recent activity in the licence area was during the 2010 field season which mapped the area (1:20,000 scale), however, no bedding dip information is provided on the map.

It was also noted that no coal-bearing sediments have yet been identified.

It is also noted that the exploration area might be interesting in terms of Au-bearing quartz-veins and alluvial gold. During routine field operations in June 2011, the CEO exploration team noted quartz vein fragments with malachite stains proximal to the licence boundary (UTM 47T 731494 / 5056784). The exact source of the material was unclear to the CEO exploration team, but may have been transported from 9116X by illegal miners. A sample was provided to the Stewart Group laboratory in Ulaanbaatar, with assay results showing 2.5% Au and 4.3% Cu.

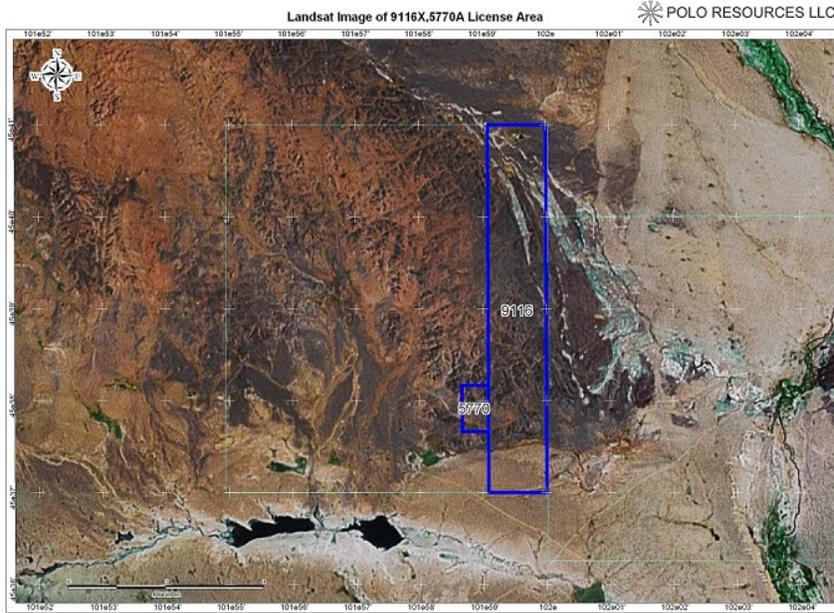


Figure 2-22: Satellite Image of the Ergen Usny Khudag-2 Exploration Area

The exploration licence is located in the south eastern part of the Bayanhongor metallogenic zone. No coal-bearing Jurassic deposits are exposed within the licence area (Figures 2-23 and 2-24). The north and north eastern part of the property is characterised by marble with mica, gneiss with mica, amphibolites and schist with hornblende. A gabbro unit is exposed in the northern and central part of the exploration area. The western part of the area is dominated by schist, limestone, sandstone and siltstone. A major east northeast – west southwest trending fault is located in the central part of the licence (Figure 2-24), with diorite, sandstone, siltstone and unconsolidated sediments exposed to the south of the fault.

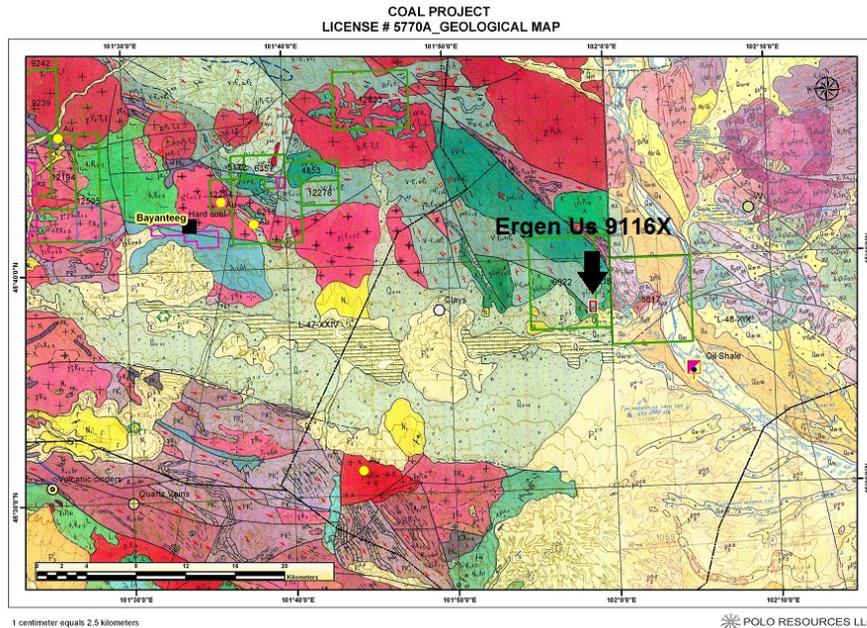


Figure 2-23: Regional Geology Map Showing Ergen Usny Khudag-2 and Bayanteeq Coal Mine

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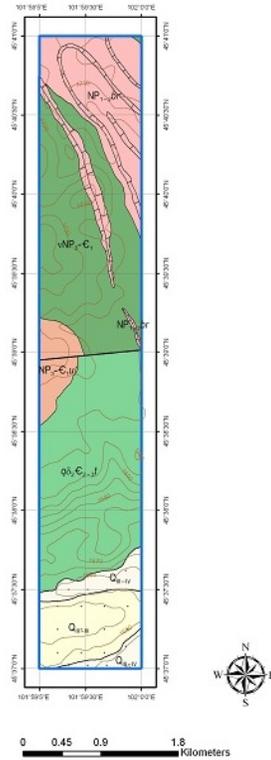


Figure 2-24: Geology Map (2010) of the Ergen Usny Khudag-2 Exploration Area

NGS opines that the geological fabric of the Ergen Usny Khudag-2 licence area does not appear to be favourable for coal exploration. However, the licence area appears very interesting in terms of Cu and Au exploration and exploitation. The new results from the quartz vein sample with elevated levels of Au and Cu are very encouraging with more work required in order to accurately source the Au and Cu-bearing rocks.

3 South Gobi Basin: Geological Framework

License areas 10566X, 12000X, 12789X and 13600X are located within the South Gobi Basin (“SGB”), which is characterised by the largest concentration of major black coal deposits in Mongolia (Figures 3-1 and 3-2). The SGB is well known for its vast energy resources, which includes the major coking / thermal coal deposit at Tavan Tolgoi (coal resources of > 5 billion tonnes), as well as other substantial deposits including the c. 100-200 Mt deposits at Baruun Naran, Ukhaa Khudag, Ovoot Tolgoi and Tsant Uul..



Figure 3-1: Schematised Location Map of Mongolian Coal Basins

The Late Permian coal measures at Tavan Tolgoi contain a basal coal seam which is over 100m thick in places, and 10-30m thick seams are common. These seams are developed within an up to 1220m thick coal-bearing sedimentary package, as shown on Figure 3-3. Furthermore, the basin is situated proximal to the Chinese border, and as such close to the expanding Chinese energy market. Clearly, the SGB is of major economic importance to Mongolia. However, little systematic exploration work has been conducted within the basin. NGS consider the potential for discovering major high rank coal deposits significant, as the basin is underexplored.

The architecture of the SGB is characterised by a typical elongate coal basin configuration. It extends approximately 600km east west and 100km north south. These dimensions are similar to the Bowen basin in Australia (e.g. Michaelsen and Henderson, 2000, Michaelsen et al., 2001, Michaelsen, 2002). However, whereas the Bowen basin presently has well over 30 operating coal mines, the South Gobi Basin currently has only 4 open-cut operations. The long term economical potential of the SGB is thus very substantial. However, it is important to note that coal is not uniformly developed in the SGB, and the structural complexity is in general much higher in the SGB compared to Australian coal basins such as the Pedirka, Bowen, Sydney, Surat, Laura or Gunnedah basins.

Coal deposition and preservation in the SGB appears to have been controlled by an interaction of Milankovitch-scale climatic cyclicality and complex syn-sedimentary faulting. The faulting resulted in the development of relatively deep, fault bounded sub-basins that were the locus for substantial tracts of peat accumulation (e.g. Tavan Tolgoi and Ovoot Tolgoi), which were subsequently fragmented as a result of rifting. The coal seams are considered here to have developed on an extensive coastal plain and might well have been regionally extensive. The Late Permian sedimentary record in the SGB shows unambiguous evidence of marine influence on the depositional dynamics.

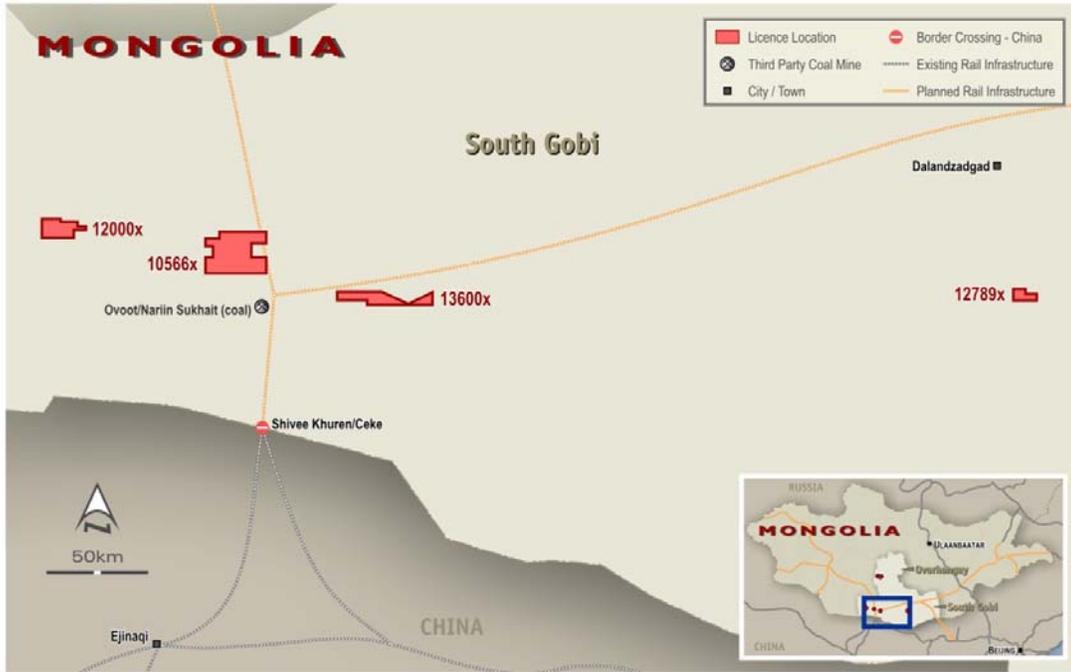


Figure 3-2: Location of coal licences in South Gobi Province

The existence of limestone beds within the middle and upper part of the Tavan Tolgoi Group (Figure 3-3), strongly indicate that the peat mires developed proximal to the paeleoshoreline. The preservation potential of the coal measures was probably limited to localized areas which experienced accelerated subsidence. This view is supported by results from seismic work in 2009 at the Ikh Gazar licence in the SGB.

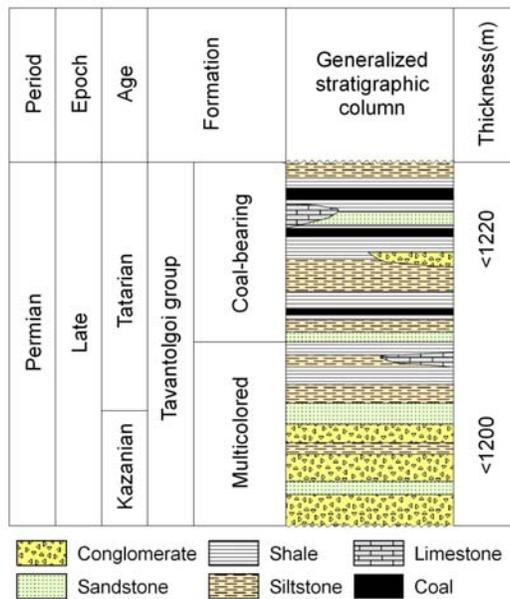


Figure 3-3: Schematic Stratigraphic Column of the Permian Tavan Tolgoi Group

The coal-bearing Late Permian Tavan Tolgoi Group is divided into two formations (as illustrated in Figure 3-3) being a lower- Multi-coloured Formation, and an upper Coal-bearing Formation (Bat-Erdene, 1992):

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1. The thickness of the Multi-coloured formation varies from 260m to 1200m. The lower section of the Multi-coloured Formation is composed of conglomerate with gravel, sandstone, and siltstone layers. The rocks in the section are red and brown in colour.
2. The thickness of the Coal-bearing Formation varies from 215m to 1370m. The Coal-bearing Formation consists of sandstone, siltstone, shale, coaly shale, coal, conglomerate, coaly shale and rare limestone layers. The coal-bearing sediments at Tavan Tolgoi (Figure 3-4) appear very similar to the Moranbah and Rangal Coal Measures, northern Bowen basin (cf. Michaelsen, 2002). The Coal-bearing Formation hosts up to 24 individual coal seams.

The age of the coal-bearing formation within the Tavan Tolgoi Group is well established from the flora (Figure 3-5), which is identical to that of the central region of Angaraland (Durante, 1976; Uranbileg, 2003).



Figure 3-4: Permian Crevasse Splay Sequence Exposed at Tavan Tolgoi Coal Mine

The coal-bearing upper part of the Tavan Tolgoi Group is occasionally referred to as the Deliin Shand Formation in the western sector of the SGB. However, this term is not widely used in the scientific literature and should be abandoned. The Bowen basin experienced similar nomenclature issues in the 1970's and 1980's where the same stratigraphic unit (e.g. Moranbah Coal Measures and the Platypus Tuff Bed) was referred to with a number of unscientific terms (Michaelsen, 1999).

The SGB contains all the known coking coal reserves of Mongolia. Tavan Tolgoi is the largest Mongolian coal deposit with resources of 5.6 Bt. At present, the total coal resources of the SGB are calculated to be 13.0 Bt, 2.9 Bt of which are identified reserves according to Erdentsogt et al. (2009).

The coal-bearing Late Permian Tavan Tolgoi Group fills several sub-basins within the SGB, and is folded and faulted by sub-vertical normal, transfer and thrust faults as shown in the north – south cross section above.

The fault bounded coal-bearing sub-basins are generally asymmetrical, thinning to the north and thickening significantly towards the sedimentary depocentre. Coal seams would be best developed distal to the sub-vertical growth faults which were active during deposition. Coal seams would typically split and deteriorate towards the clastic depocentre proximal to the sub-vertical growth faults.



Figure 3-5: Well Preserved Late Permian Flora (Tavan Tolgoi)

The present geological fabric of the SGB is characterised by "Basin and Range" generated by Middle Jurassic – Early Cretaceous rifting events (Figure 3-6). As a consequence of these events, extensive tracts of Permian coal-bearing strata are now separated by basins with significant thickness of Mesozoic fill (i.e. > 2000 m in places).

Norvick and Handke (2005) pointed out that there are thick upper Middle Jurassic to Late Cretaceous mega-sequences in the sedimentary basins between the ranges in southern Mongolia. Much of these covered areas are probably Late Cretaceous half grabens (Figure 3-6). To this end, Norvick and Handke (2005) concluded that they effectively push the coal-prospective section beneath minable depths.

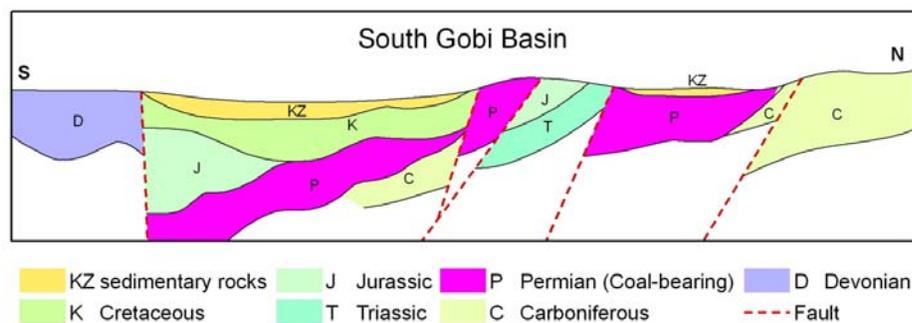


Figure 3-6: Schematic North – South Cross-section from the South Gobi Basin

A second rift phase during the upper - Middle Jurassic may have generated as localized or more extensive foredeeps, which were subsequently fragmented. Lacustrine petroleum source deposition occurred in the South Gobi Basin during the Late Jurassic - Late Cretaceous basin reorganization, with extension and rift faulting in both western and eastern Mongolia (Norvick and Handke, 2005).

Extreme extension and core complexes in southernmost Mongolia have been dated to Barremian (approximately 130 - 120 Ma). Uplift and erosion was common over much of Mongolia in the Late Cretaceous – Tertiary. This was followed by Late Tertiary to recent rift resuscitation in west and south Mongolia, apparently driven by escape tectonics caused by continued northward intrusion of India.

3.1 Gurvantes (10566X)

Exploration licence Gurvantes (10566X) is located approximately 10km south of the regional centre of Gurvantes, along the north western flank of the SGB (Figure 3-1). Furthermore, the licence area is situated approximately 15km north of South Gobi Energy Resources Ltd’s major Ovoot Tolgoi Coal Mine, as such the infrastructure is very favourable. Gurvantes is the largest of the eight licences, with an area of 257.82 km², representing 41% of the total cumulative licence area. The exploration licence was issued on 3 October 2005 and as such will lapse on 2 October 2014 (if not converted to a mining licence).

The geology of the licence area is dominated by Carboniferous and Permian volcanics with Permian sedimentary sequences outcropping along the northern edge (Figure 3-7).

Historic work includes regional scale mapping, trenching and drilling, however no detailed data from the drilling are currently available apart from schematic logs. Furthermore, the exact number of historic holes drilled within the licence boundaries is unclear. Based on all available data, the Permian coal-bearing units appears to be confined within the northern edge of the licence, with the sediments dipping moderately to the north, and due to the poor quality of the historic drilling no coal resource can be defined.

Dr Colin Nash and Associates conducted a photo-geological interpretation for Polo in September 2008 (i.e. Vantie Project). Subsequently, a ground magnetic survey and five holes (VAN001 to VAN005) with a total length of 394.2m were drilled during the 2010 field season (Table 3-1). All five holes were drilled along the northern licence border within an elongate sliver of Late Permian coal-bearing deposits. However, only one drill hole encountered coal, being the hole duplicated by CEO in 2011. Analysis of the available drill core-photographs by NGS reveals very low fracture spacing.

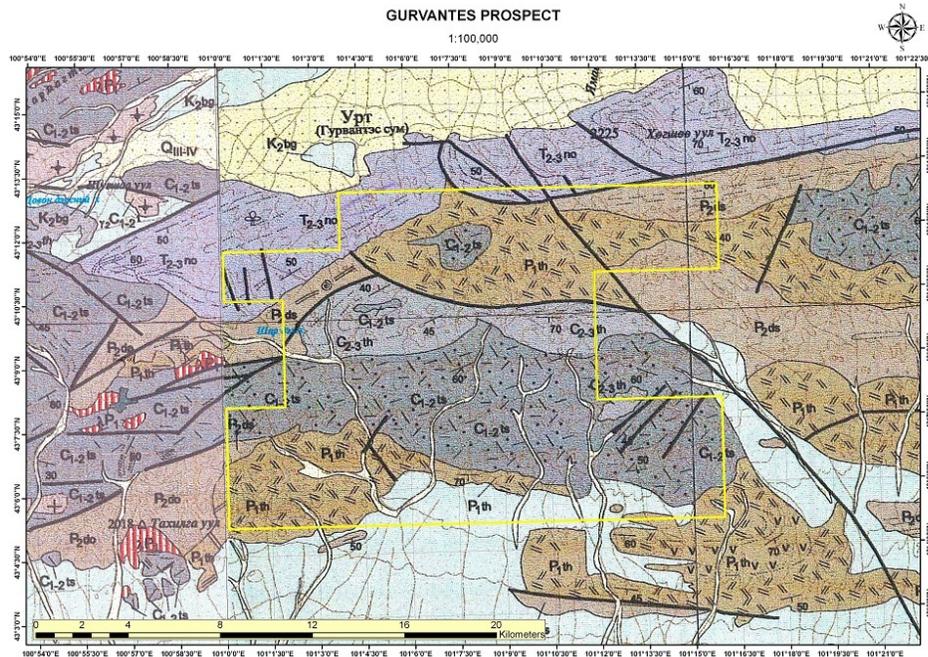


Figure 3-7: Geology Map of License Area 10566X

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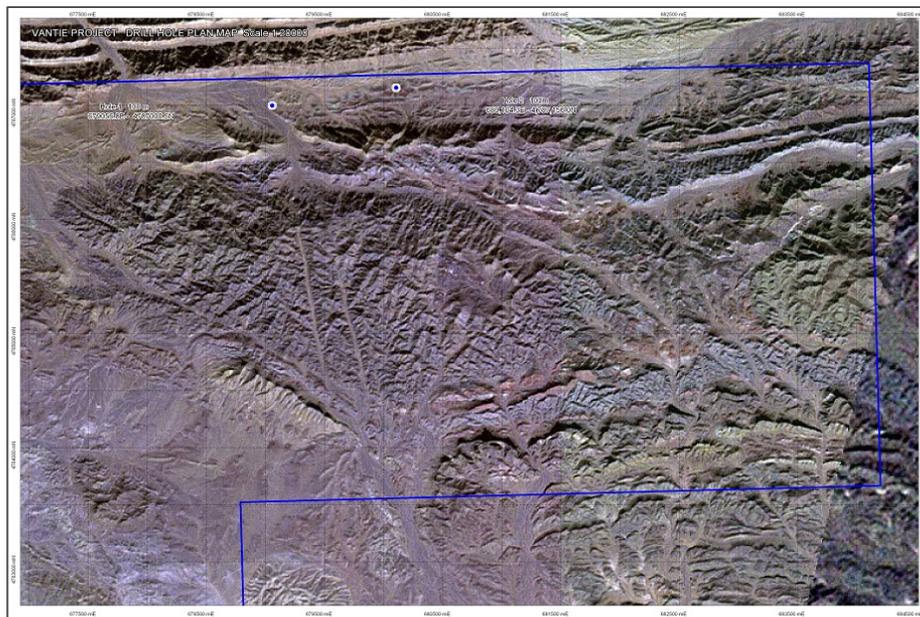
Table 3-1: Overview of the Holes Drilled on Gurvantes in 2010

Licence Number	Hole ID	Northing	Easting	RL	Total Depth (m)	Dip / Azimuth
10566X	VAN001	4791540	187790	1809	55.2	60 / 180
	VAN002	4791800	192800	1809	78.0	60 / 180
	VAN003	4791600	188410	1794	103.0	60 / 180
	VAN004	4791680	191750	1858	58.0	60 / 180
	VAN005	4781560	189470	1821	100.0	60 / 180

The 2011 field work by CEO reaffirmed that the surface coal-bearing Permian deposits are restricted to a small area in the far north eastern sector, dipping north at c. 40 degrees. The CEO exploration team observed evidence of historical drilling and trenching, however, no detailed data is available from this work.

CEO drilled two holes in June 2011, being GT-001 and GT-002, along the northern boundary (Figure 3-8) with a combined length of 156m. The first hole with a total depth of 100m did not intersect any coal-bearing strata. The second hole was an offset to VAN002 and intersected two seams; a 2.1m thick upper seam and 1.4m thick lower seam, however, the quality of the coal was not of good quality.

Due to the limited data available on this licence, NGS considers that the economic potential remains unknown, although it may remain prospective due to the proximity to the Ovoot Tolgoi Coal Mine.

**Figure 3-8: Satellite Image Showing East-West Strike Ridges to the North**

3.2 Shavan (12000X)

License area Shavan (12000X) is situated along the northern flank in the western most sector of the SGB. The large licence covers 73.65km² in area is located approximately 60km north of the Chinese border town of Shivee Khuren/Ceke and approximately 45 km west from the Ovoot Tolgoi coal mine (Figure 3-2).

Rocky mountains dominate the northern part of the licence area whereas the southern part is characterised by a more gentle hilly terrain. Carboniferous volcanics cover most of the licence area (Figure 3-9). Late Permian coal-bearing deposits outcrop within an area of approximately 4 km² in the south western sector. A gravity survey in the southern sector of the licence area was conducted by Polo in 2008. During the 2009 field season geologists mapped a zone of approximately 200m Permian dark grey mudstone, and steeply dipping (i.e. 64 - 72 degrees) coaly zones with thickness of 1 – 1.5m.

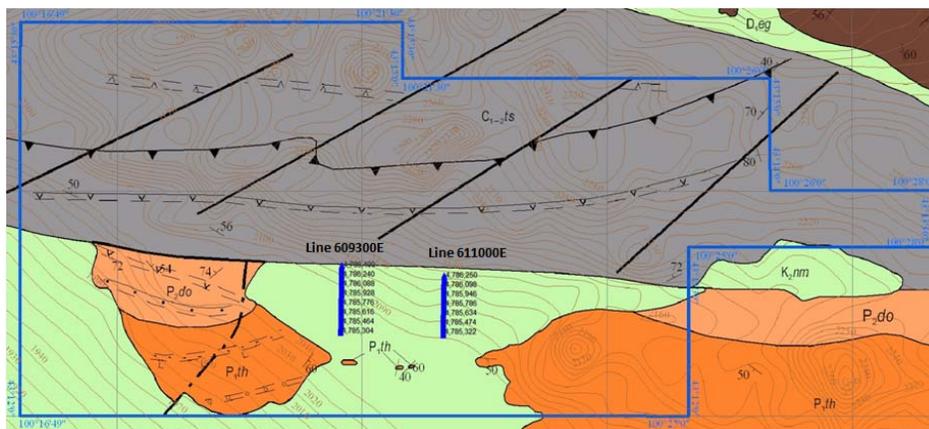


Figure 3-9: Geology Map of 12000X Shavan License Area Showing Seismic Lines

In September 2010, Logantek Mongolia LLC was contracted to undertake a seismic survey within the Shavan exploration area. The survey consisted of two seismic lines in the central-southern sector (Figures 3-9 and 3-10):

1. Line 609300E - 1120m
2. Line 611000E - 992m

The objective of the seismic survey was to map the structure and lithostratigraphy from the surface to a depth of 500m or deeper.

The seismic data on line 609300E clearly shows a Cretaceous layer. In the north a Carboniferous contact occurs. Most units appear to be of Early Permian age with potential Late Permian deposits to the north. Line 611000E showed similar results to 609300E, with potential Late Permian deposits in the northern part of the section (Figure 3-10). The potential Late Permian coal-bearing deposits dip steeply north towards a major east-west trending regional thrust fault.

NGS is not aware of any historic drilling within the licence area.

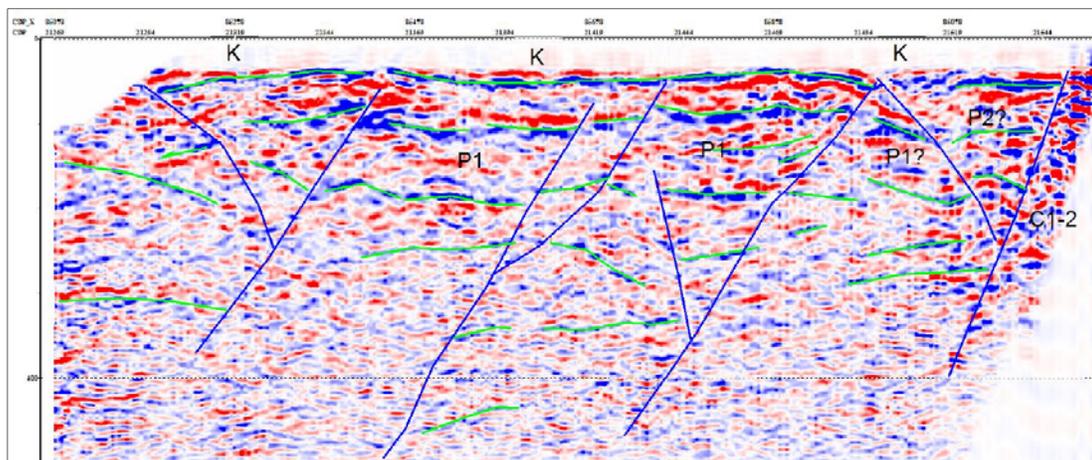


Figure 3-10: Seismic Line 611000E with Superimposed Interpretation

In June 2011, due to lack of diesel to undertake planned trenching on the surface coal CEO drilled only one hole being SV-001, with a total depth of 77m off the northern part of the western most seismic line (609300E). The location of SV-001 is Northing: 4786220 and Easting: 609282. The top section was open hole (PCD) with coring commencing at 49m. However, despite the somewhat encouraging seismic data, no coal-bearing strata were intercepted in this hole.

The CEO exploration team documented steep bedding dips (c. 60 degrees) in SV-001, and penetrated a section of sandstone, mudstone and siltstone (i.e. non-carbonaceous). It was noted by the senior CEO geologist that the section did not appear to be of Permian age.

The steeply dipping (i.e. 64 - 72 degrees) Late Permian coal-bearing strata exposed in the south-western licence area, does not appear to extend eastwards under Cretaceous cover as shown by the recent drilling activity by CEO.

Based on all available data, NGS opines that due to limited information on the licence, the economic potential of the Shavan licence area remains unknown.

3.3 Olongui (12789X)

Exploration licence area Olongui (12789X) is located approximately 56km south-southeast of Dalanzadgad, the regional centre of the South Gobi province. The exploration licence area is situated within Nomgon Soum and covers an area of 22.54 km².

The geology of the licence area is dominated by the Carboniferous Tsagaansuvarga Formation which outcrop in the western and central part of the licence area, and Mesozoic and Cenozoic deposits in the central and eastern sector (Figure 3-11). Sporadic outcrops with oxidised carbonaceous mudstone and sooty coal (which appears to be less than 1m thick) occur along an edge of northwest-southeast trending Carboniferous volcanics.

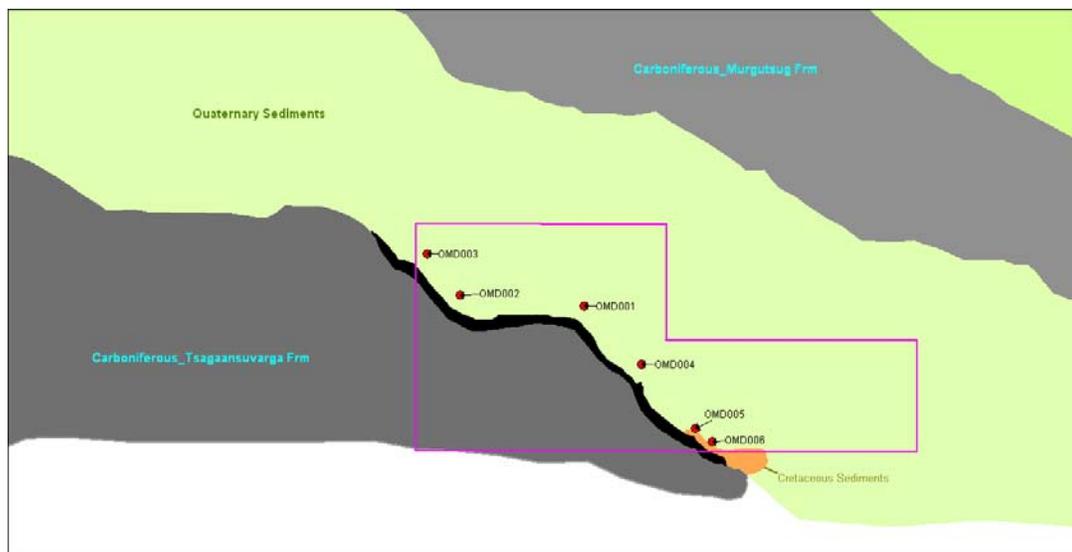


Figure 3-11: Geology Map of Olongui (12789X)

During the 2008 field season a ground magnetic survey was conducted. In December 2008 a thin strip of coal soot outcropping near the contact between Carboniferous rock units on the south and Quaternary sediments to the north was identified and documented. The coal soot was in general steeply dipping (30° and 50°).

During the 2009 field season a total of six holes were drilled with a combined length of 720m, within the northern and central part of the licence area (Figure 3-11). Table 3-2 provides an overview of the six drill holes. Only one of the six holes intersected coal-bearing strata. A 0.5m thick coal seam was discovered at 108m, and a 1m seam at 109m in hole number OMD006 located proximal to the southern licence boundary (Figure 3-11).

Table 3-2: Overview of Six Holes Drilled at Olongui during 2009 Field Season

Licence Number	Hole ID	Northing (UTM)	Easting (UTM)	Elevation (m)	Dip Angle	Total Depth
12789X	OMD001	4763249	467402	1885	-90	50
	OMD002	4763436	465388	1945	-90	70
	OMD003	4764107	464843	1898	-90	100
	OMD004	4762305	468346	1861	-90	200
	OMD005	4761261	469213	1869	-60	150
	OMD006	4761035	469495	1855	-60	150

In 2010 a ground magnetic survey was conducted. The results suggested that the southern and central part of the licence area should be further studied.

In May 2011, CEO drilled two holes OMG-007 and OMG-008 with a total length of 315m. OMG-007 was drilled to test the down dip extension of OMD006, approximately 800 m towards the east, but only encountered unconsolidated Quaternary sediments. OMG008 was drilled in the northeast corner, with a total depth of 150m. This hole also encountered unconsolidated quaternary sandy and clay sediments.

Recent drilling results strongly suggest that a major northwest-southeast trending normal fault is located proximal to the easternmost outcrop-line of the Carboniferous deposits where the sooty coal has been documented. The two holes drilled by CEO shows that the sporadic coal-bearing deposits rapidly disappear under thick cover sequences, which prevent open-cut extraction of any significant potential discoveries.

Due to the limited work done on the licence, the economic potential of this area remains unknown.

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3.4 Zamt Uul (13600X)

License area Zamt Uul (13600X) is located approximately 30km east of the major Ovoot Tolgoi Coal Mine in the western sector of the SGB (Figure 3-2). The area is situated approximately 30km southwest of Noyon soum. The large exploration area covers 89.92km² and is elongate in shape, extending >30 km east – west (Figures 3-12, 3-13 and 3-14). The licence area is situated approximately 35km northeast of the Chinese border crossing at Shivee Khuren/Ceke.

The central and northern part of the licence area is dominated by Early Permian felsic and mafic volcanics (Figure 3-13). Wrench (transfer) faulting appears to have moved part of the sequence south near the central part of the licence. Cretaceous sedimentary sequences made up of sandstone, siltstone and conglomerate outcrop to the south of the Permian volcanics.

Late Permian coal-bearing strata outcrop just south of the licence area. However, no coal outcrops are evident within the licence area. Bedding dips are typically observed and recorded in the 30-40 degree range (but up to 55 degrees in places).

In an internal document, geologists recommended further detailed mapping and possibly drilling for the southern half of the licence area, which showed possible coal potential within the Permian sedimentary sequence underneath the Cretaceous cover in the south half of the licence.

Significantly, Zamt Uul is situated proximal to the east northeast of South Gobi Resources Energy Ltd's Soumber deposit, which in turn is located approximately 20 km east of their flagship Ovoot Tolgoi Mine.

An independent NI 43-101 resource estimate for the Soumber project (Figure 3-12) was prepared in January 2011 by Minarco-MineConsult, a division on Runge Limited, who estimated 61.4 million tonnes of measured and indicated resources and 65.8 Mt of inferred resources.

The Soumber coal resources are classified as bituminous coal and the rank ranges from low-volatile bituminous coal to medium-volatile bituminous coal, based on ASTM standard D388. Calorific values range between 5,000 - 7,800 kilocalories per kilogram (AR basis).

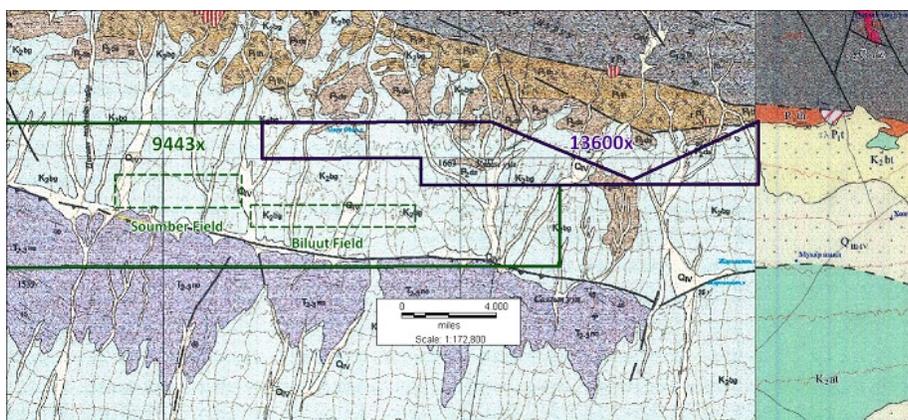


Figure 3-12: Regional Geological Context of the Zamt Uul Exploration Area

Coal quality data from the Soumber deposit suggest that there is good potential to produce a blend or washed coking coal product from shallow (low stripping ratio) sources. On 6 July 2011 the Mineral Resource Authority of Mongolia ("MRAM") granted a new 109.93km² mining licence for the Soumber deposit for an initial term of 30 years with an option for two 20-year extensions.

No historical geophysical work or drilling was conducted on licence 13000X.

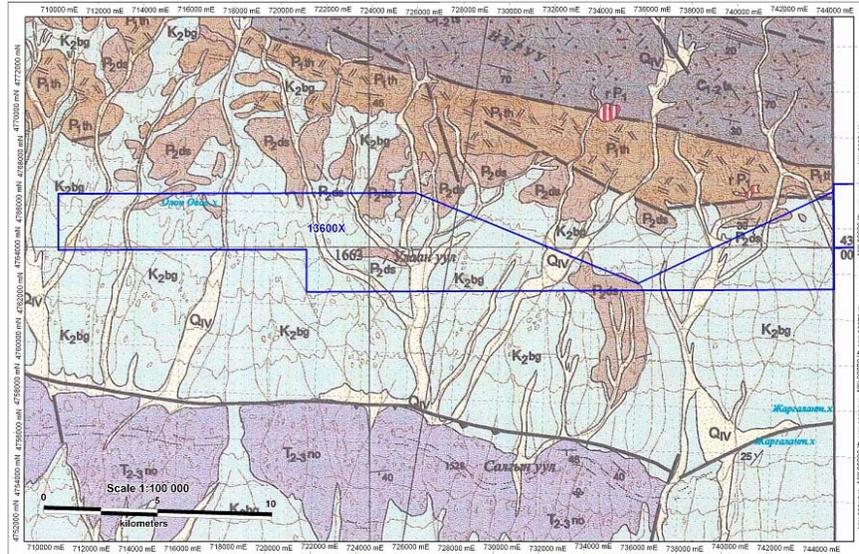


Figure 3-13: Geology Map of the Zaamt Uul (13600X) Exploration Area

CEO drilled three holes, ZU-001 – ZU-003, in May - June 2011 (Table 3-3). The combined length was 487m (average 162m/hole). Open hole PCD was conducted from the surface to 7, 46 and 8m in the three holes respectively, succeeded by HQ coring to total depth.

Table 3-3: Overview of the Three Holes Drilled at Zaamt Uul by CEO in 2011

Licence Number	Hole ID	Northing (UTM)	Easting (UTM)	Total Depth
13600X	ZU-001	4765681	743346	174
	ZU-002	4764663	712317	113
	ZU-003	4764987	729852	200

The first hole (ZU-001) was drilled to a total depth of 174m in the north eastern sector within the quaternary cover. This hole penetrated a dominantly fine-grained, multi-coloured, coal-barren sedimentary sequence, considered to be of Lower Permian age and not coal-bearing.

The second hole (ZU-002) was drilled to a total depth of 113m in the far southwester corner. It uncovered a similar coal-barren sequence to ZU-001.

The third hole (ZU-003) was drilled in the central sector of the licence and reached a total depth of 200m. The drill hole uncovered a similar coal-barren sequence to ZU-001; however the multi-colour was not as pronounced as in the first hole.

All three holes were characterised by sediments with 30-40 degree bedding dips.

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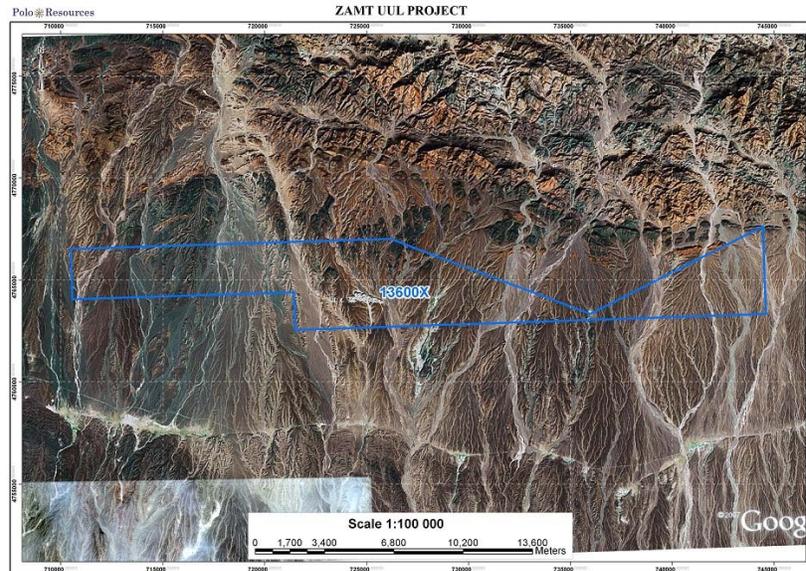


Figure 3-14: Satellite View of Exploration Area 13600X

Although the recent drilling results did not have any coal intercept, it is highlighted here that only three holes were drilled within a laterally very extensive licence (i.e. > 30km), proximal to a major Permian coal deposit (South Gobi Energy's Soumber coal project). It is also noted that the southern part of the licence has not been drill tested for concealed extensions of Permian black coal underneath the Cretaceous cover sequences.

4 Proposed Exploration Program

Following the completion of its due diligence exploration program and taking account of the recommendations made through the report, CEO has proposed a comprehensive exploration and evaluation programme for the licences. Essentially, the components of this programme will be the following:

Year 1 - Resource Confirmation Budget

- Geophysical survey using 2D seismic or dipole - dipole Resistivity: to identify potential concealed black coal extensions on Ovorhangay Licences, predominately focused on the Teeg licence (13879X);
- Ground reconnaissance and mapping to define stratigraphic markers, coal seam outcrop and sub outcrop positions and accurate position of fault traces;
- Drilling in selected areas. This will include 6800m of diamond drilling.
- Assaying and laboratory test work, including blending analysis and market position analysis.
- Estimation of an inferred resource in accordance with the JORC Code.

Year 2 – Scoping Study (Pre feasibility)

- Once the geological data has been compiled and assessed a scoping study can be prepared with the aim of providing a guide to the real potential of the project based on more detailed geological modelling, quality test work, comparing options for mining and processing, establishing environment requirements and assessing preliminary infrastructure options on transport and port facilities.

Activity	Year One Total Cost (\$USD)	Year Two Total Cost (\$USD)
Geophysical Survey	110,000	-
Project Management/On Site Geologist	180,000	200,000
Drilling (including Mobilisation/Demobilisation)	1,100,000	-
Geologic Modelling	80,000	-
Quality Test Work	200,000	50,000
Geology and Mine	-	200,000
JORC Resource Drilling	-	1,500,000
Plant, Infrastructure & Port	-	350,000
Financial Analysis	-	50,000
10% Contingency	178,000	235,000
TOTAL	\$1,848,000	\$2,585,000

The exploration budget has been prepared by the Company for the licences subject to modification on an ongoing basis depending on the results obtained from exploration activities as they progress.

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