

September 2013 Quarterly Report

Highlights:

- **Modun signs Memorandum of Understanding for the supply of coal briquettes to the Mongolian Government as part of their Clean Air Initiative to reduce air pollution in Ulaanbaatar**
- **The Mongolian Ministry of Mining commits to providing policy support to Modun to deliver the project**
- **Negotiations for the Off-take Agreement with the Mongolian Government for the supply of coal briquettes are on-going**
- **The independent Mongolian Feasibility Study is near completion**
- **The Mineral Resources Authority of Mongolia (MRAM) granted approval for a Mining Licence for the Nuurst Project**
- **Mining Licence No MV-017349 issued covering 2,497 hectares issued for 30 years plus the potential for two 20 year extensions**
- **Placement to sophisticated investors at market price raising \$375,000**

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

Memorandum of Understanding

In October 2013, through its wholly owned subsidiary, Modun Resources LLC, Modun has signed a binding Memorandum of Understanding (**Memorandum**) with the Mongolian Ministry of Mining (**Ministry**) and the Ulaanbaatar City Air Quality Agency (**CAQA**) supporting the supply of coal briquettes.

Under the terms of the Memorandum, Modun is responsible for developing a coal mine and constructing a coal briquette plant at its Nuurst Coal Project, subject to raising the appropriate finance. Modun is also responsible for delivering the quantity of coal briquettes as detailed in the terms and conditions of the Off-take Agreement currently under negotiation with the Mongolian Government.

The Ministry has committed to providing the necessary policy support required by Modun to deliver the project. CAQA will also be responsible for monitoring the quality of the coal briquettes to ensure they meet the standards of the National Committee on Air Pollution Reduction. The Memorandum has a term of 5 years.

Coal Briquette Off-take Agreement

The signing of the Memorandum is an important and final precursor to endorse the formal Off-take Agreement for the supply of the coal briquettes to the Mongolian Government. The

Memorandum clearly outlines the responsibilities of the Government departments and ensures each parties' interests are aligned and focused on delivering the project. The negotiations for the Off-take Agreement have moved into the final stage of discussions.

Mongolian Feasibility Study

The independent consultants appointed by Modun have completed the Feasibility Study required by Mongolian Law, subsequent to attaining the Mining License. Modun has undertaken its final review of the Feasibility Study with the consultants and it is expected to be finalised and lodged in early November.

Approval of Mining Licence

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

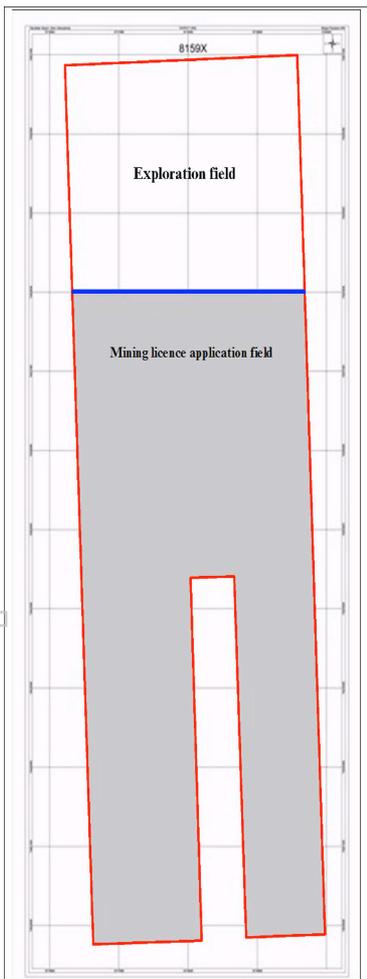


Figure 1: Mining licence area mapped onto existing exploration licence

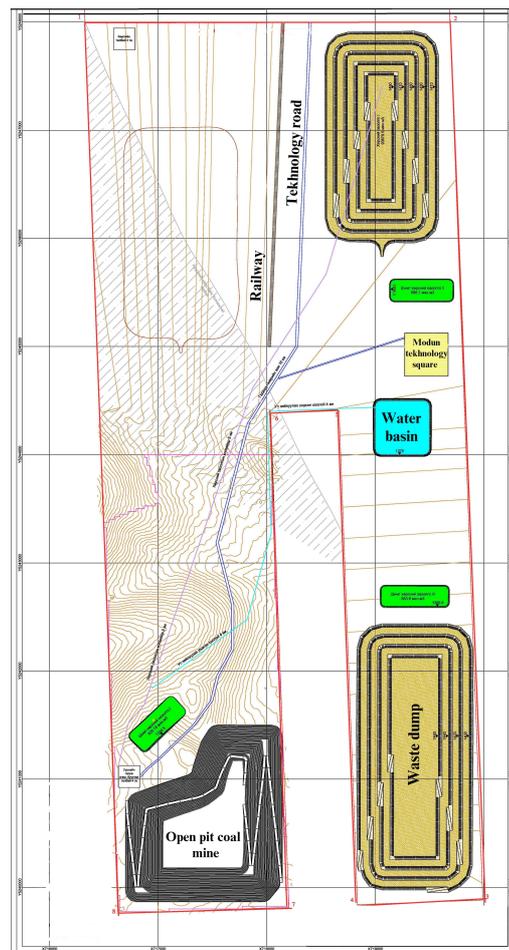


Figure 2: Mine design and pit layout for mining licence

Corporate

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

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

On 19 August 2013, Modun completed a placement to sophisticated investors raising \$375,000 at a placement price of 0.7c. The money raised will enable Modun to complete the feasibility work on the Nuurst Thermal Coal Project required by the local authorities commensurate with the recently granted Mining Licence.

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

At the end of the quarter, Modun has total cash reserves of \$0.74 million

On 14 October 2013, Non-Executive Director, Mr James Thompson resigned from the Board of parent company Modun Resources Limited to pursue other opportunities. The Board would like to thank Mr Thompson for his years of service to the Company, in particular for his efforts in overseeing the acquisition of the Nuurst Coal Project and wish him continued success in his future endeavours.

Mr Paul Korpi has been appointed to the position of Consulting Project Manager, based in Mongolia. Mr Korpi is a metallurgist with significant experience in managing projects at a senior level in Mongolia, including being President of Boroo Gold LLC

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About Modun Resources Limited

ASX-listed Modun Resources (ASX: MOU) is developing the 100%-owned Nuurst Coal Project in central Mongolia. Nuurst is a thermal coal project, which encompasses a 2,497 hectare

Mining Licence area. In November 2012, Modun announced a 478 million tonne JORC reported Coal Resource at Nuurst (326 million tonnes Measured, 104 million tonnes Indicated, 48 million tonnes Inferred). The Nuurst Coal Project is located 120 kilometres south of Mongolia's capital Ulaanbaatar and six kilometres from existing rail infrastructure which links directly into China.

Competent Person Statement

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

The information in this announcement that related to exploration results is based on information obtained from drilling and trenching activities on site undertaken by Modun in 2011 & 2012. This information has been reviewed by Ms Dierdre Westblade of CSA Global Pty Ltd, Western Australia. Ms Westblade is a member of the Australian Institute of Geoscientists and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Ms Westblade consents to the inclusion in the report of the matters based on his information in form and context in which it appears.

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