**Xiaoxiao Education Limited**

**ABN 26 140 573 862**

**Notice of General Meeting**

**NOTICE is given** that a General Meeting of Xiaoxiao Education Limited ABN 26 140 573 762 (**Company**) will be held at the offices of Computershare Limited ,Yarra Falls, 452 Johnston Street Abbotsford Victoria on Friday 24th October 2014 at 10.00 a.m. for the following purposes.

The Explanatory Statement accompanies and forms part of this Notice of Meeting and provides information relevant to each Resolution. The Explanatory Statement should be read in its entirety.

## Special Business

The business of the meeting will be to seek the approval of the holders of the Company's ordinary shares to the Resolutions proposed as items 1 to 7 inclusive.

Resolutions 1 - 7 are interdependent and the failure to pass any one of them will result in failure of all the Resolutions.

Notwithstanding the passage of all Resolutions, the Restructure will not proceed unless and until the capital raising, as referred to in the Explanatory Statement, is successful and the Company has received conditional confirmation from the ASX that, subject to compliance with any conditions imposed by the ASX, the Company will re-comply with Chapters 1 and 2 of the Listing Rules.

**Resolution 1 Issue of Shares – capital raising: ordinary resolution**

ASX Listing Rule 7.1 prohibits a listed company from issuing or agreeing to issue securities without obtaining prior approval of the holders of the Company's ordinary shares if the result is that the amount of capital issued within the previous 12 months is greater than 15% of the total issued securities of the Company.

Resolution 1 seeks the approval of holders of the Company's ordinary shares under ASX Listing Rule 7.1 to issue up to 18,500,000 fully paid ordinary shares to investors pursuant to a prospectus anticipated to be made available on the Company's website or in hard copy and on or around 13th October 2014 to be issued by the Company to raise $3.7 million in cash. The prospectus is required in relation to re-complying with Chapters 1 and 2, and prospective investor should consider the prospectus in deciding whether to acquire any shares under it. Anyone who wants to acquire shares under the prospectus will need to complete the application form that will be in, or will accompany, the prospectus. The Board recommends that holders of the Company's ordinary shares vote in favour of this resolution so as to enable the Company any time during the next 12 months to issue up to the full 15% limit referred to in ASX Listing Rule 7.1 without further reference to shareholders and without the securities described below counting towards the calculation.

In accordance with ASX Listing Rule 7.3, the Directors provide the following information to enable the holders of the Company's ordinary shares to approve the proposed placement of shares:

- The number of securities to be allotted is up to 18.5 million ordinary shares.
- The price at which the securities will be issued is $0.20.
- These fully paid ordinary shares in the Company rank pari passu and form one class with all other ordinary shares of the Company.
- The allottees will be those persons whose application for shares pursuant to the prospectus is accepted by the Company.

- The intended use of the funds is to fund development, production and working capital activities of the Iron Ore Business, to fund re-compliance with Chapters 1 and 2 of the Listing Rules and working capital requirements of the Company
- If the Company is unable to obtain commitments for at least $750,000 pursuant to the capital raising within 3 months after the passing of Resolutions 1 – 3 inclusive then no shares will be issued pursuant to the capital raising. If that happens then it is unlikely that the Company will re-comply (within that period) with Chapters 1 and 2 of the Listing Rules and if that happens then the Restructure will not proceed on the terms set out in this Explanatory Statement.
- The date of allotment of shares to be issued under the prospectus will be the day prior to completion of the capital raising.
- The capital raising will be in the form of offers to retail and wholesale investors in addition, Mr Xu and Madam Tong, as related parties, will be able to participate in the capital raising if Resolutions 2 and 3 are passed.

For this purpose, the holders of the Company's ordinary shares are asked, to consider and if thought fit, to pass the following resolution as an ordinary resolution:

> **Subject to the passing of Resolutions 2 and 3, for the purposes of ASX Listing Rule 7.1 and for all other purposes and on the terms set out in the Explanatory Statement accompanying this Notice of Meeting, the holders of the Company's ordinary shares approve the issue and allotment of not less than 3.75 million ordinary shares and not more than 18.5 million ordinary shares in the Company on the terms of the prospectus to be issued by the Company.**

If approved this will assist the Company to re-comply with Chapters 1 and 2 of the Listing Rules and provide the Company with approximately $1.5 million to $4.5 million worth of working capital.

### Voting Exclusion Statement

The Company will disregard any votes cast in relation to this resolution by:

(a) Sunflower Investment;

(b) Any person who might obtain a benefit, except a benefit solely in the capacity of a shareholder, if this resolution is passed; and

(c) An associate of that person (or those persons).

However, the Company need not disregard a vote if it is cast by a person as 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.

## Resolution 2 Capital raising – participation of related parties, Mr Xu: ordinary resolution

The explanation in relation to Resolution 1 above refers to the ability of Mr Xu, as a related party of the Company, to participate in the capital raising. If he does then the proposed issue of shares to him under the prospectus requires obtaining the necessary shareholder approval under item 7 of Section 611 of the Corporations Act and ASX Listing Rule 10.11. If shareholder approval is obtained for Resolution 2 the shares will be issued to Mr Xu within 1 month of the date of the meeting (or subject to a waiver from the Listing Rules, within 3 months). The shares will rank pari passu in all respects with all other fully paid ordinary shares on issue.

The intended use of the funds raised under the capital raising is to fund development, production and working capital activities of the Iron Ore Business, to fund re-compliance with Chapters 1 and 2 of the Listing Rules and working capital requirements of the Company.

For this purpose, the holders of the Company's ordinary shares are asked, to consider and if thought fit, to pass the following resolution as an ordinary resolution:

> **Subject to the passing of Resolutions 1 and 3, for the purposes of ASX Listing Rule 10.11 and Item 7 of Section 611 of the Corporations Act and for all other purposes and on the terms set out in the Explanatory Statement accompanying this Notice of Meeting, the holders of the Company's ordinary shares approve the issue and allotment, at an issue price of $0.20, of that number of fully paid ordinary shares as are applied for by Mr Xu pursuant to the prospectus (but which cannot exceed 7.5 million) and which are accepted in the absolute discretion of the Company, such shares to rank pari passu in all respects with all other fully paid ordinary shares on issue.**

### Voting Exclusion Statement

The Company will disregard any votes cast in relation to this resolution by:

(a) Sunflower Investment;

(b) Any person who might obtain a benefit, except a benefit solely in the capacity of a shareholder, if this resolution is passed; and

(c) An associate of that person (or those persons).

However, the Company need not disregard a vote if it is cast by a person as 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.

| **Resolution 3** | **Capital raising – participation of related parties, Madam Tong: ordinary resolution** |
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Pursuant to clause 3.2.3 of the Implementation Agreement, Madam Tong is required, on written demand by the Company, to subscribe for that number of ordinary shares in the capital of the Company, the aggregate issue price of which is not less than $500,000.

If the Company requires Madam Tong to subscribe for shares, then it is likely to do so as part of the capital raising, during which time, Madam Tong will be a related party of the Company. Consequently, Listing Rule 10.11 requires the approval of the holders of the Company's ordinary shares in order for the Company to issue any such ordinary shares to Madam Tong.

If shareholder approval is obtained for Resolution 7 the shares will be issued to Madam Tong within 1 month of the date of the meeting (or subject to a waiver from the Listing Rules, within 3 months). The shares will rank pari passu in all respects with all other fully paid ordinary shares on issue. The maximum number of shares to be issued to Madam Tong is 2,500,000.

The intended use of the funds raised under the capital raising is to fund development, production and working capital activities of the Iron Ore Business, to fund re-compliance with Chapters 1 and 2 of the Listing Rules and working capital requirements of the Company.

For this purpose, the holders of the Company's ordinary shares are asked, to consider and if thought fit, to pass the following resolution as an ordinary resolution:

> **Subject to the passing of Resolutions 1 and 2, for the purposes of ASX Listing Rule 10.11 and for all other purposes and on the terms set out in the Explanatory Statement accompanying this Notice of Meeting, the holders of the Company's ordinary shares approve the issue and allotment, at an issue price of $0.20, of that number of fully paid ordinary shares as are applied for by Madam Tong pursuant to the prospectus (but which cannot be less than 2.5 million) and which are accepted in the absolute discretion of the Company, such shares to rank pari passu in all respects with all other fully paid ordinary shares on issue.**

**Voting Exclusion Statement**

The Company will disregard any votes cast in relation to this resolution by:

(a) Sunflower Investment;

(b) Any person who might obtain a benefit, except a benefit solely in the capacity of a shareholder, if this resolution is passed; and

(c) An associate of that person (or those persons).

However, the Company need not disregard a vote if it is cast by a person as 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.

| **Resolution 4** | **Election of Director – Ms. Li Enxia (refer to clause 5.12.3 of the Implementation Agreement): ordinary resolution** |
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This resolution seeks approval for the appointment of Ms. Li Enxia as a director of the Company. This approval is sought from the holders of the Company's ordinary shares, in accordance with clause 81.1 of the Constitution,

For this purpose, the holders of the Company's ordinary shares are asked to consider and, if thought fit, pass the following resolution as an ordinary resolution:

> **That, subject to the passing of Resolutions 1, 2, and 3 and completion of the Share Sale Agreements, Ms. Li Enxia is elected as Director of the Company, with effect on and from completion of the Share Sale Agreements.**

Information regarding this candidate for election can be found in the accompanying Explanatory Statement.

| **Resolution 5** | **Election of Director – Ms. Liu Zijian (refer to clause 5.12.3 of the Implementation Agreement): ordinary resolution** |
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This resolution seeks approval, for the appointment of Ms. Liu Zijian as a director of the Company. This approval is sought from the holders of the Company's ordinary shares in accordance with clause 81.1 of the Constitution,

For this purpose, the holders of the Company's ordinary shares are asked to consider, and if thought fit, pass the following resolution as an ordinary resolution:

> **That, subject to the passing of Resolutions 1, 2 and 3 and completion of the Share Sale Agreements, Ms. Liu Zijian is elected as Director of the Company, with effect on and from completion of the Share Sale Agreements.**

Information regarding this candidate for election can be found in the accompanying Explanatory Statement.

| **Resolution 6** | **Election of Director – Mr. Zhang Zhenghuai (refer to clause 5.12.3 of the Implementation Agreement): ordinary resolution** |
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This resolution seeks approval for the appointment of Mr. Zhang Zhenghuai as a director of the Company. This approval is sought from of the holders of the Company's ordinary shares, in accordance with clause 81.1 of the Constitution.

For this purpose, the holders of the Company's ordinary shares are asked to consider, and if thought fit, pass the following resolution as an ordinary resolution:

> **That, subject to the passing of Resolutions 1, 2 and 3 and completion of the Share Sale Agreements, Mr. Zhang Zhenghuai is elected as Director of the Company, with effect on and from completion of the Share Sale Agreements.**

Information regarding this candidate for election can be found in the accompanying Explanatory Statement.

## Resolution 7 Change of Name – Special Resolution

This resolution seeks to change the name of the Company from Xiaoxiao Education Limited to Unicorn Resources Limited. This approval is sought from the holders of the Company's ordinary shares, in accordance with section 157 of the Corporation Act.

Shareholders are asked to note that pursuant to section161 of the Corporations Act, a change of Company name does not create a new legal entity, affect the Company's existing property rights or obligations or render effective any legal proceedings by or against the Company.

For this purpose, the holders of the Companies ordinary shares are asked to consider, and if thought fit, pass the following Resolution as a Special Resolution:

> **That, subject to the passing of Resolutions 1, 2 and 3 the Company adopt as its new name the name 'Unicorn Resources Limited' and that the Company lodge all relevant documentation required to effect this change of name with the Australian Securities and Investments Commission.**

By order of the Board

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Company Secretary

Date: 24 September 2014

**Persons entitled to vote**

Under regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the Directors have determined that the shareholding of each member for the purposes of ascertaining their voting entitlements at the General Meeting will be as it appears in the share register at 7.00 p.m. Wednesday 22nd October.

**Corporate Representative**

A body corporate, which is a member, may appoint an individual (by certificate executed in accordance with section 127 of the Corporations Act or in another manner satisfactory to the chair) as a representative to exercise all or any of the powers the body corporate may exercise at the meeting. The appointment may be a standing one.

**Appointment of proxy**

A proxy form is enclosed for your use if required. Please note the instructions in relation to the appointment of a proxy.

## Xiaoxiao Education Limited

## ABN 26 140 573 762

## Explanatory Statement to Notice of General Meeting



## 1 Information specific to each Resolution

1.1 Shareholder approval of resolutions is required for the purposes of the Corporations Act, the Listing Rules and the Constitution.

1.2 The purpose of this Explanatory Statement is to provide information that the Board believes to be material to shareholders in determining whether to vote for or against the resolutions numbered 1 to 7 in the notice of General Meeting (**Resolutions**).[1]

1.3 This document forms part of the notice of General Meeting. It is an important document and should be read carefully. Please seek advice from a professional adviser if you consider it necessary.

## 2 Business of the General Meeting

2.1 The business of this General Meeting is to consider, and if thought fit pass, the Resolutions. Although each Resolution will be voted on separately[2] they are in substance elements of the one transaction and so are interdependent. This means unless Resolutions 1 - 3 are passed, none of the Resolutions may be passed.

## 3 Background to the Resolutions

3.1 Paragraphs numbered 3.2-3.9 provide you with the general background to the Restructure and consequently the Resolutions.

3.2 On 20th December 2012 the Company was suspended following the passing of 12 resolutions at an Extraordinary General Meeting pending re-compliance with Chapters 1 and 2 of the ASX Rules ("the 2012 EGM").

3.3 Three of the Resolutions passed at the 2012 EGM namely Resolutions 5, 6 and 7 are required to be exercised within time limits imposed under ASX Listing Rules 7.1 and 10.11.

3.4 Resolutions 5, 6 and 7 sought approval from the shareholders for the Company to undertake a capital raising.

3.5 Given that the 2012 EGM was held on 20th December 2012 the time in which to undertake the capital raising approved by the shareholders at the 2012 EGM has expired.

3.6 Accordingly before a capital raise can take place the Company is required to again seek approval from the shareholders of an intended capital raise under ASX Listing Rules 7.1 and 10.11.

3.7 The Resolutions herein being Resolutions 1-3 inclusive are therefore exactly the same resolutions being Resolutions 5, 6 and 7 approved by the shareholders at the 2012 EGM.

3.8 The Resolutions herein being Resolutions 4-7 are dependent on resolutions 1-3 inclusive being passed.

3.9 Shareholders are therefore referred to the Company website for information relating to the resolutions passed at the 2012 EGM and in particular the Notice of Meeting, the accompanying Explanatory Statement and Annexures.

3.10 In summary what is intended is that ACM (HK) which owns Chongqing Taozhi Trading Company Limited which in turn controls PDM via a VIE Agreement will bring an iron ore mine owned by

[1] Please refer to the glossary at paragraph 27 for a list of defined terms.

[2] In accordance with the ASX guidelines for notices of meeting and because the Board believes that considering and voting on each Resolution separately may facilitate a clearer understanding by shareholders of the effect of the transaction as a whole.

PDM in the Chongqing area of China into production. PDM holds all requisite legal certification and rights to do so (see Solicitor's Tenement Report Annexure F to the Explanatory Statement of the 2012 EGM). Sale of products which will be iron ore and iron ore byproducts will be to local companies. The risks of such an operation are summarized below in Section 4.

## 4 Key Risks

### Limited History

4.1 PDM has limited operating history and limited historical financial performance. Until PDM is able to realise value from its project, it is likely to incur ongoing operating losses.

4.2 The prospects of PDM must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development.

### Compulsory Work Obligations

4.3 PDM's tenement is subject to expenditure and work commitments which must be met in order to keep such tenements in good standing. These commitments may be varied on application by the tenement holder but any such variation is at the sole discretion of the Government Department administering the relevant mining legislation. If no variation is approved, and there is a failure to meet the commitments, this could lead to forfeiture of the tenement.

### Insurance Risks

4.4 PDM intends to insure its operations in accordance with industry practice. However, in certain circumstances, PDM's insurance may not be of a nature of 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 on the business, financial condition and results of PDM.

### Unforeseen expenditure risk

4.5 Expenditure may need to be incurred which has not been taken into account in the preparation of this Explanatory Statement. Although PDM is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of PDM.

### Strategic investment risks and management of growth

4.6 The growth of PDM through either acquisitions or organic growth initiatives carries with it a number of risks. Acquisitions could result in losses for PDM based on the assessment of acquisition opportunities, the retention of staff and clients and the integration of new businesses. Organic growth initiatives could result in losses for PDM if operating expenditure or capital expenditure does not result in the anticipated increase in sales or profits for PDM. There can be no assurance that acquisitions and other growth initiatives will achieve required returns on investment.

### Commodity Price Volatility

4.7 PDM's possible future revenues will be derived mainly from the sale of iron ore. Consequent upon that, PDM's future earnings, profitability and growth are likely to be closely related to the price and trade of iron ore. If the mineral production stage is realised, revenue derived through the sale of iron ore exposes PDM's potential income to commodity price and exchange rate risks.

4.8 Historically, iron ore prices have fluctuated in response to changes in the supply of, and demand for that commodity, economic uncertainty and other factors which are beyond the control of PDM and its Directors. These factors include, but are not limited to:

(a) economic conditions in China and abroad;

(b) macroeconomic factors, such as inflation and interest rates;

(c) government regulation and sanctions;

(d) political stability in production countries;

(e) the availability of alternative fuel sources;

(f) technological advancements;

(g) forward-selling activities

4.9 Any substantial or extended decline in the market price of iron ore could have an adverse effect on PDM's future revenues, profitability, cash flow, carrying value of future reserves and borrowing capacity, among others. In a period where the market price of iron ore fell below the costs of production, and remained so for an extended period, PDM would experience losses and would have to curtail or suspend some of its proposed activities.

**Requirement for further capital**

4.10 Additional capital will be required once PDM completes its proposed development activities as outlined in this Explanatory Statement, and may also be required in the event that production costs exceed PDM's estimates. PDM may also require additional funding to meet any anticipated liabilities or implement development and operations plans to take advantage of future opportunities.

4.11 PDM may seek to raise further funds through equity or debt financing, joint ventures, production sharing arrangements or other means. Failure to obtain sufficient financing for PDM's activities and future projects may result in delay and indefinite postponement of exploration, development or production in PDM's properties or even a loss of property interest. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to PDM and might involve substantial dilution to Shareholders and other Security holders.

**Limited History of PDM and its Projects**

4.12 The Tenement in which PDM has an interest is at the pre-production stage. Potential investors should understand that mineral exploration and development are high-risk undertakings. The Tenement currently does not have a JORC identified Mineral Resource.

4.13 The prospects of PDM must be considered in light of the risks, expenses and difficulties encountered by companies in their early stage of development.

**Reserves and Resource Estimations**

4.14 Mineral reserves and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Resource estimates are imprecise, and rely on interpretations, which may be inaccurate.

4.15 Estimates which were valid when originally calculated may alter when new information or techniques become available. As further information becomes available, or existing information is made more accurate, alterations to development and mining plans may be required. This, in turn, may adversely affect PDM's operations.

4.16 Investors must note that reserve and resource estimates are estimates only. No assurance can be given that recovery will be realised, or be commercially viable.

**Exploration and Development**

4.17 Mineral exploration, project development and mining are high-risk undertakings. Continuing success is dependent on many factors. These factors may include, but are not limited to:

(a) the discovery and/or acquisition of economically recoverable iron ore reserves;

(b) favourable geological conditions;

(c) favourable weather patterns;

(d) successful conclusions arising from feasibility studies;

(e) access to sufficient capital for project development;

(f) design and construction of efficient mining and processing facilities within expenditure budgets;

(g) securing and maintaining title to developments;

(h) complying with the terms of those tenements;

(i) obtaining the necessary regulatory consents and approvals necessary for the conduct of mining;

(j) the availability and reliability of suitably skilled and experienced employees, contractors and consultants.

4.18 No assurance can be made that PDM's development of its existing Project or any Projects undertaken in the future will result in successful discovery of a mineral resource. Even if a mineral resource is discovered, there can be no guarantee that it can be economically extracted or monetarised.

4.19 Any proposed or future exploration program could experience cost overruns or be subjected to other factors which would materially and adversely affect PDM's ability to complete the exploration program in the time expected.

4.20 PDM may be unable to commence production as a result of its operations being disrupted by a variety of risks and hazards which are beyond PDM's control, including environmental hazards, technical failures, industrial failures, labour disputes, unexpected rock formations, flooding and extended interruptions due to poor weather conditions.

4.21 Accordingly, forecasted production may not occur because it exceeds any production permits granted by governmental authorities.

4.22 Further PDM's income may be affected by government fines levied through exceeding production permits.

4.23 Whether or not income will result from projects undergoing exploration and development programs involves the successful establishment of mining operations. Factors including costs, actual mineralisation, consistency and reliability of ore grades and commodity prices affect successful project development and mining operations.

4.24 Additionally, PDM's mining assets may cease production or suspend operation due to breaches of safety regulations.

**Environmental Regulation**

4.25 PDM's project is subject to Chinese laws and regulations regarding environmental matters, including the discharge of any hazardous wastes or materials. Therefore, potential liability risks exist.

4.26 PDM may incur liabilities for damages, clean-up costs, or penalties, in the event of unintended discharge from construction or operation of its facilities. Any such liability may adversely affect PDM's financial performance.

4.27 PDM is, and intends to operate in an environmentally responsible manner, in accordance with applicable laws and accepted industrial practices.

**Changes in Government Policy**

4.28 Changes to Commonwealth or State government policies of legislation may affect the ownership of mineral interests, taxation, royalties, land access, labour relations and mining and exploration activities of PDM. This may materially affect PDM's operations and/or financial position.

**Title and Tenure**

4.29 By implication from the Constitution of the PRC, all mineral resources are owned by the State, no matter who owns, or has right to the land. PDM is subject to the risk that the Chinese State could exercise its rights to control, or exercise control over any land PDM holds. This would adversely affect PDM's financial performance.

4.30 In China, all mining enterprises must obtain a series of permits for each mine they operate. As PDM's business relies on its mining operations, in the event that PDM is unable to renew the permits, PDM's financial condition and operations will be substantially and adversely affected.

**Acquisition Risk**

4.31 PDM's business plan involves the possibility of PDM making acquisitions of new mines. Any potential future transactions would be accompanied by risks. There can be no guarantee that any new project acquisition will provide returns to Shareholders, or that any opportunity for project acquisitions will eventuate at all.

**Contractual Risks**

4.32 If Madam Tong or Mr Xu breach or terminate the Implementation Agreement or the share sale agreements, despite approval being granted for the transaction to proceed the transaction will not proceed.

4.33 If CTT, HYT, PDM or Xu Shougang breach or terminate the VIE Agreements the transaction will not proceed, or if it has will mean that the Company no longer has legal and contractual control over its assets. The controller of CTT is Mr Xu Zi. The controller of HYT and PDM is Mr Xu Shougang. Mr Xu Shougang is Mr Xu Zi's brother.

4.34 PDM operates, and will continue to operate, through a series of contractual relationships with customers. All contracts, including those entered into by PDM, carry a risk that the respective parties will not adequately or fully comply with their respective contractual rights and obligations, or that these contractual relationships may be terminated. In certain instances, it may be costly for PDM to enforce its contractual rights.

**Operating risks**

4.35 PDM's overall operations may be adversely affected by various factors, including but not limited to:

(a) failure to sell its products;

(b) failure to achieve production;

(c) mechanical failure or plant breakdown;

(d) unanticipated manufacturing problems;

(e) infrastructure availability and unexpected shortages or increases in the cost of consumables, spare parts, labour, plant and equipment

(f) unanticipated sourcing problems, including delays, disruptions or quality control problems;

(g) industrial and environmental accidents;

(h) industrial disputes;

(i) delays due to government actions.

**Country Risks**

4.36 PDM's business is conducted and located in China, such that its operations will be subject to:

(a) risk of political and economic instability in China;

(b) the possible imposition of restrictive trade regulations and tariffs;

(c) reduced protection for intellectual property rights under Chinese law;

(d) reduced legal protection and remedies under Chinese commercial laws;

(e) risks of foreign exchange currency fluctuations;

(f) potential unexpected changes in regulatory requirements (such as those relating to taxation, import and export tariffs, environmental obligations and other matters).

**Tax Risks**

4.37 PDM is subject to the tax regimes of China and Australia. However, more generally, changes in the tax laws and regulations or their interpretation and application could adversely affect the tax liabilities of PDM. There is also no assurance that current concessions or incentives or exemptions of PDM will be reviewed upon their expiry date. Industry profitability can be affected by changes in government taxation policies or in the interpretation or application of those policies.

**Regulatory Risks**

4.38 Operations by PDM may require approvals from regulatory authorities in Australia or China which may not be granted. While PDM has no reason to believe that the requisite approvals will not be granted, PDM cannot guarantee that the requisite approvals will be obtained. A failure to obtain any approvals would mean that the ability of PDM to conduct business operations may be limited or restricted in whole, or in part.

**Changes to production costs**

4.39 PDM is exposed to risks relating to interruption of the production process due to equipment failure or labour issues. These risks could affect PDM's ability to complete customer orders and control costs, either of which could have an adverse impact on PDM's financial performance.

**Credit risk**

4.40 PDM could be adversely impacted if one or more major customers were to default on payment for product supplied by PDM.

**Suspension and reinstatement of securities to quotation**

4.41 As the proposed sale of the assets under the terms of the Implementation Agreement constitutes a significant change in the scale of the Company's activities under Chapter 11 of the ASX Listing rules, the ASX has advised the Company of the following:

(a) The Company's securities would remain suspended from quotation from the day of this Extraordinary General Meeting and remain suspended unless and until the Company re-complies with all of the requirements of chapters 1 and 2 of the Listing Rules (addressed below).

(b) the proposed restructure constitutes a change in the nature and scale of the Company's activities in terms of Listing Rule 11.1, and that the Company will be required under Listing Rule 11.1.3 to comply with all of the requirements of chapters 1 and 2 of the Listing Rules;

(c) complying with all of the requirements of chapters 1 and 2 of the Listing Rules means that the Company will be required to, amongst other things, raise funds to satisfy the requirement of having at least 400 shareholders each having a parcel of the main class of securities with a value of at least $2,000, excluding restricted securities;

(d) if, for any reason, the fundraising is unsuccessful or the Company does not satisfy any other requirements of chapters 1 and 2 of the Listing Rules, then the Company's securities will remain suspended from quotation and shareholders run the risk, that having approved the Resolutions, the Company's securities remain suspended by the ASX pending re-compliance by the Company with chapters 1 and 2 of the Listing Rules.

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

4.42 Provided the shareholders approve all of the transaction resolutions, the Company will seek to re-comply with the requirements of Chapters 1 and 2 of the Listing Rules to obtain the re-quotation of the shares on ASX.

4.43 The Company will not issue any shares pursuant to the prospectus until the Company has conditional confirmation from the ASX that, subject to compliance with conditions imposed by ASX, the Company will re-comply with Chapters 1 and 2 of the Listing Rules.

4.44 Among other things, the provisions of Chapters 1 and 2 of the Listing Rules require the Company to:

(a) subject to any exemptions granted by ASX, ensure that any new share issues must be made at a minimum price of $0.20 in order to raise additional working capital;

(b) meeting the spread requirements (ASX Listing Rule 1.1 condition 7), that is, either having:

(i) at least 400 holders each with a parcel of the main class of securities with a value of at least $2,000, or
(ii) 350 holders with a parcel of securities with a value of at least A$2,000, and persons who are not related parties must hold at least 25% of securities to be quoted;

(c) prepare a prospectus in accordance with the provisions of the Corporations Act;

(d) have an appropriate structure and operation; and

(e) satisfy either of the tests set down in the Listing Rules in relation to the company's profitability or the company's asset value.

(f) the Company satisfying the ASX that its directors and proposed directors are of good fame and character (ASX Listing Rule 1.1 condition 17). This requirement came into effect on 1 January 2012.

**Conditionality of Transaction Resolutions**

4.45 Resolutions 1- 7 are conditional on each other, meaning that in order for any of them to have effect, each of the other Resolutions numbered 1 - 7 must also be passed. In that event:

(a) the Restructure will not proceed, and the Company will continue to undertake its education business until and unless any further opportunities could be identified by the directors;

(b) the Shares will be reinstated to quotation on ASX, subject to the company continuing to comply with the Listing Rules; and

(c) No title to any shares to be sold pursuant to the Share Sale Agreements will pass.

4.46 The Directors currently believe that, assuming the requirements for admission and quotation are satisfied, the lifting of the suspension by ASX is not likely to occur prior to 28 November 2014.

**Listing Rule 10.13.3**

4.47 In relation to Listing Rule 10.11 (relevant to Resolutions 2 and 3), Listing Rule 10.13.3 requires any shares issued to a related party (Mr Xu and Madam Tong) by the Company pursuant to the prospectus to be issued not more than 1 month after the date of the meeting. The broker has informed the Company that a period of approximately 6 weeks is likely to be required to undertake the capital raising, and consequently it was necessary for the Company to apply for a waiver from Listing Rule 10.13.3.

## 5 Implementation Agreement

5.1 In accordance with the Implementation Agreement (a copy of which can be viewed as an Annexure to the documents lodged with ASIC and ASX for the 2012 EGM and which is summarized immediately below), and subject to satisfaction of the conditions specified in clause 2.1 of that agreement:

(a) Mr. Xu will purchase the SI Shares for a price of $6,481,600, thereby acquiring control of Sunflower Investment and a relevant interest in the XXL Shares. This amount will be paid by Mr. Xu drawing and accepting a bill of exchange for $6,481,600.00 and delivering that bill to Madam Tong;

(b) Madam Tong will purchase the Company's educational assets, comprising all the issued shares (**HE** Shares) in Happy Elegant International Limited, incorporated on 3rd June 2008 as a private company in the Hong Kong Special Administrative Region (Happy Elegant) and the BPC Assets for a combined price of $8,000,000. This amount will be paid by Madam Tong drawing and accepting a bill of exchange for $1,518,400.00, delivering this bill and the bill received from Mr. Xu for $6,481,600.00 to the Company;

(c) Mr. Xu will effectively vend in the Iron Ore Business, via the sale to the Company of all the issued shares in ACM (**ACM Shares**) for a price of $8,000,000.00. This amount will be paid by the Company delivering to Mr. Xu the bill of exchange for $1,518,400.00 and the bill for $6,481,600;

(d) Mr. Xu will present the bill of exchange for $1,518,400 to Madam Tong for payment and Madam Tong will pay that amount to Mr. Xu by bank cheque or electronic funds transfer;

(e) Mr. Xu will advance to the Company which will borrow from Mr. Xu, the sum of $1,518,400 for the purposes of working capital; and

(f) On demand by the Company, Madam Tong will subscribe $500,000.00 to the Company for ordinary shares, ranking equally with all other issued shares of the Company.

## 6 General effect of the Resolutions passed at the 2012 EGM

6.1 Those Resolutions passed at the 2012 EGM meant:

(a) the main undertaking of the Company will change from that of an educational business, valued at between $4,185,000.00 and $5,585,000.00 to a company undertaking, indirectly through the ownership of the ACM Shares and the Variable Interest Entity Agreements, a mining business in the People's Republic of China, valued at between $7,156,000.00 and $9,002,000.00 (refer to page v of the Independent Expert's Report attached to the Notice of Meeting for the 2012 EGM);

(b) A change in control of the Company. Madam Tong presently holds all the issued shares of Sunflower Investment, the majority shareholder of the Company. Under the Tong-Xu Share Sale Agreement Mr Xu will purchase from Madam Tong all her shares in Sunflower Investment and thereby acquire a relevant interest in the XXL Shares. Please refer to paragraph numbered 23.6 for a summary of the material terms of this agreement; and

(c) A change in composition of the board of the Company. At completion of the Share Sale Agreements, the Board will resign and the New Board will be appointed

(d) Consolidation of the Company's issued capital from 148,096,037 of fully paid and ordinary shares to 74,048,020 fully paid ordinary shares of $0.20 each. This represented a consolidation in the ratio of 4:1 and needed to be undertaken so that the Company could comply with Listing Rule 2.1 condition 2 which requires that the issue price or sale price of all the Company's securities must be at least $0.20 in cash; and

(e) A change in the name of the Company from Xiaoxiao Education Limited to Australia China Mining Limited, to better reflect the Company's activities after implementation of the restructure. It should be noted that the Company now intends to change its name to Unicorn Resources Limited (Resolution 7).

Each of the changes referred to in Clauses 6.1(a) – 6.1(e) inclusive above are contingent upon re-compliance with Chapters 1 and 2 of the ASX Listing Rules which in turn are contingent upon the passing of the Resolutions the subject of this Notice and Explanatory Memorandum.

## 7 Benefits

7.1 Short-term benefits include control of an asset with a higher valuation than the existing educational business, a complete change in the main undertaking of the business, existing production although on a small scale, contracts for the preproduction sale of mining products and significant first mover advantage in acquisitions of further resources in the Chongqing area of China.

## 8 Consequences of rejecting the transaction

8.1 If the Restructure is rejected the business will continue to operate the educational assets in an attempt to turn around the previous two years financial results. The Company will not be liable to pay a break fee.

## 9 Proposed timing[3]

9.1 Set out below, and subject to compliance with all regulatory requirements, is an indicative timetable for completion of the transactions detailed in the Notice of Meeting. These dates are indicative.

| **Event** | **Date** |
|---|---|
| Dispatch of Notice of Meeting to Shareholders | 24 September 2014 |
| Last date to lodge proxy forms for the General Meeting | 22 October 2014 |
| General Meeting | 24 October 2014 |
| Execution of the Share Sale Agreements | 24 October 2014 |
| Share consolidation takes place then completion of capital raise and | Within 90 days of the General Meeting |
| Completion of restructure and compliance with Chapters 1 and 2 of the Listing Rules and removal from suspension and commencement of trading | Within 90 days of the General Meeting |

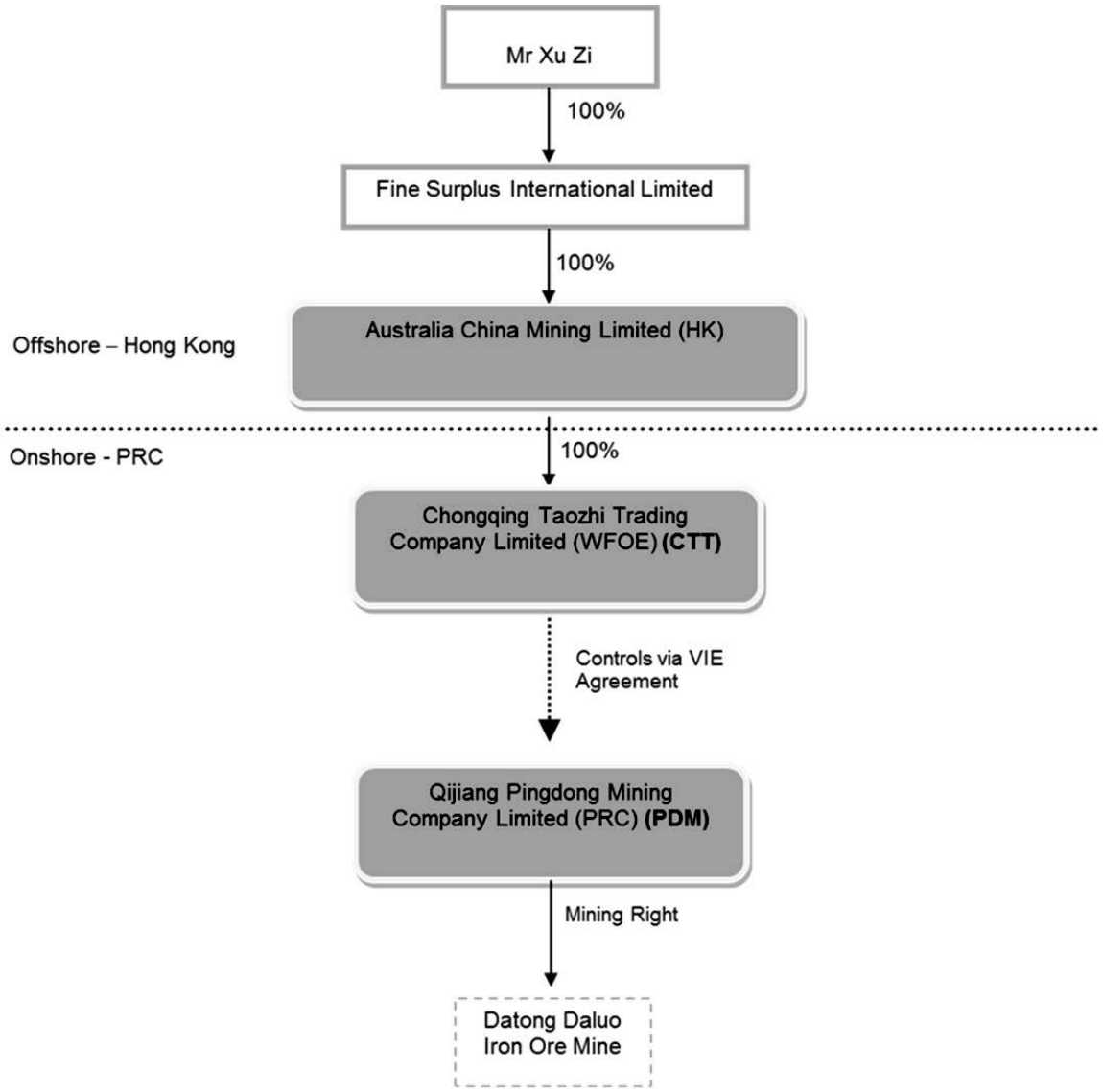
[3] RG 74.25(b).

**Iron Ore Industry Outlook**

9.2 The Company believes that PRC domestic iron ore prices are anticipated to have a strong rise in the medium to long term as the current market has underestimated the PRC future steel demand, which is forecasted to grow at least 4-5% annually over the next few years. Attached as Annexure C to this document is a copy of a report from Beijing Respect Marketing Research Inc which summarises the iron ore industry outlook in PRC in the next few years.

## 10 Ownership Structure

10.1 The ownership structure of Australia China Mining Limited is shown below.




10.2 The diagram above depicts the following information:

(a) ACM is a Hong Kong company.

(b) As at the date of the Notice of Meeting, Mr Xu is registered as the holder of all the shares in Fine Surplus International Limited which in turn holds all the shares in ACM.

(c) ACM holds the whole of the issued shares in Chongqing Taozhi Trading Company Limited (**CTT**)

(d) CTT is a company incorporated in the People's Republic of China. CTT controls PDM via a series of Variable Interest Entity Agreements **(VIE Agreements)**.

(e) The VIE Agreements were signed on 20 December 2011 and comprise the loan agreements, the equity pledge agreements, the exclusive right agreements, the proxy agreement and the exclusive consultation and service agreement. Each of the agreements is governed by PRC law. The operation of each of these agreements is explained below.

**Note**

10.3 PDM's shareholders are as follows:

| **Shareholder** | **Percentage shareholding** |
|---|---|
| Xu Shougang **(Mr Shougang)** (Mr Xu's brother) | 94.57 |
| Chongqing Haoyong Trading Company Limited **(HYT)**<br>The shareholders are Xu Shougang (Mr Shougang) (Mr Xu's brother) and Xu ShouXian (Mr Xu's sister). | 5.43 |

## 11 VIE Agreements

**Loan agreement between CCT and Xu Shougang**

11.1 On 20 December 2011, CTT agreed to advance to Mr Shougang RMB100, 000 for a period of 20 years with no interest. The funds must be invested in PDM to develop its business.

11.2 The loan is preconditioned on the following events:

(a) PDM signs an Exclusive Consultancy and Service Agreement with CTT;

(b) CTT, Mr Shougang and PDM executing an Equity pledge Agreement, by which Mr Shougang pledges his equity in PDM (94.57%) to CTT;

(c) Mr Shougang, CTT and PDM executing an Exclusive Purchase Agreement, according to which Mr Shougang will grant CTT an irrevocable option to purchase Mr Shougang's equity in PDM;

(d) Mr Shougang has executed an irrevocable Proxy Agreement to grant his shareholder rights in PDM to CTT or any of its agents;

(e) all above-mentioned agreements are in full effectiveness and duly executed; and;

(f) Mr Shougang has not breached any of his commitments, obligations or responsibilities under the Loan Agreement.

11.3 We note that all of the above preconditions mentioned in clause 15.2 have occurred.

11.4 Mr Shougang must immediately repay the loan if any of the following specified events occur:

(a) where CTT demands repayment of the loan;

(b) death, loss or incapacity of Mr Shougang;

(c) Mr Shougang commits or engages in criminal activities;

(d) any company restructuring which is not consented to by CTT;

(e) equity in PDM is sealed by China's judiciary;

(f) PDM's corporate business license is revoked;

(g) Mr Shougang breaches any terms or conditions of the Loan Agreement, the Equity Pledge Agreement, Exclusive Purchase Agreement or the Proxy Agreement or PDM breaches any terms or conditions of the Exclusive Consultancy Agreement.

11.5 We note that none of the specified events mentioned in clause 16.4 have occurred.

**Loan agreement between CTT and HYT**

11.6 On 20 December 2011 CTT advanced to HYT (the shareholders of which are Mr Shougang and Mr Xu's sister) RMB100, 000 for a period of 20 years with no interest. The funds must be invested in PDM to develop its business.

11.7 The loan is preconditioned on the following events:

(a) PDM signs an Exclusive Consultancy and Service Agreement with CTT;

(b) CTT, HYT and PDM executing an Equity Pledge Agreement, by which HYT pledges its equity in PDM (5.43%) to CTT;

(c) HYT, CTT and PDM executing an Exclusive Purchase Agreement, according to which HYT will grant CTT an irrevocable option to purchase HYT's equity in PDM;

(d) HYT has executed an irrevocable Proxy Agreement to grant its shareholder rights in PDM to CTT or any of its agents;

(e) all above-mentioned agreements are in full effectiveness and duly executed; and

(f) HYT has not breached any of his commitments, obligations or responsibilities under the Loan Agreement.

11.8 We note that all of the above preconditions mentioned in clause 15.7 have occurred.

11.9 HYT must immediately repay the loan in advance if any of the following specified events occur:

(a) Where CTT demands repayment of the loan;

(b) HYT commits or engages in criminal activities;

(c) Any company restructuring which is not consented to by CTT;

(d) Equity in PDM is sealed by China's judiciary;

(e) PDM's corporate business license is revoked;

(f) HYT breaches any terms or conditions of the Loan Agreement, the Equity Pledge Agreement, Exclusive Purchase Agreement or the Proxy Agreement or PDM breaches any terms or conditions of the Exclusive Consultancy Agreement.

11.10 Note that none of the specified events mentioned in clause 15.9 have occurred.

**Equity pledge agreements**

11.11 Mr Shougang has pledged his equity in PDM to CTT as a guarantee for the loan under the loan agreement.

11.12 HYT has pledged its equity in PDM to CTT as a guarantee for the loan under the loan agreements.

11.13 Under each equity pledge, CTT has the right to apply for its own benefit any dividends in relation to the pledged equity in PDM.

11.14 Upon full and complete performance of contractual obligations and repayment of all guaranteed liabilities by Mr Shougang and HYT, CTT will release the Equity Interest Pledge.

**Exclusive purchase agreements**

11.15 CTT has the exclusive right to purchase Mr Shougang's equity in PDM for the price Mr Shougang paid when he purchased the equity in PDM. Mr Shougang is not permitted to trade his equity in PDM to another person.

11.16 CTT has the exclusive right to purchase HYT's equity in PDM for the price HYT paid when it purchased the equity in PDM. HYT is not permitted to trade its equity in PDM to another person.

11.17 Before any purchase of equity may be made, CTT must send Mr Shougang or HYT a written notice informing either party of CTT's decision on the performance of the purchase right, the amount of equity interest to be purchased, as well as the proposed purchase date.

**Proxy agreement**

11.18 Mr Shougang and HYT have unconditionally and irrevocably executed a trust deed, which empowers the designated CTT representative to exercise the shareholder's voting rights in PDM. This trust deed has effect for 15 years.

11.19 This will enable the CTT representative to:

(a) Propose to convene and attend shareholders' meetings of PDM as a proxy of the shareholder;

(b) Exercise voting rights on behalf of the shareholders on all issues required to be discussed and resolved by the shareholders' meeting; and

(c) Exercise their shareholding voting rights under the articles of association of PDM.

This list of rights is not exhaustive.

**Exclusive consultation and service agreement with PDM**

11.20 The Executive Consultancy and Service Agreement were entered into between PDM and CTT on 20 December 2011. The agreement will continue in force for 15 years from the date of execution. If demanded by CTT the terms of the agreement may be automatically extended for another 10 years after expiration.

11.21 Under this agreement, PDM must pay fees to CTT for services provided to it by CTT. CTT will be the exclusive provider of services to PDM. PDM shall not engage any other provider to provide services identical or similar to those under the agreement. *This right to payment is the primary way that CCT and consequently ACM and ultimately the Company derive the benefit and revenues from the Iron Ore Mine.*

11.22 These services include, but are not limited to:

(a) Business management solutions in relation to PDM's business development;

(b) Management, maintenance and updating of hardware equipment, as well as technical support;

(c) Assisting PDM's training programme for PDM's professional staff;

(d) Assisting industry research;

(e) Assisting PDM in making and implementing strategic investments;

(f) Consulting with regard to marketing and marketing assets (including tangible and intangible assets);

(g) Human resource management and internal administration consultation; and

(h) Consultancy and other related business services as requested by PDM.

11.23 In respect of the aforementioned services, PDM agrees to pay CTT service fees. The service fees are calculated as a ratio of the pre-tax aggregate revenues of PDM in the then-current year. The respective service fees are as follows:

(a) 10% of PDM's net operating revenue for business management solutions in relation to PDM's business development;

(b) 30% of PDM's net operating revenue for management, maintenance and updating of hardware equipment, as well as technical support;

(c) 10% of PDM's net operating revenue for assistance on PDM's training programme for PDM's professional staff;

(d) 4% of PDM's net operating revenue for assistance in conducting industry research;

(e) 10% of PDM's net operating revenue for assistance in making and implementing PDM's strategic investments;

(f) 10% of PDM's net operating revenue for marketing and marketing assets;

(g) 5% of PDM's net operating revenue for human resource management and internal administration consultation;

(h) 20% of PDM's net operating revenue for development, maintenance and updating of application software; and

(i) Any determined fee with respect to other consultancy services requested by PDM.

11.24 The fees for these services equate to 99% of PDM's net operating revenue. The service fees are paid on a quarterly basis, before 10 January, 10 April, 10 July and 10 October of each year.

11.25 At the end of each fiscal year, PDM and CTT will retain a mutually-agreed PRC certified account to conduct a verification of the services fees payable by PDM. Any overpayments or underpayments will be rectified within 10 working days of the accountant issuing the auditing report.

## 12 Effect of VIE Agreements

12.1 Together the borrowing arrangements, the equity pledge agreements, the exclusive right agreements, the proxy agreement and the exclusive consultation service agreement referred to above constitute the Variable Interest Entity Agreements which are the contractual basis through which ACM and ultimately the Company, through its 100% ownership of ACM, will derive the benefit and revenues from the Iron Ore Mine.

## 13 Intentions of Mr. Xu concerning the future of the Company[4]

13.1 If the Resolutions are passed, Mr. Xu intends, via control of Sunflower Investment and the New Board, to change the nature and scale of the Company's activities.[5]

13.2 Mr Xu intends the Company to become the ultimate controller of PDM which will operate the Iron Ore Business. PDM's main and only asset is the Iron Ore Business.

13.3 If Resolutions 1 -7 are passed, Mr. Xu's intention is to bring the Iron Ore Business into production not more than three months after the passing of these Resolutions. The last of the Chinese government approvals needed before the Datong mine could be put into production were obtained in June 2012.

13.4 PDM presently produces minor amounts of low grade fines and has contracts for sale of these fines. However it is intended that PDM will upgrade its facilities and commence production of iron ore in late 2014. PDM is in a strong legal position in China in terms of acquiring other mining assets, particularly coal and iron ore in Chongqing. The Company, via PDM, intends to acquire an indirect interest in suitable coal, iron ore and other mining assets in the Chongqing area and bring them into development as soon as financially prudent to do so.

13.5 Subject to obtaining access to sufficient capital (either debt or equity), Mr Xu also intends the Company to acquire suitable assets in Australia in due course with a focus on assets that are able to be brought into production in a relatively short period of time.

13.6 Mr Xu does not presently intend to inject further capital into the Company, though, subject to and upon completion of the Share Sale Agreements, Mr Xu will be bound to make a loan of $1,518,400 to the Company for working capital, or to procure that another member of the Xu Group nominated by him does so.[6] The term of this loan is for not less than two years (unless the board of directors of XXL by majority agrees that the Company has, at the time that they so agree, sufficient cash to repay a part or the whole of this loan and the accrued interest and has sufficient working capital for the Company's proposed activities for the financial year in which they agree to early repayment), at an interest rate of 7.5% per annum and unsecured.

[4] RG 74.25(e).

[5] RG 74.25(e) (i).

[6] RG 74.25(e) (ii).

13.7 None of the existing employees of the Company, all of whom are directly related to the educational business, will be retained by the Company, though they will be offered employment by Madam Tong.[7]

13.8 ACM through its subsidiary PDM either presently employs the necessary mining related staff to bring the Iron Ore Business into production or will employ them if Resolutions 1 – 7 are passed and PDM also receives the final governmental regulatory approvals to commence production.

13.9 Mr Xu does not intend to transfer any property between the Company and himself or any person associated with either of them. Should there be an operational justification, any transfer will be carried out on commercial terms.[8]

13.10 Mr Xu does not intend to redeploy any fixed assets of the Company of a material nature or to the detriment of the Company's business. Subject to the passing of the Resolutions, the Company will conduct an operational review to identify where ACM may be able to provide the Company with cost savings.[9]

## 14 Change of financial or dividend distribution policies[10]

14.1 Mr Xu has no current intention to change the Company's existing policies in relation to financial matters, accounting or dividends. As a publicly listed company the Company will continue to operate in accordance with the Australian International Financial Reporting Standards and applicable laws and statutes. The Company has never paid a dividend. The Company intends to pay future dividends to shareholders when financially appropriate and in accordance with the accounting standards and requirements of the Corporations Act.

## 15 Interests of directors[11]

15.1 The Directors or a company controlled by one of them have the following directly held interests in the securities issued by the Company:

| Directors and Associates | Shares | Options |
|---|---|---|
| Madam Tong Yongrong<br>(Executive Chairman, Managing Director); | Nil | Nil |
| Sunflower Investment<br>(a company controlled by Madam Tong) | 60,000,000 | Nil |
| Mr. Hao Zhang (Director); | Nil | Nil |
| Mr. Ting Jiang (Director); | Nil | Nil |
| Mr. Roger Smeed (Director) | Nil | Nil |
| Roger Smeed and Associates Pty Ltd in its capacity as trustee of the RF Investment Trust | 50,000 | Nil |

[7] RG 74.25(e) (iii).

[8] RG 74.25(e) (iv).

[9] RG 74.25(e) (v).

[10] RG 74.25(f).

[11] RG 74.25(g).

## 16 Proposed changes to the Board[12]

16.1 The Board will change completely. The existing board runs an education business. The new venture will be involved entirely in mining. Details of the new proposed board are set out in paragraphs numbered 16.3 to 16.6 below.

16.2 Subject to the passing of Resolutions 1 – 7 and to completion of the Share Sale Agreements, each of the following present directors intends to resign from the Board, at completion of the Share Sale Agreements:

(a) Madam Tong Yong Rong (Executive Chairman, Managing Director);

(b) Mr. Hao Zhang (Director);

(c) Mr. Ting Jiang and

(d) Mr Roger Smeed (Deputy Chairman).

If Resolutions 1 – 7 are passed this will result in the following persons being elected to the Board (**New Board**):

16.3 **Mr Xu Zi**, Board Chairman and Executive Director

(a) Chairman of Keli Group which is a diversified enterprise group with mining, high-end technology development, real estate construction, building materials production, and industrial machineries manufacturing, including the largest oil filtering machine producer in China.

(b) In 2011, awarded by the Chinese government as one of the Most Outstanding Entrepreneurs in Chongqing.

(c) Committee member of Chongqing Youth Entrepreneurs Association.

(d) Awarded as one of the Top Ten Scientific & Technological Innovation Youth in Chongqing.

(e) A Chinese citizen.

(f) Aged 39.

16.4 **Mr. Zhenghuai Zhang** , Non-Executive Director

(a) CEO of Keli Group and is also the Chairman of Chongqing Jinggong Technology Ltd.

(b) Holds a B.S. from Southwest Normal University and has accumulated 15 years of operational experience in both provincial civil service and private companies.

(c) A Chinese citizen.

(d) Aged 46.

[12] RG 74.25(h).

16.5 **Mr. Naiming Li**, Non-Executive Director

(a) Broker and Corporate Advisor at Quest Securities Australia Limited.

(b) Has taken part in a range of major corporate deals in Australia involving China, including facilitating the first uranium deal between Australia and China in 2006 and initiating & facilitating the Western Australian Abra project in 2007.

(c) Director of 2 Australian listed mining companies, Australia New AgriBusiness & Chemical Limited and Ishine International Resources Limited.

(d) An Australian resident.

(e) Aged 49.

(f) Mr Li does not have an association with Mr Xu, Madam Tong or Sunflower Investment, nor any interest in the acquisition by Mr Xu of the relevant interest in the XXL Shares or the Share Sale Agreement.[13]

16.6 **Ms. Zijian (Jane) Liu**, Non-Executive Director

(a) Based in Sydney and currently holds the position of vice president in a world leading textile group and also a senior consultant to a top international legal firm on their China practice.

(b) Ms. Liu is a PRC qualified lawyer with extensive Chinese legal practice experience since 2002.

(c) Before relocation to Australia in year 2010 as special counsel of an international law firm, Ms. Liu was a partner lawyer of a leading Chinese law firm focusing on foreign direct investment in China and outbound investment by Chinese nationals

(d) Ms. Liu continues to work closely with numerous Chinese state-owned companies and private-owned companies on their overseas investment projects in Australia and elsewhere globally.

(e) Ms. Liu does not have an association with Mr. Xu, Madam Tong or Sunflower Investment, nor any interest in the acquisition by Mr Xu of the relevant interest in the XXL Shares or the Share Sale Agreement.14

## 17 Taxation implications

17.1 This part contains a general description of the primary Australian tax consequences that will arise for the Company in entering into the proposed Restructure. Specifically, this part addresses the:

(a) Australian income tax implications for the Company on the disposal by Madam Tong of all her shares in Sunflower Investment to Mr Xu;

(b) Australian income tax implications on the disposal by the Company of all of its shares in HE to Madam Tong;

[13] RG 74.25 (h) (iii) and (iv).

[14] RG 74.05 (h) (iii) and (iv).

(c) Australian income tax implications on the disposal by the Company of all of the BPC Assets to Madam Tong;

(d) Australian income tax implications on the acquisition by the Company of all the shares in ACM;

(e) Australian income tax consequences on the forgiveness by Madam Tong of the Company's debt to Madam Tong; and

(f) Income tax consequences on the Company borrowing an amount from Mr Xu.

**Disclaimer**

17.2 This part is based upon the law in effect at the date of the Notice of Meeting. It is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of the Company or the holders of its ordinary shares. The statements in this part are not binding on the Australian Taxation Office ("ATO") and there can be no assurance that the ATO will not take a contrary view. It is further assumed that Madam Tong, Mr Xu, HE and ACM are not residents of Australia for taxation purposes. In particular, it is assumed that HE, whilst a wholly owned subsidiary of the Company (that is an Australian resident company) is neither centrally managed and controlled in Australia, nor carries on business in Australia.

17.3 Tax laws are complicated and there could be implications in addition to those described below. Shareholders should seek independent professional taxation advice for further information or in relation to their particular circumstances.

17.4 The taxation information is being provided by Fox Tucker Lawyers. The information is confined to taxation issues and is only one of the matters that must be considered when making a decision as to how shareholders should vote in respect of the Restructure. All Shareholders entitled to vote should consider taking advice from a holder of an Australian Financial Services Licence (AFSL) before making a decision as to how they should vote in respect of the restructure.

17.5 These taxation comments do not constitute an endorsement of the Restructure or a recommendation as to how Shareholders should vote in respect of the Restructure. Fox Tucker Lawyers expresses no opinion and gives no assurance or guarantee in respect of the commercial benefits of the restructure.

**Income Tax Implications for the Company on Disposal by Madam Tong of all her shares in Sunflower Investment**

17.6 The disposal by Madam Tong of all her shares in Sunflower Investment, which in turn owns shares in the Company, does not realise any immediate Australian taxing event for the Company.

**Income Tax Implications for the Company on Disposal of all its shares in HE**

17.7 If the Restructure is approved, the Company will dispose of all of its shares in HE. The Company will receive consideration for the disposal in the form of a negotiated bill of exchange of value equal to the market value of the shares in HE at the time of transfer.

17.8 The taxation implications for the Company on the disposal of its shares in HE are discussed below.

17.9 The disposal will give rise to a CGT event for Australian tax purposes for the Company. The Company will make a capital gain or capital loss in respect of this CGT event, to the extent that the capital proceeds (broadly speaking the consideration received) for the disposal exceeds the cost base of the shares sold. The cost base for the HE shares will depend primarily on their original cost of acquisition, or deemed cost of acquisition.

17.10 Ignoring incidental and other capital costs capable of inclusion in the cost base of the HE shares, the Company will prima facie make a capital loss on disposal of the HE Shares. This loss will not be able to be carried forward by the Company to offset future capital gains.

**Income Tax Implications for the Company on Disposal of the BPC Assets**

17.11 If the Restructure is approved, the Company will dispose of the BPC Assets. The Company will receive consideration for the disposal in the form of a negotiated bill of exchange that will include an amount equal to the market value of the BPC Assets at the time of transfer.

17.12 The disposal will give rise to a CGT event for Australian tax purposes for the Company. The Company will make a capital gain or capital loss in respect of this CGT event to the extent that the capital proceeds (i.e. broadly speaking the consideration received) for the disposal exceeds the cost base of the BPC Assets. The cost base for the BPC Assets will depend primarily on their original cost of acquisition, or deemed cost of acquisition. With respect to assets such as business name and goodwill which were self created and not acquired, the cost base may be negligible.

17.13 Ignoring incidental and other capital costs capable of inclusion in the cost base of the BPC Assets, the capital gain to the Company will prima facie be nominal.

17.14 To the extent that the BPC Assets comprise any depreciating assets or trading stock, the capital gain will be disregarded. However, any gain made on their disposal will in effect be assessed on the triggering of a "balancing adjustment event" under Div 40-C of the Income Tax Assessment Act 1997, or the disposal of trading stock outside the ordinary course of business under s 70-90 of the Income Tax Assessment Act 1997.

17.15 The net capital gain made on the disposal of BPC Assets, assessable balancing adjustment amount and assessable amount on the disposal of trading stock will be included in the assessable income of the Company and taxed at 30%.

17.16 To the extent that Australian tax is paid by the Company there will be a credit to the company's franking account.

**Income Tax Implications for the Company on Acquisition of ACM Shares**

17.17 If the Restructure is approved, the Company will acquire the ACM Shares. The Company will pay consideration for the acquisition in the form of negotiated bills of exchange of value equal to the market value of the ACM Shares at the time of acquisition. It is also anticipated that the Company will also incur capital expenditure incidental to the acquisition of the ACM Shares.

17.18 The acquisition of the ACM Shares will not realise for the Company any immediate taxing event. Instead, the Company is will acquire CGT assets, in the form of the ACM Shares, which to the Company will have an initial cost base equal to the acquisition costs for those shares and the incidental costs incurred in relation to their acquisition.

17.19 ACM will become a wholly owned subsidiary of the Company and "controlled foreign company" for Australian income tax purposes and may, post acquisition, be subject to Australia's CFC provisions to the extent that ACM derives non-active business (i.e. passive) income.

### Income Tax Implications for the Company on borrowing an amount from Mr Xu

17.20 It is a requirement of the Restructure that Mr Xu lends to the Company an amount of $1,518,400 at an interest rate of 7.5% per annum. It is assumed that the interest rate charged is an arms-length commercially negotiated interest rate, and the loan repayment terms commercial.

17.21 The interest expense of the Company in repaying the loan ought to be deductible to the Company as a general deduction under s 8-1 of the Income Tax Assessment Act 1997. It is not anticipated that the interest deduction will be presently limited under either the transfer pricing provisions within Div 13 of the Income Tax Assessment Act 1936 or the thin capitalisation provisions within Div 820 of Income Tax Assessment Act 1997.

17.22 On the payment of the interest to the Mr Xu, interest withholding tax may need to be withheld from the interest payment and remitted to the ATO, with Mr Xu receiving an interest payment net of the interest withholding tax.

17.23 As this is a liability of Mr Xu's and is not that of the Company's, there is no credit to the Company's franking accounting balance.

## 18 Directors' recommendations[15]

18.1 The only member of the Board who has a substantial interest is Madam Tong and each of the other Directors does not have a material personal interest in the outcome of the Restructure and is therefore entitled to vote on Resolutions 1 – 7.

18.2 For the reasons set out in this document Mr. Hao, Mr. Jiang and Mr. Smeed all recommend the Restructure and commend the Resolutions to those Shareholders entitled to vote on the Resolutions as being in the best interests of the Company as a whole. This is despite Mr. Hao, Mr. Jiang and Mr. Smeed all losing their roles as directors if these Resolutions are passed.

18.3 Madam Tong because of her material personal interest in the outcome absented herself from consideration by the Board of the Restructure and for this reason abstains from making a recommendation to Shareholders.

## 19 Regulatory requirements

19.1 The Listing Rules, the Corporations Act and the Constitution set out a number of regulatory requirements that must be satisfied in relation to the change in nature and scale of activities of the Company and the acquisition by Mr Xu of a relevant interest in the XXL Shares, via acquisition from Madam Tong of the SI Shares, respectively. These requirements are addressed below.

### Specific Information Required by ASX Listing Rule 10.11

### Listing Rule 10.11

19.2 ASX Listing Rule 10.11 is relevant to Resolutions 2 and 3.

19.3 Listing Rule 10.11 provides, so far as relevant, that an entity must ensure that it does not issue or agree to issue equity securities to a related party without the approval of holders of ordinary securities.

[15] RG 74.27(a).

19.4 Pursuant to clause 3.2.3 of the Implementation Agreement, Madam Tong is required, on written demand by the Company, to subscribe for that number of ordinary shares in the capital of the Company, the aggregate issue price of which is not less than $500,000.

19.5 Madam Tong and Mr Xu are, in the context of an issue of shares by the Company under the prospectus to either of them (should they apply for such shares and if those shares were to be issued) a related party of the Company. Accordingly, by Resolution 3, approval is sought for the issue by the Company to Madam Tong and Mr Xu (separately, not jointly), on the terms and conditions of the prospectus, of the shares referred to in Resolution 2 at an issue price of $0.20 per share.

19.6 The information required by Listing Rule 10.13 is set out in the explanation that precedes the text of Resolution 2.

## 20 Corporations Act – related party transactions

20.1 In addition to Listing Rule 10.1, Chapter 2E of the Corporations Act also regulates transactions between related parties. The rules in Chapter 2E are designed to protect the interests of the members of a public company as a whole, by requiring member approval for the giving of financial benefits to related parties that could endanger those interests.

20.2 The sale by the Company of the HE Shares and the BPC Assets will constitute the provision of a financial benefit by the Company to Madam Tong, notwithstanding that valuable and adequate consideration is to be provided by Madam Tong, in the form of Bills of Exchange, if shareholders approve Resolutions 1 - 7. This sale and purchase is a related party transaction for the purposes of Chapter 2E of the Corporations Act.

20.3 The purchase by the Company of the ACM Shares from Mr Xu will also constitute the provision of a financial benefit by the Company to Mr Xu. This sale and purchase is a related party transaction for the purposes of Chapter 2E of the Corporations Act.

20.4 The payment of interest in relation to the provision of financial accommodation of $1,518,400 by Mr Xu to the Company will also constitute the provision of a financial benefit by the Company to Mr Xu. However, for the purposes of the Listing Rules, there is an exemption in Listing Rule 10.3, the effect of which is that shareholder approval under Listing Rule 10.1 is not required for the provision of financial accommodation by Mr Xu to the Company. This loan and obligation to pay interest is a related party transaction for the purposes of Chapter 2E of the Corporations Act.

20.5 However, s 210 of the Corporations Act provides, in effect, that member approval is not needed for the Company to give the financial benefit to if it is given on terms that would be reasonable in the circumstances if the Company and the related party (in this case Madam Tong in relation to the disposal and Mr Xu in relation to the acquisition and the provision of financial accommodation) were dealing at arm's length, or is given on terms less favourable to Madam Tong or Mr Xu (as the case may be) than those arm's-length terms.

20.6 The independent directors are of the opinion, supported by professional advice, that s 210 of the Corporations Act applies, so that member approval is not required pursuant to Chapter 2E of the Corporations Act in relation to any of the transactions referred to in paragraphs 25.1 to 25.5 above.

## 21 Corporations Act - changes in control of listed companies

21.1 Pursuant to section 606 (1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that persons or someone else's voting power in a company increases:

(a) from 20% or below to more than 20%; or

(b) from a starting point that is above 20% and below 90%.

21.2 The voting power of a person in a company is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in a company in which the person and that person's associates have a relevant interest.

21.3 A person (the **second person**) will be an 'associate' of the other person (the **first person**) if any one or more of the following are satisfied:

(a) the first person is a body corporate and the second person is:

(iii) a body corporate the first person controls;
(iv) a body corporate that controls the first person; or
(v) a body corporate that is controlled by an entity that controls the first person;

(b) the second person has entered, or proposes to enter, into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; and

(c) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

21.4 A person has a relevant interest in securities if that person:

(a) is the holder of the securities;

(b) has the power to exercise or control the exercise of, a right to vote attached to the securities; or

(c) has power to dispose of, or control the exercise of a power to dispose of the securities.

21.5 It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of those powers each of them is taken to have that power.

## 22 Exemption - Item 7 of section 611 of the Corporations Act

22.1 Item 7 of section 611 of the Corporations Act provides an exemption from the prohibition on acquisition of a relevant interest in issued voting shares as explained above. This exemption applies where shareholders have approved the acquisition in circumstances where, as relevant to Resolution 1:

(a) no votes are cast in favour of that resolution by Mr Xu and his associates; and

(b) no votes are cast in favour of that resolution by Madam Tong and her associates (Sunflower Investment); and

(c) shareholders of the Company were given all information known to Mr Xu or his associates, or known to the Company, that was material on the decision on how to vote on that Resolution.

22.2 Shareholder approval under item 7 of section 611 of the Corporations Act is required for Resolution 1 to bring that transaction within this exemption and in relation to Resolution 2, for the shares (if any) applied for by Mr Xu under the prospectus to be issued in relation to the capital raising for re-compliance with Chapters 1 and 2 of the Listing Rules.

22.3 The information known to Mr Xu or his associates or known to the Company that is material on the decision on how to vote on Resolution 2 is set out in this document. Pursuant to clause 5.1.2(a) of the Implementation Agreement, Mr Xu has a contractual obligation to provide all information known to him that is material to the decision on how to vote in respect of Resolution 2.

## 23 Information required by item 7 section 611 of the Corporations Act and ASIC RG 74

23.1 For the item 7 section 611 exemption to apply, shareholders must be given all information known to Mr Xu or his associates, or known to the Company that is material to the decision on how to vote on Resolution 2. In Regulatory Guide 74 the Australian Securities and Investments Commission has indicated what additional information it considers should be provided to Shareholders in the circumstances. This information is contained in this document.

### Details of Mr Xu and his associates[16]

23.2 The person proposing to acquire the relevant interest in the XXL Shares is Mr Xu personally. For the purposes of item 7 section 611 of the Corporations Act, the only associates of Mr Xu are Madam Tong and Sunflower Investment.

23.3 The person who will hold a relevant interest in the XXL Shares on completion of the Restructure is Mr Xu.

### Summary of the Implementation Agreement

23.4 Subject to satisfaction of the conditions specified in clause 2 of the Implementation Agreement, the proposed acquisition is expected to happen on or about 16 October 2014.[17] Specific obligations of Madam Tong, the Company and Mr Xu are set out in clauses 3, 4 and 5 respectively. The material terms of this Agreement provide or require (as the case may be):

(a) Madam Tong, the Company and Mr Xu to implement the Restructure and thus provides the overarching contractual framework for doing so. If Approval is given, the Implementation Agreement also imposes the contractual obligation to enter into the Share Sale Agreements, summarized below, to effect the Restructure (refer to clauses 1, 3.2, 4.12 and 5.5);

(b) the parties to provide the information necessary to prepare the notice of meeting and explanatory statement in accordance with the Corporations Act (refer to clauses 3.3, 4.1 – 4.11 and 5.1.2 and 5.7);

[16] RG 74.18)a)

[17] RG 74.25(b).

(c) for the Company to undertake a capital raising (refer to clauses 4.13 and 5.1.2(f);

(d) various standard warranties concerning the absence of material corporate transactions, material adverse changes and standard prescribed occurrences in relation to the Xu Group and the Tong Group (refer to clauses 3.5, 4.14 and 5.6);

(e) for the Company to borrow from Mr Xu and for Mr Xu to lend to the Company the sum of $1,518,400.00 for the purposes of working capital (refer to clauses 4.15.1 and 5.9);

(f) representations and warranties from the parties (refer to clause 8); and

(g) the governing law is that of New South Wales in Australia.

23.5 Details of the terms of other relevant agreements between Mr Xu, the Company and Madam Tong that are conditional on the approval of shareholders are set out in the following paragraphs. These agreements are the Share Sale Agreements.

23.6 In relation to the Tong-Xu Share Sale Agreement:

(a) Subject to Approval being given, this agreement will be entered into within five business days after Resolutions 1 – 7 are passed;

(b) the purchase price for the SI Shares is $6,481,600, payable by Mr Xu by delivery of a bill of exchange drawn and accepted;

(c) completion is subject to the receipt of all Regulatory Approvals required for lawful implementation of the Restructure and contemporaneous completion of the other two Share Sale Agreements;

(d) completion is to happen at the Company's office at Elizabeth Street, Sydney, NSW and is to occur within five business days after the date of satisfaction or waiver of the conditions referred to in the preceding sub-paragraph, or any other date agreed in writing between the seller (Madam Tong) and buyer (Mr Xu), whichever is the later. At completion title to the shares will pass to Mr Xu.

23.7 In relation to the XXL - Tong Share Sale Agreement:

(a) Subject to Approval being given, this agreement will be entered into within five business days after Resolutions 1 – 7 are passed;

(b) the purchase price for the HE Shares and the BPC Assets is $8,000,000, payable by Madam Tong by delivery of the bills of exchange drawn and accepted;

(c) completion is subject to the receipt of all Regulatory Approvals required for lawful implementation of the Restructure and contemporaneous completion of the other two Share Sale Agreements; and

(d) completion is to happen at the Company's office at Elizabeth Street, Sydney, NSW and is to occur within five business days after the date of satisfaction or waiver of the conditions referred to in the preceding sub-paragraph, or any other date agreed in writing between the seller (the Company) and buyer (Madam Tong), whichever is the later. At completion title to the HE Shares and the BPC Assets will pass to Madam Tong.

23.8 In relation to the Xu - XXL Share Sale Agreement:

(a) Subject to Approval being given, this agreement will be entered into within five business days after Resolutions 1 – 7 are passed;

(b) the purchase price for the ACM Shares is $8,000,000, payable by the Company by delivery of the bills of exchange drawn and accepted;

(c) completion is subject to the receipt of all Regulatory Approvals required for lawful implementation of the Restructure and contemporaneous completion of the other two Share Sale Agreements; and

(d) completion is to happen at the Company's office at Elizabeth Street, Sydney, NSW and is to occur within five business days after the date of satisfaction or waiver of the conditions referred to in the preceding sub-paragraph, or any other date agreed in writing between the seller (Mr Xu) and buyer (the Company), whichever is the later. At completion title to the ACM Shares will pass to the company.

## 24 Voting power as a result of the Restructure[18]

24.1 There are presently 74,048,020 fully paid ordinary shares on issue in the Company.

24.2 Madam Tong currently controls, and has a relevant interest in, 60,000,000 fully paid ordinary shares in the Company, via her wholly owned company Sunflower Investment, representing an 81.03% (to two decimal places) interest in the Company. A list of the top 20 shareholders of the Company is provided in Annexure A.

24.3 The current and anticipated voting power of Mr Xu (in an individual capacity and through his associates) as a result of the acquisition of the SI Shares under the Implementation Agreement is as follows:

| Current voting power | Maximum voting power on acquisition of the Sunflower Investment Shares | Maximum voting power on acquisition of the Sunflower Investment Shares on a fully diluted basis |
|---|---|---|
| 0% | 81.03% | 81.03% |

24.4 As at the date of this Explanatory Statement, Mr Xu does not hold any shares in the Company and Sunflower Investment holds a direct interest in the Company of 81.03% to two decimal places (60,000,000 ordinary class voting shares). The maximum increase in Mr Xu's voting power as a result of the transaction is from nil to 81.03% and the maximum voting power that he will have on completion of the Transaction is 81.03%;

## 25 Responsibility for Information

25.1 Information about the Company contained in this document including information as to the views and recommendations of the directors has been prepared by the Company and is the Company's responsibility. Neither Mr Xu, ACM nor any of its subsidiaries, associates or advisers assumes any responsibility for the accuracy or completeness of the information.

[18] RG 74.21 and RG 74.22

25.2 Information concerning ACM and its subsidiaries in this document including information as to the intentions of Mr Xu has been provided by or on behalf of Mr Xu and he is responsible for the accuracy and completeness of the information. Neither the Company nor its advisers assume any responsibility for the accuracy or completeness of that information.

25.3 Certain statements in this document relate to the future. The statements involve known and unknown risks, uncertainties and other important factors that could cause actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by the statements. The statements reflect the use only as of the date of this document. Neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of events expressed or implied in any forward-looking statements in this document will actually occur and you are cautioned not to place undue reliance on those statements.

25.4 This document does not take into account individual investment objectives, financial situation or particular needs of individual shareholders. If you are in doubt as to what you should do you should consult your legal, financial or professional advice before voting.

## 26 Glossary

Words and expressions used in this Explanatory Statement and defined in the Implementation Agreement have the same meaning in this Explanatory Statement as they do in the Implementation Agreement.

**ACM** means Australia China Mining Limited (incorporated as a private company in the Hong Kong Special Administrative Region), and includes, as the context admits or requires, its controlled activities from time to time.

**ACM Shares** means all the issued shares in ACM.

**ASX** means ASX Limited ACN 008 624 691.

**Board** means the board of directors of the Company.

**BPC Assets** means the equipment, business name and goodwill used by XXL to conduct its business of a child care centre in Sydney, Australia known as 'Breakfast Point Child Care'.

**Company** means Xiaoxiao Education Limited ABN 26 140 573 862.

**Constitution** means the constitution, from time to time, of the Company.

**Corporations Act** means the *Corporations Act 2001* (Cth), as amended from time to time.

**Explanatory Statement** means this document (also referred to as the 'Information Memorandum' in the Implementation Agreement).

**General Meeting** means the general meeting of the Company convened in accordance with the Implementation Agreement and includes any adjournment or postponement of that meeting.

**Happy Elegant** means Happy Elegant International Limited, incorporated on 3 June 2008 as a private Company in the Hong Kong Special Administrative Region.

**HE Shares** means all the issued shares in Happy Elegant.

**Implementation Agreement** means the agreement entered into on or about 15 May 2012 between Madam Tong, the Company and Mr Xu.

**Independent Expert** means BDO East Coast Partnership ABN 83 236 985 726.

**Iron Ore Business** means the iron ore mine located at Datong in Sichuan Province in the People's Republic of China.

**Listing Rules** means the listing rules of the ASX as published by it from time to time.

**Madam Tong** means Madam Tong Yongrong c/- 41-601 Huilan Nanyuan, Chengxiang Town, Hejiang, Xiaoshan District, Hangzhou, PRC.

**Mr Xu** means Mr Xu Zi of 10-2, Unit 2, Building 14, no.151, Long Hu Xi Road, Yubei District, Chongqing, China.

**PDM** means Qijiang Pingdong Mining Company Limited (incorporated in the People's Republic of China).

**PRC** means the People's Republic of China.

**Regulatory Approval** means:

(a) Any approval, consent, authorisation, registration, filing, lodgment, permit, franchise, agreement, notarisation, certificate, permission, licence, direction, declaration, authority, waiver, modification or exemption from, by or with a Regulatory Authority;

(b) in relation to anything that would be fully or partly prohibited or restricted by law if a Regulatory Authority intervened or acted in any way within a specified period after lodgment, filing, registration or notification, the expiry of that period without intervention or action; or

(c) Any amendment to any legislation.

**Regulatory Authority** means any government or any governmental, semi-governmental or judicial entity or authority or any Minister, department, official, office or delegate of any government in the world. It includes a self-regulatory organisation established under statute or a stock exchange, ASIC, ASX and the ACCC.

**Restructure** means the restructure of the affairs of the Company to be implemented in accordance with the Implementation Agreement.

**Resolutions** means resolutions numbered 1 – 12 as set out in the Notice of General Meeting.

**Salva Report** means the report prepared by Salva Resources in relation to the Datong Daluo Iron Ore Project dated 20 September 2012 as attached as Annexure E to the Explanatory Statement to the 2012 EGM.

**Share Sale Agreements** means the:

(a) Agreement for the sale and purchase of shares the subject of the Tong – Xu Share Sale Agreement;

(b) Agreement for the sale and purchase of shares the subject of the XXL – Tong Share Sale Agreement; and

(c) Agreement for the sale and purchase of shares the subject of the Xu – XXL Share Sale Agreement.

**SI Shares** means all the issued shares in Sunflower Investment.

**Sunflower Investment** means Sunflower (CHINA) Investment Limited, a company registered in the British Virgin Islands, registration number: 1553255.

**Tong – Xu Share Sale Agreement** means the agreement, in or substantially in, the form of the agreement in the First Schedule of the Implementation Agreement.

**Variable Interest Entity** means an entity used to secure financial and operational control of a domestic Chinese company through a series of service agreements that give the entity control of another company, which is Chinese-owned and can therefore obtain licenses to operate in a certain sector. Under PRC law this enables foreign investors to effectively control the local enterprise without directly owning it.

**Variable Interest Entity Agreements** or **VIE Agreements** means each of the following agreements:

(a) Each of the loan agreements referred to in paragraphs 11.1 and 15.2 of this document;

(b) Each of the equity pledge agreements referred to in paragraphs 11.11, 11.12 and 11.13 of this document;

(c) Each of the exclusive purchase agreements referred to in paragraphs 11.15 and 11.16 of this document;

(d) The proxy agreement referred to in paragraph 11.18 of this document;

(e) The exclusive consultation service agreement referred to in paragraph 11.20 of this document.

**Westoria Report** means the Independent Geologists Report of Westoria Capital Group dated 27 May 2014

**WFOE** means 'wholly foreign owned enterprise', a company incorporated in the PRC, whose shareholders are not PRC entities or PRC citizens.

**Xu Group** means, as the content requires or permits, any one or more of:

(a) Mr Xu;

(b) any entity (as the expression 'entity' is defined in s 9 of the Corporations Act) of which Mr Xu has direct or indirect control (as the expression 'control' is defined in s 50AA of the Corporations Act) whether or not via one or more interposed entities, including Australia China Mining Limited (incorporated in Hong Kong) and Pingdong Mining Limited (incorporated in the Peoples Republic of China); and

(c) Any Related Entity of an entity within paragraph (b) of this definition that is a body corporate

(d) That is, on the date of the Implementation Agreement, or subsequently become, involved directly or indirectly, with the Restructure, including as an owner of the Iron Ore Business, a holding company or subsidiary of that owner, a controller, guarantor or financier.

**Xu – XXL Share Sale Agreement**, means the agreement in, or substantially in, the form of the agreement in the Third Schedule of the Implementation Agreement.

**XXL Shares** means the 60,000,000 fully paid ordinary shares in the capital of the Company, held by Sunflower Investment.

**XXL – Tong Share Sale Agreement**, means the agreement, in or substantially in, the form of the agreement in the Second Schedule of the Implementation Agreement.

## Annexure A – Top 20 Shareholders

**XIAOXIAO EDUCATION LIMITED** **FULLY PAID ORDINARY SHARES As of 05 Sep 2014**

**Top Holders Snapshot - Ungrouped** **Composition : ORD**

| Rank | Name | Address | Units | % of Units |
|---|---|---|---|---|
| 1. | SUNFLOWER (CHINA INVESTMENTS) LIMITED | AKARA BUILDING 24 DE CASTRO ST, WICKHAMS CAY 1, ROAD TOWN TORTOLA, BRITISH VIRGIN ISLANDS | 60,000,000 | 81.03 |
| 2. | CITICORP NOMINEES PTY LIMITED | GPO BOX 764G, MELBOURNE VIC, 3001 | 6,293,501 | 8.50 |
| 3. | MR ZHIGE ZHANG | UNIT 18, 26 BELMORE STREET, BURWOOD NSW, 2134 | 1,600,000 | 2.16 |
| 4. | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | LEVEL 8, 50 BRIDGE STREET, SYDNEY NSW, 2000 | 1,591,001 | 2.15 |
| 5. | MR SONGYANG LI | 5 WILGA PLACE, MARSFIELD NSW, 2122 | 919,296 | 1.24 |
| 6. | EXWERE INVESTMENTS PTY LTD <EXWERE SUPER FUND A/C> | PO BOX 202, ALBERT PARK VIC, 3206 | 150,000 | 0.20 |
| 7. | J P MORGAN NOMINEES AUSTRALIA LIMITED | LOCKED BAG 20049, MELBOURNE VIC, 3001 | 125,000 | 0.17 |
| 8. | MISS JIAXUAN ZOU | 17 COLLINGWOOD ST, HUNTERS HILL NSW, 2110 | 108,750 | 0.15 |
| 9. | UOB KAY HIAN PRIVATE LIMITED <CLIENTS A/C> | 8 ANTHONY ROAD, #01-01 SINGAPORE 229957, SINGAPORE | 101,000 | 0.14 |
| 10. | MS YIRONG FENG | UNIT 6, 10-12 MURRAY TERRACE, OAKLANDS PARK SA, 5046 | 87,500 | 0.12 |
| 11. | MR CHI CHEN | UNIT 6 10-12 MURRAY TCE, OAKLANDS PARK SA, 5046 | 78,500 | 0.11 |
| 12. | MR MOU XIE | 43 HARRISON AVE, EASTWOOD NSW, 2122 | 67,500 | 0.09 |
| 13. | MISS PEI LI YOUNG | 16 WILLIAM LANGMAN CIRCUIT, RIDLEYTON SA, 5008 | 60,000 | 0.08 |

| Rank | Name | Address | Units | % of Units |
|---|---|---|---|---|
| 14. | MR YONG GUAN | 4/97 BOURKE STREET, PICCADILLY WA, 6430 | 51,166 | 0.07 |
| 15. | MR LEIGH HAROLD HISCOCK + MRS CORAL FRANCIS HISCOCK <LECOH S/F A/C> | PO BOX 1255, BALLARAT MC VIC, 3354 | 50,000 | 0.07 |
| 16. | JACOBSON FAMILY HOLDINGS PTY LIMITED <THE JACOBSON FAMILY A/C> | C/- GMK CENTRIC PTY LTD, LEVEL 2 7-15 MACQUARICE PLACE, SYDNEY NSW, 2000 | 50,000 | 0.07 |
| 17. | ROGER SMEED & ASSOCIATES PTY LTD <RF INVESTMENT A/C> | PO BOX 1684, TUGGERANONG ACT, 2901 | 50,000 | 0.07 |
| 18. | MR ANDREW JOHN CAMERON | 1939 MEREDITH-MOUNT MERCER RD, MOUNT MERCER VIC, 3352 | 42,500 | 0.06 |
| 19. | AUSSIE WATER BOARES | <SUPERANNATION FUND A/C>, PO BOX 674, BUNNINGYONG VIC, 3357 | 35,000 | 0.05 |
| 20. | MR GERARD OBRIEN <LEVERAGED EQUITIES A/C> | PO BOX 36, HORSHAM VIC, 3400 | 27,500 | 0.04 |
| **Totals: Top 20 holders of FULLY PAID ORDINARY SHARES** | | | **71,488,214** | **96.54** |
| **Total Remaining Holders Balance** | | | **2,559,808** | **3.46** |

## Annexure B – Westoria Report

*Independent Geologist's Report*

FOR

# XIAOXIAO EDUCATION LIMITED

ON THE

## Datong Daluo Iron Ore Project
## Peoples Republic of China

**Report Prepared by**


Level 1, 415 Riversdale Rd,
Hawthorn East, VIC, 3123

**Author**

Brendan Cummins BSc - Geology, 1st Class Honours, MAIG


**28 February, 2014**

The Directors,
Xiaoxioa Education Limited,
22 Angas Street
Adelaide SA 5000

Dear Sirs,

Westoria Capital Pty Ltd ("Westoria") has been commissioned by Xiaoxiao Education Limited ("Xiaoxiao") to provide an Independent Geologist's Report on a mineral exploration licence located in the Chongqing Municipality of China. The licence is to be acquired as part of an acquisition of all the shares in Australia China Mining Limited (ACM or the "Company") by Xiaoxiao.

The primary business of Xiaoxiao is operating pre-schools in China. During late 2011 the Chairman of Xiaoxiao was approached by Mr. Xu Zi (Mr. Xu) who was interested in acquiring control of a company listed on the Australian Securities Exchange (ASX) with a view to gaining access to Australian capital markets and resources. For these reasons, Mr. Xu proposed to acquire control of the Company and to replace its present operations with 100% ownership of ACM, a company incorporated as a private company in the Hong Kong Special Administrative Region, and controlled by Mr. Xu.

ACM controls a Chinese company Pingdong Mining (PDM) which in turn owns Datong Daluo iron ore project in the Chongqing area of China.

A Xiaoxiao Shareholders General Meeting is to be held on or about the 24 October 2014, Xiaoxiao seeking to obtain shareholder approval for the issue of shares to raise capital and the election of a number of new Directors. The capital raise will require the issue of a prospectus with an Independent Geologist Report on the Datong asset which is the subject of this report. Xiaoxiao aims to become a mining company with no educational assets but will indirectly hold the Datong asset in Chongqing China. It is intended that the name of the Company will be changed from Xiaoxiao Education Limited, to Unicorn Resources Limited. Within this report Unicorn is referred to as the future owner and operator of the Datong asset.

It is understood this Independent Geologist's Report will be included in a re-compliance prospectus for the purposes of satisfying Chapters 1 and 2 of the ASX Listing Rules and to satisfy ASX requirements for re-admission to the Official List following a change to the nature of the Company's activities ("Prospectus"). The Prospectus is to be lodged with the Australian Securities and Investments Commission ("ASIC") on or about 24 October2014, offering investors the opportunity to subscribe for 18.5 million shares at an issue price of 20 cents per share to raise a maximum of $3.7 million.

The Independent Geologist's Report has been prepared in accordance with the Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports ("The Valmin Code"), and the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the JORC Code, 2012) which is binding upon Members of the Australasian Institute of Mining and Metallurgy ("AusIMM") and the Australian Institute of Geoscientists ("AIG"), and the rules and guidelines issued by such bodies as ASIC and Australian Stock Exchange("ASX"), which pertain to Independent Expert's Reports.

Westoria has not provided an Independent Valuation, nor commented on the fairness or reasonableness of any vendor or promoter considerations. The legal status of the tenure of the licence to be explored by ACM has not been independently verified by Westoria.

The Datong Daluo Project ("Datong" or "Project") is considered to have potential as a development project having completed sufficient exploration to define resources and history of mining but requires further studies to re-commence mining activities. The Project is considered speculative in nature, however subject to varying degrees of exploration and development risk, warrants further exploration and evaluation consistent with the proposed programmes and budget.

Exploration and evaluation programmes summarised in the report amount to a total of $1.54 million. ACM has prepared exploration and evaluation programmes, specific to the potential of the Datong Project, which is consistent with the budget allocations.

**Westoria considers that there is sufficient technical merit to justify the proposed programmes and associated expenditure.**

The Independent Geologist's Report has been prepared on the available information and site trip to the Datong mine up to and including 28 February 2014.

Westoria is a private consultancy firm in operation since 2010 and is involved in the assessment and evaluation of mineral properties. This report has been compiled by Technical Director Mr Brendan Cummins BSc (Honours) who is a professional geologist with 20 years' experience in the industry within Australia and overseas. Mr Cummins is a Member Australian Institute of Geoscientists ("MAIG") and has the appropriate relevant qualifications, experience, competence and independence to be considered an "Expert" under the definitions provided in the Valmin Code and "Competent Persons" as defined in the JORC Code.

Neither Westoria, nor the author of this report, have or previously had any material interest in Xiaoxiao or the mineral licence in which ACM has an interest. The relationship with Xiaoxiao and ACM is solely one of professional association between client and independent consultant. This report is prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this report.

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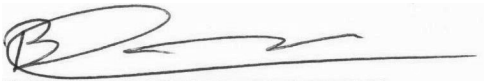
Yours faithfully



Brendan Cummins

Technical Director

Westoria Capital Pty Ltd

# 1. EXECUTIVE SUMMARY

This Independent Geological Report has been commissioned by Xiaoxiao to assess the Datong licence as a requirement for it to complete a transaction and raise funds to continue the exploration, evaluation and potential development of the Project. The Datong Dalou Iron Project is located within the Chongqing Municipality of southern–central China. The Project is accessible via sealed roads and is well supported with local infrastructure and access to skilled labour workforces. In addition there is an active iron ore market within the region with a number of steel making facilities located close by. The Chongqing Iron and Steel Group is a steel making company in the area with a reported annual demand of 2.5mt/pa.

Previous exploration and development studies on the Project have been undertaken by a number of Chinese Geological Bureaus and private Chinese based consultancy groups and have been completed to the standard prescriptive Chinese Resource Estimation requirements. The Datong project has been an operational underground mine and produced approximately 2.7mt of ore between 1935 and 2008. There is already significant underground development and site infrastructure in place, good road access and large local steel making that could provide a ready market for Datong production. The Company intends to re-commence mining activities at Datong and sell the ore to the local domestic market. The style of mineralisation at Datong is amenable to Fe grade enrichment utilising simple roasting and magnetic separation techniques. Using this approach the Chongqing Iron and Steel Group upgrade the iron mineralisation from grades ranging 35% to 45% Fe to grades above 50% Fe also reducing silica and sulphur contents. This upgraded material can then be fed directly into steel making furnaces.

**Datong Project**

The iron mineralisation at Datong is hosted within the Lower Jurassic Zhenzhuchong Formation, Qijiang Group. The Qijiang Group is divided into three sub-segments with middle Qijiang sub-segment hosting the iron mineralisation. The Qijiang sub-segment is subsequently divided into a further 3 horizons:

- Upper hematite horizon
- Middle hematite – siderite horizon and
- Lower siderite horizon

The iron rich horizons do not have clear boundaries, are often lenticular in shape and are transitional to one another which reflect the depositional/formational environment of the iron deposit.

This style of moderate grade hematite-siderite mineralisation is a Jurassic example of what is more commonly known as a Bog iron ore or locally “Qijiang Style”. These are formed when streams or springs bearing iron-rich waters encounter conditions causing iron oxidation typically found in small lacustrine basins associated with swamps and bogs. There is usually a close association of bog iron deposits with coal and the oxidation of the iron maybe related to chemical or bacterial processes.

The thickness of the higher grade mineralisation within the Qijiang sub-segment varies as it forms lenticular bodies that may pinch out but can also be up to 4.85m thick with an average thickness of

2.43m. It extends the entire length and width of the license and it was at least 1.85km long, 800m wide prior to mining activities. Drilling has intersected the horizon between 250 and 300m below the surface.

At Datong a Foreign Resource estimate to 122b and 333 Chinese Mineral Classification standards has been completed. The resource estimate was undertaken after a review of previous estimations, mining and exploration history at Datong which were then validated and summarised in June 2010 by the Chongqing 136$^{th}$ Geological Brigade. The combined Chinese Classified resources for the Datong project currently total 965,000t @ 41% Fe.

Under the Chinese System of Resources Classification the resources have been classified as 122b and 333 which represent – Discovered but Indicated and Inferred respectively. The Chinese Classified Resource is material to this report because it is the primary and only asset of the Company that is seeking to re-comply on the ASX and the grade and tonnage potential of the assets implies there is potential for economic extraction and processing.

In recognising the Chinese Classified Resource at Datong does not comply with the JORC code, Westoria has established a JORC-compliant Exploration Target for the Datong Chinese Classified Resources. The Exploration Target derived by Westoria is not additional to the Chinese Classified Resources at Datong compiled in *Table 8*. The Exploration Target is between 0.5 to 1mt at a grade of between 35 and 45% Fe.

Readers are advised to consider the Cautionary Statements in Sections 6.5 and 6.6 in relation to Foreign Estimates, specifically the conversion of Chinese Classified Resources to JORC Compliant Mineral Resources and JORC Compliant Exploration Targets respectively.

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# 2.0 INTRODUCTION

## 2.1 Terms of Reference

Westoria was requested by Xiaoxiao to undertake a site trip and evaluation of technical reports and information to complete an Independent Geologist Report ('IGR") on the Datong Project in China. Xiaoxiao is currently listed on the Australian Stock Exchange ("ASX") and is seeking to acquire the Project, fund future development studies and potentially re-commence mining activities. Xiaoxiao is required to provide an IGR on the Project as part of the transaction and ASX requirements.

This IGR has been prepared in accordance with the Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Experts Reports (The Valmin Code, 2005) and the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code, 2012). Westoria has also referred to the ASX Listing Rule 5.6 where appropriate.

Foreign Resource estimates mentioned in this IGR from the Datong Project were estimated using the prescriptive Chinese Mineral Resource and Reserves Reporting Guidelines. The Chinese Government requires that all mineral projects in China must be reported to the Chinese Government using very specific guidelines. Due to the absence of original exploration and mining data, Westoria is unable to fully verify the Chinese estimates within JORC Code guidelines of 2012. On this basis readers should be aware that the Chinese Classified Estimates therefore cannot be reported as Mineral Resources or Ore Reserves under JORC Code guidelines that are binding on companies listed on the ASX. Whilst Westoria considers that the Chinese Classified resource estimates provided for Datong do provide a reasonable assessment of the grade and tonnage of the mineralisation and have been appropriately classified under the Chinese Classification System, there is no guarantee that the conversion from Chinese Resources to Australian JORC-compliant Mineral Resources or Ore Reserves will occur.

This IGR is based on information available up to and including the date of this report. Westoria has endeavoured by making all reasonable enquires to confirm the authenticity, accuracy and completeness of the technical information upon which this IGR is based. Consent has been given for the distribution of this report in the form and content in which it appears.

Neither Westoria, nor the author of this report, have or previously had any material interest in Xiaoxiao or the mineral licence in which ACM may acquire. The relationship with Xiaoxiao and ACM is solely one of professional association between client and independent consultant. This report is prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this report.

This IGR has been prepared for the exclusive use of Xiaoxiao and the information contained within it is based on instructions, information and data supplied by Xiaoxiao and ACM. No warranty or guarantee, whether expressed or implied, is made by Westoria with respect to the completeness or accuracy of this information.

## 2.2 Principal Sources of Information

This review of the Project was based on information and technical reports provided by ACM that have both been prepared primarily Datong by the Chongqing 136th Geological Brigade (dated June 2010) and other relevant published and unpublished data. The reports were supplied by ACM in hardcopy and digital formats. A number of plans, cross-sections and long-sections were also examined.

The author conducted a site visit to the Project on the 9th December 2013. The aim of the site trip was to verify the project locations, ease of access and surface infrastructure. The general ground was inspected which included the examination of some limited surface outcrops exposing the iron mineralisation and an underground inspection of the drives, stopes and exposures of iron mineralisation. The author also reviewed reports, plans and met some of the authors responsible for various studies carried out on the project on the 10th December 2013.

The author has endeavoured, exercising reasonable due diligence along with other associated enquires, to confirm the authenticity and completeness of the technical data upon which this report is based. A final draft of this report was provided to Xiaoxiao, along with a written request to identify any material errors or omissions prior to lodgement

## 2.3 Competent Person Statements

The information in this IGR that relate to Exploration Results, Exploration Targets or Mineral Resources is based on information reviewed by Mr Brendan Cummins, who is a member of the Australian Institute of Geoscientists. Mr Cummins is a full time employee of Westoria where he holds the title of Technical Director. Mr Cummins has sufficient experience relevant to the style of mineralisation and types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC Code Dec 2012) and the VALMIN Code 2005. Mr Cummins consents to the inclusion in this report of the matter pertaining to the Exploration Results and Mineral Resources in the form and context in which it appears. Mr Cummins accepts responsibility for the accuracy of the information disclosed relating to the requirements for NON-JORC code "compliant" Historical and Foreign reporting as detailed in ASX Listing Rule 5.6. In Westoria's opinion this report is consistent with the guidance contained in ASX Listing Rule 5.6.

## 2.4 Background Information

The Project comprises a Mining Lease and historic underground mining operation and associated offices, workshops and employee buildings constructed in 1995. The mine has had a long history of iron ore production commencing with early illegal miners accessing shallow and outcropping bands of mineralisation to more sophisticated mining activities that achieved commercial operation over a 50 year period of time. Based on summarised historic production records approximately 2.7mt has been mined from Datong between 1935 and 2008. Between 1956 and 1986 reported production from several iron mines in the district including Datong total 10.6mt. The area also has extensive

quarrying activities primarily for dolomite used in cement manufacture but also coal mining operations.

The Project is hosted in lower Jurassic, Mesozoic sediments on the flanks of the laterally extensive Sichuan Basin of southern central China. The geology of the project is dominated by the NE-striking East Sichuan fold and thrust belt.

The location of the Project is presented in ***Figure 1*** and ***Figure 2***.

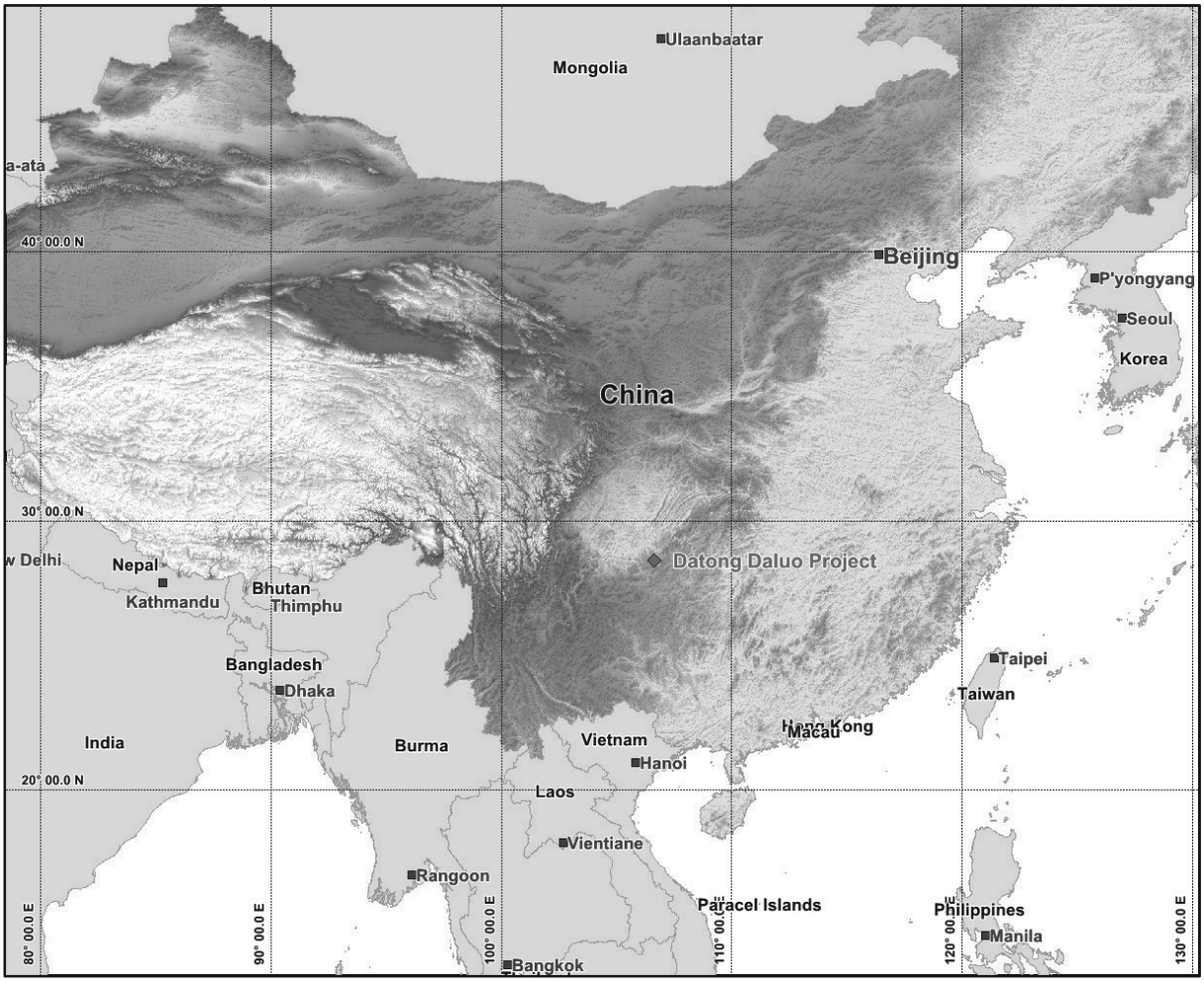


***Figure 1*** *Datong Project location map.*

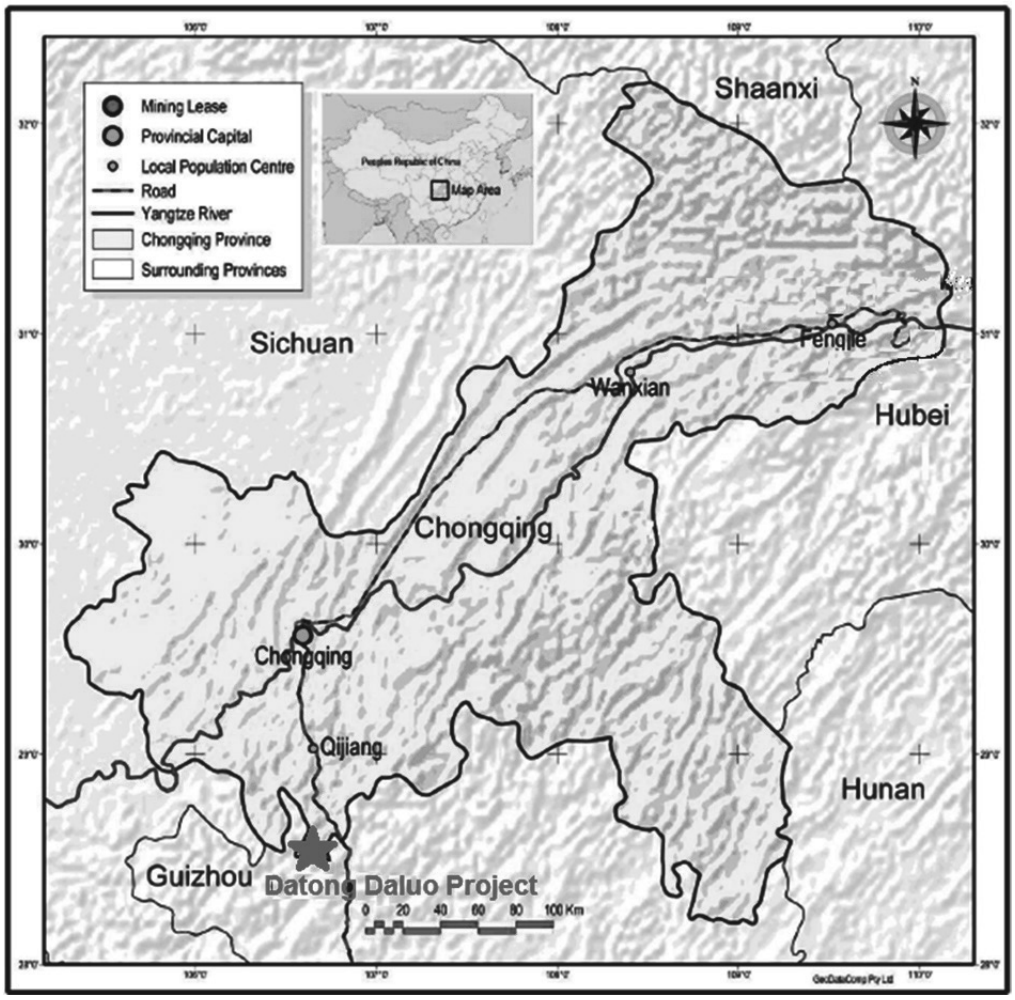


***Figure 2.*** *Datong location in relation to Chongqing City and the municipality of Chongqing.*

## 2.5 Tenure

The Project is owned by the Qijiang Pingdong Mining Company Limited as summarised in ***Table 1***.

| Licence Number | Owner (%) | X (1980 Xian) | Y (1980 Xian) | Grant Date | Expiry Date | Area ($km^2$) |
|---|---|---|---|---|---|---|
| **Datong Daluo C5000002012052130125510** | Qijiang Pingdong Mining Company Limited | 36367182.95 | 3159607.02 | 10/05/2012 | 10/05/2015 | 1.5427 |
| | | 36367739.94 | 3159822.04 | | | |
| | | 36367817.93 | 3159699.04 | | | |
| | | 36368063.93 | 3159073.97 | | | |
| | | 36368064.94 | 3158856.96 | | | |
| | | 36367912.94 | 3158820.03 | | | |
| | | 36367954.96 | 3157946.04 | | | |
| | | 36367104.94 | 3157802.96 | | | |
| | | 36367092.95 | 3159012.96 | | | |

***Table 1****. Datong Daluo licence details*

NB to Table 1. Xian 1980 is the official Chinese map projection and the Project is located within Zone 36.

Mining elevation approval is between 925 and 1180m. Westoria has not been requested to verify this license or any agreement information.

## 3.0 RESOURCES OF THE CHONGQING MUNICIPALITY.

The broader Chongqing city and urban area has a population in excess of 10m people while the Municipality has a total of 30m people. Chongqing is one of only 4 Municipalities in China that also include Beijing, Shanghai and Tianjin. Central to the city of Chongqing is the confluence of the Yangtze and Jianling Rivers. Daily commercial flights are available from most capital cities to Chongqing with multiple options for international connections.

The region has well developed infrastructure including road, rail and river services. The capital of Chongqing is also well known in China for being the largest manufacturer of motorcycles and third largest centre for car production with large companies including Changan Automotive Corp, Lifan Hongda Enterprise and the Ford Motor Group.

It is a significant gas, oil, coal and iron/bauxite hub used primarily for the generation of energy and the manufacture of steel and aluminium. The city itself is the base of operations for CHINALCO's subsidiary South West Aluminium, which coordinates CHINALCO's local aluminium extraction, production and distribution, contributing to the company's position as the third largest aluminium producer in the world. The region also has significant coal and natural gas resources with coal reserves of 4.8bn tonnes and China's largest inland gas field – the Chuandong Natural Gas Field containing 270bn $m^3$ of gas. Chongqing also contains China's largest strontium deposit – the second largest deposit in the world, totalling >20Mt as well as a mine extracting China's largest witherite deposit at a rate of 50,000tpa.The region also has a number of smaller iron mines, dolomite and base metal mines.

Agriculture contributes strongly to the economy that is focused on the production of rice and fruits with more than half of the population employed in this industry.

## 4.0 GEOLOGICAL SETTING OF THE SICHUAN BASIN

The Datong Project is located on the southern margin of the Sichuan Basin adjacent the Hubei-Hunnan-Guizhou fold belt, that is situated in the western part of the Yangtze Craton and covers an area of approximately 180 000$km^2$. The generally north-east trending basin has a rhombic form and is bound an all sides by significant and laterally extensive fold belts. Datong is situated on the southern-eastern boundary straddling the Sichuan Basin and the north-east trending Hubei-Hunnan-Guizhou fold belt. To the north-west, the Basin is bound by the Longmenshan fold belt and the Micangshanuplift in the north. The Dabashan fold belt formed the north east margin and the Emeishan-Liangshan fold belt is located to the south west. The principal components of the Sichuan Basin and the encapsulating fold belts are summarised in ***Figure 3***. The tectono-stratigraphic framework of the Sichuan Basin and surrounds records a number of transgressive/regressive events, periods of significant sediment deposition and erosion marked by disconformities having developed in response to much wider tectonic events affecting central China from the Mid-Proterozic until the Cenozoic. These include the episodes of cratonic collision, subduction, volcanism, wrenching, folding/thrusting and extension within the broader region.

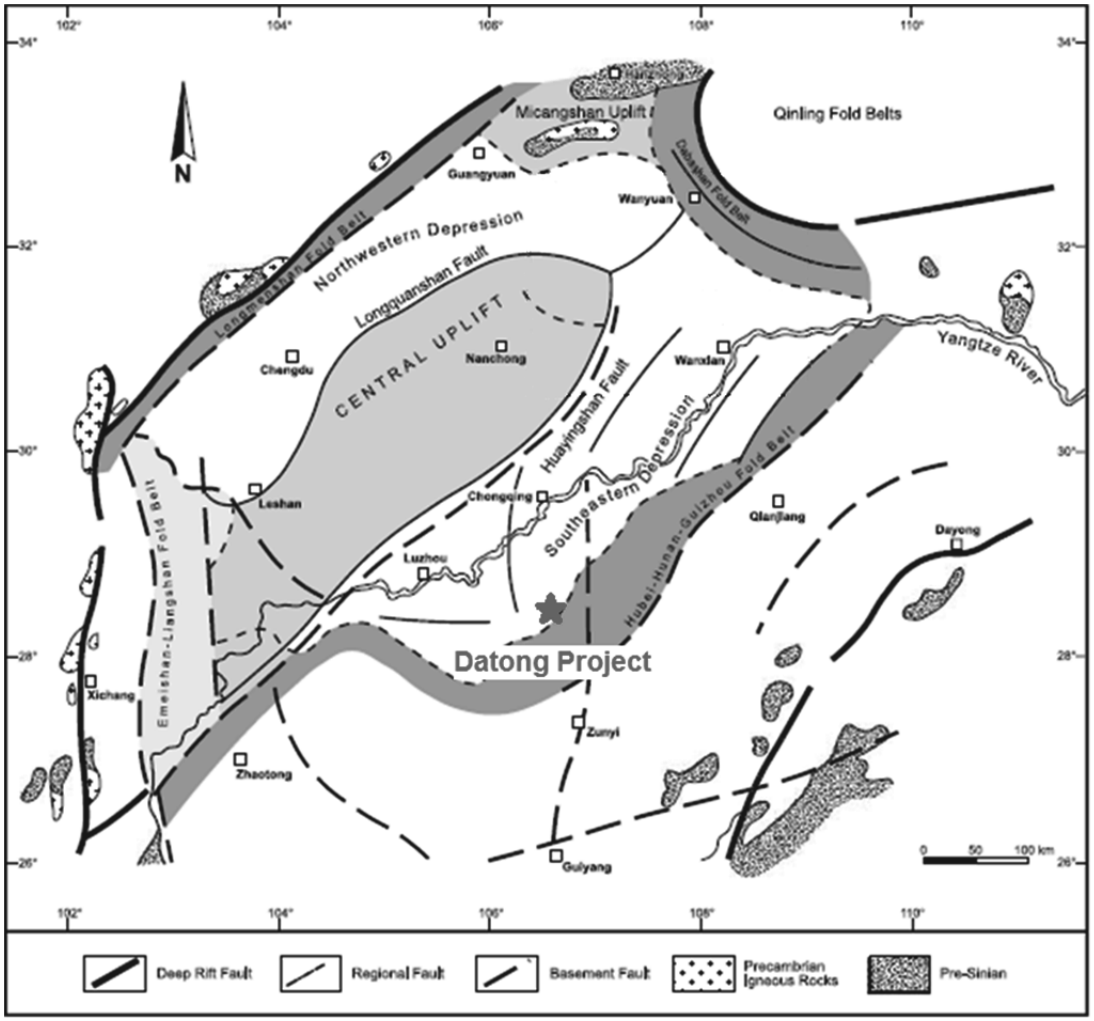


***Figure 3.*** *Simplified geology of the Sichuan Basin China showing the principal tectonic components.*

The principal events are summarised below (oldest to youngest):

1. The Sichuan Basin's Late Proterozoic basement comprises consolidated metamorphic and granite of the Yangtze craton.
2. Pre-Cambrian conglomerates, shales and dolomites were disconformably deposited over basement rock marking an initial period of marine transgression.
3. From the Cambrian to the Silurian at least two periods of transgression are recorded with the deposition of shale, siltstone, limestone, dolomite and black shales reflecting open and restricted marine conditions.
4. The end of the Silurian is marked by the late Caledonian Orogeny that led to the formation of the north-east trending central uplift. There is no record of deposition during the Devonian in the eastern parts of the Basin.
5. During the Carboniferous and Permian increased tectonic activity of the Hercynian cycle resulted in the lack of significant sediment deposition but early in the Permian a major marine transgression resulted in the formation of shallow marine shales and carbonates including limestone and dolomite.

6. During the period between the late Permian and the Triassic whose boundary is marked by a disconformity marine transgression led to the deposition of coal-bearing shales and shallow marine carbonates that included reefal dolomites, and platform margin shoal oolitic dolomite.
7. The early Triassic represents a period of regression with relative tectonic stability allowing the formation of anhydrite, halite and gypsum-rich dolomites. The Indo-Sinian tectonic event was responsible for the formation of the rhombic basin shape due to compression between the Tethys plate to the southwest and the Pacific Ocean plate to the southeast. This resulted in the effective closure of the Basin to exposure to marine sedimentary influences.
8. During the Jurassic the basin was dominated by fluvial-lacustrine facies with minor marine influence with the deposition of marine limestone but dominantly continental derived shales, peat/coal beds, volcanics and sandstones. The Datong ironstones have been formed specifically within a river and lake-shore facies during the early Jurassic with peat-swamp like conditions associated with the deposition of coal-bed and carbonaceous shales overlying river related sandstones.
9. During the Late Jurassic the Yanshanian tectonic cycle basically folded the distal margins of the Basin
10. The final tectonic event is related to the continued north movement of the Pacific plate lifting the Sichuan basin during the Himalayan orogeny.

A tectono-stratigraphic summary of the evolution of the Sichuan Basin is presented in (***Figure 4***).

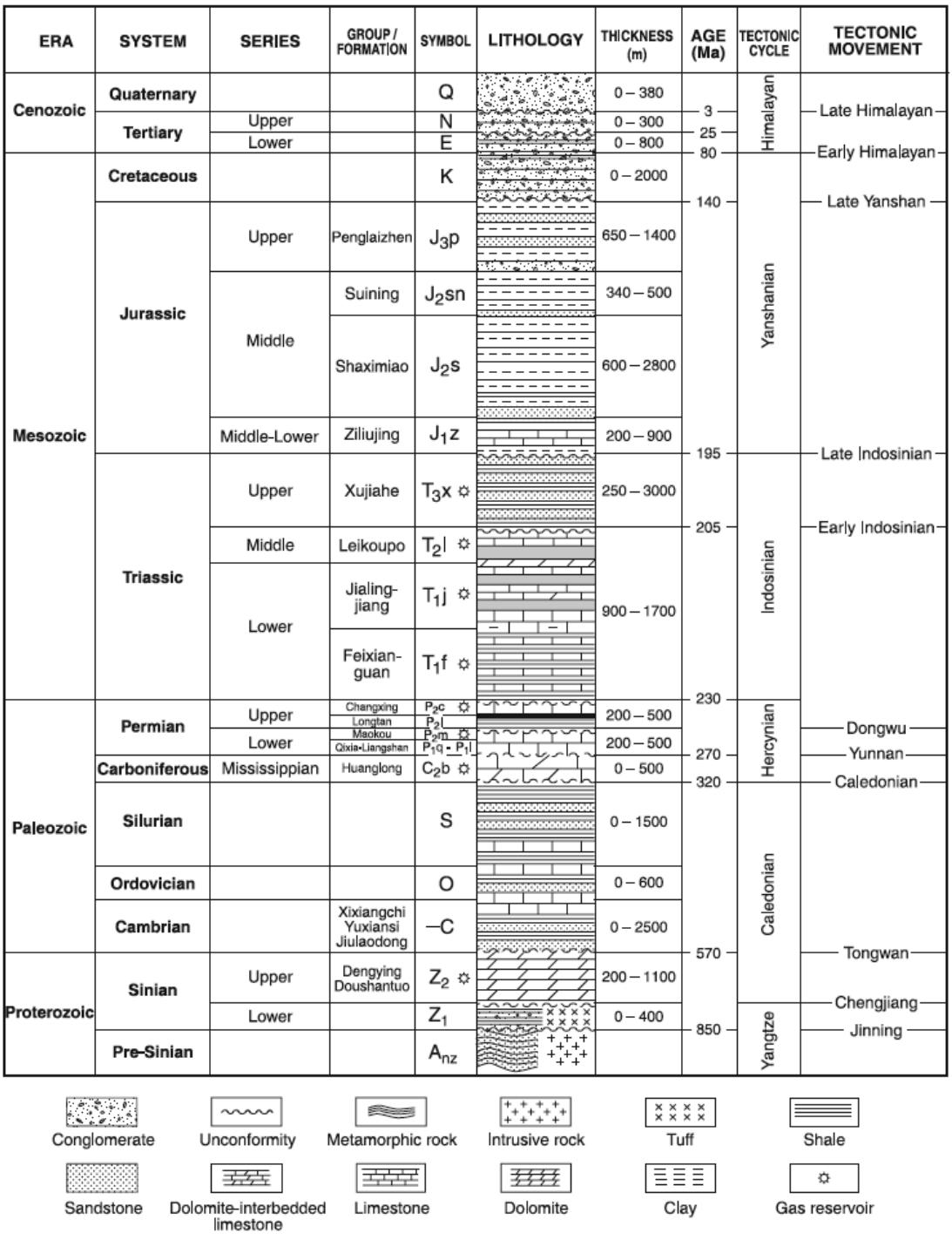


***Figure 4.*** *Summary Stratigraphy and principal tectonic events affecting the Sichuan Basin.*

## 5.0 CHINESE RESOURCE ESTIMATION METHODOLOGY

Up until 1999 Chinese resources were estimated using a system developed by the Russians. Post 1999 a new system (Rule 66) was developed by the Ministry of Land Resources which was to be nationally adopted and was based upon the United Nations Framework Classification proposed for international use. This new system - Mineral Resource and Reserve Classification System of China (MRRC) uses 3D matrices, based on economic, feasibility/mine design and geological degrees of confidence and is summarised in ***Table 2***. All new Projects in China must comply with the new prescriptive system, however some feasibility studies completed before 1999 may not comply with the new system.

Due to the prescriptive nature of the Chinese Resources Classification methodology the reader is advised that:

1. The resources are approved by governmental and statutory authorities in China and not a Competent Person as required under JORC.
2. The procedures used to explore and estimate the resources are well defined.
3. The procedures used to classify a resource are well defined
4. Descriptions of the rocktypes, mineralisation style and lodes utilises a standard set of nomenclature and is thus readily transferable and understandable
5. The reports are standardised and must include a minimum of information describing but not limited to the geology, structure, mineralisation, hydrogeology, engineering and the environment.
6. The exploration approach is standardised, systematic and follows a reasonably pre-determined pathway to achieve the reported outcome for a commodity type or group.
7. The resources estimated using the Chinese Classification System often includes areas that have been mined but are subsequently depleted from the resource at the time of verification.
8. Compared to resources estimated using the JORC code the Chinese method offers limited flexibility for geological and grade variability

**In this report while some comparisons can be made in a broad and general sense between the Chinese and Australian Mineral Resource Classifications, Westoria does not imply that in the present format Chinese Classified Mineral Resources/Reserves can be necessarily classified as 'Mineral Resources' as defined by the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"). This is caused by a fundamental difference between the two classification systems. The Chinese system is prescriptive and based on standardised governmental procedures for each mineralisation type. The Australian Mineral Resources Classification is based on the Competent Persons judgement utilising their experience and geological information relating to the mineral project in addition to following aspects of the JORC code (2012).**

**The reader is advised that the resources stated in this report are Foreign Estimates and are not reported in accordance with the JORC code and it is uncertain that following evaluation and/or**

**further exploration the resources or reserves will ever be able to be reported in accordance to the JORC Code.**

| Mineral Resource and Reserve Classification System of China (MRRC) | | | | | |
|---|---|---|---|---|---|
| **Australian Classification of Mineral Resources and Exploration Targets (JORC 2012)** | | **Measured** | **Indicated** | **Inferred** | **Exploration Target** |
| Note the equivalent Chinese and Australian Mineral Resource for each column is theoretical and approximate with evaluation required on a deposit by deposit basis. | | | | | |
| **New Chinese Classification or Reserves and Resources** | | **Discovered** | | | **Undiscovered** |
| | | **Measured** | **Indicated** | **Inferred** | **Predicted** |
| Viable Economics (1xx series) | Feasibility Study Level | 111<br>111 b | | | |
| | Pre-Feasibilty Study Level | 121<br>121 b | 122<br>122 b | | |
| Marginally Economic (2Mxx series | | 2M11<br>2M21 | 2M22 | | |
| Sub-Economic<br>2Sxx series | | 2S11<br>2S21 | 2S22 | | |
| Intrinsic Economic<br>3xx series: no economic analysis conducted | | 331 | 332 | 333 | 334 |

***Table 2**. Chinese Mineral Resource/Reserve Classification in comparison to the Australian Classification of Mineral Resources and Exploration Targets (JORC 2012)*

For example a 333 classification does shows economic value but there is low geological and economic confidence related to the lack of study and the application of economic parameters. It is assumed if further exploration work and an increase in geological and economic confidence the classification would be upgraded to the 332 classification.

# 6.0 DATONG DALUO IRON PROJECT

## 6.1 Location, Access & Geography

The Datong license is located approximately 75km south of Qijiang within the County of Qijiang and administered by the town of Datong. It is also located approximately 150km south from the capital city of Chongqing which is the administrative capital of Chongqing Municipality.

The drive from Chongqing to the license is approximately 3hrs via National Road 210 that to the northeast passes within 20km of the license area. The road from National Road 210 is sealed and well maintained servicing a number of agricultural villages and dolomite quarries (***Figure 5***). Two train stations are located within 15km of the project site.

Datong is located in the lower foothills of the Dalou Mountain that form the south-eastern margin of Sichuan Basin. Overall the topography within the license is described as rugged, hilly terrain with an elevation range between 900 and 1220m above sea level. The minesite portal has an elevation of 925m (***Figure 6***). Due to steep topography internal access within the tenement is relatively limited.

Natural vegetation in the project areas is dominated by tall conifers, deciduous trees and low lying bushy undergrowth. There are limited rural activities within the lease apart from small livestock farms and some agriculture. In the river valleys the vegetation becomes taller but the degree of cultivation also increases.

The climate is continental-subtropical and generally humid with periods of rain and snow. During the summer months fog is quite common in the mountainous regions. The rainfall averages 1071mm per year, falling mostly in the months of June to September while little rain is recorded between December and February. The daily average temperature is 19°C. Between May and September the average temperature is over 20°C while during the rest of the year the average is approximately 10° and -12°C during the winter months of November to February. The average annual temperature is 9°C. May to October is the best time to undertake field work activities but operations would not be restricted by seasonal changes.

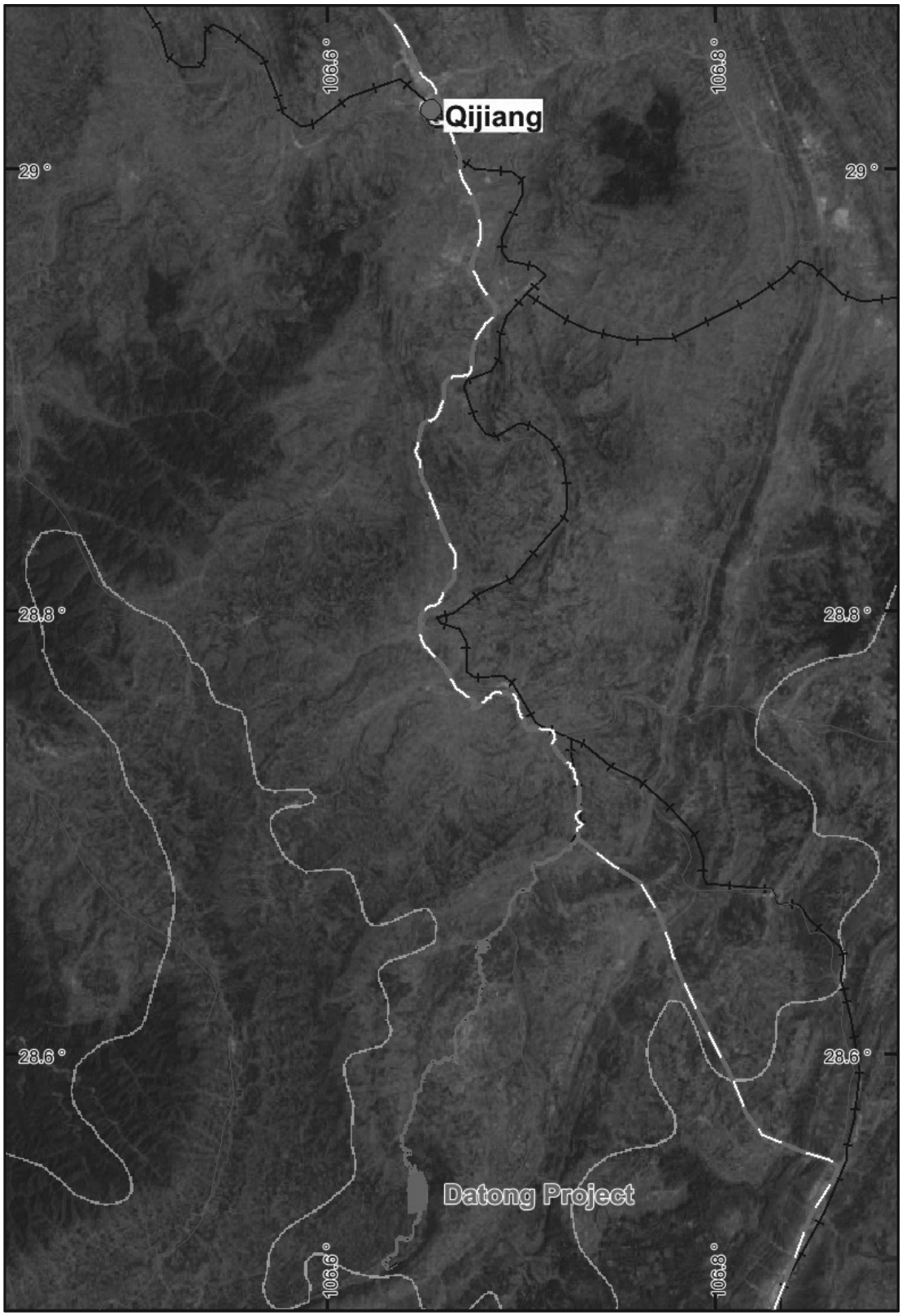


***Figure 5.*** *Datong project location with access roads taken in red/white dash - Highway 210, red - sealed road. Rivers in light blue and rail in black over satellite image. Grey line is the Chongqing Municipality boundary with the Guizhou Province to the south.*

***Figure 6.*** *Datong mine portal, ore stockpile and associated building infrastructure*

## 6.2 Previous Exploration

The Datong project has a long history of mining and some historic exploration drilling for iron. The Datong mine site was originally viewed as part of the Qijiang Iron District (QID) that extended 2km to the north of the Datong mine and 10km to the south west. The QID was essentially delineated by the presence of the prospective Middle to Lower Ziliujing Formation that hosts the four main historic mine sites – Big Mine (Datong), Mei Dong, Skyheart Temple and Kuang Dong Gou. The area was originally prospected on a district basis and most of the historic drilling and geological mapping was undertaken on a regional basis. From as early as 1935 the QID was estimated to contain over 4mt of iron.

Previously the ore was mined by using a room and pillar method with recoveries over 75%. The seams are accessed by drives or shaft and broken using blasting. The ore is removed using small mine-cart on rail. The remaining voids are backfilled using development material. The method is labour intensive and produces small annual tonnages.

Note: Readers are advised that due to the historic nature of the exploration and drilling activities no drill information records have been reviewed.

A summary of the region and project history is presented in ***Table 3***.

| Date | Company | Activities |
|---|---|---|
| 1954 - 1955 | Chongqing Geology Exploration Company Number 602 Team | Covering the QID the Company drilled 31 holes for 4616.24m. Whilst some drilling was completed at Datong it is unknown how many holes were drilled during this phase of exploration. They estimated resources of 4.55mt but no Fe grade was provided in the report reviewed. |
| 1958 to 1965 | Chongqing Geology Exploration Company Number 602 Team | The Company completed supplementary exploration of which no details have been provided. The updated estimate was 6.09mt but no Fe grade was provided in the report reviewed. Three drill holes were attempted but failed to reach target depth. |
| 1980? - 1989 | Chongqing Steel Company | It is apparent that the Company completed mining activities within the QID but by 1989 production had ceased. The company reported at total of 2.22mt remained at Datong but no Fe grade was provided in the report reviewed Production figures provided indicate 1.5mt was produced. |
| 1990-2008 | Chongqing Steel Company | Mining was recommenced and in 1995 a new portal was completed to access deeper levels of the mine. Production records provided indicate 1.2Mt was produced during this period. |

***Table 3****. Summary of QID exploration history*

A detailed summary of the exploration and initial development work compiled and reported by the Chongqing 136th Geological Brigade (dated June 2010) that forms the basis of this Technical Report. A summary of the actual exploration activities undertaken at the Datong during 2010 is presented in ***Table 4***:

| Description | | Unit | Specification | General Prospecting phase completed | Detailed Prospecting phase completed | Total Completed phase |
|---|---|---|---|---|---|---|
| Topographic and geologic survey | | km² | 1:5000 | 3.5 | - | 3.5 |
| Measuring ore thickness | | m | various locations | | | 43 |
| Hydrogeological survey | | km² | 1:5000 | - | 3.50 | 3.50 |
| Cross-Section lines | | m/ lines | 1:5000 | - | 6385/5 | 6385/5 |
| Drilling – reviewed **(not drilled in this study)** | | m/holes | unknown | - | | 4616/22 |
| Channel sampling – reviewed **(not completed in this study)** | | m/sample | 7.5×3cm | unknown | unknown | unknown |
| Drill core sampling | | m/sample | Half-core | unknown | unknown | unknown |
| Chemical analysis | Single element Analysis | sample | - | - | - | - |
| | Multi-element Analysis | sample | Fe and others | - | 3 | 3 |
| | External Analysis for QA/QC | sample | - | - | - | - |
| Rock and mineral identification petrology | | thin-section | | - | 28 | 28 |
| Density | | sample | - | none | none | none |
| Geotechnical physical and mechanical experiments | | sample/group | - | - | 2 | 2 |
| Hydro-Geology | Surface water flow rate survey | spot | L/s or M³/hr | - | 2 | 2 |
| Mine surveying | Measurement of drives/access | m | | - | 6400 | 6400 |

***Table 4.*** *Summary of exploration activities at Datong*

Over a period of three months during 2010 the Chongqing 136th Geological Brigade was engaged to:

- Review all historic mining activities
- Review surface exploration drilling results (they did not undertake drilling activities)
- Review underground channel sampling results
- Re-surveying the mine workings
- Update mine datums and mine plans with a view to determining what has been mined and what remains with resource potential
- Assess the quality of the mineralisation and it potential to be sold
- Conduct mining studies

This has culminated in the estimation of a Foreign Resource for Datong which has been completed to the standards required by Mineral Resource and Reserve Classification System of China and is presented in Section 6.5.

## 6.3 Local Geology and Structure

Datong is situated on the southern-eastern boundary straddling the Sichuan Basin and the north-east trending Hubei-Hunnan-Guizhou fold belt. Locally the geology strikes to the north to north west but regionally the geology strikes to the north-east. The mineralised seam is hosted within the lower Jurrasic Zhenzhuchong Formation that is located on the upper horizons of a monoclinic fold structure that forms a pronounced NW facing dome. The core of the dome comprises mainly Triassic sandstones and interbedded coal bearing shales with extensive shallow marine carbonates. While at the base of the dome Permian age rocks comprise shallow marine shales and carbonates including limestone and dolomite.

A series of curvilinear synclines and anticlines located at the base of the dome extend to the west and are named the Lianghekou syncline, Yangchatan anticline, Damushu syncline and the Yutioa anticline. The various folds appear to be overturned with the units dipping between 10° and 40° towards the west and northwest (***Figure 7***).

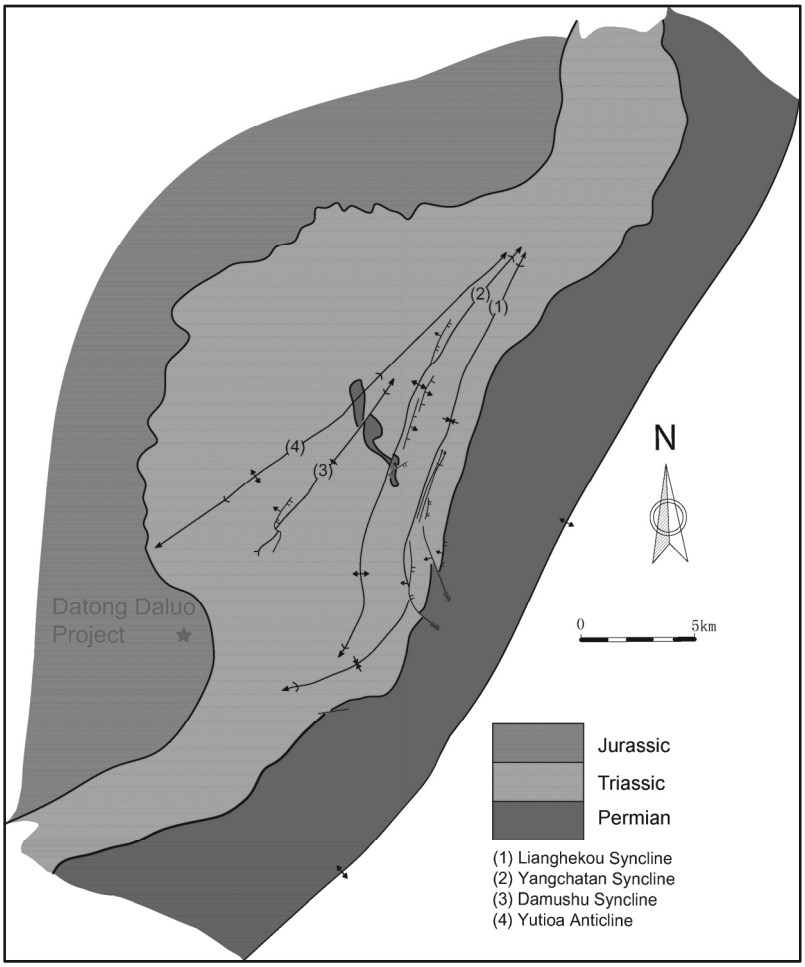


***Figure 7.*** *Stratigraphic and Structural summary of the Datong region.*

In detail there are 4 main stratigraphic Formations identified within the immediate surrounds of the Datong Project of which only 1 hosts iron mineralisation. The units progressively decrease in age from the east to the west of the lease. The units are summarised from oldest (base) to youngest (top) in ***Table 5***. A plan and cross-section is presented in ***Figure 8*** and ***Figure 9***.

| Age | Series | Formation | Group | Thickness | Symbol | Description |
|---|---|---|---|---|---|---|
| Quaternary | Holocene | | | 5m | $Q_4$ | purple silty clay and gravel soil |
| Angular Unconformity | | | | | | |
| Jurassic | Middle | Xitiangou | | 306m | $J_2x$ | Upper unit: grey to black shales, with leafy fossils and purple silty clay with thick bedded feldspar and quartz sandstone |
| | | | | | | Middle unit: grey-yellow and grey-green fine grain quartz feldspar sandstone |
| | | | | | | Lower unit:clay |
| | Lower-Middle | Ziliujing | Daanzhai | 66.5m | $J_{1\text{-}2}z^3$ | Dominantly shale with some minor biological limestone and bitumen in the upper unit |
| | | | Maanshan | 194m | $J_{1\text{-}2}z^2$ | Purple calcareous claystone with 6 to 9 interbedded siltstone layers |
| | | | Dongyuemiao | 26.7m | $J_{1\text{-}2}z^1$ | Limestone with minor dark grey and purple calcareous shale |
| | | Zhenzhuchong | Zhenzhuchong | 91m | $J_1z^2$ | Dark purple claystone with 1 – 5 interbedded units of sandstone or siltstone |
| | | | Qijiang | 11.59m | $J_1z^1$ | Lengshan sub-segment ($J_1z^{1\text{-}3}$): average thickness of 2.5m comprising white, light green fine quartz sandstone often with clay and pyrite. The base is brecciated with Qijiang sub-segment |
| | | | | | | Qijiang sub-segment ($J_1z^{1\text{-}2}$): average thickness of 2.43m that forms the "Qijiang Mines Iron Seam". Mineralisation comprises bands of hematite and siderite with interstitial quartz. A more detailed description follows in Section 6.4. |
| | | | | | | Tianba sub-segment ($J_1z^{1\text{-}1}$): average thickness of 3.44m with an upper unit of carbonaceous shale and low grade coal with a dark grey quartz sandstone at the base. |
| Unconformity | | | | | | |
| Triassic | Upper | Xujiahe | | 348.5m | $T_3xj$ | Dominantly fine gravels comprising feldspar and quartz sandstones. The lower section of the formation has yellow sandstone, a thin limonitic horizon with carbonaceous shale and a thin coal seam. |

***Table 5****. Stratigraphic Column for the Datong Project*

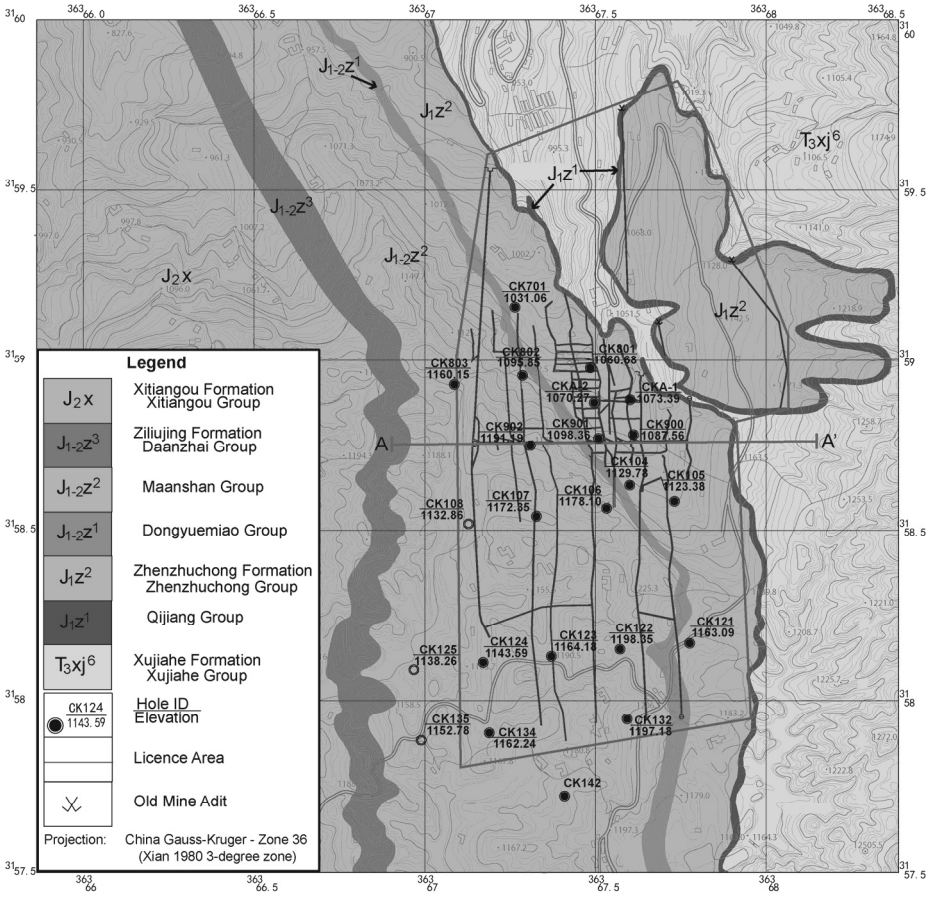


***Figure 8.*** *Datong project local geology plan. See cross-section line A – A'.*

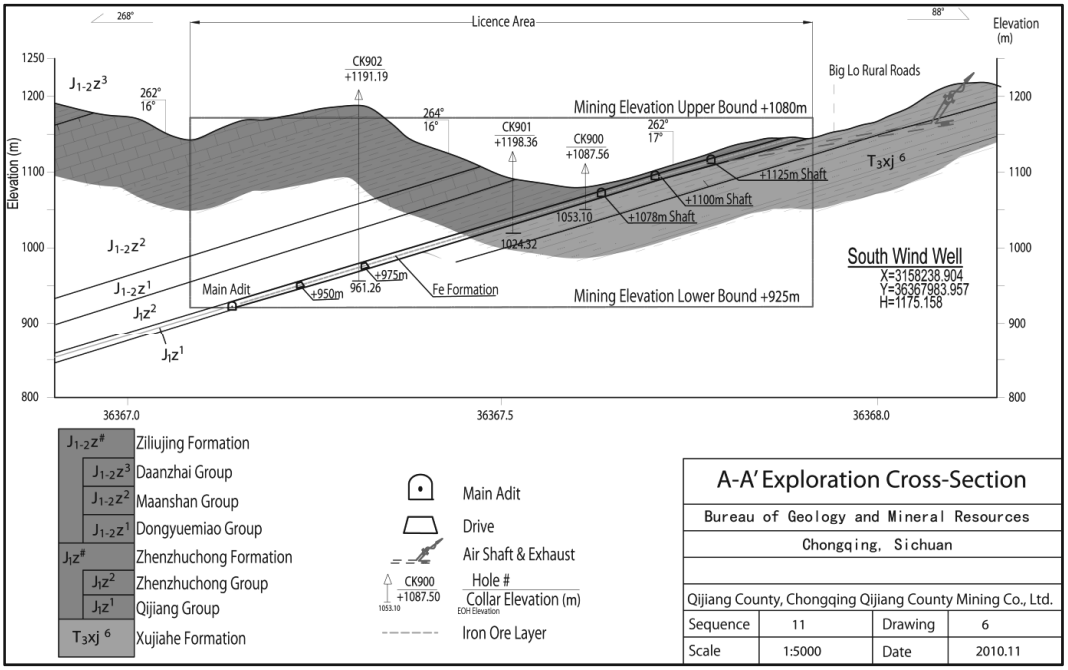


***Figure 9.*** *Cross-section Line A-A' from Datong.*

## 6.4 Mineralisation

The iron mineralisation at Datong is hosted within the Qijiang Group and is subsequently divided into a further 3 sub-segments or horizons:

- Upper hematite horizon
- Middle hematite – siderite horizon and
- Lower siderite horizon

The horizons do not have clear boundaries, are often lenticular in shape and are transitional to one another which reflect the depositional/formational environment of the iron deposit.

This style of moderate grade hematite-siderite mineralisation is a Jurassic example of what is more commonly known as a Bog iron ore or locally “Qijiang Style”. These are formed when streams or springs bearing iron-rich waters encounter conditions causing iron oxidation typically found in small lacustrine basins associated with swamps and bogs. There is usually a close association of bog iron deposits with coal and the oxidation of the iron maybe related to chemical or bacterial processes. At Datong it is proposed that the iron rich waters were sourced from the south and drained to the north into a swampy and partially closed basin. The lower levels of the basin formed sinks into which the iron hydroxides/carbonates (goethite/limonite/siderite) are deposited. Since the Jurassic some of the hydroxides have been converted to hematite but chemical analysis confirms that the ores still contain an appreciable percentage of volatiles that are lost on ignition – presumed to be the dehydration reaction of goethite.

The iron-rich upper horizon is described as pale red-dark brown, and highly irregular in appearance with dark brown nodular or pisolitic concretions. The nodules range from 2mm to 10mm in size and are irregular in shape (***Figure 10***).

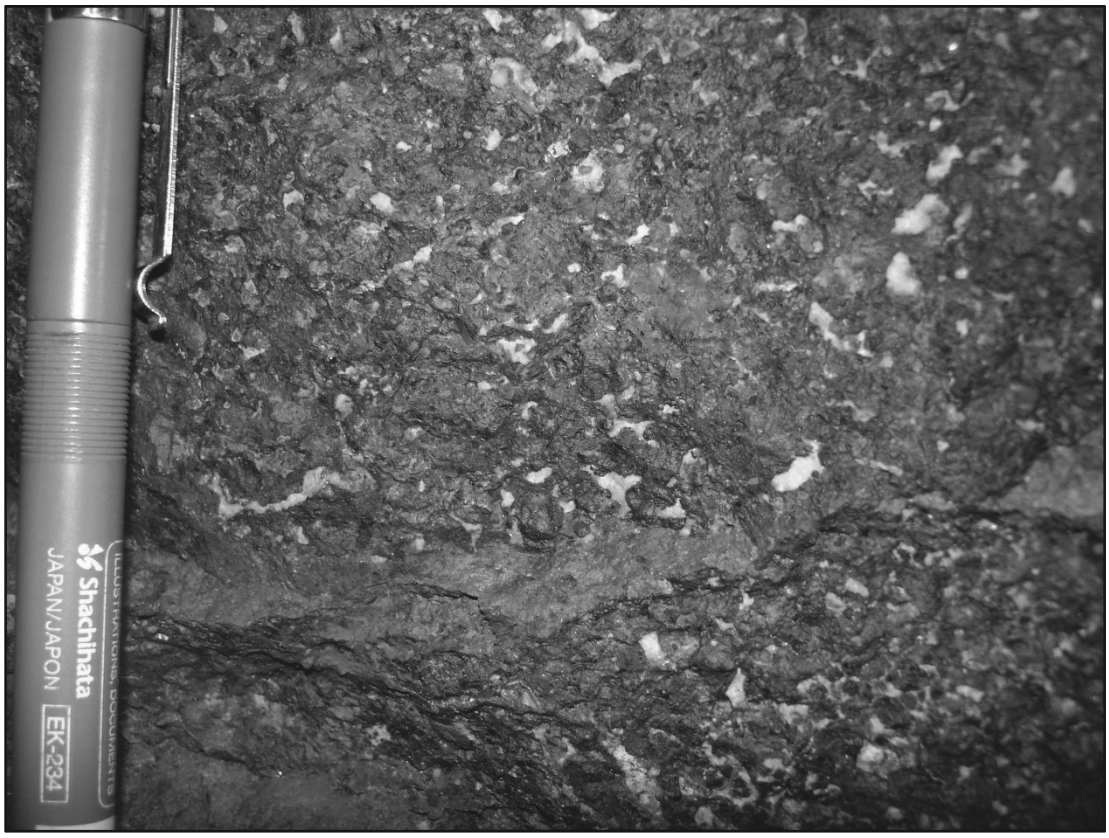


***Figure 10.*** *Handspecimen photo of Datong "Qijiang Style" mineralisation taken from a face of mineralisation underground. The photo shows brown, pale brown hematite/goethite/siderite and interstitial pale crème silica.*

At Datong the iron rich seams forms a sinuous but continuous band of shallow west dipping (10° and 40°) iron mineralisation whose surface expression is strongly controlled by topography and degree of erosion. The thickness of the higher grade mineralisation within the Qijiang Group varies as it forms lenticular bodies that may pinch out but can be up to 4.85m thick but averages 2.43m. It extends the entire length and width of the license and is thus at least 1.85km long, 800m wide and drilling has intersected the horizon at between 250 and 300m below the surface. Historic underground mining has depleted the band of mineralisation by a reported historic 2.7mt. The mineralisation extends to the west off the license but the horizon is below the elevation conditions of the License (refer to ***Figure 8***).

Two products have been produced from the mineralisation at Datong – fines (<10mm) to lump (10mm to 40mm).

Average mineral composition summary for Qijiang Style ores are as follows:

1. Iron oxides: ≥ 48%
2. Iron carbonates ≥ 15%
3. Silica ≥ 10%
4. Green schist ≥ 7%
5. Carbonaceous Clays ≥ 5%

The average chemical composition for Qijiang Style ores are presented in ***Table 6***.

| Fe % | $SiO_2$ % | $Al_2O_3$ % | S % | P % | CaO % | MgO % | LOI % |
|---|---|---|---|---|---|---|---|
| 42.27 | 17.45 | 2.62 | 0.31 | 0.479 | 2.34 | 1.57 | 24.24 |

***Table 6****. Average chemical composition for Qijiang style ores*

Two further samples were taken for analysis in Jan 2007 but the locations are not known. Readers are advised that the two samples are not representative of the mineralisation at Datong but merely examples of its chemical composition at those sampled localities (***Table 7***).

| Fe % | $SiO_2$ % | $Al_2O_3$ % | S % | P % | CaO % | MgO % | LOI % |
|---|---|---|---|---|---|---|---|
| 35.72 | 35.02 | 3.89 | 0.27 | 0.333 | No Assay | No Assay | No Assay |
| 35.98 | 33.30 | 3.79 | 0.19 | 0.357 | No Assay | No Assay | No Assay |

***Table 7****. Chemical analysis from Datong underground mine*

In the Australian iron industry context the chemical composition of the Datong mineralisation when compared to that of typical Australian export ores, Datong contains low Fe and high $SiO_2$, S and P and would not be considered export quality. The Chinese requirement for Iron ores as specified in the "Iron Ore, Manganese, and Chrome ore geology and survey specification (DZ／T0200-2002)" stipulate ores for iron oxides must be >30% Fe and ores from iron carbonates must be >25% Fe. In accordance with these regulations the ores from Datong exceed the minimum requirements for processing in China. The mine was previously owned and operated by the largest steel producer in Chongqing - Chongqing Iron and Steel Company, who would be the most likely buyer of future production from Datong. The Company is known to be pursuing a sale agreement with Chongqing Iron and Steel Company.

In addition QID ores are "roasted" prior to the steel making process which decrease the amount of sulphur by oxidising pyrite and increases the iron content. Chongqing Iron and Steel Company has a roasting process with a temperature of 900˚C that converts FeO (OH) n($H_2O$) (limonite & goethite) and $Fe_2O_3$ (hematite) to $Fe_3O_4$ (magnetite). The iron grade increases from 40% up to 48% then the product is crushed and upgraded again using magnetic separation. This final magnetic separation process upgrades the iron to 55% Fe. The Chongqing 136$^{th}$ Geological Brigade June 2010 report also confirmed that the Chongqing Iron and Steel Company enrich the ores through roasting to grades >50% Fe.

## 6.5 Datong Project Chinese Resource Estimation

At Datong a Foreign Resource estimate to 122b and 333 Chinese Mineral Classification standards was completed. The resource estimate was undertaken after a review of previous estimations, mining and exploration history at Datong which were then validated and summarised in June 2010 by Chongqing 136$^{th}$ Geological Brigade. The combined Chinese Classified resources for the Datong project currently total 965,000t @ 41% Fe. A summary of the resource is presented in ***Table 8.*** A plan of the resources locations is presented in ***Figure 11***

| Location | Elevation Range | Chinese Classification | Cross-section area (m) | Thickness (m) | Angle of mineralised unit | Density (t/m³) | Fe Grade (%) | Parcel Tonnage (kt) |
|---|---|---|---|---|---|---|---|---|
| 1-122b | +1100～+1050 | 122b | 7.2 | 2.32 | 18 | 3 | 45.42 | 53 |
| 2-122b | +950～+930 | | 12.8 | 0.83 | 17 | 3 | 40.00 | 33 |
| 3-122b | +970～+930 | | 43.4 | 1.22 | 18 | 3 | 40.00 | 167 |
| 4-122b | +1075～+1060 | | 9.9 | 2.01 | 18 | 3 | 42.06 | 63 |
| 5-122b | +1150～+1090 | | 14.3 | 0.91 | 18 | 3 | 40.01 | 41 |
| 6-122b | +1075～+930 | | 12.8 | 0.64 | 17 | 3 | 40.01 | 26 |
| **Subtotal of 122b Resources** | | | | | | **Average** | **41.09** | **Total 383** |
| | | | | | | | | |
| 1-333 | +1180～+1150 | 333 | 22.5 | 1.52 | 14 | 3 | 40.73 | 105 |
| 2-333 | +1160～+1130 | | 34.4 | 1.32 | 13 | 3 | 41.88 | 140 |
| 3-333 | +1155～+1060 | | 48,3 | 0.71 | 14 | 3 | 40.00 | 106 |
| 4-333 | +1150～+1090 | | 72.4 | 0.91 | 18 | 3 | 40.01 | 208 |
| 5-333 | +1150～+1090 | | 8 | 0.91 | 18 | 3 | 40.01 | 22.8 |
| **Subtotal of 333 Resources** | | | | | | **Average** | **40.59** | **Total 582** |
| | | | | | | | | |
| **Total of 122b and 333 Resources** | | | | | | **Average** | **40.79 Fe %** | **965,000t** |

***Table 8**. Summary of Datong Project Chinese Classified Resources from Chongqing 136th Geological Brigade June 2010.*

Readers are advised that Westoria has considered the Chinese Classified resources material for the following reasons:

1. The Chinese Classified resource is the primary asset of the Company.
2. Xiaoxiao is currently completing a Prospectus and the grade and tonnage of the Foreign Estimate imply there is potential for economic extraction and processing to Chinese standards.
3. The Datong property has been an operational mine with historic production records showing 2.7mt was extracted between 1935 and 2008
4. Xiaoxiao is seeking to acquire the Datong asset and raise working capital by the Prospectus to fund future technical, exploration and development assessments of the Datong Project.
5. The Datong property and district has been subject to systematic evaluation over a long period of time as required by the Chinese Government on resource projects in China.
6. The Chinese Classified resources have been subject to peer review and validation as required by the Chinese Government on resource projects in China
7. Whilst the Chinese Classified Resources are currently not conforming to the JORC Code the Company will be conducting further exploration and development activities at Datong to increase knowledge and confidence which will allow a Competent Person to take responsibility and eventually report the resources in accordance with the JORC Code.
8. The Chinese Classified resource estimates provided for the Datong Project are relevant to the value of the project as they do provide a reasonable assessment of the grade and tonnage of the mineralisation. However there is no guarantee that the conversion from Chinese Classified resources to Australian JORC-compliant Mineral Resources will occur.

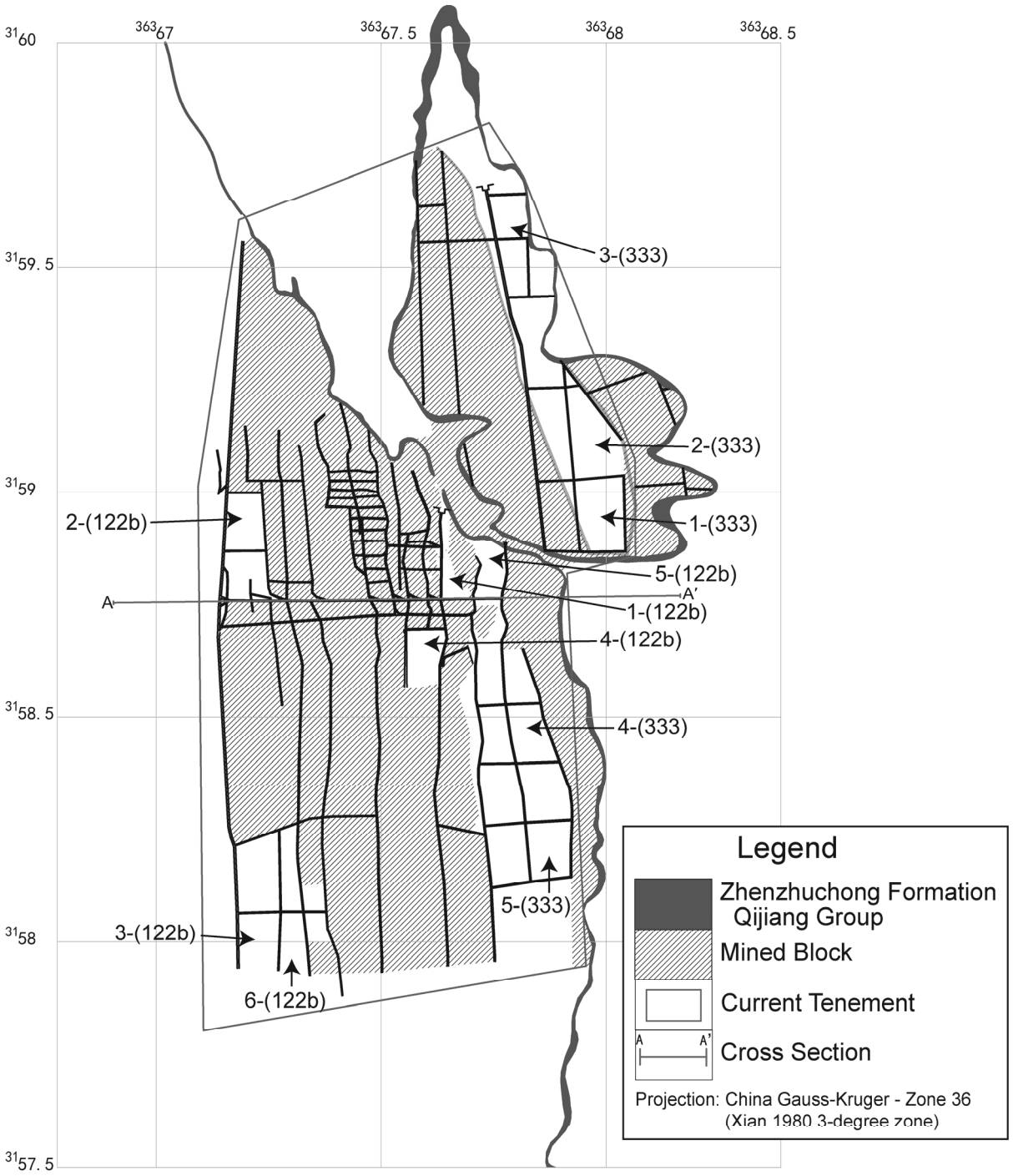


***Figure 11**. June 2010 plan view and resource areas at Datong*

Westoria has undertaken a review of the reports, data, plans and sections from Datong. The author has also been to site and examined the underground workings, surface mineralisation and infrastructure. Readers are advised the author was not able to review original reports that describe the processes, equipment or quality control associated with drilling activities or underground channel sampling. Comments in relation to the June 2010 Chinese Classified Resource are provided (in accordance to Table 1 of the JORC code, 2012) in ***Table 9***.

| **Section 1 Sampling Techniques and Data** | |
|---|---|
| **Criteria** | **Explanation** |
| Sampling Techniques | • No original information was provided or reviewed in relation to the drilling activities<br>• some underground chip sampling sites were visited and the samples were taken approximately every 10m along the drive (see the adjacent photo).<br>• The channel samples were 5cm wide and 3cm deep and are representative of the mineralisation<br>• The channel samples were labelled and were then cross checked with maps showing the locations along drives with the thickness of the channel sample and interval<br>• Ie XG3 1.77m @ 38.08 % Fe<br>  |
| Drilling Technique | • No original information was provided or reviewed in relation to the drilling activities so the drilling technique is not known<br>• However it is likely that diamond drilling techniques were utilised<br>• The June 2010 Report completed by the Chongqing 136th Geological Brigade reviewed some information in relation to the drill holes |
| Drill Recoveries | • No original information was provided or reviewed in relation to the drilling activities so the drill core recoveries are not known. |
| Logging | • No original information was provided or reviewed in relation to the drilling activities so the drill logging procedure or level of detail is not known.<br>• No original information was provided or reviewed in relation to the channel sampling activities so the logging procedure and level of detail is not known. |
| Sub-sampling techniques and sample preparation | • No original information was provided or reviewed in relation to the drilling activities so the sampling techniques and sample preparation is not known.<br>• No original information was provided or reviewed in relation to the channel sampling activities so the sampling techniques and sample preparation is not known. |
| Quality of assay data and laboratory tests | • No original information was provided or reviewed in relation to the drilling activities so the quality of the assay data is not known.<br>• No original information was provided or reviewed in relation to the channel sampling activities so the quality of the assay data is not known. |
| Verification of sampling and assaying | • No original information was provided or reviewed in relation to the drilling activities so it is unknown if there was a process of sampling and assaying verification.<br>• No original information was provided or reviewed in relation to the channel sampling activities so it is unknown if there was a process of sampling and assaying verification. |
| Location of data points | • No original information was provided or reviewed in relation to the drilling activities so it is unknown how the original drill collars were surveyed<br>• Considerable effort was undertaken by the Chinese consultants in the June 2010 report convert all of the surface and underground data from the Beijing 1954 co-ordinate system to Xian 1980 co-ordinate system<br>• This involved the identification of 4 control points supplied by the Chongqing Geology and mineral research department.<br>• On site the surveyors used a total station Sokkia SET-210K theodolite with +/- 4mm accuracy to survey the underground workings<br>• The survey information was used to update the underground maps, surface topography and mine lease boundaries<br>• The topographic map is of high quality |
| Data spacing and distribution | • Drilling on the cross-section lines was completed using 200m spacings with section lines being 200 to 400m apart. For this style of mineralisation and the classification of the Chinese Classified resources the drill spacing was considered appropriate<br>• Some underground chip sampling sites were visited and the samples were taken approximately every 10m along the drive. The drives were positioned 40 to 60m apart in the older sections of the mine and 100m apart in the new sections.<br>• Samples sites were not visited in the areas of the Chinese Classified resources estimation so it is unknown what density of sampling was utilised. |
| Orientation of data in relation to geological structures | • The drill holes have been drill vertically into a sub-horizontal sheet of mineralisation with drill intersections approximating true widths<br>• Channel sampling has been undertaken across the exposed mineralised iron horizon and approximates true widths |
| Sample Security | • No original information was provided or reviewed in relation to the drilling activities so it is |

| | |
|---|---|
| | unknown if there were sufficient sample security protocols in place.<br>• No original information was provided or reviewed in relation to the channel sampling activities so it is unknown if there were sufficient sample security protocols in place. |
| Audits or reviews | • Routine exploration or resource reports are submitted to the local Chinese authorities in accordance with the Technical Requirements of Reserves Verification of Mineral Resources in China. |
| **Section 2 Reporting of Exploration Results** | |
| **Criteria** | **Explanation** |
| Mineral tenement and land tenure status | Refer to Section 2.5 of this report |
| Exploration completed by other parties | Refer to Section 6.2 of this report |
| Geology | Refer to Sections 3.0 and 6.3, 6.4 of this report |
| Drill hole information | • Datong Drill collar information has been converted to WGS 84, UTM Zone 48N, Yellow Sea elevation system<br>• This information was derived from supplied maps and plans and no original material was reviewed |

| Hole Id | Easting | Northing | RL | Dip | Azimuth | Width (m) | Grade (Fe %) | EOH RL (m) | EOH (m) |
|---|---|---|---|---|---|---|---|---|---|
| CK501** | 660461 | 3158356 | Information not provided | | | | | | |
| CK701 | 660831 | 3158225 | Information not provided | | | | | | |
| CK801 | 661055 | 3158051 | 1060.68 | -90 | 000 | 2.21 | 56.59 | 1023.68 | 37 |
| CK802 | 660856 | 3158021 | 1095.85 | -90 | 000 | 1.33 | 42.34 | 968.68 | 127.17 |
| CK803 | 660658 | 3157992 | 1160.15 | -90 | 000 | 0.37 | 34.45 | 926.27 | 233.88 |
| CKA-1 | 661173 | 3157962 | 1070.27 | -90 | 000 | 2.38 | 41.42 | INP | INP |
| CKA-2 | 661070 | 3157950 | 1073.39 | -90 | 000 | 3.11 | 38.67 | INP | INP |
| CK900 | 661183 | 3157858 | 1087.56 | -90 | 000 | 1.44 | 45.47 | 1053.56 | 34 |
| CK901 | 661083 | 3157843 | 1098.36 | -90 | 000 | 3.01 | 44.12 | 1024.32 | 74.04 |
| CK902 | 660885 | 3157817 | 1191.19 | -90 | 000 | 2.04 | 41.56 | 996.26 | 194.93 |
| CK104 | 661177 | 3157707 | 1129.78 | -90 | 000 | 2.01 | 42.06 | INP | INP |
| CK105 | 661301 | 3157663 | 1123.38 | -90 | 000 | 0.81 | 32.23 | 1078.69 | 44.69 |
| CK106 | 661112 | 3157639 | 1178.10 | -90 | 000 | 2.66 | 38.23 | 1013.92 | 164.18 |
| CK107 | 660905 | 3157611 | 1172.35 | -90 | 000 | 1.88 | 45.47 | 948.52 | 223.83 |
| CK108 | 660706 | 3157582 | 1132.86 | -90 | 000 | INP | INP | 897.78 | 235.08 |
| CK121 | 661364 | 3157245 | 1163.09 | -90 | 000 | 0.83 | 40.89 | 1076.86 | 86.23 |
| CK122 | 661159 | 3157222 | 1198.35 | -90 | 000 | 2.13 | 42.67 | 1038.14 | 160.21 |
| CK123 | 660958 | 3157197 | 1164.18 | -90 | 000 | 1.13 | 46.27 | 954.15 | 210.03 |
| CK124 | 660758 | 3157173 | 1143.59 | -90 | 000 | 1.61 | 41.02 | 884.38 | 259.21 |
| CK125** | 660554 | 3157150 | 1138.26 | -90 | 000 | INK | INP | 818.16 | 320.1 |
| CK132 | 661183 | 3157018 | 1197.18 | -90 | 000 | 0.34 | 25.59 | 1025.92 | 171.26 |
| CK134 | 660781 | 3156967 | 1162.24 | -90 | 000 | 0.92 | 51.87 | 945.16 | 217.08 |
| CK135** | 660581 | 3156942 | 1152.78 | INP | 000 | INP | INP | 836.56 | 316.22 |
| CK142** | 661006 | 3156789 | INP | INP | 000 | 0.35 | 30.72 | INP | INP |

** denotes holes there were drilled off lease but of geological importance
INP denotes – Information not provided

| | |
|---|---|
| Data Aggregation methods | • No original information was provided or reviewed in relation to the drilling activities so it is unknown if data aggregation methods have been used.<br>• No original information was provided or reviewed in relation to the channel sampling activities so it is unknown if data aggregation methods have been used |
| Relationship between mineralisation widths and intercepts | • Cross-section interpretation is of the drill holes and the shallow dipping iron horizons indicate the drilling is encountering close to true widths |
| Diagrams | Refer to ***Figure 7***, ***Figure 8*** and ***Figure 9***. |
| Balanced Reporting | All known drill thickness and drill assay results have been reported |
| Other substantive Exploration data | Reported below within Section 3 of this table |
| Further work | The main activities planned for Datong will comprise converting existing Foreign Resources to JORC Compliant Mineral Resources and eventually Ore Reserves. Refer to Section 7.0 |
| **Section 3 Estimation and Reporting of Mineral Resources** | |
| **Criteria** | **Explanation** |
| Database Integrity | • No original assays sheets or drill database in either hardcopy or softcopy was sighted for the Datong drill holes.<br>• For the channel samples assays and thicknesses were recorded on a single map located at the mine site but no other information was sighted |
| Site Visits | 9th and 10th December 2013 by the Author |
| Geological Interpretation | • There is low risk with the geological interpretation of the mineralisation at Datong. The drilling information confirms the sinuous sheet like form of the iron-rich horizon but there is variation |

| | |
|---|---|
| | in thickness along strike and down dip<br>• The mineralisation does appear to be thinning to the south and down dip but this is beyond the depth extents of the license area<br>• Surface mapping has been completed to a good quality |
| Dimensions | Refer to ***Figure 8*** and ***Figure 11*** |
| Estimation Technique and modelling technique | • Simple geological block estimation which is appropriate for estimating tonnages and grade for a shallow dipping tabular style orebody.<br>• 100% recovery is assumed<br>• No validation checking can be completed due to the lack of original drill data records<br><br>**Resource Estimation Formula:**<br>Portion area determined by $Q=S\times M\times d/\cos\alpha$<br>Quantity = Q (kt)<br>Projection area = S ($10m^2$)<br>Average thickness = M (m)<br>Density = d ($t/m^3$)<br>Average dip angle = α(°) |
| Moisture | • It is unknown if the SG quoted is wet or dry |
| Cut-off Parameters | • The Foreign Resources has been estimated in accordance with the Chinese requirement for Iron ores as specified in the "Iron Ore, Manganese, and Chrome ore geology and survey specification (DZ／T0200-2002)" stipulate ores for iron oxides must be >30% Fe and ores from iron carbonates must be >25% Fe. |
| Mining Factors or assumptions | • Underground mining is proposed using a minimum mining width of 0.5m and 1m of waste.<br>• Recovery is 75%<br>• Ore loss due to pillars is 5%<br>• Dilution is 5% |
| Metallurgical Factors or Assumptions | • The ore is amenable to upgrading techniques and is able to be sold to local domestic steel mills<br>• Historic production at the mine has been sold to Chongqing Iron and Steel Company who have a well-developed flowsheet for the upgrading of "Qijiang Style" ores.<br>• Chongqing Iron and Steel Company has a roasting process with a temperature of 900˚C that converts FeO (OH) $n(H_2O)$ (limonite & goethite) and $Fe_2O_3$ (hematite) to $Fe_3O_4$ (magnetite). The iron grade increases from 40% up to 48% then the product is crushed upgraded again using magnetic separation. This final process upgrades the iron to 55% Fe |
| Environmental Factors or assumptions | • The mine has a small surface footprint, no complex processing takes place on site apart from crushing and screening.<br>• Mine waste is not loaded onto external waste dumps but it is moved internally as stope backfill<br>• Hydrological studies have examined the impact on local catchments, rivers and water reservoirs and no material factors have been identified. |
| Bulk Density | • A bulk density value of 3.0 $t/m^3$ is assumed based on an unsighted historic report quoted in the June 2010 report completed by the Chongqing 136th Geological Brigade<br>• There is no indication of recent testwork that has been undertaken by the Company to determine the density of the iron mineralisation but the assumed value would be in line with expectations from an iron rich – silicate iron mineralisation of this style. |
| Other factors | • Industrial requirements used for "Iron Ore, Manganese, and Chrome ore geology and survey specification (DZ／T0200-2002)" to Chinese standards stipulate:<br>• ores for iron oxides must be >30% Fe<br>• ores from iron carbonates must be >25% Fe<br>• Minimum mining thickness of Iron seam: 0.5m.<br>• Waste rock thickness: 1.0m. |
| Classification | • Under the Mineral Resource and Reserve Classification System of China (MRRC) the Datong resources have been classified as 122b and 333 which represent – Discovered but Indicated (pre-feasibility level study) and Inferred respectively. |
| Audits or Reviews | • Apart from annual reviews conducted by the Chinese Government on Datong the Author is not aware of any other reviews or audits that have been carried out by any other independent groups. |
| Discussion and relative accuracy and confidence | Refer to discussion below. |

***Table 9****. Comments in relation the Chongqing 136th Geological Brigade, June 2010.*

The exploration and resource activities completed on the Datong project between 1954 and 2008 are reported to be systematic and undertaken to a professional level. However the author has not been able to verify basic drill data which includes critical elements such as collar location, survey, logging procedures, recoveries and chemical analysis. Based on the information provided to the

author comprising several reports, plans and maps that indicate the data has been captured accurately and used appropriately for Chinese standard resources estimation.

Review of the detailed report supplied by ACM includes studies in relation to mapping, drilling, topographical surveys, hydrogeology, mining engineering and metallurgy that appear to have been summarised from previous investigations and have been undertaken to an acceptable standard. This work has also been checked by governmental departments to ensure it is compliance with Iron Ore, Manganese, and Chrome ore geology and survey specification (DZ／T0200-2002)

The method of simple Resource Estimation completed by the Chinese Consultants is appropriate for this style of mineralisation although future resource estimates may benefit from using more sophisticated methods, particularly when new drilling or channel sampling is undertaken. The author recommends that a more rigorous Quality Control and Quality Assurance (QA/QC) program be undertaken on future resource development activities.

Some areas of further investigation were identified from the independent review and they include:

1. Risks associated with mining close to the surface.
2. Mining under old stopes that may be filled with accumulated surface waters.
3. Lateral variation in the thickness of the iron-rich seams.

## 6.6 Exploration Target

In recognising the Chinese Classified Resource at Datong is not in accordance with the JORC code, Westoria has established a JORC-compliant Exploration Target for the Datong Chinese Classified Resources. The iron Exploration Target has been estimated as a range for the Datong Project based on:

- The geological understanding and exploration work programs completed to date;
- The simple geological model of iron rich horizon mineralisation;
- A simple polygonal estimate of average length, width, depth and average grade was used to form the basis of the range with the main variable being thickness which also relates to grade.
- The estimate used drill hole data intersects supplied by ACM
- A bulk density of 3.0t/m³ was applied to the rocktypes

The Exploration Target derived by Westoria is not additional to the Chinese Classified Resources at Datong compiled in ***Table 8***. Westoria would caution the reader that the potential quantity and grade of an Exploration Target is conceptual in nature and shows there is insufficient supporting information to define a JORC Compliant Mineral Resource. It is also uncertain if further exploration and resource development work will result in the determination of a JORC Compliant Mineral Resource. The Exploration Target is between 0.5 to 1mt at a grade of between 35 and 45% Fe.

## 6.7 Exploration Potential and Strategy

The priority at Datong is to confirm tonnage and confidence in the grade of the Datong project which can be achieved by:

1. Undertaking a phase of underground channel sampling and some confirmatory drilling which maybe represent twin holes or new infill drilling in the areas currently delineated with Chinese Classified Resources
2. Undertake a check program to confirm the historic density of the iron rich mineralisation
3. Accurate surveying of underground channel samples within areas currently delineated with Chinese Classified Resources.
4. Undertake a comprehensive QA/QC program that will ensure that future resource estimations will be in compliance with aspects of the Table 1 in the JORC 2012 code.
5. Analyse for Fe in conjunction with the deleterious elements such as S, P and $SiO_2$ so these can be modelled and estimated within the block model. This may assist in blending ores from various working stopes so to minimise any potential penalties.

The Company should aim to use the additional information to estimate JORC Compliant Resources suitable for use in scoping or feasibility studies.

Within the Datong project the exploration potential is limited by the small size of the license and RL restriction on the license conditions. However further programs could be used to identify intervals within the current mineralisation that might have better thicknesses and higher grades to optimise production in the early years. The company would also benefit by under taking regional studies to identify additional areas that could be prospective for “Qijiang Style” mineralisation. With the only potential mining operation in the district ACM could seek to expand and consolidate other areas known to host the target stratigraphic horizon.

## 7.0 PROGRAMMES AND BUDGETS

Whilst ACM currently has Chinese Classified Resources there remain some areas of uncertainty that can be remedied with further resource development work programs. ACM intends to undertake work programmes that will allow a Competent Person to take responsibility for the activities and allow the Company to eventually report Mineral Resources in accordance with the JORC Code

At Datong the exploration budget will comprise AUD$1.54m (***Table 10***).

| Proposed Exploration Budget | Year 1 | Year 2 | Total |
|---|---|---|---|
| Topographic and mine survey | $50 000 | $20 000 | $70 000 |
| Geological Staffing and Consultants | $100 000 | $70 000 | $170 000 |
| Channel Sampling | $50 000 | $20 000 | $70 000 |
| Drilling + drilling support | $400 000 | $300 000 | $700 000 |
| Drilling Assays | $80 000 | $50 000 | $130 000 |
| Field Support & Site Infrastructure | $100 000 | $50 000 | $150 000 |
| Underground exploration development activities | $150 000 | $100 000 | $250 000 |
| **Totals incl. Labour** | | | **$1 540 000** |

***Table 10****. Combined exploration budget and activities*

At Datong a two year exploration and work programme is proposed during which time ACM will undertake:

1. Drilling activities: Drill holes will be targeting the single iron-rich horizon and will also be used to position the unit in 3D space and information on iron grade ranges, distribution of deleterious elements, variability and geological continuity for resource modelling. The drill program will be undertaken utilising Australian Industry standards with reference to Table 1 of the 2012 JORC Code and will comprise, diamond drill coring, downhole surveying, collar surveying, core logging and sampling, assaying and relevant QA/QC checks. The holes will be drilled in a systematic manner with the spacing between drill holes determining primarily by ground access and existing drill hole locations. Distance between holes will affect the JORC compliant classification. Samples will be sent to an internationally accredited Laboratory for QA/QC analysis. The drill programs will involve surface drill rigs and will be supervised by a Competent Person.
2. Channel sampling activities: channel sampling activities will be targeting the single iron-rich horizon and will also be used to position the unit in 3D space and information on iron grade ranges, distribution of deleterious elements, variability and geological continuity for resource modelling. The channel sampling program will be undertaken utilising Australian Industry standards with reference to Table 1 of the 2012 JORC Code
3. Resource Estimation: the current 122b and 333 categories in ***Table 8*** are Discovered/Indicated and Discovered/Inferred respectively. The Company intends to undertake sufficient exploration activities to progress the knowledge and confidence of the

mineralisation at Datong. The Mineral Resource estimate will be in compliance with the reporting guidelines of the JORC code. If the resource delineation phase of the work programmes is successful then it is anticipated that a Mineral Resource Estimate will be undertaken between 18 and 24 months from the re-compliance listing of ACM.

4. The Company will also seek to address the deficiencies outlined in ***Table 9*** that include verification of previous drilling and channel sampling, implementation of a rigorous QA/QC program and verification of the density used in the resource estimate.
5. Development activities that will also look to confirm the thickness and grade of the iron rich horizon.

In summary a two-year exploration budget is proposed by ACM that focuses on advancing the confidence in the current geological and grade information for the Datong. This can be achieved through infill drilling, additional underground rock chip sampling and surveying. A high portion of the exploration budget is allocated to drilling/channel and assay activities which will be used to undertake a new Mineral Resources estimate compliant with the JORC Code. A Datong this approach is considered appropriate and recommended for a project at this stage of advancement.

The exploration budget will be subject to modification on an ongoing basis depending on the results obtained from exploration and development activities, as exploration progresses.

**It is considered that ACM has proposed a reasonable exploration and development budget over two years consistent with its stated objectives and that this program is warranted and justified on the basis of the historical exploration activity, historic production records and demonstrated mineability of the Datong project.**

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## 9.0 GLOSSARY OF TECHNICAL TERMS

| | |
|---|---|
| Adakite | felsic volcanic rocks that have geochemical characteristics of magma that have partially melted from the altered basalt that is shallowly subducted below volcanic arcs |
| Aeromagnetic | A survey undertaken by helicopter or fixed-wing aircraft for the purpose of recording magnetic characteristics of rocks by measuring deviations of the earth's magnetic field. |
| Alteration | The change in the mineral composition of a rock, commonly due to hydrothermal activity. |
| Andesite | An intermediate volcanic rock composed of andesine and one or more mafic minerals. |
| Anticline | A fold in which strata are inclined down and away from the axes. |
| Anomalies | An area where exploration has revealed results higher than the local background level. |
| Archaean | The oldest rocks of the Precambrian era, older than about 2,500 million years. |
| Assayed | The testing and quantification metals of interest within a sample. |
| Au | Chemical symbol for gold. |
| Auger sampling | A drill sampling method using an auger to penetrate upper horizons and obtain a sample from lower in the hole. |
| Basalt | A volcanic rock of low silica (<55%) and high iron and magnesium composition, composed primarily of plagioclase and pyroxene. |

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| Base metal | A noun used for grouping non-ferrous such as copper, lead, nickel and zinc. |
| Basin | An area in which rock strata are inclined downward from all sides towards the center. |
| BIF | A rock consisting alternating bands of iron oxides and cherty silica, and possessing a marked banded appearance. |
| BOG iron | impure iron deposits that develop in bogs or swamps by the chemical or biochemical oxidation of iron carried in the solutions. In general, bog ores consist primarily of iron oxyhydroxides, commonly goethite (FeO(OH)). |
| Carbonate alteration | Alteration of rock by $CO_3$ contained in hydrothermal fluids. |
| Carboniferous Period | An interval of geologic time between 359 and 299 million years ago within the Paleozoic Era |
| Chert | Fine grained sedimentary rock composed of cryptocrystalline silica. |
| Clastic | Pertaining to a rock made up of fragments or pebbles (clasts). |
| Clay | A fine-grained, natural, earthy material composed primarily of hydrous aluminium silicates. |
| Conglomerate | A rock type composed predominantly of rounded pebbles, cobbles or boulders deposited by the action of water. |
| Craton | A large stable portion of continental crust. |
| Co | Chemical symbol for cobalt. |
| Cu | Chemical symbol for copper. |
| Dacite | An extrusive rock composed mainly of plagioclase, quartz and pyroxene or hornblende or both. |
| Devonian Period | An interval of geologic time between 419 and 359 million years ago within the Paleozoic Era |
| DHEM | An electromagnetic system used to locate conductive sulphide bodies at depth. |
| Diamond drill hole | Mineral exploration hole completed using a diamond set or diamond impregnated bit for retrieving a cylindrical core of rock. |
| Dip | The angle that planar strata or structures make with the horizontal. |
| Dolerite | A medium grained mafic intrusive rock composed mostly of pyroxenes and sodium-calcium feldspar. |

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| Dolomite | A carbonate mineral or dolomite-rich rock. |
| Dyke | Sheet of igneous rock which cuts across stratigraphy. |
| EM | An electromagnetic system used to locate conductive sulphide bodies at depth. |
| Epithermal | Gold, silver or copper and related metals forming deposits at shallow depths below a boiling hot spring system but above porphyry systems |
| Erosion | The group of physical and chemical processes by which earth or rock material is loosened or dissolved and removed from any part of the earth's surface. |
| Fault | A zone of structural dislocation. |
| Fe | Chemical symbol for iron. |
| Felsic | An adjective indicating that a rock contains abundant feldspar and silica. |
| Fold | A term applied to the bending of strata or a planar feature about an axis. |
| Geochemical | Pertains to the concentration of an element. |
| Geochronology | A system of dating for the purposes of studying the Earth's history. |
| Geophysics | Pertains to the physical properties of a rock mass. |
| Granite | A coarse-grained igneous rock containing mainly quartz and feldspar minerals and subordinate micas. |
| Granodiorite | A coarse grained igneous rock composed of quartz, feldspar and hornblende and/or biotite. |
| Greenstone belt | A broad term used to describe an elongate belt of rocks that have undergone regional metamorphism to greenschist facies. |
| Igneous | Rocks that have solidified from magma. |
| Intrusions | A body of igneous rock which has forced itself into pre-existing rocks. |
| IP | Induced Polarisation method used to detect disseminated minerals often associated with minerals with economic value |
| Isoclinal | A series of folds that dip in the same direction at the same angle |
| lava | Molten material or rocks formed by the consolidation of molten material that reaches the earth's surface. |
| JORC | Joint Ore Reserves Committee who prepared the 2012 JORC Code |

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|---|---|
| Jurassic | An era of geological time spanning the period from 200 million years to 145 million years before present |
| Lode | Descriptive term for zones of mineralization associated with quartz, sulphides and alteration minerals |
| Mafic | An adjective indicating that a rock rich in iron and magnesium. |
| Metamorphic | A rock that has been altered by physical and chemical processes involving heat, pressure and derived fluids. |
| Meta-sedimentary | A rock formed by metamorphism of sedimentary rocks. |
| Mesozoic Era | An interval of geological time between 252 and 66million years ago |
| Mineralisation | Accumulation of potentially valuable minerals. |
| Mudstone | A detrital sedimentary rock consisting of mud-sized particles. |
| Ni | Chemical symbol for nickel. |
| Orogen | Refers to forces and events leading to a large structural deformation of the Earth's lithosphere (crust and uppermost mantle) due to the interaction of tectonic plates |
| Outcrop | Surface expression of underlying rocks. |
| Paleozoic Era | An interval or geological time between 541 and 252million years ago |
| Permian Period | An interval of geologic time between 299 and 252 million years ago within the Paleozoic Era |
| PGE | Platinum Group Elements – platinum, palladium and often gold |
| Plunge | Inclination of geologic structure (e.g. fold) measured from the horizontal. |
| Proterozoic | An era of geological time spanning the period from 2,500 million years to 570 million years before present. |
| QAP | Quartz-Albite Porphyry |
| RC drilling | A drilling method in which the fragmented sample is brought to the surface inside the drill rods, thereby reducing contamination. |
| Regolith | The layer of unconsolidated material which overlies or covers in situ basement rock. |
| Resource | *In situ* mineral occurrence from which valuable or useful minerals may be recovered. |
| Rhyolite | is an igneous, volcanic rock, of felsic (silica-rich) composition typically > 69% $SiO_2$ |

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|---|---|
| Sandstone | A detrital sedimentary rock consisting of sand-sized particles. |
| Satellite imagery | The images produced by photography of the earth's surface from satellites. |
| Sedimentary | A term describing a rock formed from sediment. |
| Shear | A zone in which rocks have been deformed primarily in a ductile manner in response to applied stress. |
| Silica | Dioxide of silicon, $SiO_2$, usually found as the various forms of quartz. |
| Sill | Sheet of igneous rock which is flat lying or has intruded parallel to stratigraphy. |
| Siltstone | A detrital sedimentary rock consisting of silt-sized particles. |
| SiO2 | Chemical formula for silica. |
| Stratigraphy | Composition, sequence and correlation of stratified rocks. |
| Strike | Horizontal direction or trend of a geological structure. |
| Sulphide | A general term to cover minerals containing sulphur and commonly associated with mineralization. |
| Tectonic | Pertaining to the forces involved in or the resulting structures of movement in the earth's crust. |
| Trachyte | an igneous volcanic rock with an aphanitic to porphyritic texture that is the volcanic equivalent of syenite |
| Triassic | An era of geological time spanning the period from 250 million years to 200 million years before present |
| Tuff | Consolidated volcanic ash. |
| Ultramafic | Igneous or metamorphic rocks with low silica content and generally > 18% magnesium oxide. |
| Veins | A thin infill of a fissure or crack, commonly bearing quartz. |
| Volcaniclastics | Pertaining to clastic rock containing volcanic material. |
| Volcanics | Formed or derived from a volcano. |
| VTEM | An electromagnetic system used to locate conductive sulphide bodies at depth. |
| Witherite | is a barium carbonate mineral, BaCO3, in the aragonite group |

## Annexure C – Industry Report on Iron Ore in the PRC

**The People's Republic of China Domestic Iron Ore Price& Industry Outlook in 2014**

The Respect Marketing Research Inc. (BRMR) is a qualified independent market research firm in the People's Republic of China. We have been appointed to prepare a report on 'The PRC Domestic Iron Ore Price & Industry Outlook in 2014'.

## Executive Summary

In 2013, the price of iron ores worldwide declined sharply, but in China, it did fall, but at a fall less speed. On the whole, the price of Chinese iron ores was lower than the imported ones. During January-July, 2014, the mean price of Chinese iron ores was higher than that of the imported ones, but Chinese iron ore buyers were more interested in Chinese ones, for such considerations as a shorter delivery period, acceptance of small orders and better credit terms provided by Chinese iron ore suppliers.

In China, the prices of iron ores vary in different regions, substantially depending on the place of origin of supply and demand. In Chongqing Municipality, its self-owned ores only take up 10 per cent of its ore sources, so that the rest will rely on other Chinese regions' ores (40%) and imported ones (60%). Currently, iron ores are mostly imported from Brazil and Australia. After their arrival at Chinese ports, they will be delivered to Chongqing by sea, which makes the mean price of imported iron ores is 15%-30% higher than the mean level in China. The iron ore and monohydrallite package exploration project is one of the first batch of six package exploration projects in China as organized by the Ministry of Land and Resources. Once the mineral resources are proven in Chongqing and the quantity is sufficient, import of iron ores can be reduced and thus Chinese iron and steel enterprises will get rid of restraint of imported iron ores. From the perspective of demand, rise in output of crude steel has boosted demand for iron ores. Despite of policies on reducing productive capacity of iron and steel and great market pressure, the total output of crude steel in China in 2013 grew continuously to 752 million tons, witnessing YOY rise of 9.35% and hitting a historical high. The growth speed of output was also the highest level ever in the past four years. Furthermore, during 2011-2015, gross investment on capital construction will reach RMB 16.1945 trillion, which will generate great demand for iron ores.

From the perspective of supply, many leading internal ore enterprises like BHP Billiton and Vale will increase their output of iron ores in 2014. It is hereby predicted that before 2015, at least 300 million tons' new productive capacity will be added to China market and is expected to reach about 1.83 billion tons by the end of 2015 and about 2 billion in 2020.

In 2013, the Chinese market fluctuated but in a weaker and weaker manner and stabilized at the year end. At the year beginning, the iron ore market made a good beginning by seeing rise in price. Yet afterwards, the price fell continuously and recovered from end of May and beginning of June. With warming up of the steel products market, the steel enterprises enlarged their purchase of iron ores, contributing to price rebound. In Q4, impacted by environmental inspection and poor performance of macroeconomy, the market price stabilized and came to a standstill.

## Prices of Iron Ores during 2013-July, 2014

During 2013-July, 2014, the price of iron ores worldwide fell, but in China, it fell at a less speed.

In 2013, China iron ore market first fell, then rose and at the year end stablized. At beginning of 2013, China iron ore market fell somewhat. After June, price in China iron ore market rose continuously in company with recovery of demand for steel products and rise in price of steel products. In approaching of the year end, the market demand was poor and steel mills were unlikely to keep inventory in winter, so that China iron ore market on the whole was weak but stable.

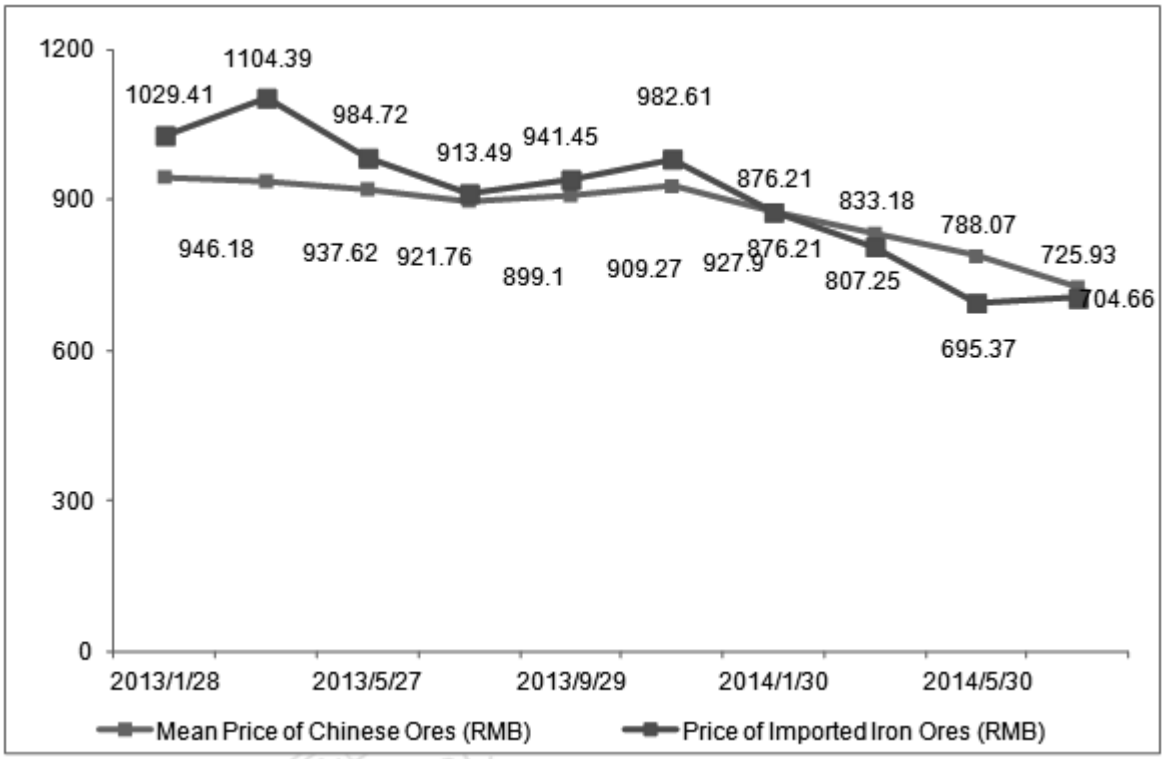
As shown in Fig. 1, the price of iron ores in China in 2013 was lower than that of imported ones. During January-July, 2014, the mean price of iron ores in China was higher than that of the imported ones. Despite of higher price of iron ores in China, Chinese iron ore buyers still prefer Chinese suppliers, primarily because they may place the order to Chinese suppliers one day in advance, instead of several weeks or several months to importers.

Morgan Stanley has explained this phenomenon like this:

Considering content of iron ores and adjustment of value added tax, the price of iron ores in China currently is USD 25-30/kt. higher than the trading premium of imported iron ores (content: 62%). The sea freight has fallen, but this, to a great extent, has reflected such a fact that Chinese

suppliers can provide better credit terms and are more willing to accept small orders, which has strengthened demand for Chinese ores. Another cause for premium rests with faster delivery of Chinese iron ore enterprises. Large iron and steel centers only need several hours for delivery, but by contrast, imported iron ores usually require several weeks or months in advance for the order placement. The fact is that iron and steel enterprises are unwilling to purchase iron ores ahead of such a long schedule.

Fig. 1-Mean Price of Chinese Ores versus Price of Imported Ones (RMB): 2013-July, 2014




Source: BRMR, 2014

The price of iron ores in different regions in China varies based on place of origin of supply and demand. Generally, rise in the price of iron ores in inland provinces comes from the extra logistics cost. If supply falls short of demand, the price will be even higher.

Chongqing, for instance, is an inland city, where the logistics cost ranges from RMB 120/t to RMB 350/t. It is the largest economic and industrial center in Midwest China. Its resident population in 2013 was 29.70 million and urban population increased by 540,000. The large population and large-scale economic and industrial development have generated great demand for iron ores. During 2011-2015, Chongqing has planned 1,000 large projects, which will

consume gross investment of near RMB 3 trillion, five times that during 2006-2010. The enormous investment on capital construction will boom demand for iron ores. In addition, in 2014, 9,000km highways will be paved in rural areas, to improve coverage of rural highways, which will heat up consumption of iron and steel and thereby generate more demand for iron ores. It is predicted that during 2014-2017, the demand for iron ores in Chongqing will see further growth. It is thus hereby believed that the price of iron ores in Chongqing will go up in several years.

## Industrial Data

**Accelerated infrastructure construction in China is a core factor to boost demand for iron ores.**

During 2011-2015, gross investment on capital construction will reach RMB 16.1945 trillion, witnessing a rise of 4.7% against that during 2006-2010. During 2011-2013, gross investment on such capital constructions as railways, highways, navigable inland channels, urban rail transits, airports, water conservancy and power supply reached RMB 9.1145 trillion, with CAGR of 3.41%. Railways and urban rail transits are two fastest-growing projects. According to *Study on Communication Construction Investment in 10-15 years* released by Institute of Comprehensive Transportation, National Development and Reform Commission (NDRC), it is predicted that investment on capital construction during 2016-2020 will go to urban rail transits and civil aviation. During 2021-2025, investment on railways will fall, but urban rail transits will grow by more than 10%.

World economic development slowed down, which also influenced Chinese economy. The Chinese government, however, is confident in maintaining economic growth. Increasing investment on infrastructures will be a major drive policy and influencing factor to accelerate stable development of Chinese economy. These good policies have stimulated demand for iron and steel products and will generate more demand for iron ores in China.

**Quickened urbanization shall be supported by substantive iron and steel raw materials and guaranteed by iron ore resources.**

The urbanization rate in China in 2013 reached 53.73 per cent, but still lower than the mean level of 60 per cent of emerging developing countries and even lower than the level of 80 percent of

developed countries. It can be seen that China's urbanization speed is behind its industrialization. As put forward in *China New-style Urbanization Plan (2014-2020)* released by the Chinese government, before 2020, the urbanization rate for resident population will reach about 60 per cent; 100 million of rural-transferred population and other residential population will settle down in towns and cities.

Driven by urbanization, investment on such industries as realty, infrastructures in cities, transportation means (like speedways and subways) and public service facilities (like hospitals and schools) will be increased. In the meantime, urbanization means rise in fixed assets investment and also in demand for steel products. As predicted by Morgan Stanley, 1% rise in urbanization rate will generate demand of 50 million tons. It is predicted that urbanization will be a main driving force for demand for iron and steel in China and bring new opportunities for consumption of steel products in China.

During 2014-2017, Chinese economy will develop soundly on the whole; external environment will be improved and the market is expected to get better. China is still in a stage of industrialization, urbanization, upgrade in consumption structure and fast rise in income. Some new driving factors are fostered and economic fundamentals are satisfying. In addition, iron ore futures were launched in Dalian Commodity Exchange in 2013. Thus, financialization of the iron ore market is more evident, which will drive up the price of iron ores.

Considering influencing factors above, it is hereby predicted that during 2014-2017, revenue and output of iron ores in China will be as follows:

Table 1-Revenue and Output of Iron Ores (USD 1 million, 1 million tons): China 2014-2017

| | Revenue (USD 1 million) | Growth rate (%) | Output of iron ores (1 million tons) | Growth rate (%) |
|---|---|---|---|---|
| 2014 | 199,993.3 | 6.0% | 1,587 | 9.9 |
| 2015 | 212,216.7 | 6.1% | 1,725 | 8.7 |
| 2016 | 225,467.3 | 6.2% | 1,863 | 8.0 |
| 2017 | 240,150.7 | 6.5% | 2,001 | 7.4 |

Source: BRMR, 2014

During 2014-2017, output of iron ores in China will grow by 7.4~9.9% and revenue by 6.0-6.5%. The output of iron ores will fall somewhat, but still grow in step with GDP. By 2017, output of iron ores in China will reach 2.001 billion tons and revenue USD 240.1507 billion.

Respect Marketing Research Inc.(BRMR) has predicted the price of iron ores for 2014-2017 using the latest Platts index for iron ore price and the base price of iron ores (CFR). For Chongqing, the price of iron ores adopts 15%-30% CIF premium as the base. Here, Respect Marketing Research (BRMR), adopts the lower limit 15% to predict Platts-TSI of Chongqing. It is predicted that during 2014-2017, the price of iron ores in China will be stabilized and fall, as shown below:

Table 2-Price of Iron Ores in China (USD/ton)

| | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| Price (CFR) of Iron Ores (62%) Tianjin Shipping Index (TSI) | 126 | 123 | 121 | 120 |
| 15% Premium of Iron Ores (62%) in Chongqing | 145 | 141 | 139 | 138 |

Source: Platts-TSI, BRMR, 2014

Prepared by

The Beijing Respect Marketing Research Inc.
9 July 2014

Note: We have prepared the Report using information according to our in-house expertise and database. In addition, we have consulted various data sources for the iron ore industry and the public domain. However, we cannot access confidential information from these external sources to verify our data quality and accuracy. We have supplied table and graph with historical data and future estimations by analyzing, compiling and interpreting information from third-party sources. Inconsistencies may exist among information from these different sources. The Report contains forward-looking statements which include, but are not limited to, words like 'is forecasted', 'is expected', 'is estimated', 'is anticipated', 'is predicted', 'is foreseeable', 'believe' as well as table with forecasts. It is not guaranteed that such forward-looking statements and forecasts will become accurate. Factors such as changes to iron ore prices, changes in the global & domestic economic environments, risks in the industry and others may affect the actual results and future events to differ materially.