



# C@LIMITED

*(to be renamed Draig Resources Limited)*

ACN 110 439 686

# PROSPECTUS

*For the offer of up to 28,000,000 Shares at \$1.00 each to raise up to \$28,000,000 (Offer).*

*The Offer includes a priority offer of up to 3,000,000 Shares to Shareholders registered as at the Priority Offer Record Date (Priority Offer).*

*The Offer is conditional upon Shareholders approving, at the Annual General Meeting to be held on 30 November 2011, a change in nature and scale of activities, consolidation of capital, and the issue of the Shares offered by this Prospectus. Please refer to Section 4.1 of this Prospectus for further details.*

## **CORPORATE ADVISOR TO THE OFFER**



## **JOINT LEAD MANAGERS TO THE OFFER**



## **IMPORTANT INFORMATION**

This Prospectus is 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-listing following a change to the nature and scale of the Company's activities.

All references to Securities in this Prospectus are made on the basis that the 20:1 Consolidation, unless otherwise stated, for which Shareholder approval is being sought at the Annual General Meeting to be held on 30 November 2011, has taken effect.

This is an important document that should be read in its entirety.

If you do not understand it you should consult your professional advisers without delay. The Shares offered by this Prospectus should be considered **highly** speculative.

## CHANGE IN NATURE AND SCALE OF ACTIVITIES AND RE-COMPLIANCE WITH CHAPTERS 1 AND 2 OF THE ASX LISTING RULES

At the Annual General Meeting to be held on 30 November 2011, the Company is seeking Shareholder approval for a change in nature and scale of its activities.

ASX requires the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules. This Prospectus is issued to assist the Company to re-comply with these requirements.

The Company's securities will remain suspended from trading on ASX from 17 November 2011 and will not be reinstated until satisfaction of the conditions to the Offer and ASX approving the Company's re-compliance with the admission requirements of Chapters 1 and 2 of the ASX Listing Rules.

There is a risk that the Company may not be able to meet the requirements of ASX for re-quotations on the ASX. In the event the conditions to the Offer are not satisfied or the Company does not receive conditional approval for re-quotations on ASX then the Company will not proceed with the Offer and will repay all application monies received.

## IMPORTANT NOTICE

This Prospectus is dated 9 November 2011 and was lodged with the ASIC on that date. The ASIC and its officers take no responsibility for the contents of this Prospectus or the merits of the investment to which the Prospectus relates.

The expiry date of this Prospectus is at 5.00pm (WST) on that date which is 13 months after the date this Prospectus was lodged with the ASIC (**Expiry Date**). No securities may be issued on the basis of this Prospectus after the Expiry Date.

Application will be made to ASX within seven days after the date of this Prospectus for Official Quotation of the Shares the subject of this Prospectus.

No person is authorised to give any information or to make any representation in connection with the Offer described in the Prospectus which is not contained in the Prospectus. Any information not so contained may not be relied upon as having been authorised by the Company, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information in this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, Securities in the United States or to any person in, or acting for the account or benefit of a person in, the United States. The Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (**US Securities Act**). Accordingly, the Shares may not be offered or sold in the United States or to or for the account of any person in the United States, except in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US state securities laws. This Prospectus may not be distributed or released in the United States or to a person in, or acting for the account or benefit of a person in, the United States.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify the Shares or the Offer or to otherwise permit a public offering of the Shares in any jurisdiction outside Australia.

It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. The Shares the subject of this Prospectus should be considered speculative.

## RISK FACTORS

Potential investors should consider that an investment in the Company is highly speculative and should consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus. For further information in relation to the risk factors of the Company please refer to the summary in the Investment Overview Section in Section 3.9 and Section 10 of the Prospectus.

## COMPETENT PERSON'S STATEMENT

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

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

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

## PHOTOGRAPHS AND DIAGRAMS

Photographs used in this Prospectus which do not have descriptions are for illustration only and should not be interpreted to mean that any person endorses the Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams in this Prospectus have been prepared by officers of the Company and are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements which are identified by words such as "believes", "estimates", "expects", "intends", "may", "will", "would", "could" or "should" and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and management of the Company. Key risk factors are set out in the Investment Overview Section 3.9 and Section 10. These and other factors could cause actual results to differ materially from those expressed in any forward-looking statements.

The Company cannot and does not give assurances that the results, performance or achievements expressed or implied in the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

## WEB SITE – ELECTRONIC PROSPECTUS

A copy of this Prospectus can be downloaded from the website of the Company at [www.cnow.com.au](http://www.cnow.com.au). Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing onto another person an application form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

## CONSOLIDATION

Unless stated otherwise, all references to securities of the Company as set out in this Prospectus are on the basis that the Consolidation (for which approval is being sought at the Annual General Meeting to be held on 30 November 2011) has occurred.



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# 1. CORPORATE DIRECTORY

## Current Directors

**Mark Earley** - Managing Director

**Andrew Harrison** - Non Executive Director

**Jade Styants** - Non-Executive Director

## Secretary & Registered Office

**Jade Styants**

Suite 1, 64 Thomas Street

West Perth WA 6005

Telephone: +61 8 9321 6988

Facsimile: +61 8 9321 4022

## Website

[www.cnow.com.au](http://www.cnow.com.au)

## ASX Code

Current: CEO

Proposed: DRG

## Auditor\*

**KPMG**

235 St George's Terrace

Perth WA 6000

## Share Registry\*

**Security Transfer Registrars**

770 Canning Highway

Applecross WA 6153

Telephone: +61 8 9315 2333

## Corporate Advisor

**Azure Capital Limited**

Level 34, Exchange Plaza

2 The Esplanade

Perth WA 6000

## Joint Lead Managers

**Renaissance Capital (Hong Kong) Limited**

Unit 1401 York House

The Landmark, Central

Hong Kong

**Canaccord BGF Limited**

Level 4, 60 Collins Street

Melbourne VIC 3000

## Australian Solicitors

**Steinepreis Paganin**

Level 4, The Read Buildings

16 Milligan Street

Perth WA 6000

## Mongolian Solicitors

**Lynch & Mahoney LLC**

The Landmark

Chinggis Avenue – 13

Ulaanbaatar, Mongolia

## Independent Accountant

**BDO**

38 Station Street

Subiaco WA 6008

## Independent Technical Expert

**Nordic Geological Solutions LLC**

Amarsanaa Street, House 38

Level 12, 1208, 17 Horoo

Bayangol District, Ulaanbaatar

Mongolia

\*These entities are included for information purposes only. They have not been involved in the preparation of this Prospectus.



## 2. DIRECTOR'S LETTER

Dear Investor

On behalf of the Directors, I am pleased to present this Prospectus offering you the opportunity to become a Shareholder in C @ Limited (**Company**).

The Company has negotiated an agreement to acquire eight coal licences located in the Ovorkhangai province and the adjoining South Gobi province in southern Mongolia, which cover a vast area of approximately 625km<sup>2</sup> (**Project**). The agreement is subject to Shareholder approval, which is being sought at an Annual General Meeting being held on 30 November 2011.

The Company's recent due diligence exploration program intersected massive black coal seams up to 60 metres on the Teeg licence, Ovorkhangai. The potential extent of these coal seams remain unknown. Laboratory test work indicates that this coal discovery has the potential to produce a soft coking and high energy thermal coal.

The Company plans to commence Phase II of its exploration program immediately upon completion of the Acquisition. This program will include geophysics and a substantial drilling program, with priority being given to the Teeg licence.

The Project's potential for growth is assisted by strong demand for coal from the Asian region and in particular from the neighbouring Chinese economy. With growth in coal demand expected to continue in the near term, the Board is confident that the coal industry offers significant opportunity for C @ Limited.

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

This Prospectus contains detailed information about the Offer and the Company's business, as well as the risks of investing in the Company. I encourage you to read it carefully.

The Board looks forward to welcoming you as a Shareholder.

Yours sincerely

**MARK EARLEY**  
**MANAGING DIRECTOR**  
**C @ LIMITED**



## 3. INVESTMENT OVERVIEW

### 3.1 Important Notice

This Section is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Prospectus. This Prospectus should be read and considered in its entirety.

### 3.2 The Offer

#### Summary of the Offer

By this Prospectus, the Company offers for subscription up to 28,000,000 Shares at \$1.00 each to raise up to \$28,000,000.

The Offer comprises a Priority Offer to Shareholders as at the Priority Offer Record Date with registered addresses in Australia as well as a General Offer which is open to all other investors with registered addresses in Australia. The Priority Offer and the General Offer may be extended to institutional investors in certain foreign countries as contemplated in Section 12.9 "Additional Information – Foreign selling restrictions".

#### Priority Offer

The Company will offer up to 3,000,000 Shares (of the 28,000,000 Shares being offered under this Prospectus) in priority (i) to Shareholders of the Company registered as at the Priority Offer Record Date with registered addresses in Australia and (ii) institutional Shareholders of the Company in certain foreign countries as contemplated in Section 12.9 "Additional Information – Foreign selling restrictions" (each an **Eligible Shareholder**).

Eligible Shareholders will be entitled to apply for shares under the Priority Offer, provided they meet the minimum subscription requirement of 2,000 Shares (**Entitlement**). To the extent that subscriptions from Eligible Shareholders under the Priority Offer exceed 3,000,000 Shares, the Directors intend to scale back the subscriptions pro-rata. Furthermore the Company may treat such Applications for excess Shares under the Priority Offer, as Applications for Shares under the General Offer.

The Directors retain absolute discretion when deciding whether or not to accept any particular Application in part or in full and will not be liable to any Eligible Shareholder who is not allocated Shares.

If any of the Shares available for Eligible Shareholders are not applied for by 5:00pm (WST) on the Priority Offer Closing Date, those Shares will form part of the General Offer.

#### General Offer

The pool for the General Offer will be 25,000,000 Shares (of the 28,000,000 Shares being offered under this Prospectus).

Applicants should note that the Directors retain an overriding right to do any of the following at their discretion in relation to the General Offer:

- accept the Application in full;
- accept the Application in respect of a lesser number of Shares than applied for; or
- decline the Application.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue. Rights and liabilities attaching to the Shares are summarised in the Section 12.1 of this Prospectus.

The General Offer may be extended to institutional investors in certain foreign countries as contemplated in Section 12.9 "Additional Information – Foreign selling restrictions".

### 3.3 Consolidation

Unless stated otherwise, all references to Securities of the Company as set out in this Prospectus are on the basis that the Consolidation (for which approval is being sought at the Annual General Meeting to be held on 30 November 2011) has occurred.

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### 3.4 Indicative Timetable

Lodgement of Prospectus with the ASIC	9 November 2011
Priority Offer Record Date	10 November 2011
Priority Offer and General Offer Opening Date	10 November 2011
Closing Date for Priority Offer	5:00pm WST on 30 November 2011
Closing Date for General Offer	5:00pm WST on 1 December 2011
Last date to register transfers on a pre-Consolidation basis	4 December 2011
Allotment of Shares under the Prospectus on a post-Consolidation basis	12 December 2011
Settlement of Acquisition	12 December 2011
Anticipated date the suspension is lifted and the Company's Securities re-commence trading on ASX (subject to satisfaction of Chapters 1 and 2 of the ASX Listing Rules).	19 December 2011

### 3.5 Purpose of the Offer and Use of Proceeds

The purpose of the Offer is to meet the requirements of ASX and re-comply with Chapters 1 and 2 of the ASX Listing Rules and to provide additional funds for:

- the cost of the Acquisition, as detailed in Section 11.1 of this Prospectus;
- an exploration program for the purpose of defining a JORC compliant resource on the Project, as described in more detail in Section 4 of the Independent Geologist's Report in Section 7 of this Prospectus and internal exploration costs to support the exploration program;
- additional project evaluation;
- future coal acquisitions, as described in more detail in Section 5.7 of this Prospectus;
- pay expenses of the offer, as described in more detail in Section 3.15 of this Prospectus; and
- working capital.

On completion of the Offer, the Board believes the Company will have sufficient working capital to achieve these objectives.

It is intended to apply funds raised from the Offer in the two years after re-listing on ASX as follows:

Item	Total Assuming minimum subscription under the Offer <sup>1</sup> (\$)	Total Assuming Offer Fully Subscribed (\$)
Cost of Acquisition (assuming VAT) <sup>2</sup>	8,457,000	8,457,000
Phase II exploration program (resource confirmation budget) <sup>3</sup>	1,848,000	1,848,000
Phase II exploration program (scoping study) <sup>3</sup>	2,585,000	2,585,000
Exploration administration & project evaluation	3,132,674	3,132,674
Corporate administration	1,973,704	1,973,704
Future opportunities <sup>4</sup>	-	7,500,000
Working capital	646,935	666,935
Expenses of the offer <sup>5</sup>	1,356,687	1,836,687
<b>Total</b>	<b>20,000,000</b>	<b>28,000,000</b>

**Notes:**

- The minimum subscription under the Offer is \$20,000,000.
- Refer to Section 11.1 of this Prospectus for further details of the Share Sale Agreement, including the cost of the Acquisition.
- Refer to Section 4 the Independent Geologist's Report in Section 7 of this Prospectus for further details.
- Refer to Section 5.7 of this Prospectus for further details.
- Refer to Section 3.15 of this Prospectus for further details.

### 3.5 Purpose of the Offer and Use of Proceeds (cont'd)

In the event that more than \$20,000,000 but less than \$28,000,000 is raised, the additional funds will be allocated firstly to the additional expenses of the Offer, and secondly to future opportunities.

The above table is a statement of current intentions as of the date of lodgement of this Prospectus with the ASIC. As with any budget, intervening events (including exploration success or failure) and new circumstances have the potential to affect the ultimate way funds will be applied. The Board reserves the right to alter the way funds are applied on this basis.

### 3.6 Capital Structure

The capital structure of the Company following completion of the Offer is summarised below<sup>1</sup>:

Shares	Number Assuming Minimum Subscription under the Offer <sup>2</sup>	Number Assuming Offer Fully Subscribed <sup>1</sup>
Shares on issue at date of Prospectus (pre Consolidation)	503,342,723	503,342,723
Shares on issue after Consolidation	25,167,136	25,167,136
Shares offered pursuant to the Offer	20,000,000	28,000,000
<b>Total Shares on issue at completion of the Offer</b>	<b>45,167,136</b>	<b>53,167,136</b>

Listed Options	Number Assuming Minimum Subscription under the Offer <sup>2</sup>	Number Assuming Offer Fully Subscribed <sup>1</sup>
Listed Options on issue at date of Prospectus (pre Consolidation)	127,853,397	127,853,397
Listed Options on issue at date of Prospectus	6,392,670	6,392,670
<b>Total listed Options on issue at completion of the Offer</b>	<b>6,392,670</b>	<b>6,392,670</b>

Unlisted Options <sup>3</sup>	Number Assuming Minimum Subscription under the Offer <sup>2</sup>	Number Assuming Offer Fully Subscribed <sup>1</sup>
Unlisted Options on issue at date of Prospectus (pre Consolidation)	45,900,000	45,900,000
Unlisted Options on issue at date of Prospectus	2,295,000	2,295,000
<b>Total unlisted Options on issue at completion of the Offer</b>	<b>2,295,000</b>	<b>2,295,000</b>

Notes:

1. Unless otherwise stated, all figures above are on a post-Consolidation basis.

2. The minimum subscription under the Offer is \$20,000,000.

3. Further unlisted options to Directors and Advisors are proposed for consideration at the Annual General Meeting to be held on 30 November 2011, which have not been included above.

### 3.7 Business Model and Objectives

The Company listed on ASX on 20 December 2005 with its main focus being the provision of services to the optical industry.

On 26 October 2011, the Company entered into a conditional Share Sale Agreement to acquire 100% of the issued capital of Mongolian company BDBL LLC, a subsidiary of Peabody-Winsway Resources LLC (**Acquisition**). Upon completion of the Acquisition, BDBL LLC will be a 100% owned Mongolian subsidiary of C @ Limited.

Through the acquisition of BDBL LLC the Company will acquire eight Mongolian exploration licences considered to be prospective for coal (**Project**). The Company will have a 90% interest in the Project, with a 10% minority interest being owned by Trinity (an entity associated with the Managing Director, Mark Earley), as per the Trinity MOU. Please refer to Section 11.3 of this Prospectus for a summary of the Trinity MOU.

The Company intends to be suspended from trading on ASX from 17 November 2011 until the following activities have been completed:

- the Offer;
- the Acquisition; and
- the resultant change of activities and re-admission to the Official List.



### 3.7 Business Model and Objectives (cont'd)

It is anticipated that the Company will be re-admitted to the Official List on or around 19 December 2011.

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

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

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

In addition to the proposed Acquisition and further development of the Project, the Company's senior management will utilise its history of exploring internationally and will continue to review other acquisition opportunities to secure new projects in the coal sector that meet the Company's objectives and strategies.

Full details in respect of the Company and the Project are set out in Section 5.

### 3.8 Change in Nature and Scale of Activities

As a result of the Company's proposed acquisition of the Project, the Company is required to obtain Shareholder approval for a change of nature and scale of activities and to comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking admission to the Official List. Shareholder approval to complete the Acquisition is being sought at the Annual General Meeting to be held on 30 November 2011.

This Prospectus is issued to assist the Company to comply with these requirements.

### 3.9 Key Risks

The business, assets and operations of the Company are subject to certain risk factors that have the potential to influence the operating and financial performance of the Company in the future. These risks can impact on the value of an investment in the securities of the Company.

The Company aims to manage these risks by carefully planning its activities and implementing risk control measures. Some of the risks are, however, highly unpredictable and the extent to which the Company can effectively manage them is limited.

Set out below are some of the key risks that the Company is exposed to. Further general risks associated with an investment in the Company are outlined in Section 10.

#### Risks relating to the change in nature and scale of activities

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

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

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

##### *Counterparty and contractual risk*

Pursuant to the Share Sale Agreement (summarised in Section 11.1 of this Prospectus) the Company has agreed to acquire 100% of BDBL LLC subject to the fulfilment of certain conditions precedent.

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

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

In addition, the Company has entered into a memorandum of understanding (**Trinity MOU**) with a private Australian company, Trinity Mongolia Pty Ltd, and its wholly owned Mongolian subsidiary, Trinity Development LLC (together, **Trinity**). The purpose of the Trinity MOU is to outline the terms upon which the parties propose to identify and develop exploration and mining projects (and in particular, coking coal deposits), in Mongolia. The Trinity MOU requires that the Company and Trinity must enter into a formal joint venture agreement in respect of any opportunities identified by Trinity, which includes the Project. Further details of the terms of the Trinity MOU are set out in Section 11.3 of this Prospectus.

### 3.9 Key Risks (cont'd)

Whilst the key terms of the joint venture have been agreed by the parties pursuant to the Trinity MOU, any delay by Trinity in agreeing the comprehensive terms of the formal joint venture agreement may delay the commencement of joint venture activities on the Project.

#### **Risks relating to the Company's operations**

##### *Sovereign and political risks associated with operating in Mongolia*

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and burgeoning democracy insofar as many of its laws tend to be basic and have not evolved to a point where they contemplate or recognise more sophisticated transactions and business structures involving relatively well established legal concepts. Likewise the interpretation and enforcement of Mongolian laws and regulations involve uncertainties, in particular, the government officials responsible for administering these laws may lack experience in assessing these types of transactions such that a transaction or business structure that would be likely to be regarded as appropriate and relatively straightforward under a Western legal system may be regarded by Mongolian government officials as novel and without precedent and therefore outside the scope of Mongolian law.

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

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

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

##### *Legal risks associated with operating in Mongolia*

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

Our ability to efficiently conduct our exploration, mining and development activities is subject to changes in legislation or government regulations or shifts in political attitudes within Mongolia that are beyond our control.

Government policy may change to be less favourable to foreign investment, nationalisation of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that our assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or government body.

The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances and any negotiations with the Mongolian government with respect to such compensation and reimbursement are subject to a great degree of uncertainty and there can be no assurance that the outcome would be effective to restore the value of our original investment. Similarly, our operations may be affected to varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income and other taxes, royalties, environmental legislation, mine safety and annual fees to maintain mineral licences in good standing. There can be no assurance that Mongolian laws protecting foreign investment will not be amended or abolished or that existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above.

In addition Mongolia may experience political instability. Political instability in Mongolia could have a material adverse effect on economic or social conditions in Mongolia which in turn could have a material adverse effect on our business.

##### *Amendments to legislation and the development of new laws*

In 2006, the Mongolian Parliament enacted the 2006 Minerals Law. The 2006 Minerals Law revoked much of the security of tenure for minerals licence holders which was contained in the 1997 Minerals Law and contains provisions that could increase the potential for political interference. In particular, the 2006 Minerals Law contains provisions which potentially allow licences to be revoked for perceived non-compliance with various provisions of the law based on subjective determination by government officials. There is a risk that further actions could affect the private ownership of minerals assets in Mongolia whether through changes in law or regulation, government policy, court judgments or the actions of government officials. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. As such, the impact, if any, of these provisions of the 2006 Minerals Law on our projects cannot be measured and any further amendments to the minerals legislation may materially and adversely affect our financial condition and results of operations.

Various factions within Mongolia have recently called for major changes to the current minerals law and other related laws and governmental policies. However, there is uncertainty as to what effect, if any, a new minerals law may have on issues such as state participation in the minerals sector and the Water and Forests Law.

### 3.9 Key Risks (cont'd)

#### *Mineral licence title risks*

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

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

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

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

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

- (a) within 200 meters of the headwaters of rivers and lakes as defined in the Water Law of Mongolia dated 22 April 2004;
- (b) within 200 meters of rivers and lakes as defined in the Water Law of Mongolia dated 22 April 2004; and
- (c) within 100 meters of forest areas defined in the Forest Law of Mongolia 17 May 2007,

((a), (b), and (c) collectively referred to as **Restricted Areas**).

The Water and Forests Law provides that no new minerals exploration and mining licenses encompassing Restricted Areas will be issued and previously granted licenses that overlap Restricted Areas will be terminated.

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

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

There is a risk that if the Water and Forests Law is enforced a portion of the Affected Licenses will be revoked and no compensation will be paid to the Company for the termination.

#### *Special Needs Land*

Two of the Tenements (XV-012000 and XV-010566) include land area that has been declared "special needs land".

Land may be declared as "special needs land" for various reasons including purposes of converting the land into special protected areas, land allocated for defence and security and sites for conducting research. The two Tenements have been declared special needs land for purposes of creating a special protected area (a **Special Protected Area**) for the protection of snow leopards, an endangered animal.

If land is declared a Special Protected Area, any mineral licenses existing over the land may be terminated to the extent that it overlaps such Special Protected Area. While there is an obligation to pay compensation in relation to the terminated portion of the affected license, it is not clear whether the compensation to be provided to the license holder is intended to compensate the license holder for:

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

This issue is discussed in greater detail in the Report entitled "Overview of Mongolian Law Applicable to the Mining Industry and Due Diligence on BDBL LLC" contained in Section 9 of this Prospectus.

#### *Operating risks*

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

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

### 3.9 Key Risks (cont'd)

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

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

- (a) geological conditions;
- (b) unanticipated operational and technical difficulties encountered in geophysical surveys, drilling and production activities;
- (c) mechanical failure of operating plant and equipment, industrial and environmental accidents, acts of terrorism or political or civil unrest and other force majeure events;
- (d) industrial action, disputation or disruptions;
- (e) unavailability of aircraft or drilling equipment to undertake airborne electromagnetic and other geological and geophysical investigations;
- (f) unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment;
- (g) prevention or restriction of access by reason of political unrest, outbreak of hostilities, and inability to obtain consents or approvals;
- (h) current exploration operations and future mine development of the Licences are subject to the Company's ability to obtain a wide range of permits, licences, and approvals and there is no guarantee that such permits, licences and approvals will be granted or will be granted in a timely matter;
- (i) advancement of the exploration operations to mine development can be a lengthy process taking a number of years where the Company's projects may be subject to new laws, regulations, and taxes which may have a material impact on the Company; and
- (j) restriction of access to infrastructure by Russian, Chinese or Mongolian authorities.

#### *Exploration success*

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

#### *Environmental risks*

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

#### *Infrastructure*

Several of the Company's Mongolian licences (or right to acquire an interest in) are located in areas that lack access to basic infrastructure including roads, electricity, running water and health and emergency services.

The lack of infrastructure may impact negatively on the economic viability of any deposits discovered by the Company in other regions and may require the Company to negotiate access to existing infrastructure and/or invest substantial amounts on the upgrade of existing infrastructure or development of new infrastructure.

#### *Coal price volatility*

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

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

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

#### *Foreign exchange risk*

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

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

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company and Shareholders should refer to the additional risk factors set out in full in Section 10 of this Prospectus before making a decision to subscribe for Shares under this Prospectus.

### 3.10 Substantial Shareholders

Those Shareholders holding a relevant interest in 5% or more of the Shares on issue as at the date of this Prospectus are as follows:

Shareholder	Shares		Options	% (undiluted)	% (fully diluted)
	Pre-Consolidation	Post-Consolidation			
Ekstein & Ekstein Investments Pty Ltd and Karla Bell & Associated Pty Ltd <sup>1</sup>	33,500,000	1,675,000	-	6.66	4.95

Notes:

1. In accordance with Form 603 Notice of initial substantial holder lodged on 8 July 2011

There will be no current Shareholders holding a relevant interest in 5% or more of the Shares on completion of the Offer (assuming no existing Shareholder subscribes and receives additional Shares pursuant to the Offer and \$28,000,000 is raised pursuant to the Offer).

The Company will announce to the ASX details of its top-20 Shareholders, following completion of the Offer, and prior to the Securities re-commencing trading on ASX.

### 3.11 Financial Information

Following an extended period of suspension and the proposed Acquisition, the Company will be in the early stages of exploring the land the subject of the Project which is in a start-up phase. Therefore, the Company's recent operational and financial historical performance is limited.

The following table sets out a summary of the Company's historical consolidated audited financial statements for the three most recent financial years and the most recent unaudited consolidated financial statement of the Company.

	Audited Financial Statement for the year ended 30 June 2009	Audited Financial Statement for the year ended 30 June 2010	Audited Financial Statement for the year ended 30 June 2011	Unaudited Financial Statement for the period ended 30 Sept 2011
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Continued Operations</b>				
Sales revenue	34,268	2,903	1,835	542
Cost of sales	(33,409)	(1,440)	(1,072)	(359)
<b>Gross Profit</b>	<b>859</b>	<b>1,463</b>	<b>763</b>	<b>183</b>
Other income	121,041	-	-	-
Other expenses	(760,185)	(194,568)	(987,436)	(361,244)
Personnel expenses	(581,747)	(351,804)	(897,446)	(170,870)
Exploration Expenditure	-	-	(357,016)	(354,320)
<b>Results from operating activities</b>	<b>(1,220,032)</b>	<b>(544,909)</b>	<b>(1,884,119)</b>	<b>(886,434)</b>
Finance Income	43,069	38,308	81,785	6,528
<b>Net financing income</b>	<b>43,069</b>	<b>38,308</b>	<b>81,785</b>	<b>6,528</b>
<b>Loss before income tax</b>	<b>(1,176,963)</b>	<b>(506,601)</b>	<b>(1,802,334)</b>	<b>(879,723)</b>
Income tax expense	-	-	-	-
<b>Net loss for the period</b>	<b>(1,176,963)</b>	<b>(506,601)</b>	<b>(1,802,334)</b>	<b>(879,723)</b>

### 3.11 Financial Information (cont'd)

	Audited Financial Statement for the year ended 30 June 2009	Audited Financial Statement for the year ended 30 June 2010	Audited Financial Statement for the year ended 30 June 2011	Unaudited Financial Statement for the period ended 30 Sept 2011
<b>STATEMENT OF FINANCIAL POSITION</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	947,193	991,296	1,125,309	552,294
Trade and other receivables	12,257	10,688	31,046	22,850
<b>TOTAL CURRENT ASSETS</b>	<b>959,450</b>	<b>1,001,964</b>	<b>1,156,355</b>	<b>575,244</b>
<b>NON CURRENT ASSETS</b>				
Inventory	-	-	-	-
Property, plant & equipment	-	2,292	2,631	3,267
<b>TOTAL NON CURRENT ASSETS</b>	<b>-</b>	<b>2,292</b>	<b>2,631</b>	<b>3,267</b>
<b>TOTAL ASSETS</b>	<b>959,450</b>	<b>1,004,256</b>	<b>1,158,986</b>	<b>578,511</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	9,140	10,010	48,646	48,282
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,140</b>	<b>10,010</b>	<b>48,646</b>	<b>48,282</b>
<b>TOTAL LIABILITIES</b>	<b>9,140</b>	<b>10,010</b>	<b>48,646</b>	<b>48,282</b>
<b>NET ASSETS</b>	<b>950,310</b>	<b>994,246</b>	<b>1,110,340</b>	<b>530,229</b>
<b>EQUITY</b>				
Issued capital	5,767,002	6,317,539	7,904,310	8,203,923
Reserves	54,496	54,496	386,153	386,153
Accumulated losses	(4,871,188)	(5,377,789)	(7,180,123)	(8,059,846)
<b>TOTAL EQUITY</b>	<b>950,310</b>	<b>994,246</b>	<b>1,110,340</b>	<b>530,229</b>

The Company's start up funding will be generated from the Offer the subject of this Prospectus. The Company expects to raise further funding from the issue of Securities in the future. Following the Acquisition, if the Company's proposed exploration is successful and the Company chooses to develop the Project then the Company may also consider debt funding.

As a result, the Company is not in a position to disclose any key financial ratios other than its balance sheet which is set out in the Independent Accountant's Report in Section 8. Investors should read the Independent Accountant's Report in full.

### 3.12 Directors



*Mark Earley – Managing Director*

Mr Earley has over 30 years' experience in the coal industry in the key areas of operations, project development, mine management and senior advisory roles. Mr Earley has also been involved in greenfield mine developments in both Australia and Indonesia, has advised on several successful start-up projects and holds a masters degree in mining engineering from Nottingham University, UK.

Mr Earley's technical, project development and commercial skill set has seen him work and lead teams on significant coal projects throughout the world.

Most recently Mr Earley held the position of Executive Director of Barlow Jonker Pty Ltd, one of the world's leading coal advisory and research firms. In his role Mr Earley led the significant growth in the company's global advisory services by focusing on due diligence and asset screening which he aligned with the company's existing coal pricing and market review work undertaken for its global client base that included mining companies, non miners, banks and institutional investors.

Some of his advisory roles included leading the independent due diligence for Banpu Public Company Limited (Thailand) on the Daning Mine in Southern Shanxi, China and technical lead for the World Bank's audit of Vietnam National Coal Corporation.

Previously Mr Earley held senior positions with Oakbridge Pty Ltd including the role of Head of Business Development, General Manager of the Clarence Colliery (NSW) and Manager of the Baal Bone open cut mine (NSW).

Other prior operational roles include development of one of the early Indonesian coal projects, the Petangis Coal Mine with Henry Walker (Indonesia) and initial development of the Stratford Mine in Gloucester Basin (NSW).

Mr Earley has been a Director of the Company since September 2010.

### 3.12 Directors (cont'd)



*Andrew Harrison – Non-Executive Director*

Mr Harrison has significant experience in both senior management and board positions in publicly listed companies. He has held senior positions in a number of major organisations including Brambles Australia Limited, and has played leading roles in strategy, management, and business development across a number of sectors.

Mr Harrison is now a non-executive director of Capitol Health Limited (an ASX-listed healthcare company) after stepping down from the role of founding Managing Director. Mr Harrison was Managing Director of Neptune Marine Services Limited, and played an integral role in the initial public offering of that company in April 2004, and the subsequent commercialisation of its technology. He was a non-executive director of Neptune Marine Services Limited until March 2006.

Previously he has worked as a management consultant for such clients as Chubb Australasia and has been CEO of a Melbourne based marketing consultancy. Mr Harrison also holds a Bachelor of Commerce (Honours) in Marketing and Commercial Law from Curtin University in Western Australia.

Mr Harrison has been a Director of the Company since June 2005.



*Jade Styants – Non-Executive Director and Company Secretary*

Ms Styants has over 12 years' experience in commerce, finance administration and corporate advisory having held executive and board positions in the resource and manufacturing sectors. During this period, Ms Styants has been involved in and responsible for the corporate and financing administration of numerous companies on both the London Stock Exchange's AIM market and the Australian Securities Exchange.

Ms Styants began her career in finance working for companies such as Anaconda Nickel Limited and Gillette International SARM. This was followed by seven years in corporate advisory and financial administration including executive roles for Empyrean Energy Plc, Lefroy Resources Limited, Torrens Energy Limited and Peninsula Minerals Limited. Ms Styants holds a bachelor of commerce from Curtin University and is a Chartered Accountant.

Ms Styants has been a Director of the Company since January 2011 and Company Secretary since June 2008.

### 3.13 Disclosure of Interests

Directors are not required under the Constitution to hold any securities in the Company. As at the date of this Prospectus, the Directors have relevant interests in Securities as follows:

Director	Shares		Options	
	Pre-Consolidation	Post-Consolidation	Pre-Consolidation	Post-Consolidation
Mark Earley <sup>1</sup>	6,157,500	307,875	45,900,000	2,295,000
Andrew Harrison <sup>2</sup>	4,482,098	224,105	4,047,605	202,380
Jade Styants <sup>3</sup>	131,782	6,589	459,450	22,972

**Notes:**

1. Held by Morfa Pty Ltd <Earley Family Trust> of which Mr Earley is a director and beneficiary. Options exercisable at \$0.01, expiring 15 September 2015.
2. Held by the Relentless Corporation Pty Ltd ATF The Sun T'ZU Trust of which Mr Harrison is a trustee and beneficiary. Options exercisable at \$0.01, expiring 30 April 2012.
3. Held by Resource Corporate Services Pty Ltd of which Ms Styants is a director and beneficiary. Options exercisable at \$0.01, expiring 30 April 2012.

In addition, Mark Earley has an interest in Trinity, which is a party to the Trinity MOU. Please refer to Section 11.3 of this Prospectus for further details.

### 3.14 Remuneration

The aggregate remuneration for non-executive Directors has been set at an amount not to exceed \$200,000 per annum, as approved by Shareholders at the General Meeting held in July 2005.

The remuneration of executive Directors will be fixed by the Directors and may be paid by way of fixed salary or consultancy fee.

### 3.14 Remuneration (cont'd)

The annual remuneration (inclusive of superannuation) payable to each of the Directors as the date of this Prospectus is as follows:

Director	Annual Remuneration (\$)
Mark Earley <sup>1</sup>	330,000
Andrew Harrison	120,000
Jade Styants	72,000

Notes:

1. In addition, Mark Earley has an interest in Trinity, which is a party to the Trinity MOU. Please refer to Section 11.3 of this Prospectus for further details.

The details of the executive services agreements between the Company and each of Mark Earley, Andrew Harrison and Jade Styants are set out in Section 11.5, 11.6 and 11.7 of this Prospectus.

### 3.15 Expenses of the Offer

The total cash expenses of the Offer (assuming the Offer is fully subscribed to raise \$28,000,000) are set out in the table below:

Item of Expenditure	Total Assuming minimum subscription under the Offer <sup>1</sup> (\$)	Total Assuming Offer Fully Subscribed (\$)
ASIC Fees	2,137	2,137
ASX Fees	22,950	26,150
Experts' Fees	67,000	67,000
Legal Fees	30,000	30,000
Capital Raising Fees <sup>1</sup>	1,200,000	1,680,000
Miscellaneous	34,600	31,400
<b>TOTAL</b>	<b>1,356,687</b>	<b>1,836,687</b>

Notes:

1. The minimum subscription under the Offer is \$20,000,000.

2. In addition to cash fees, the Company has agreed to issue the Joint Lead Managers a total of 10,000,000 Options (on a pre-consolidation basis) pursuant to the Offer Management Agreement. Please refer to Section 11.8 of this Prospectus for further details.





## 4. DETAILS OF THE OFFER

### 4.1 Conditional Offer

The Offer is conditional upon Shareholders approving a change in nature and scale of activities of the Company and also approving the issue of Shares offered under this Prospectus at the Annual General Meeting to be held on 30 November 2011.

In the event these Shareholder approvals are not obtained the Company will refund all application monies as soon as is practicable.

The business of the Annual General Meeting will consider resolutions in relation to:

- (a) the adoption of the remuneration report for the year ended 30 June 2011;
- (b) the re-election of two current Directors, Mr Andrew Harrison and Ms Jade Styants; and
- (c) a change in the nature and scale of the Company's activities;
- (d) the Consolidation;
- (e) the issue of Shares pursuant to the Offer;
- (f) the participation by the Directors in the Offer;
- (g) a change of the Company's name;
- (h) the issue of options to advisers and lead managers to the Offer;
- (i) the issue of performance rights to Mr Andrew Harrison and Ms Jade Styants;
- (j) the issue of incentive options to each Director; and
- (k) the adoption of an employee share option plan.

### 4.2 Applications

- Applications for Shares under the **Priority Offer** must be made using the **Priority Offer Application Form**.
- Applications for Shares under the **General Offer** must be made using the **General Offer Application Form**.

Payment for the Shares must be made in full at the issue price of \$1.00 per Share. Applications must be for a minimum of 2,000 Shares and thereafter in multiples of 1,000 Shares. Completed Application Forms and accompanying cheques must be mailed or delivered to the Company's Share Registry, as follows:

**Security Transfer Registrars**  
770 Canning Highway  
APPLECROSS WA 6153

Cheques should be made payable to "**C @ Limited – Share Offer Account**" and crossed "Not Negotiable".

Completed Application Forms must be at the above address by no later than the relevant Closing Date.

Electronic payments should be made according to the instructions set out on the Application Form.

**Applicants should ensure they include their reference details, as per their Application Form, if paying funds electronically.**

Electronic payments must be received by the Company by 1:00pm (WST) on the applicable Closing Date. You should be aware that your own financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment. It is your responsibility to ensure that funds submitted electronically are received by 1:00pm (WST) on the Priority Offer Closing Date or the General Offer Closing Date (as the context permits).

The Priority Offer and the General Offer may each be closed at an earlier date, and time, at the discretion of the Directors, without prior notice. Applicants are therefore encouraged to submit their Application Forms as early as possible. However, the Company reserves the right to extend the Priority Offer and the General Offer or accept late applications.

### 4.3 Minimum subscription

The minimum subscription to be raised pursuant to this Prospectus is \$20,000,000.

If the minimum subscription has not been raised within four (4) months after the date of this Prospectus, all applications will be dealt with in accordance with the Corporations Act.

### 4.4 Allotment

Allotment of Shares offered by this Prospectus will take place as soon as practicable after the Closing Date of the Priority Offer and General Offer. Prior to allotment, all application monies received under the Priority Offer shall be held by the Company on trust. The Company, irrespective of whether the allotment of Shares takes place, will retain any interest earned on the application monies.

The Directors reserve the right to allot Shares in full for any application or to allot any lesser number or to decline any application. Where the number of Shares allotted is less than the number applied for, or where no allotment is made, the surplus application monies will be returned by cheque to the applicant within seven (7) days of the allotment date.

### 4.5 ASX Listing

The Company will not be reinstated to Official Quotation until satisfaction of the conditions to the Offer and ASX approving the Company's re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

Application for Official Quotation by ASX of the Shares offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus. If approval is not obtained from ASX before the expiration of 3 months after the date of issue of the Prospectus (or such period as varied by the ASIC), the Company will not issue any Shares and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant Official Quotation to the Shares is not to be taken in any way as an indication of the merits of the Company or the Shares now offered for subscription.

### 4.6 Applicants outside Australia

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify these Shares or otherwise permit a public offering of the Shares the subject of this Prospectus in any jurisdiction outside Australia.

It is the responsibility of applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the applicant that all relevant approvals have been obtained.

The Priority Offer and the General Offer may be extended to institutional investors in certain foreign countries as contemplated in Section 12.9 "Additional Information – Foreign selling restrictions".

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, Securities in the United States or to any person in, or acting for the account or benefit of a person in, the United States. The Shares have not been, and will not be, registered under the US Securities Act. Accordingly, the Shares may not be offered or sold in the United States or to or for the account of any person in the United States, except in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act. This Prospectus may not be distributed or released in the United States or to a person in, or acting for the account or benefit of a person in, the United States.

### 4.7 CHES

The Company is a participant in Clearing House Electronic Subregister System (**CHES**). CHES is operated by ASX Settlement Pty Ltd (**ASX Settlement**), a wholly owned subsidiary of ASX, in accordance with the Listing Rules and the ASX Settlement Rules.

Under CHES, the Company will not issue certificates to investors. Instead, Shareholders will receive a statement of their holdings in the Company. If an investor is broker sponsored, ASX Settlement will send a CHES statement.

### 4.8 Withdrawal of Offer

This Offer may be withdrawn at any time. In this event, the Company will return all Application monies (without interest) within 28 days of giving the notice of withdrawal.

The risk factors set out in the Investment Overview Section 3.9 and Section 10, and other general risks applicable to all investments in listed securities not specifically referred to, may in the future affect the value of the Shares. Accordingly, an investment in the Company should be considered speculative.

#### **4.9 Privacy statement**

If you complete an application for Shares, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers; regulatory bodies, including the Australian Taxation Office; authorised securities brokers; print service providers; mail houses and the Share Registry.

You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the Share Registry at the relevant contact number set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.

#### **4.10 Queries**

Any questions concerning the Offer should be directed to the Company Secretary, Jade Styants, on +61 8 9321 6988.

## 5. COMPANY & PROJECT OVERVIEW

### 5.1 Background

The Company listed on ASX on 20 December 2005 with its main focus being the sale of frames and lenses to the optical industry. The Company does not currently hold any significant assets, nor does it intend to carry on any optical business activities after completion of the Offer.

On 20 April 2011 the Company announced the proposed acquisition of eight coal licences located in the Ovorhangay province and adjoining South Gobi province in southern Mongolia (**Project**) which cover a vast area of approximately 625km<sup>2</sup>. Four licences are located in the Ongi River Basin, Ovorhangay province and four are located in the South Gobi Basin, South Gobi province.



Location map of the eight exploration licences in Mongolia

### 5.2 Ovorhangay Licences

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

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

The most advanced Jurassic coal project in Mongolia is Gobi Coal and Energy Ltd's Shinejinst soft coking coal project, located southwest of the Ovorhangay licences.



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



*Major Coal Seam Exposed in Bayanteeg Coal Mine*

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

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

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

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

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

## 5.2 Ovorhangay Licences (cont'd)



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

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

## 5.3 South Gobi Licences

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

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

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

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

The Company undertook an exploration program as part of its due diligence on the licences during May and June 2011. A total of eight holes were drilled by C @ within the four licences in the South Gobi Basin. Although the drill results from the program presented only a few modest coal intersections, all four South Gobi licences remain underexplored and potential exists to uncover concealed coal extension, particularly in the Zamt Uul and the Gurvantes licences which will be given priority on the next drilling program conducted by the Company in the South Gobi.

An Independent Geologist's Report providing further information on the Project has been prepared by independent geological consultant Nordic Geological Solutions LLC, in accordance with the Valmin Code and the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. A copy of the Report is set out in Section 7 of this Prospectus.

## 5.4 Location, Access and Development

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

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

## 5.5 Rail infrastructure planned by the Mongolian Government

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

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

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



*Mongolia's Major Rail Infrastructure Existing and Planned*

## 5.6 Proposed Exploration Program

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

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

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

The Directors consider the Project prospective for the discovery of high quality coal. Further details of the exploration programme intended to bring the Project to a pre-feasibility study level over the next two years are set out in Section 4 of the Independent Geologist's Report in Section 7 of this Prospectus.

## 5.7 Future Acquisitions

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

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

The agreement provides the Company with a strategic partner in Indonesia that brings along expertise, capabilities and local support to identify and evaluate suitable Indonesian coal asset development opportunities. Please refer to Section 11.4 of this Prospectus for further details of the agreement.

A number of opportunities in Indonesia are under review.

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





## 6. CORPORATE GOVERNANCE

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, the Company has adopted The Corporate Governance Principles and Recommendations (2nd Edition) as published by ASX Corporate Governance Council (**Recommendations**).

In light of the Company's size and nature, the Board considers that the current board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined below and the Company's full Corporate Governance Plan is available in a dedicated corporate governance information section of the Company's website.

### **Board of directors**

The Board is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:

- (a) maintain and increase Shareholder value;
- (b) ensure a prudential and ethical basis for the Company's conduct and activities; and
- (c) ensure compliance with the Company's legal and regulatory objectives.

Consistent with these goals, the Board assumes the following responsibilities:

- (a) developing initiatives for profit and asset growth;
- (b) reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- (c) acting on behalf of, and being accountable to, the Shareholders; and
- (d) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

### **Composition of the Board**

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company is committed to the following principles:

the Board is to comprise persons with a blend of skills, experience and attributes appropriate for the Company and its business; and the principal criterion for the appointment of new directors is their ability to add value to the Company and its business.

No formal nomination committee or procedures have been adopted for the identification, appointment and review of the Board membership, but an informal assessment process, facilitated by the Non-Executive Directors in consultation with the Company's professional advisors, has been committed to by the Board.

### **Identification and management of risk**

The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

### **Ethical standards**

The Board is committed to the establishment and maintenance of appropriate ethical standards.

## Performance evaluation

In the absence of a nomination committee, the Board will conduct a performance evaluation of its individual Directors on an annual basis. To assist in this process an independent advisor may be used, and will also conduct an annual review of its performance over the previous 12 months and examine ways of performing its duties more effectively.

Where applicable, the review will include:

- (a) comparing the performance of the Board with the requirements of its Charter;
- (b) examination of the Board's interaction with management;
- (c) the nature of information provided to the Board by management; and
- (d) management's performance in assisting the Board to meet its objectives.

## Independent professional advice

Subject to a Non Executive's Director approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

## Remuneration arrangements

The remuneration of an executive Director will be decided by the Board, without the affected executive Director participating in that decision-making process.

The total maximum remuneration of non-executive Directors is initially set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director. The current amount has been set at an amount not to exceed \$200,000 per annum.

In addition, a Director may be paid fees or other amounts (i.e. subject to any necessary Shareholder approval, non-cash performance incentives such as Options) as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Board has not established a remuneration committee at this point in the Company's development. It is considered that the size of the Board along with the level of activity of the Company renders this impractical and the Board, acting without the affected Director participating in the decision making process, currently serves as a remuneration committee.

The Board reviews and approves the remuneration policy to enable the Company to attract and retain executives and Directors who will create value for Shareholders having consideration to the amount considered to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility. The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

## Trading policy

The Board has adopted a policy that sets out the guidelines on the sale and purchase of securities in the Company by its key management personnel (i.e. Directors and, if applicable, any employees reporting directly to the managing director). The policy generally provides that the written acknowledgement of the Company Secretary must be obtained prior to trading. Please refer to the Company's website for further details on this policy.

## External audit

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

## Audit committee

The Company will not have a separate audit committee until such time as the Board is of a sufficient size and structure, and the Company's operations are of a sufficient magnitude for a separate committee to be of benefit to the Company. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee under the written terms of reference for that committee, including but not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company's internal financial control system and risk management systems and the external audit function.

## Diversity policy

The Board has adopted a diversity policy which provides a framework for the Company to achieve, amongst other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff, improved employment and career development opportunities for women and a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives. Please refer to the Company's website for further details on this policy.

## 7. INDEPENDENT GEOLOGIST'S REPORT

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

Report Prepared for  
**C @ Limited**



Report Prepared by  
**Nordic Geological Solutions LLC**



October 2011

# Geological Review of Mongolian Exploration Licences

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

Report Prepared for

**C @ Limited**


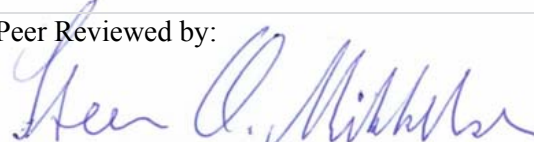
Level 57, MLC Centre, 19-29 Martin Place  
Sydney NSW 2000, Australia  
Tel: + 61 2 9238 2797  
Fax: + 61 2 9235 3535.  
Web: [www.cnow.com.au](http://www.cnow.com.au)

Report Prepared by

**Nordic Geological Solutions LLC**

Amarsanaa Street, House 38, Level 12, 1208,  
17 Horoo, Bayangol District, Ulaanbaatar, Mongolia  
Tel: +976 9999 2908  
Web: [www.ngs.mn](http://www.ngs.mn)

**21 October 2011**

Author: 	Peer Reviewed by: 
Dr Per Michaelson, MAusIMM General Director	Steen Odgaard Mikkelsen, MSc, MAusIMM Managing Director

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## Executive Summary

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

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

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

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

All copyright and any other intellectual property rights in this Report are retained by and are the property of NGS.

NGS grants no permission to publish this Report without consultation with the author.

### Principal Objectives

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

### Outline of Work Program

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

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

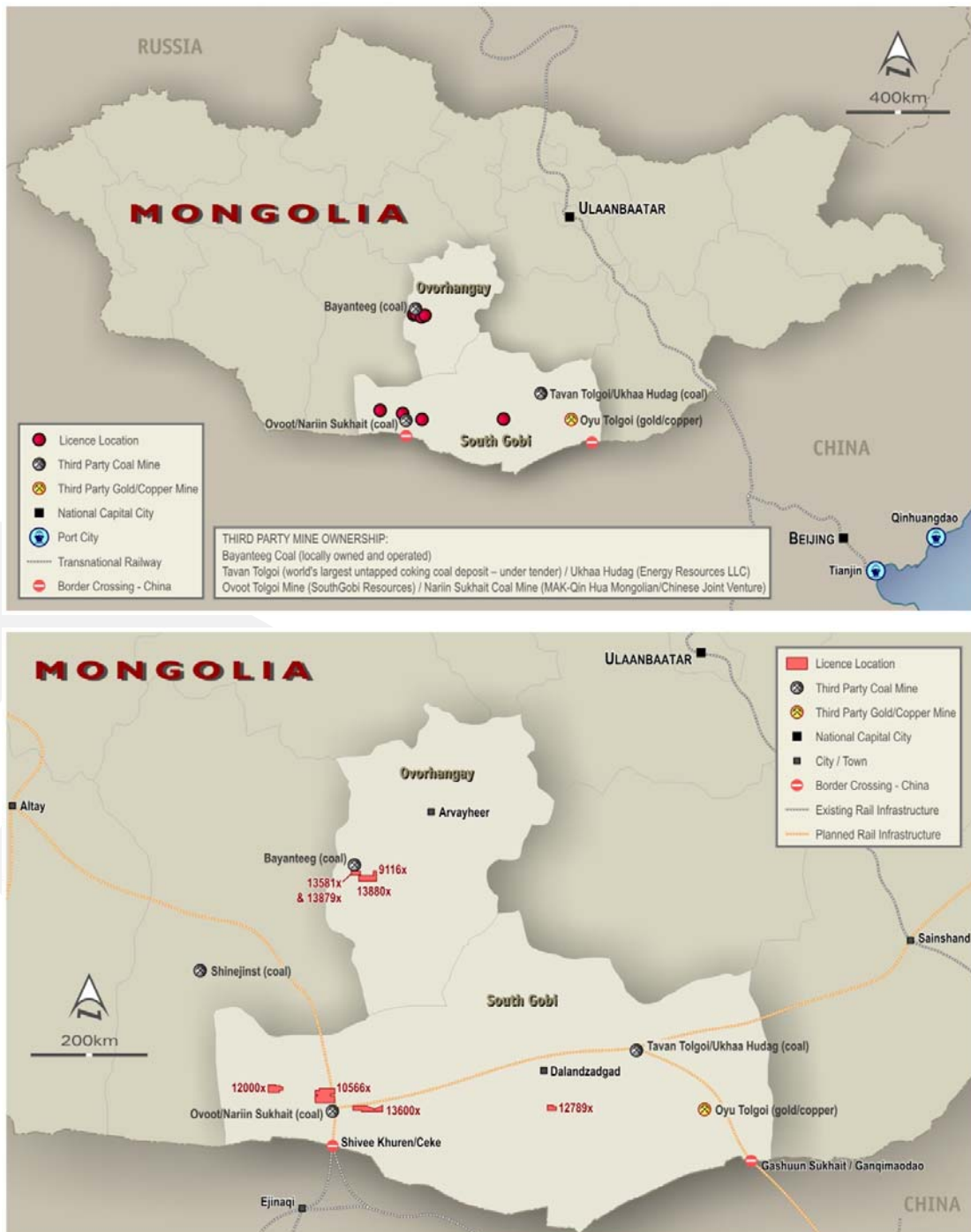


Figure 1 and 2: Location Maps of the Eight Exploration Licences in Mongolia

## Results

### Overall

The eight exploration licences reviewed in this document are located in the South Gobi Basin, South Gobi province in southern Mongolia and the Ongi River Basin, Overhangay province in central Mongolia. Four exploration licences are located in the South Gobi Basin and four in the Ongi River Basin. They occupy a total area of 624.97 km<sup>2</sup>:

- The four licences in the South Gobi Basin (10566X, 12000X, 12789X and 13600X) occupy a total area of 443.92 km<sup>2</sup>.
- The four licences in the Ongi River Basin (9116X, 13581X, 13879X and 13880X) occupy a total of 181.05 km<sup>2</sup>.

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

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

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

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

**Table 2: Overview of Historical Exploration Work**

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

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

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



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

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

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

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

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

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

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

### Coal Quality

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

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

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

It is noted by NGS that:

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

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

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

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

## Coal Resource

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

## Location, Access and Development

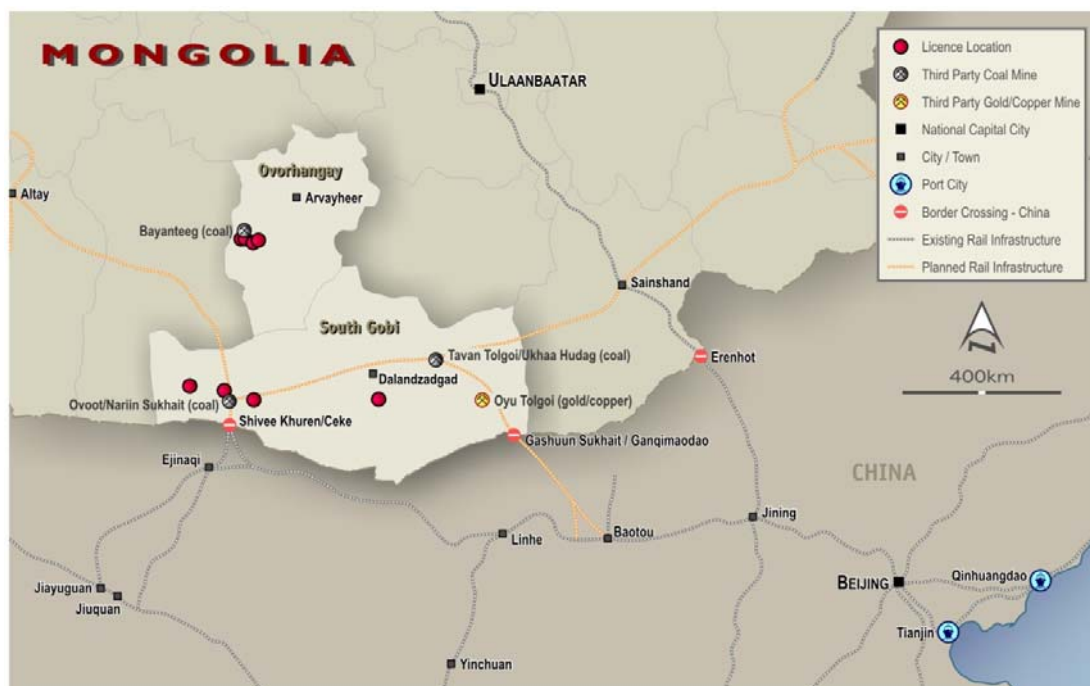
The Ongi River Basin licences are located in central-southern Mongolia, in the eastern part of Ovorhangay province, approximately 130km from the province capital Arvayheer; and approximately 520km south-west of the capital Ulaanbaatar (Figure 1-1 and 1-2). The town of Bayanhongor is located just over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

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

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

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

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



**Figure 3: Rail Infrastructure Planned by the Mongolian Government**

## Recommendations

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

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

## Disclaimer

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

## Glossary and Abbreviations

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

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

# 1 Introduction and Scope of NGS Report

## 1.1 Purpose of the NGS Report

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

## 1.2 Reporting Standard

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

## 1.3 Professional Qualifications of Author

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

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

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

## 1.4 Statement of NGS Independence

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

## 1.5 Intellectual Property

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## 2 Ongi River Basin: Geological Framework

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

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



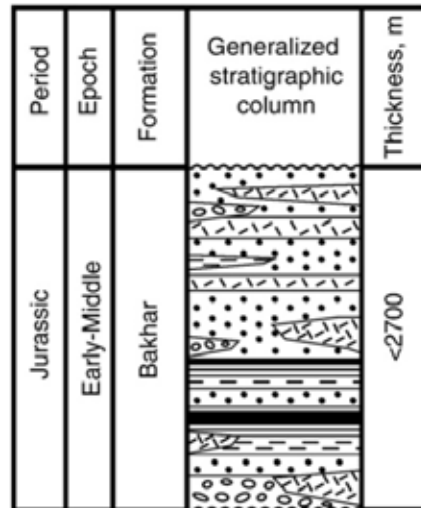
**Figure 2-1: Location of coal licences in Ovorkhangai Province**

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

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

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

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



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

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



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



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

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

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

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

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

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



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

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

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

## 2.1 Teeg (13879X)

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

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



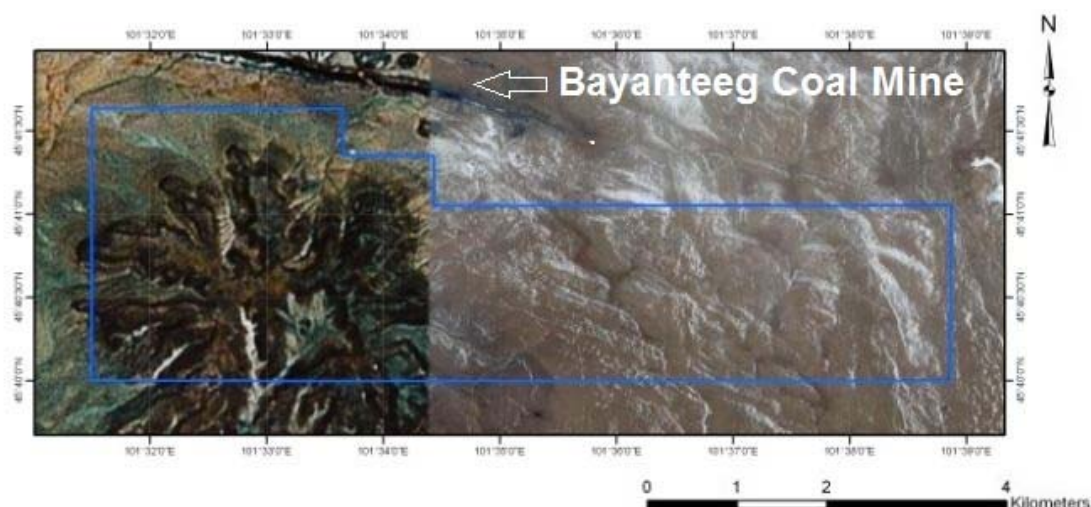
**Figure 2-6: View North from Bayanteeg Coal Mine showing the Teeg well site BTE-005, depicted by the white star**

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

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

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

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



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

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

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

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

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

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

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

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

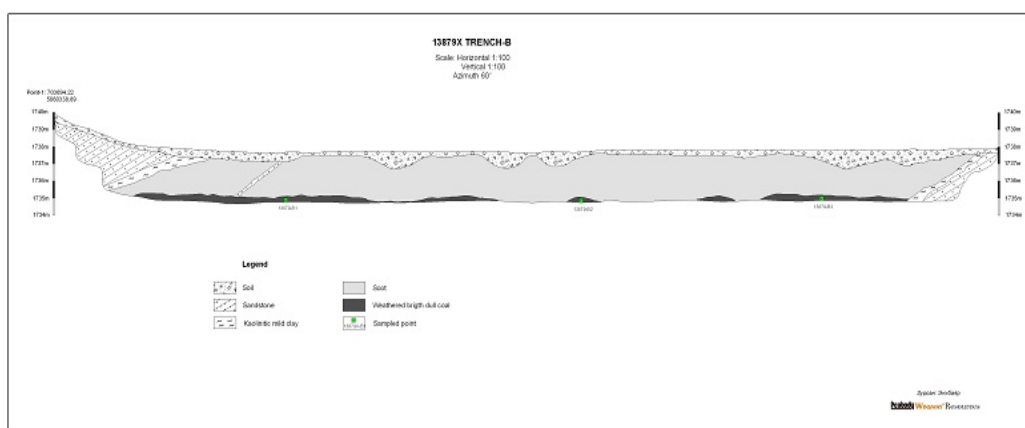


**Figure 2-8: View of Wellsite BTE-001 Proximal to Trench B (2010)**

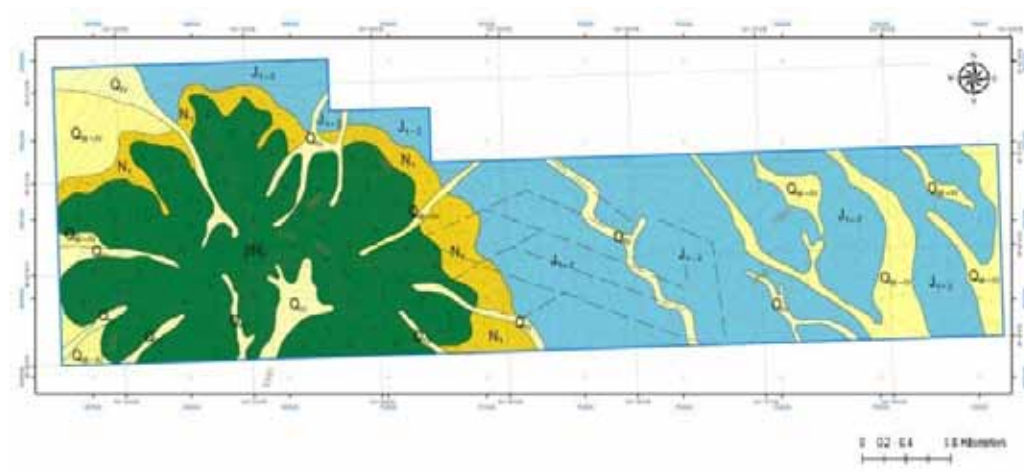
BTE-002 was drilled 280m to the northwest of BTE-001 to a total depth of 207m (i.e. entire section within the Bakhar Formation). The hole intersected an approximate 40m thick black coal seam from a depth of 89m. The hole was geophysically logged, indicating 30m of consistent hard coal. The fluvio-lacustrine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



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



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



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

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

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





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

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



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

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

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



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



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

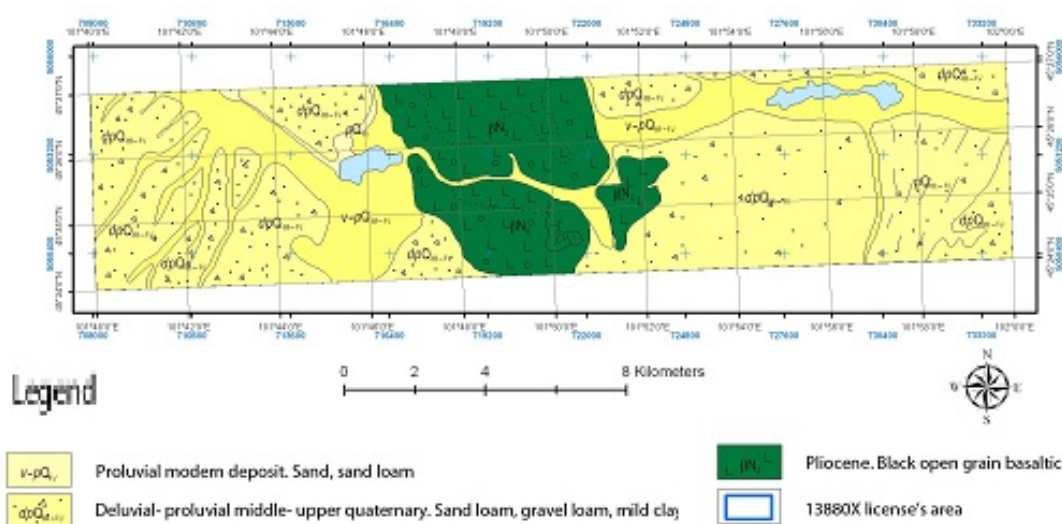
NGS opines that the significant discovery of the massive black coal seam in BTE-001 and BTE-002 warrants a well planned exploration program, to commence as soon as practical possible during 2011.

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

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

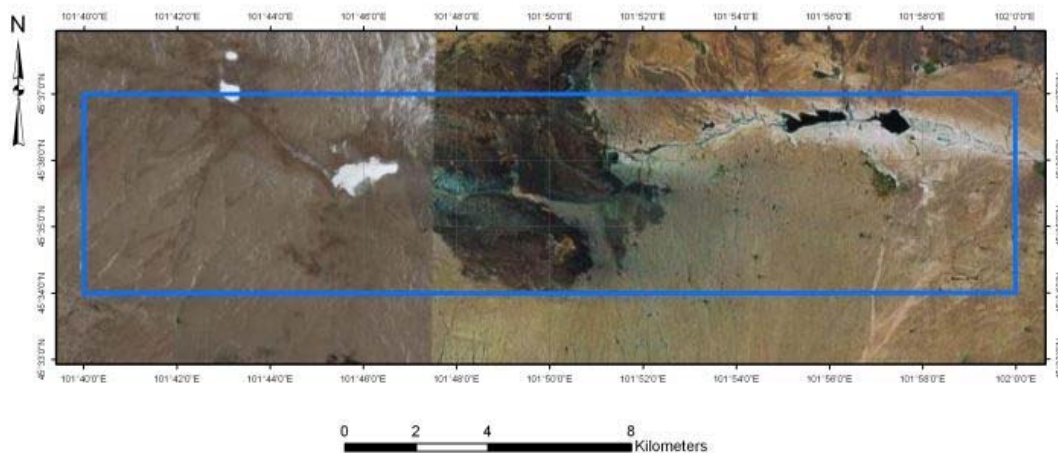
## 2.2 Khongor (13880X)

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



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

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



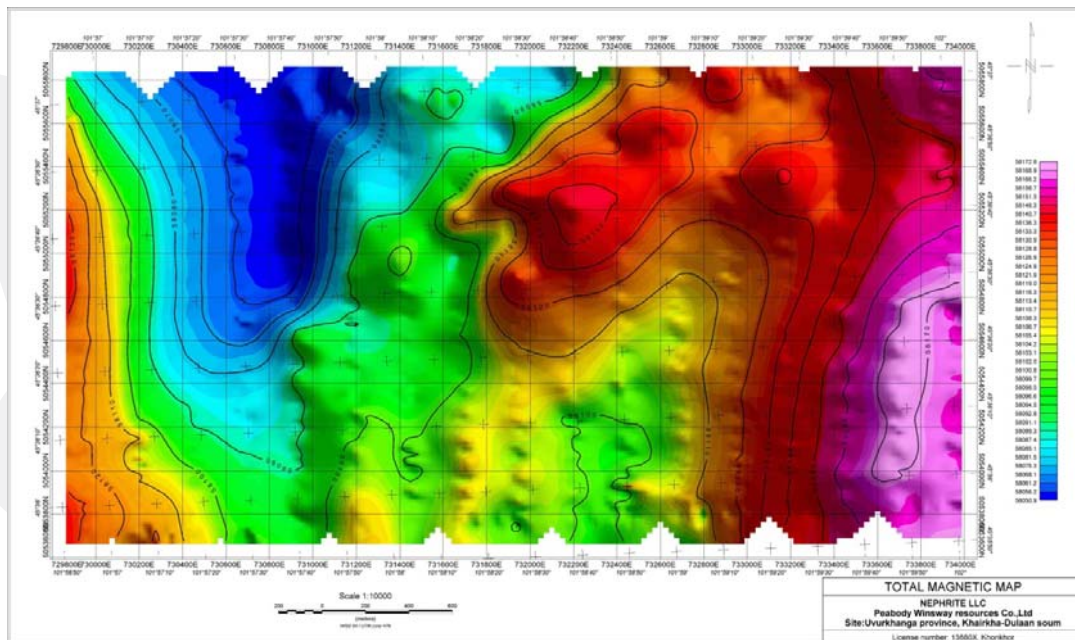
**Figure 2-17: Satellite Image of the Khongor Exploration Area**

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

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

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

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



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

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

## 2.3 Nariin Teeg (13581X)

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



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

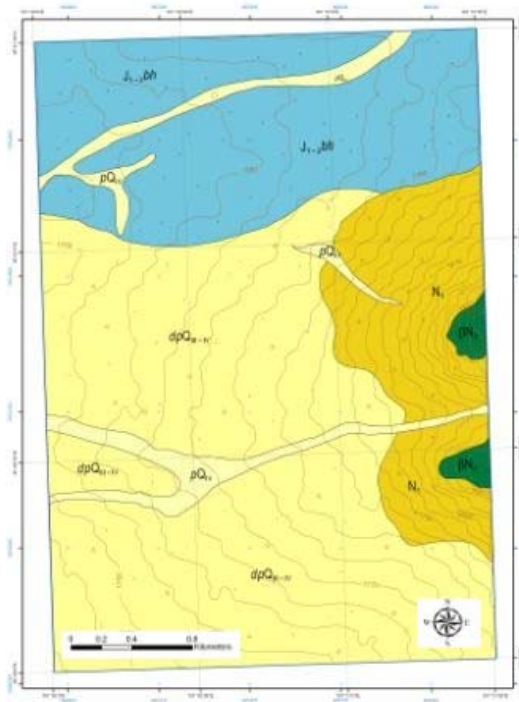
The exploration area is relatively flat with a prominent basalt hill to the east (Figure 2-20). The basalt hill is of Neogene age and extends into the Teeg licence area (13879X). The local geology is dominated by unconsolidated Quaternary sediments, mainly sand and sandy loam.

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

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

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

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



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

## 2.4 Ergen Usny Khudag-2 (9116X)

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

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



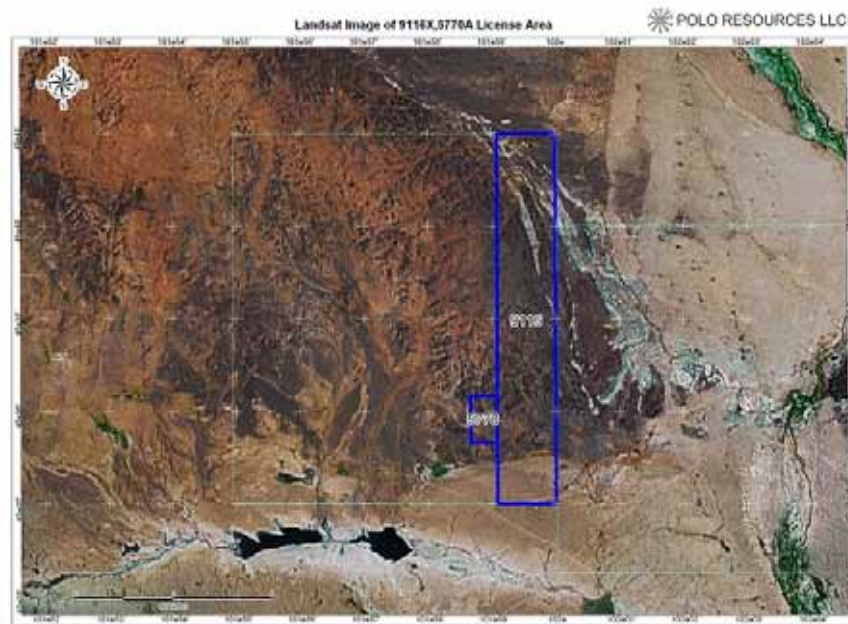
**Figure 2-21: Satellite Image Showing Regional Context of Ergen Usny Khudag-2**

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

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

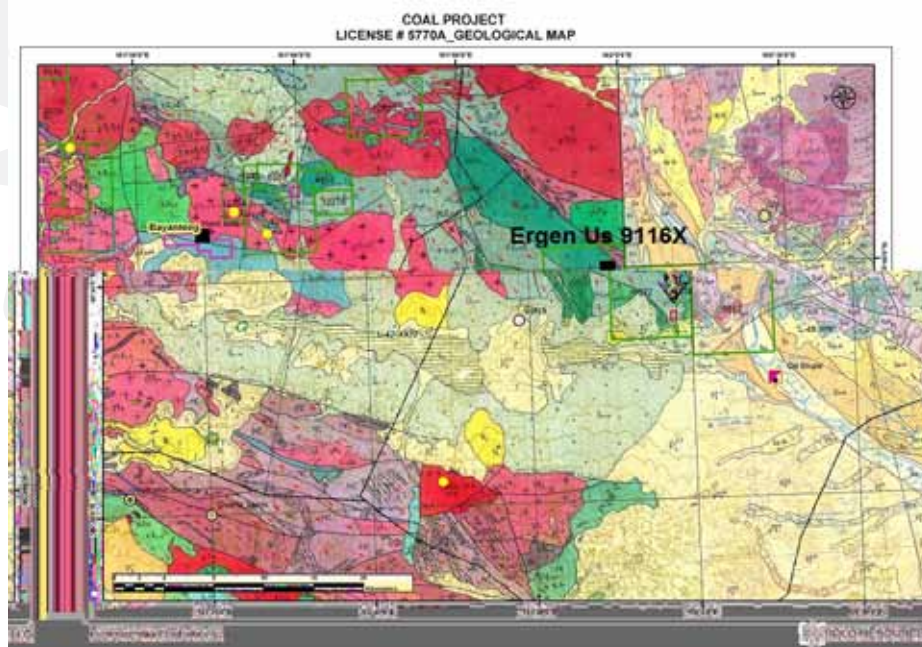
It is also noted that the exploration area might be interesting in terms of Au-bearing quartz-veins and alluvial gold. During routine field operations in June 2011, the CEO exploration team noted quartz vein fragments with malachite stains proximal to the licence boundary (UTM 47T 731494 / 5056784).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



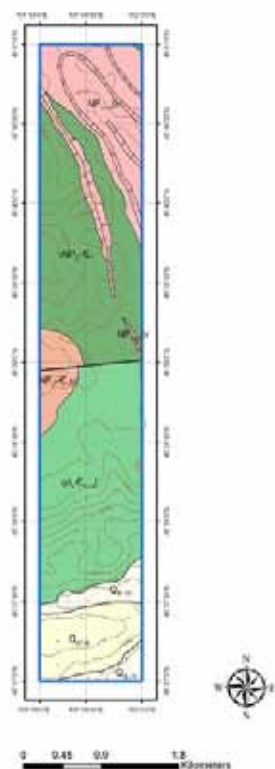


**Figure 2-22: Satellite Image of the Ergen Usny Khudag-2 Exploration Area**

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



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

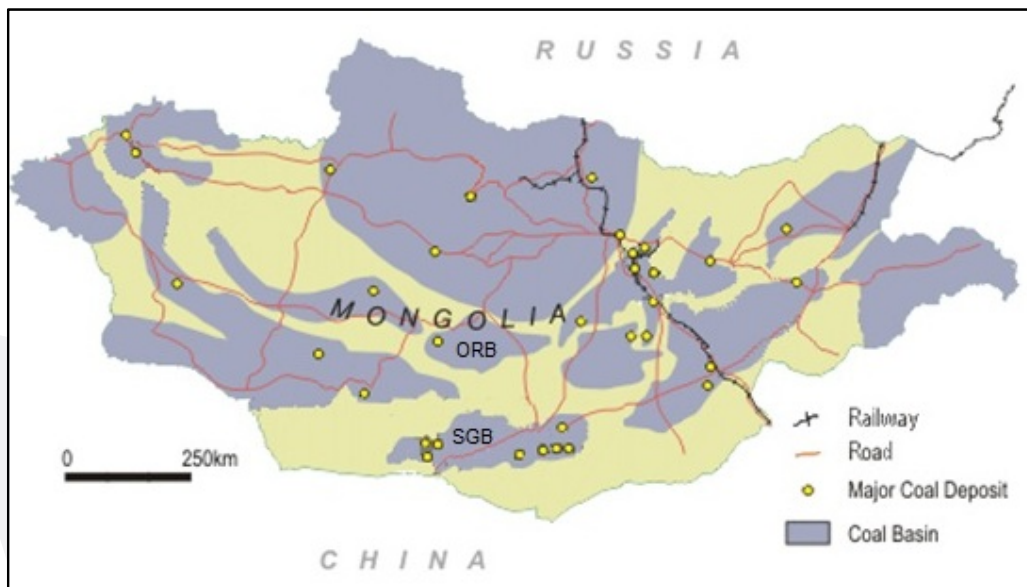


**Figure 2-24: Geology Map (2010) of the Ergen Usny Khudag-2 Exploration Area**

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

### 3 South Gobi Basin: Geological Framework

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

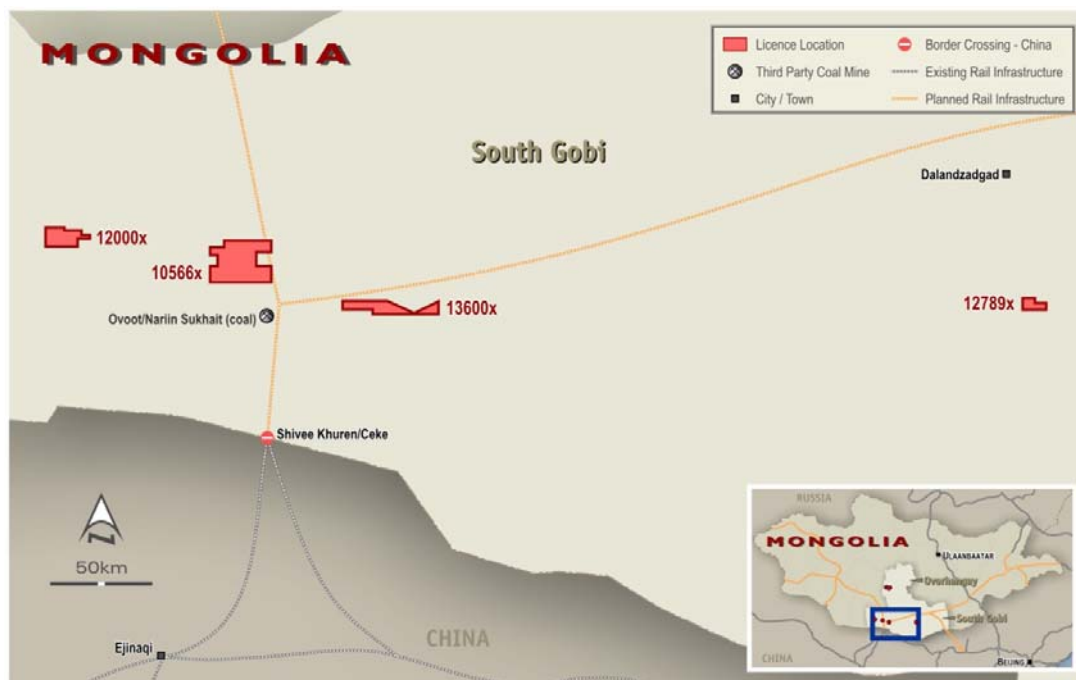


**Figure 3-1: Schematised Location Map of Mongolian Coal Basins**

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

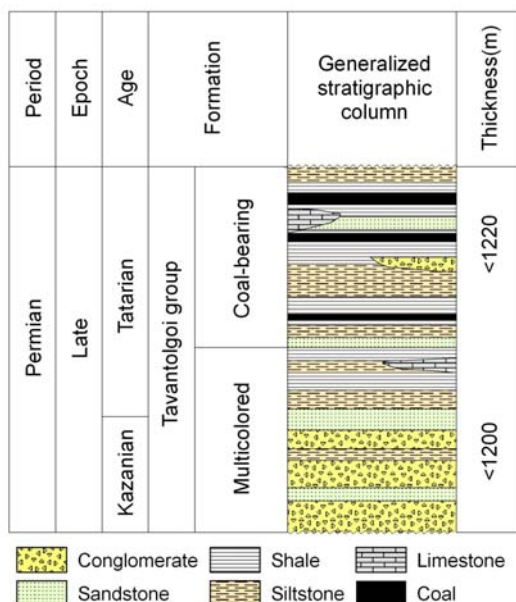
The architecture of the SGB is characterised by a typical elongate coal basin configuration. It extends approximately 600km east west and 100km north south. These dimensions are similar to the Bowen basin in Australia (e.g. Michaelsen and Henderson, 2000, Michaelsen et al., 2001, Michaelsen, 2002). However,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

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



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

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



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

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

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

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



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

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

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

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

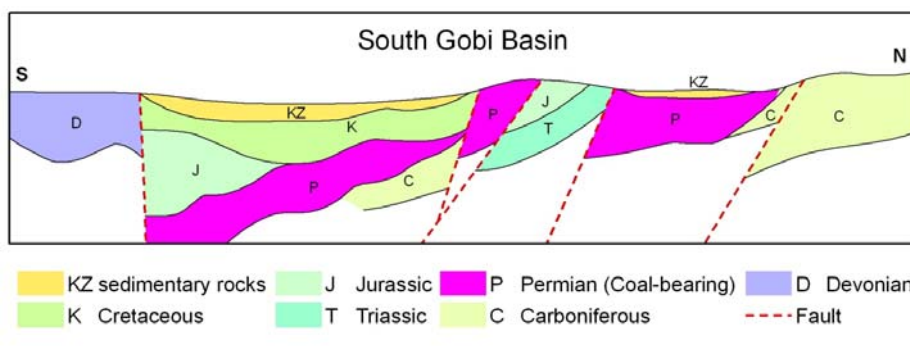
The fault bounded coal-bearing sub-basins are generally asymmetrical, thinning to the north and thickening significantly towards the sedimentary depocentre. Coal seams would be best developed distal to the sub-vertical growth faults which were active during deposition. Coal seams would typically split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



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

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

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



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

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

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

### 3.1 Gurvantes (10566X)

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

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

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

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

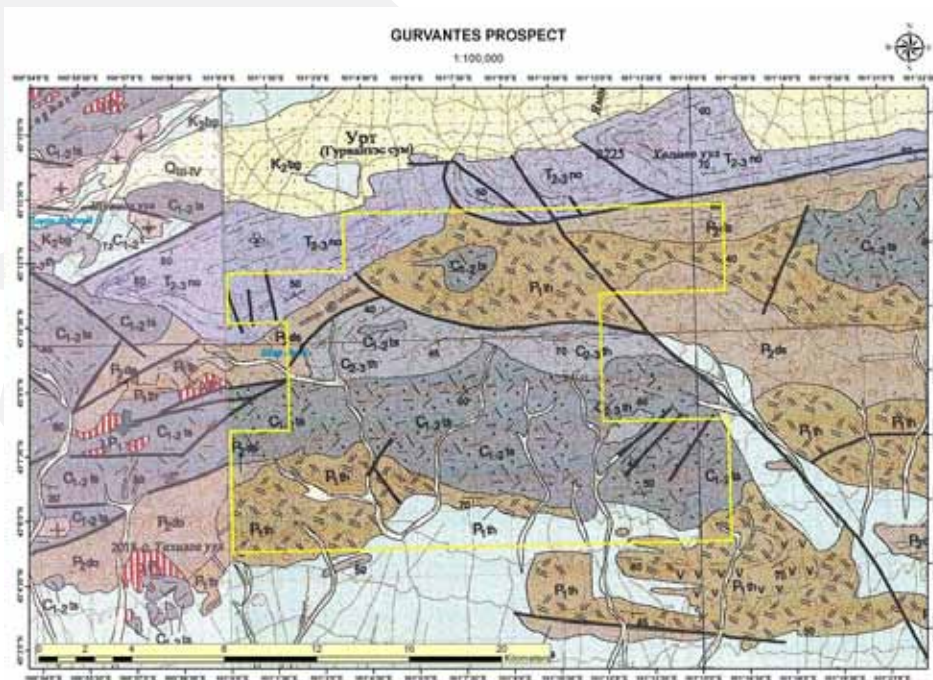


Figure 3-7: Geology Map of License Area 10566X

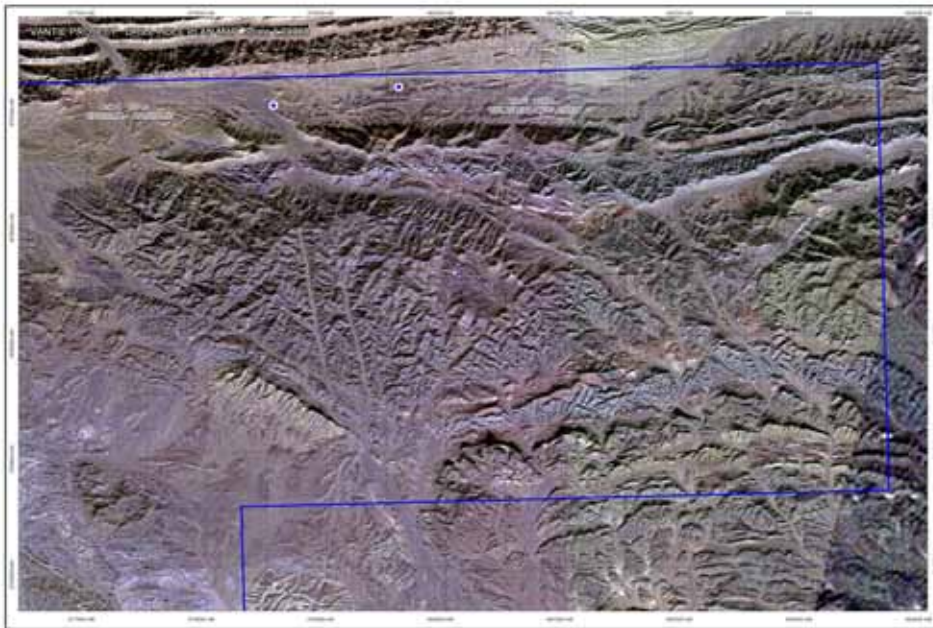
**Table 3-1: Overview of the Holes Drilled on Gurvantes in 2010**

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

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

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

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

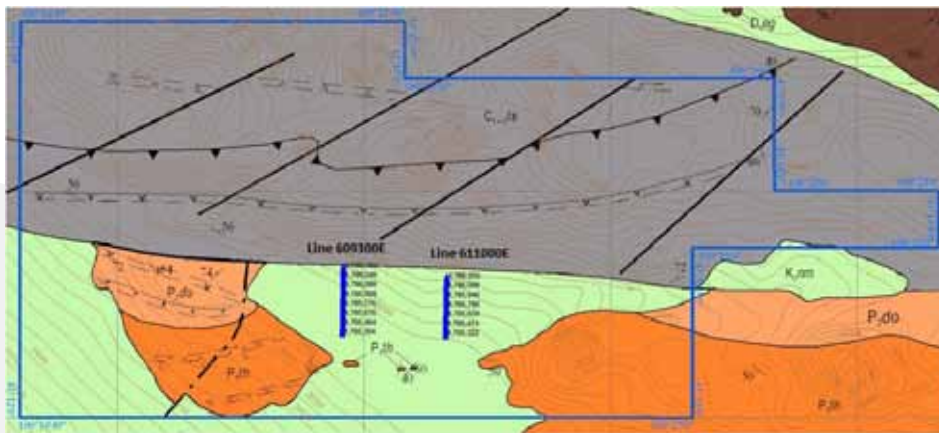
**Figure 3-8: Satellite Image Showing East-West Strike Ridges to the North**



### 3.2 Shavan (12000X)

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

Rocky mountains dominate the northern part of the licence area whereas the southern part is characterised by a more gentle hilly terrain. Carboniferous volcanics cover most of the licence area (Figure 3-9). Late Permian coal-bearing deposits outcrop within an area of approximately 4 km<sup>2</sup> in the south western sector. A gravity survey in the southern sector of the licence area was conducted by Polo in 2008. During the 2009 field season geologists mapped a zone of approximately 200m Permian dark grey mudstone, and steeply dipping (i.e. 64 - 72 degrees) coaly zones with thickness of 1 – 1.5m.



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

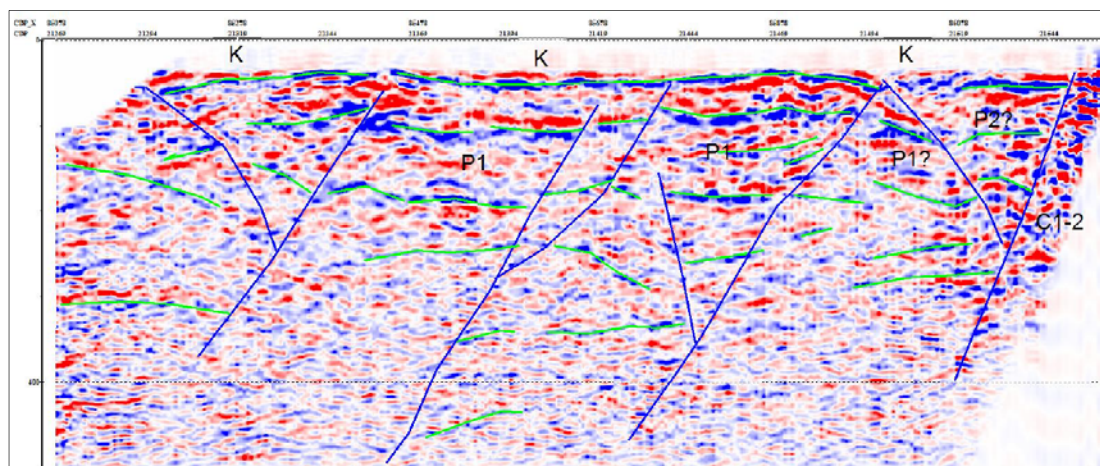
In September 2010, Logantek Mongolia LLC was contracted to undertake a seismic survey within the Shavan exploration area. The survey consisted of two seismic lines in the central-southern sector (Figures 3-9 and 3-10):

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

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

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

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



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

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

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

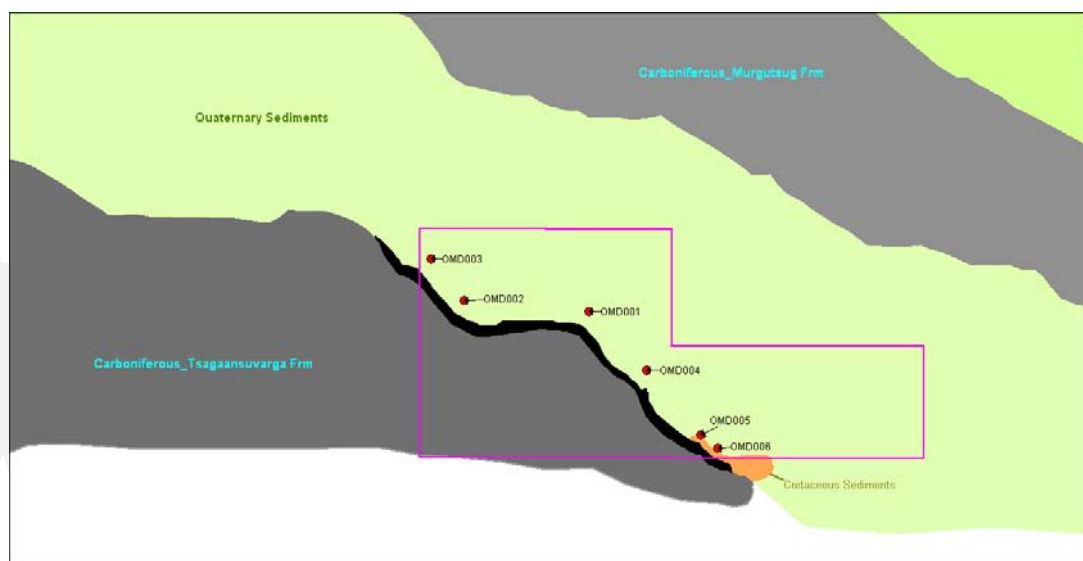
The steeply dipping (i.e. 64 - 72 degrees) Late Permian coal-bearing strata exposed in the south-western licence area, does not appear to extend eastwards under Cretaceous cover as shown by the recent drilling activity by CEO.

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

### 3.3 Olomgui (12789X)

Exploration licence area Olomgui (12789X) is located approximately 56km south-southeast of Dalanzadgad, the regional centre of the South Gobi province. The exploration licence area is situated within Nomgon Soum and covers an area of 22.54 km<sup>2</sup>.

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



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

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

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

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

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

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

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

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

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

### 3.4 Zamt Uul (13600X)

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

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

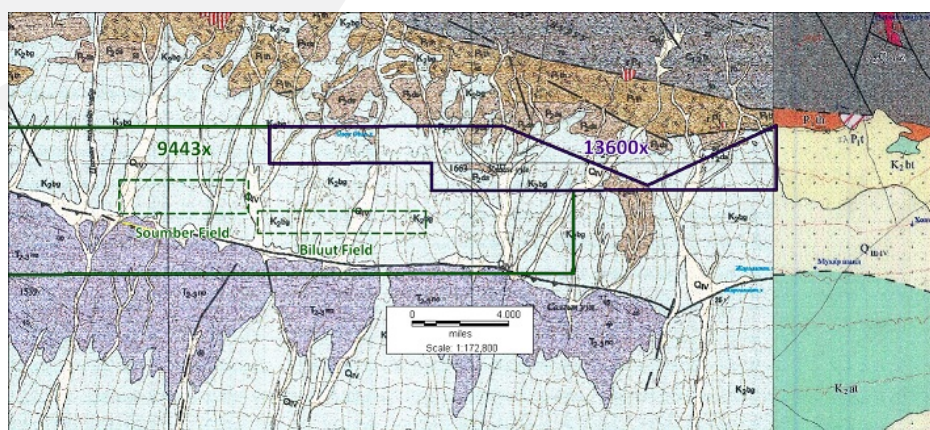
Late Permian coal-bearing strata outcrop just south of the licence area. However, no coal outcrops are evident within the licence area. Bedding dips are typically observed and recorded in the 30-40 degree range (but up to 55 degrees in places).

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

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

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

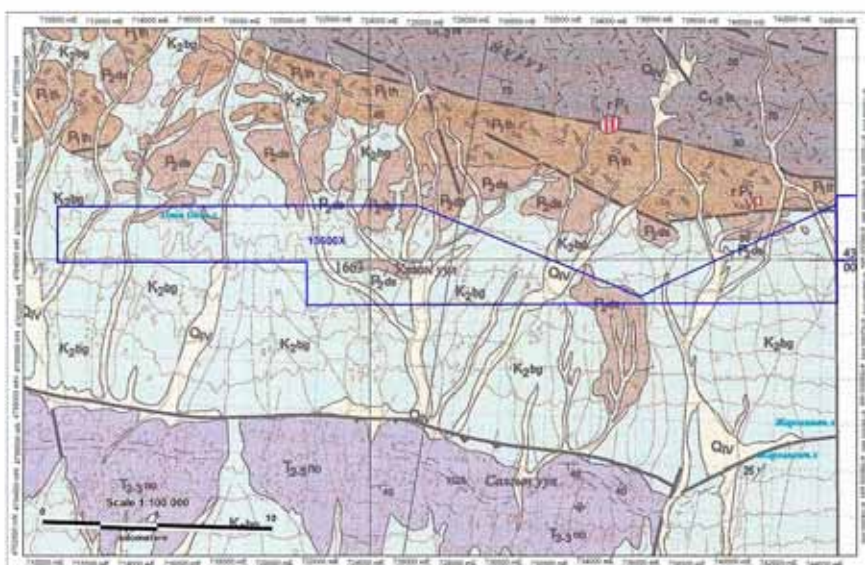
The Soumber coal resources are classified as bituminous coal and the rank ranges from low-volatile bituminous coal to medium-volatile bituminous coal, based on ASTM standard D388. Calorific values range between 5,000 - 7,800 kilocalories per kilogram (AR basis).



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

Coal quality data from the Soumber deposit suggest that there is good potential to produce a blend or washed coking coal product from shallow (low stripping ratio) sources. On 6 July 2011 the Mineral Resource Authority of Mongolia (“MRAM”) granted a new 109.93km<sup>2</sup> mining licence for the Soumber deposit for an initial term of 30 years with an option for two 20-year extensions.

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



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

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

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

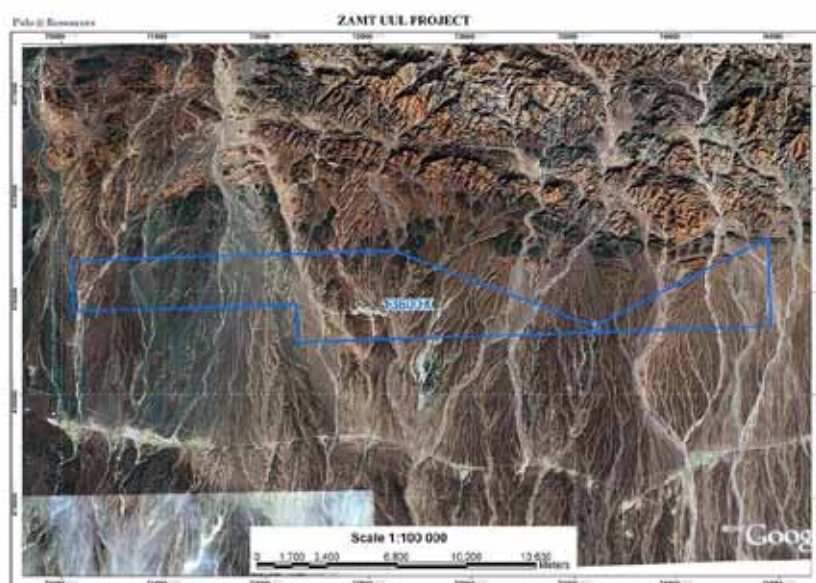
Licence Number	Hole ID	Northing (UTM)	Easting (UTM)	Total Depth
13600X	ZU-001	4765681	743346	174
	ZU-002	4764663	712317	113
	ZU-003	4764987	729852	200

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

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

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

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



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

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

## 4 Proposed Exploration Program

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

### Year 1 - Resource Confirmation Budget

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

### Year 2 – Scoping Study (Pre feasibility)

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

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

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



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## 8. INDEPENDENT ACCOUNTANT'S REPORT

### INVESTIGATING ACCOUNTANT'S REPORT

C@ Limited (to be renamed Draig  
Resources Limited)

8 November 2011



Tel: +61 8 6382 4600  
Fax: +61 8 6382 4601  
www.bdo.com.au

38 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

8 November 2011

The Directors  
C@ Limited  
Suite 1, 64 Thomas Street  
WEST PERTH WA 6005

Dear Sirs

## INVESTIGATING ACCOUNTANT'S REPORT

### 1. Introduction

We have prepared this Investigating Accountant's Report ("**Report**") on historical financial information of C@ Limited (to be renamed Draig Resources Limited) ("**C@**" or "**the Company**") for inclusion in the Prospectus to be lodged on or around 8 November 2011. Broadly, the Prospectus will offer up to 28 million shares at an issue price of \$1.00 each to raise up to \$28 million before costs ("**the Offer**"). The minimum subscription under the Offer is \$20 million before costs.

Expressions defined in the prospectus have the same meaning in this Report.

### 2. Basis of Preparation

This Report has been prepared to provide investors with information on the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Financial Position and the pro-forma Statement of Financial Position as noted in Appendices 1, 2 and 3.

This Report does not address the rights attaching to the shares to be issued in accordance with the Prospectus, nor the risk associated with the investment, and has been prepared based on the complete Offer being achieved. Neither BDO Corporate Finance (WA) Pty Ltd nor its related entities ("**BDO**") has not been requested to consider the prospects for the Company, the shares on offer and related pricing issues, nor the merits and risks associated with becoming a shareholder and accordingly has not done so, and does not purport to do so. BDO accordingly takes no responsibility for these matters or for any matter or omission in the Prospectus, other than responsibility for this Report. Risk factors are set out in the Prospectus.

### 3. Background

C@ Limited is a listed public company which was incorporated in October 2004. It listed on the Australian Securities Exchange (“ASX”) on 20 December 2005. C@’s Board of Directors is made up of Terrence Mark Earley as Managing Director and Andrew Harrison and Jade Styants both as Non Executive Directors.

The Company was originally engaged in supplying wholesale optical frames and lenses to opticians but announced to the market during 2010 that it intended to search for opportunities in the coal resources sector. In April 2011 the Company announced that it had entered into a binding and exclusive agreement (“Option Agreement”) which provides C@ with an option to acquire 8 coal licences located in the South Gobi Province and the adjoining Overhangay Province in southern Mongolia which cover an area of approximately 625 km<sup>2</sup> (“Coal Project”). A non-refundable payment of US\$100,000 was made by C@ for the exclusive right to conduct due diligence and to exercise the Option Agreement.

On 26 October 2011 C@ entered into a Share Sale Agreement with Peabody-Winsway Resources LLC (“Peabody Winsway”) to purchase all of its shares in BDBL LLC, a company incorporated in Mongolia which owns 100% of the Coal Project (“Acquisition”). In consideration for the Acquisition, C@ will pay Peabody Winsway US\$7,670,000 in addition to the US\$100,000 already paid by C@ under the Option Agreement and the US\$100,000 paid by C@ at the time of signing the Share Sale Agreement, plus any value added tax on the acquisition price.

On and from completion of the Acquisition, BDBL will pay to Polo Resources Limited a royalty of 1% of the free on board mine site price (exclusive of any value added tax) per tonne of coal mined within the licence area.

Completion of the Acquisition is subject to the following:

- C@ obtaining shareholder approval for the purpose of ASX Listing Rule 11.1.2 for the Acquisition;
- C@ completing a minimum capital raising of \$10 million;
- There being no circumstances or state of affairs which, if subsisting at the execution date or the settlement date, would constitute a material breach of any of the title warranties that is not cured prior to the earlier of the satisfaction date and a date that is 10 business days following notice in writing of the relevant circumstances or state of affairs being provided by C@ to the seller; and
- The registration of the transfer of the Coal Project to the Company in accordance with the Mineral laws of Mongolia.

The Company has also entered into a memorandum of understanding with a private Australian company, Trinity Mongolia Pty Ltd, and its wholly owned Mongolian subsidiary, Trinity Development LLC (“Trinity”), which will come into effect at the completion of the Acquisition (“Trinity MOU”). At the time of acquiring the Project, Trinity will own a 10% free carried participating interest up until the resource defined within the Coal Project is estimated to be 200Mt or greater of JORC compliant indicated or inferred resources. They will also have the right to increase its participating interest by 15% (up to 25% in total) by reimbursement to C@ of all costs paid by C@, up to the time of Trinity’s election, that are attributable to the Project on a proportionate basis.

Upon completion of the Acquisition, BDBL LLC will be a 100% owned Mongolian subsidiary of C@. The Company will also own 90% of the Project through BDBL LLC, with a minority interest being owned by Trinity, in accordance with the Trinity MOU.

## 4. Scope

You have requested BDO to prepare an Investigating Accountant's Report covering the following financial information:

- C@'s audited Statement of Comprehensive Income for the year ended 30 June 2011;
- the Statement of Financial Position, Statement of Changes in Equity and the pro-forma Statement of Financial Position as at 30 June 2011 reflecting the actual position as at that date, major transactions between that date and the date of our report and the proposed capital raising under the Prospectus; and
- the accounting policies applied by C@ in preparing its financial statements.

The historical financial information set out in the appendices to this Report has been extracted from the financial statements of the Company for year ended 30 June 2011.

The Directors are responsible for the preparation of the historical financial information including determination of the adjustments.

We have conducted our review of the historical financial information in accordance with the Australian Auditing and Assurance Standard ASRE 2405 "Review of Historical Financial Information Other than a Financial Report". We made such inquiries and performed such procedures as we, in our professional judgment, considered reasonable in the circumstances including:

- a review of work papers, accounting records and other documents pertaining to balances in existence at 30 June 2011;
- a review of the assumptions used to compile the pro-forma Statement of Financial Position;
- a review of the adjustments made to the pro-forma historical financial information;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in the appendices to this Report; and
- enquiry of Directors and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our review was limited primarily to an examination of the historical financial information, the pro-forma financial information, analytical review procedures and discussions with both management and directors. A review of this nature provides less assurance than an audit and, accordingly, this Report does not express an audit opinion on the historical information or pro-forma financial information included in this Report or elsewhere in the Prospectus.

In relation to the information presented in this Report:

- support by another person, corporation or an unrelated entity has not been assumed;
- the amounts shown in respect of assets do not purport to be the amounts that would have been realised if the assets were sold at the date of this Report; and
- the going concern basis of accounting has been adopted.

## 5. Conclusion

### Statement on Historical Financial Information

Based on our review, which was not an audit, nothing has come to our attention which would cause us to believe the historical financial information as set out in the Appendices to this report does not present fairly the financial performance for the year ended 30 June 2011 or the financial position as at 30 June 2011 in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia.

### Statement of Pro-forma Financial Information

Based on our review, which was not an audit, nothing has come to our attention which would cause us to believe the pro-forma financial information does not present fairly the financial position of the Company as at 30 June 2011, in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia as if the pro-forma transactions had occurred on that date.

## 6. Subsequent Events

The pro-forma Statement of Financial Position reflects the following events that have occurred subsequent to the period ended 30 June 2011:

- Issue of Shares upon the exercise of listed options at \$0.01 to raise \$319,498 ; and
- Exploration expenditure totalling approximately \$354,320 has been incurred in relation to exploration programs undertaken. This expenditure has been capitalised.

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief, no other material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

## 7. Assumptions Adopted in Compiling the Pro-forma Statement of Financial Position

The pro-forma Statement of Financial Position post issue is shown in Appendix 2. This has been prepared based on the reviewed financial statements as at 30 June 2011 and the transactions and events relating to the issue of shares under this Prospectus:

- The consolidation of C@ share capital on a 20:1 basis;
- The issue of 28 million shares at an issue price of \$1.00 per share to raise \$28 million (based on the full subscription under the Offer);
- Capital raising costs of the Offer totalling approximately \$1,836,687 to be offset against contributed equity;
- The issue of 750,000 Options (post-consolidation) to Azure Capital, BGF Equities and Renaissance Capital as consideration for corporate advisory and lead manager services provided in regard to the Offer. The issue of the options will be contingent on the completion of the capital raising and are exercisable at the capital raising issue price and exercisable within 3 years of the capital raising allotment date. The cost of these options to be offset against contributed equity; and

- The payment of approximately US\$7,670,000 (AUD\$7,387,075 at an FX rate of A\$/US\$1.0383 as at 4 November 2011) to Peabody Winsway as consideration for the Acquisition.

## 8. Disclosures

BDO Corporate Finance (WA) Pty Ltd is the corporate advisory arm of BDO in Perth.

Neither BDO Corporate Finance (WA) Pty Ltd nor BDO, nor any director or executive or employee thereof, has any financial interest in the outcome of the proposed transaction except for the normal professional fee due for the preparation of this Report.

Consent to the inclusion of the Investigating Accountant's Report in the Prospectus in the form and context in which it appears, has been given. At the date of this Report, this consent has not been withdrawn.

Yours faithfully

**BDO Corporate Finance (WA) Pty Ltd**



**Sherif Andrawes**  
Director

APPENDIX 1  
C@ LIMITED  
STATEMENT OF COMPREHENSIVE INCOME

	Audited for the year ended to 30-Jun-11 \$
Sales revenue	1,835
Cost of sales	(1,072)
<b>Gross profit</b>	<b>763</b>
Other expenses	(987,436)
Personnel expenses	(897,446)
<b>Results from operating activities</b>	<b>(1,884,119)</b>
Finance income	81,785
Finance expense	-
<b>Net financing income</b>	<b>81,785</b>
<b>Loss before income tax expense</b>	<b>(1,802,334)</b>
Income tax benefit/(expense)	-
<b>Net Loss for the period</b>	<b>(1,802,334)</b>

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.



APPENDIX 2

C@ LIMITED

STATEMENT OF FINANCIAL POSITION

	Notes	Audited as at 30-Jun-11 \$	Subsequent Events \$	Pro-forma Adjustments \$	Pro-forma After issue \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	2	1,125,309	(134,822)	18,776,238	19,766,725
Trade and other receivables		31,046	-	-	31,046
<b>TOTAL CURRENT ASSETS</b>		<b>1,156,355</b>	<b>(134,822)</b>	<b>18,776,238</b>	<b>19,797,771</b>
<b>NON CURRENT ASSETS</b>					
Property, plant and equipment		2,631	-	-	2,631
Exploration expenditure	3	-	454,320	7,387,075	7,841,395
<b>TOTAL NON CURRENT ASSETS</b>		<b>2,631</b>	<b>454,320</b>	<b>7,387,075</b>	<b>7,844,026</b>
<b>TOTAL ASSETS</b>		<b>1,158,986</b>	<b>319,498</b>	<b>26,163,313</b>	<b>27,641,797</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables		48,646	-	-	48,646
<b>TOTAL CURRENT LIABILITES</b>		<b>48,646</b>	<b>-</b>	<b>-</b>	<b>48,646</b>
<b>TOTAL LIABILITIES</b>		<b>48,646</b>	<b>-</b>	<b>-</b>	<b>48,646</b>
<b>NET ASSETS/(LIABILITES)</b>		<b>1,110,340</b>	<b>319,498</b>	<b>26,163,313</b>	<b>27,593,151</b>
<b>EQUITY</b>					
Issued capital	4	7,904,310	319,498	25,748,069	33,971,877
Reserves	5	386,153	-	415,244	801,397
Accumulated losses		(7,180,123)	-	-	(7,180,123)
<b>TOTAL EQUITY</b>		<b>1,110,340</b>	<b>319,498</b>	<b>26,163,313</b>	<b>27,593,151</b>

The pro-forma Statement of Financial Position after Issue is as per the Statement of Financial Position before Issue adjusted for subsequent events and for the transactions relating to the issue of shares pursuant to this Prospectus. The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.

APPENDIX 3

C@ LIMITED

STATEMENT OF CHANGES IN EQUITY

		Audited for the	Subsequent	Pro-forma	Pro-forma
	Notes	year ended	Events	Adjustments	After issue
		30-Jun-11			
		\$	\$	\$	\$
Balance as at 1 July 2010		(5,377,789)	-	-	(5,377,789)
<i>Comprehensive income for the period</i>					
Profit/(Loss) for the period		(1,802,334)	-	-	(1,802,334)
<b>Total comprehensive income for the period</b>		<b>(1,802,334)</b>	<b>-</b>	<b>-</b>	<b>(1,802,334)</b>
<i>Transactions with equity holders in their capacity as equity holders</i>					
Contributed equity, net of transaction costs	4	7,904,310	319,498	25,748,069	33,971,877
Reserves	5	386,153	-	415,244	801,397
<b>Total transactions with equity holders</b>		<b>8,290,463</b>	<b>319,498</b>	<b>26,163,313</b>	<b>34,773,274</b>
<b>Balance</b>		<b>1,110,340</b>	<b>319,498</b>	<b>26,163,313</b>	<b>27,593,151</b>

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the historical financial information set out in Appendix 4.

## APPENDIX 4

### C@ LIMITED

#### NOTES TO AND FORMING PART OF THE HISTORICAL FINANCIAL INFORMATION

##### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the historical financial information included in this Report have been set out below.

###### **(a) Basis of preparation of historical financial information**

The historical financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of the Australian equivalents to International Financial Reporting Standards (“AIFRS”), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

###### *Functional and presentational currency*

The historical financial information is presented in Australian dollars, which is the functional currency of C@.

###### *Continued operations*

C@ operates in the provision of optometry related products in Australia and it is also currently focussed on seeking out new investment opportunities. The provision of optometry related products is incidental to the review of investing opportunities.

###### **(b) Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgments incorporated into the historical financial information based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within C@. Actual results may differ from these estimates.

###### **(c) Financial instruments**

###### *Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below in the specific policy notes.

###### *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

#### **(d) Trade and other receivables**

Trade and other receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method, less an allowance for any estimated shortfall in receipt. An estimate of any shortfall in receipt is made when there is objective evidence a loss has been incurred. Bad Debts are written off when identified.

#### **(e) Property, plant and equipment**

##### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset.

##### *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to C@ and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### *Depreciation*

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The expected useful lives in the current and comparative period are as follows:

- Plant and equipment 5 years
- Computer equipment 2 - 3 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

#### **(f) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing it to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

#### **(g) Impairment**

##### *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

#### *Calculation of recoverable amount*

The recoverable amount of C@’s receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### *Non-financial assets*

The carrying amounts of C@’s non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for sale, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

#### **(h) Employee benefits**

##### *Wages and salaries, annual leave and sick leave*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave and sick leave expected to be settled within 12 months are measured at their nominal values based on expected rates of pay. The provision for long service leave is measured as the present value of the estimated future cash flows.

### *Share-based payments*

Share-based remuneration benefits are provided to employees via the Company's incentive scheme, known as the C@ Employee Option Scheme ("Scheme"). No options issued have been issued under this Scheme, however options were granted during the year to Mr Terence Mark Early as an incentive for signing on with the Company.

The cost of these share-based payment transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black-Scholes model.

In valuing share-based payment transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of C@ ('market conditions').

The cost of share-based payment transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- the extent to which the vesting period has expired; and
- the number of awards that, in the opinion of the Directors of the Consolidated Entity, will ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### **(i) Revenue**

Revenues are recognised and measured at the fair value of the consideration received net of the amount of discounts and goods and services tax (GST) payable to the taxation authority.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably.

### *Interest income*

Interest income is recognised as it accrues.

### **(j) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences in the: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

### *Tax consolidation*

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2005 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is C@ Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution. The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

#### **(k) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### **(l) Trade and other payables**

These amounts represent liabilities for goods or services provided by C@ prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within 60 days of recognition.

#### **(m) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of C@'s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### **(n) Exploration and evaluation**

Exploration and evaluation assets are only recognised if the rights to the area of interest are current and either: the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Costs incurred before C@ has obtained the legal rights to explore an area are recognised in the income statement.



	Audited 30-Jun-11	Pro-forma After issue
<b>NOTE 2. CASH AND CASH EQUIVALENTS</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	1,125,309	19,766,725
<i>Adjustments to arise at the pro-forma balance:</i>		
Audited balance of C@ at 30 June 2011		1,125,309
<i>Subsequent event adjustments:</i>		
Issue of Shares upon the exercise of listed options at \$0.01		319,498
Expenditure incurred relating to exploration programs undertaken		(454,320)
		(134,822)
<i>Pro-forma adjustments:</i>		
Proceeds from shares issued under this Prospectus		28,000,000
Capital raising costs		(1,836,687)
Consideration payable to Peabody Winsway for Acquisition		(7,387,075)
		18,776,238
Pro-forma Balance		19,766,725

	Audited 30-Jun-11	Pro-forma After issue
<b>NOTE 3. EXPLORATION EXPENDITURE</b>	<b>\$</b>	<b>\$</b>
Exploration expenditure	-	7,841,395
<i>Adjustments to arise at the pro-forma balance:</i>		
Audited balance of C@ at 30 June 2011		-
<i>Subsequent event adjustments:</i>		
Expenditure incurred relating to exploration programs undertaken		454,320
<i>Pro-forma adjustments:</i>		
Consideration payable to Peabody Winsway for Acquisition		7,387,075
Pro-forma Balance		7,841,395

	Audited 30-Jun-11	Pro-forma After issue
<b>NOTE 4. ISSUED CAPITAL</b>	<b>\$</b>	<b>\$</b>
Issued capital	7,904,310	33,971,877
	<b>Number of shares</b>	<b>\$</b>
<i>Adjustments to arise at the pro-forma balance:</i>		
Audited balance of C@ at 30 June 2011	471,392,945	7,904,310
<i>Subsequent event adjustments:</i>		
Issue of Shares upon the exercise of listed options at \$0.01	31,949,778	319,498
Fully paid ordinary share capital pre consolidation	503,342,723	8,223,808
Fully paid ordinary share capital post consolidation (on a 20:1 basis)	25,167,136	8,223,808
<i>Pro-forma adjustments:</i>		
Proceeds from shares issued under this Prospectus	28,000,000	28,000,000
Capital raising costs	-	(1,836,687)
The issue of 750,000 Options to Advisors and Lead Managers	-	(415,244)
	28,000,000	25,748,069
Pro-forma Balance	53,167,136	33,971,877

	Audited 30-Jun-11	Pro-forma After issue
<b>NOTE 5. RESERVES</b>	<b>\$</b>	<b>\$</b>
Reserves	386,153	801,397
<i>Adjustments to arise at the pro-forma balance:</i>		
Audited balance of C@ at 30 June 2011		386,153
<i>Pro-forma adjustments:</i>		
The issue of 750,000 Options to Advisors and Lead Managers		415,244
Pro-forma Balance		801,397

<b>Options and Performance Rights on issue (post consolidation)</b>	<b>Number</b>
<b>Options:</b>	
Options on issue expiring 15 September 2013	2,295,000
Options on issue expiring 30 April 2012	6,392,670
Options to be issued to Advisors and Lead Managers after Offer completed (1)	750,000
Options to be issued to Directors upon Shareholder approval (2)	2,200,000
<b>Total options on issue at completion of Offer</b>	<b>11,637,670</b>
<b>Performance Rights:</b>	
Performance Rights to be issued upon shareholder approval (3)	500,000
	<b>500,000</b>

- (1) A total of 750,000 options (post-Consolidation) are to be issued to Azure Capital, BGF Equities and Renaissance Capital as consideration for corporate advisory and lead manager services provided. These options will be issued for nil consideration, be exercisable at the capital raising issue price and exercisable within 3 years of the capital raising allotment date. Using the Black-Scholes option valuation methodology, the fair value of these options has been calculated. The following inputs were used for the options to be issued:

Input	
Issue price	\$ 1.00
Exercise price	\$ 1.00
Expected volatility	83%
Expiry date	12-Dec-14
Expected dividends	Nil
Risk free interest rate	3.65%
Value per option	\$ 0.554

- (2) A total of 2,200,000 options (post-Consolidation) are to be issued to Terrence Mark Earley, Andrew Harrison and Jade Styants (Directors) upon shareholder approval at a general meeting to be held on 30 November 2011. These options will be issued for nil consideration in three equal tranches with exercise prices of \$1.00, \$1.20 and \$1.50 respectively. All options will expire 3 years from the capital raising allotment date. As these options are yet to be issued we have not accounted for them in the pro-forma statement of financial position.
- (3) A total of 500,000 Performance Rights (post-consolidation) are to be issued to Andrew Harrison and Jade Styants (Directors) upon shareholder approval at a general meeting to be held on 30 November 2011. All Performance Rights will be issued for nil consideration, expire 3 years from the date of issue and will vest at the time the Company's share price exceeds 120% of the capital raising share price. As these Performance Rights are yet to be issued we have not accounted them in the pro-forma statement of financial position.

**NOTE 6: RELATED PARTY DISCLOSURES**

Transactions with Related Parties and Directors Interests are disclosed in the Prospectus.

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

In relation to the Acquisition, C@ will be required to pay Peabody-Winsway:

- any assessable value added tax as a result of the Acquisition; and
- A royalty of 1% of the free on board mine site price (exclusive of any value added tax) per tonne of coal mined within the licence area.

At the date of the report no other material commitments or contingent liabilities exist that we are aware of, other than those disclosed in the prospectus.

# **Overview of Mongolian Law Applicable to the Mining Industry**

**and**

# **Due Diligence Report on BDBL LLC**

Dated

8 November 2011

Prepared for:

**C@ Limited**

**Lynch & Mahoney LLC**  
The Landmark  
Chinggis Avenue - 13  
Ulaanbaatar  
Mongolia  
T +976 11 325 344  
F +976 11 325 358  
[www.mongolialaw.com](http://www.mongolialaw.com)

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- Schedule A Detailed information in respect of the Licenses prepared based on our review of copies of the Licenses (as that term is defined in Part II, Section 1.2 of this Report) and the computerized records of the Department of Geological and Mining Cadastre on 31 October 2011
- Schedule B Detailed information in respect of the fulfillment by the holder of the Licenses of certain requirements of the Minerals Law prepared based on our review of certain documents provided by the Company and confirmation letters issued by the Department of Geological and Mining Cadastre and the Department of Geology and Survey of the Minerals Resource Authority of Mongolia
- Schedule C A table containing information concerning the Mining Prohibited Areas (as that term is defined in Part I, Section 2.2.4 of this Report) within the land area covered by four of the Licenses, based on a review of unofficial information

## **Part I. Overview of Mongolian Laws Applicable to the Mining Industry**

### **1. Introduction**

C@ Limited (C@) has asked us to prepare an overview of Mongolian laws applicable to the operations of entities in the Mongolian mining industry. Specifically, C@'s wholly-owned subsidiary Draig Investments (Singapore) Pte. Ltd. proposes to acquire, BDBL LLC (BDBL or the Company), a limited liability company organized under the laws of Mongolia, which will engage in the business of developing potential coal properties located in Mongolia. We note at the outset that the Mongolian economy is an emerging market with a rapidly changing legal environment. To the extent laws and regulations exist, they are often poorly drafted and inconsistent with other laws and have rarely, if ever, been interpreted by a court of law. Accordingly, while we offer insight into these mining laws and the legal issues related to them, we make no definitive assertions about the manner in which the Government of Mongolia (the GOM) will apply the law to a company operating in the mining industry or to a company's minerals licenses.



## 2. Exploration and Mining in Mongolia

### 2.1 Legal Regime

#### 2.1.1 Background

On 8 July 2006, the Mongolian Parliament (**Parliament**) enacted a new minerals law that became effective on 26 August 2006, superseding and replacing the 1997 Minerals Law. We refer to this minerals law below as the **Minerals Law**. Following the enactment of the Minerals Law, the name of the Department of Geological and Mining Cadastre (the **DGMC**) was changed to the Cadastral Registration Center. In 2009, the name Cadastral Registration Center was changed back to the Department of Geological and Mining Cadastre. Under the Minerals Law, exploration and mining licenses are granted directly by the Minerals Resource Authority of Mongolia (**MRAM**) and registered by the DGMC. MRAM is the GOM agency with primary responsibility for implementing State policy on minerals and ensuring the enforcement of Mongolian legislation in respect of minerals and of the orders and resolutions of the GOM with regard to implementation of such legislation.

Following the Parliamentary elections in July 2008, the new GOM modified its minerals-related organizational structure. MRAM is now a subordinate agency of a new Cabinet level ministry, the Ministry of Mineral Resources and Energy (**MMRE**).

Effective as of 16 August 2009, pursuant to the Nuclear Energy Law of Mongolia (the **Nuclear Energy Law**) and related amendments made to the Minerals Law, the rights granted to the holder of a minerals exploration or mining license under the Minerals Law no longer includes the right to explore for, or mine, radioactive minerals, i.e. minerals that contain radioactive isotopes of the uranium and thorium family. The Nuclear Energy Law imposes significant restrictions on the exploration, mining, processing, and sale of uranium and, upon enactment of the Nuclear Energy Law, license holders were required to submit applications to re-register their existing licenses and were also required to agree to accept the State's 34% or 51% share in the ownership of the license with such share dependent on whether the exploration for the minerals was funded by the State budget. We elaborate on the treatment of minerals funded by the State budget in Part I, Section 2.2.2 of this Report.

All references in this Report to minerals, and to licenses to explore for or to mine minerals, are limited to minerals other than radioactive minerals as so defined.

#### 2.1.2 Registration of Minerals Licenses

DGMC registration is the definitive record of the holders of minerals exploration and mining licenses granted pursuant to the Minerals Law. The DGMC is also the office where pledges and transfers of minerals licenses must be registered to be effective. Pledges, transfers, and certain other transactions are recorded on endorsement sheets that are separate from, but considered to be an integral part of, each mining license and exploration license certificate. However, the DGMC does not maintain records of other liens or encumbrances (e.g., earn-in agreements or joint venture agreements) to which a license may be subject.

Under the Minerals Law, information with respect to DGMC registrations is required to be made available to the public, but the nature and scope of such publicly available information is not specified. For example, when a license holder makes a transfer or pledge of a license, the underlying documents (e.g., license data sale agreements, license transfer agreements, and/or pledge agreements) are submitted to and retained by the DGMC. Copies of such documents are not made available to the public. Some information in respect of these documents (in summary form) is recorded in the DGMC's computer system. But, it is not uncommon for information concerning such documents to not be recorded in the computers on the same day that the documents are filed with the DGMC. In addition, access to the computers is not given to all those who request such access.

In response to a written application from the license holder, and the payment of a fee, the DGMC will provide written confirmation that a license is or is not subject to a pledge, or subject to a pending transfer application, and whether or not the license is then in effect. If the license is subject to a pledge, the identity of the pledgee, and the date of the pledge, will be provided. In addition, in response to a written application, and the payment of a fee, the DGMC will provide a history of all transfers and pledges in respect of a specified license. Typically, the DGMC response to an application for a license status report will be provided within a period of two weeks.

### 2.1.3 Exploration Licenses

An exploration license grants the license holder the right to explore for any and all minerals discovered within the license area with the exception of certain radioactive minerals which are governed by the Nuclear Energy Law. An exploration license is granted for an initial period of three years and the license holder may apply for an extension of such license for two successive additional periods of three years each. Thus the maximum period that an exploration license may be held by one or more holders is nine years from the date of issue. Upon the expiration of the maximum period that an exploration license may be held, the exploration license will expire and the rights of the license holder under such license will revert to the State unless the exploration license holder enters into a pre-mining agreement with MRAM or is eligible to apply for (and is issued) a mining license. Each exploration license is subject to revocation if applicable license fees are not timely paid, the minimum requirement for exploration cost is not met and verified or other requirements of the Minerals Law are not complied with.

Under the Minerals Law, the minimum expenditures per hectare of license area are as follows:

- US\$0.50 for each of the second and third years of the term of the exploration license;
- US\$1.00 for each of the fourth to sixth years of the term of the exploration license; and
- US\$1.50 for each of the seventh to ninth years of the term of the exploration license.

### 2.1.5 Transition from an Exploration License to a Mining License

An exploration license holder may apply for a mining license after the registration of a mineral reserve within the area covered by its exploration license. The application required to be submitted to MRAM must include the results of the exploration work and one of two categories of reserve estimate—A or B. Category A roughly translates to “proven” and category B to “inferred”. Two other categories of reserves estimates, C and P, also exist, but an application for a mining license will not be approved without a category A or B designation.

Although the Licensing Law requires the governor of the relevant aimag to grant his approval for the mining license to be issued, in practice MRAM has to date permitted an existing exploration license holder to obtain a mining license without obtaining such approval.

### 2.1.6 Mining Licenses

Upon confirmation of the existence of mineral reserves, an entity may apply for a mining license. The grant of a mining license does not provide the right to immediately commence mining activities; rather, the license holder is granted the exclusive right to apply for the permits and agreements required to conduct mining activities throughout the License Area and upon extraction the right to sell the minerals at its own profit. An example of a permit required would be a land use certificate issued by the relevant local government—this certificate provides the certificate holder with the right to use the relevant land surface area. A water use agreement is another example of a required agreement as the mining license holder must obtain the right to use water by entering into a contract with the local government that specifies the location of the water, the maximum amount of water that can be used, and the expiration date of the agreement, prior to which the agreement must be re-negotiated.

A mining license does not distinguish between the method of mining or the mineral to be mined—i.e. there is no alluvial gold license as opposed to a underground copper mining license. Once the relevant permits and agreements have been obtained, the holder of the mining license may mine for any minerals not governed by the Nuclear Energy Law.

Pursuant to the Minerals Law, a mining license is granted for an initial period of 30 years. A mining license holder may apply for an extension of such license for two successive additional periods of 20 years each. Thus the maximum period that a mining license may be held by one or more holders is 70 years from the date of issue. As a matter of administrative practice, these provisions are also being applied to all mining licenses granted prior to 26 August 2006. Upon the expiration of the maximum period that a mining license may be held, it will be cancelled and the rights under such license will revert to the State. A mining license is subject to cancellation if applicable license fees are not timely paid or other requirements of the Minerals Law are not complied with.

In a particular year the amount of minerals that may be mined by the license holder is based on the license holder's feasibility study (filed once at the outset of mining activities with the Minerals Resource Council (the MRC), a body comprised of employees of the MMRE and MRAM) and thereafter submitted annually to and approved by the MRC with

the annual mining plan (if the license holder seeks to adjust the amount of minerals to be mined). If the license holder does not seek to adjust the amount of minerals that will be mined as set forth in the feasibility study, the feasibility study does not need to be annually submitted and approved.

All mining activities must be conducted in compliance with the Minerals Law and relevant Mongolian laws, including laws pertaining to land use, health and safety, protection of the environment and reclamation. The license holder may also construct permanent structures within the License Area related to its mining activities and the holder of a mining license may conduct minerals exploration activities within the License Area.

Unlike the procedural provision in the Minerals Law applicable to exploration licenses whereby a license holder may contest the refusal of an aimag Governor to deny the grant of an exploration license, the Minerals Law provides no comparable provision for mining licenses. Thus, if an aimag Governor refuses to give his or her approval to an application for a mining license, or expresses his or her disapproval of the granting of such license, the Minerals Law provides no procedure for resolving these issues as it does in the case of exploration licenses.

#### 2.1.7 Approval to Commence Mining Operations

As stated above, a mining license grants the holder of the license the exclusive right to extract all minerals (except radioactive minerals) from the license area, but other applicable laws require the license holder to apply for and obtain certain regulatory approvals and permits in order to commence mining operations.

In particular, the Minerals Law provides as follows:

*A [mining] license holder may commence its mining activities after a commission appointed by the government ministry in charge of geology and mining accepts the mine.*

The GOM, the MMRE, and/or the Ministry of Road, Transportation, Construction and Urban Development (the MRTCUD) appoint a commission (the **Commission**) depending on a capacity of the mine<sup>1</sup> to review and audit pre-mining requirement compliance by a mining license holder that proposes to put a mine into operation.

The Commission consists of the following members:

- the Head of the Geological and Mining Dept of the MMRE;
- the Head of the Mining, Geology Survey and Coal Research Division of MRAM;
- representatives from the State Inspection Agencies and the relevant aimag in

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<sup>1</sup> The GOM appoints the Commission if a deposit has been designated a Strategic Deposit; the MRTCUD and MMRE jointly appoint the Commission if the daily concentrate capacity of the mine is more than 1000m<sup>3</sup>; and the MMRE appoints the Commission if the daily concentrate capacity of the mine is less than 1000m<sup>3</sup>.

which the mine is located; and

- other experts appointed by the GOM, MRTCUD, and/or MMRE, as the case may be.

The Commission reviews the holder's compliance with all pre-mining requirements provided for in the Minerals Law. For example, the Commission will review the following key documents (among others) to ensure that they meet appropriate standards:

- feasibility studies
- mining plans
- environmental impact assessment
- environmental protection plan
- agreements in respect of land and water use

In addition, the Commission makes an inspection of the mine site and mining-related support facilities—e.g. electrical power generators, mining equipment, water supply facilities, maintenance shops, etc.

Upon completion of its review of all relevant documentation—and its on-site inspection—the Commission issues a document—signed by all of its members—approving the commencement of mining operations by the mining license holder.

#### 2.1.8 Sales and Transfers of Minerals Licenses

In accordance with the Minerals Law, the holder of a minerals license may not sell the license. The holder may, however, in the case of an exploration license sell the underlying “original materials and reports on prospecting and exploration work” (**License Area Data**) in respect of the license. Upon completion of the sale of the License Area Data, and payment of applicable taxes (evidenced by a receipt), the holder may transfer the license—but for no consideration. In respect of mining licenses, the procedure is similar but in addition the entire mine infrastructure must be sold, following which the mining license can be transferred to the new owner.

#### 2.1.9 Pledge of Minerals Licenses

The Minerals Law provides as follows:

*To provide security for the financing of its investments and operations of a particular project, a license holder may pledge its licenses to a bank or non-bank financial organization with the related documents, such as the exploration work results, geological information, feasibility study and other assets were may be pledged under law. A license alone shall not be a pledge item.*

To be effective, the pledge of the minerals license must be registered with the DGMC. While the law does not specify, the DGMC has regularly registered pledges of minerals licenses to foreign banks and other foreign non-bank financial organizations (requiring such organizations to produce a copy of a relevant license as evidence of their status as

a non-bank financial organization). In one case, however, in 2009 certain pledges to a non-resident non-bank financial organization were annulled by MRAM on the grounds that the organization was not a Mongolian licensed non-bank financial organization. At the same time, however, certain other pledges of minerals licenses to this same non-resident as well as pledges of minerals licenses in favor of other non-resident banks and non-bank financial organizations were not similarly annulled.

#### 2.1.10 High-grading

Under the Minerals Law, a mining license holder must extract all of the mineral reserves that are within the license area. The purpose of this provision is to prevent “high-grading”, but the net effect is to mandate mining practices that are not consistent with practices in countries where free market principles prevail and the concept of mining mineral reserves on an economically viable basis is recognized and understood. It is unclear what consequences, if any, may follow from non-compliance with this provision.

## 2.2 Certain Legal Risks Related to Mining

### 2.2.1 Designation as a Strategic Deposit

The Minerals Law contains provisions that grant the State sweeping powers to participate in companies holding a minerals license by designating a particular deposit a “mineral deposit of strategic importance” (a **Strategic Deposit**).<sup>2</sup> In the context of private funded projects (i.e., with no state funding involved in the exploration and discovery of a deposit), the State may, if it designates the deposit in question as a Strategic Deposit, participate in up to 34% of a project with the license holder. The State may participate in up to 50% if the deposit was identified using state funding. Either the GOM or Parliament may initiate proposals to declare a mineral deposit a Strategic Deposit, but Parliament must approve any such proposal.

A deposit may be determined to be of “strategic importance” if: (a) it may have a potential impact on national security, economic or social development of the country at the regional and national levels; or (b) it produces or is capable of producing greater than 5% of the gross national product of any given year. No clear guidelines exist as to the factors considered for ascertaining if a deposit falls within (a). Essentially, a Strategic Deposit is any deposit that Parliament has deemed—or may hereafter deem—to be “big” enough, and/or “valuable” enough to warrant being so designated.

Under the Minerals Law, the manner in which the State is to obtain its interest, and continue to participate in the development and operation of a Strategic Deposit, is to be negotiated by the GOM with the holder of the license covering the Strategic Deposit and

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<sup>2</sup> The Nuclear Energy Law classifies all radioactive mineral deposits as “strategic” and requires the license holder to agree to accept the State’s 34% or 51% share in the ownership of the license with such share dependent on whether the exploration for the minerals was funded by the State budget.

such terms are to be captured in an investment agreement.<sup>3</sup> To date the only investment agreement entered into between the State and the private holder of a Strategic Deposit has been that entered into with Ivanhoe/Rio Tinto as the holders of the license covering the Oyu Tolgoi deposit. In connection with this project, the State was given its 34% interest in the project for zero consideration, but pursuant to the terms of the investment agreement and related shareholder agreement the State is responsible for funding 34% of the future costs required to bring the project into production. Further, all monies spent on the project prior to the date the State acquired its 34% interest have been categorized as a shareholder loan and are to be repaid to Ivanhoe/Rio Tinto before the project company pays any dividends to its shareholders (including the State).

Parliament Resolution #27 dated 7 February 2007 (**Resolution #27**) designates 15 deposits as Strategic Deposits. Resolution #27 also identified 39 other deposits as possible Strategic Deposits and directs the GOM to determine whether these deposits should be considered strategic and, if so, to submit to Parliament proposals regarding these deposits. This second list of potential Strategic Deposits is not exhaustive and any other deposit not on this list remains eligible to be designated a Strategic Deposit at any time. The 15 Strategic Deposits that have been specified as such by Parliament have no defined “edges.” They each consist of concentrations of mineralization in a general area that is identified only by a name—not by a set of defined coordinates. License Areas, on the other hand, are precisely defined by coordinates. Thus it is not feasible to definitively determine whether or not any given License Area is within—or overlaps—a Strategic Deposit.

#### 2.2.2 “Funded from the State Budget”

During the 1970s and 1980s, geologists from various Soviet-Bloc countries—together with some Mongolian geologists—conducted extensive minerals exploration work throughout Mongolia. When the Union of Soviet Socialist Republics collapsed in 1989 and withdrew its military and governmental presence from Mongolia, Mongolia was presented with a bill for “services rendered”, including the deemed cost of this exploration work. Mongolia negotiated a settlement of this debt and is attempting to recoup some of its settlement costs from the holders of mining licenses. This is a part of the concept of “funded from the State Budget”. Another part consists of ongoing expenses incurred by Mongolia since 1989 in conducting aerial surveys and other geological-related activities. Making a definitive determination in advance as to whether—or to what extent—a particular deposit is subject to this encumbrance is virtually impossible.

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<sup>3</sup> The 1997 Minerals Law provided the GOM with the authority to enter into Stability Agreements with investors making a certain level of investment into the minerals sector. In this connection there was a basic form of agreement to be used by the GOM, and the GOM was authorized by law to enter into such agreements with qualifying investors. Under the Minerals Law, the terms of an investment agreement are subject to the approval of Parliament. Stability agreements were more limited in scope than investment agreements and were only to be used to lock in the then current tax and fiscal regime (to stabilize it) as at the date of the stability agreement through its date of expiration. Investment agreements are much broader, and as noted are to be used in conjunction with the GOM's acquisition of an interest in a Strategic Deposit.

Under the 1997 Minerals Law, payment of these costs by the license holder removed the encumbrance on the license holder's tenure. Under the Minerals Law, however, the encumbrance cannot be removed by payment of the stated costs. Instead, if the exploration activities are deemed to have been funded from the State Budget, it becomes a critical factor in determining the extent of the right of the State to participate in the development and exploitation of the mineral resource.

Both the designation of mineral resources as Strategic Deposits, and the claims that such mineral resources have been defined—at least to some extent—by funding from the State Budget, are essentially political decisions.

### 2.2.3 State as an Equity Participant

The Minerals Law provides that the State may be an equity participant with any private legal entity, to an extent of up to a fifty percent (50%) equity interest, in the exploitation of any Strategic Deposit where the quantity and grade of the deposit have been defined by exploration deemed to have been funded from the State Budget. The percentage of the State's equity interest will be determined by an agreement between the GOM (acting through a State owned entity) and the private legal entity based on the amount of investment made, or deemed to have been made, by the State.

If the quantity and grade of a Strategic Deposit have been defined by activities that have *not* been funded from the State Budget, the Minerals Law provides that the State may participate in the exploitation of the deposit to an extent of up to a thirty-four percent (34%) equity interest. The law provides no guidelines as to how much funding from the State Budget is required to trigger the jump from 34% to 50%.

The Minerals Law further provides that any company that holds a strategic deposit is required to list at least ten percent (10%) of its shares on the Mongolian Stock Exchange. This provision has not yet been enforced with respect to any of those companies with deposits on the Strategic Deposits List and it is not clear how it would work in practice.

### 2.2.4 Water and Forests Law

On 16 July 2009 Parliament enacted the Law on the Prohibition of Exploration for Mining of Minerals within the Area of the Headstreams of Rivers, Protected Areas Surrounding Water Bodies, and Forests (the **Water and Forests Law**). This law authorizes the GOM to revoke all minerals exploration and mining licenses located within the areas described in the law, which includes areas located:

- within 200 meters of the headwaters of rivers and lakes;
- within 200 meters of rivers and lakes as defined in the Water Law of Mongolia dated 22 April 2004; and
- within 100 meters of forest areas as defined in the Forest Law of Mongolia dated 17 May 2007.



The GOM was directed to determine the boundary lines of these areas (**Mining Prohibited Areas**) within three months of the law's enactment. The GOM was also required to revoke any minerals exploration and mining licenses currently issued within such areas by 26 December 2009. The GOM did not act in either respect by these specified dates.

The Water and Forests Law provides that new minerals exploration and mining licenses covering Mining Prohibited Areas will not be granted and previously granted licenses that overlap Mining Prohibited Areas will be terminated. The Water and Forests Law provides that affected license holders shall be compensated, but did not include specifics as to the way such compensation will be determined.

In November 2010, a list of 254 mining licenses (all pertaining to alluvial mining operations) (the **Draft List**), and a supplementary list of 1,528 licenses (the **Supplementary Draft List**) that may be affected by the law, was unofficially released and published in the Mongolian media.

In December 2009, MRAM released a list of 1,782 licenses (the **Draft List**) that may be affected by the Water and Forests Law and submitted it to the MMRE for approval. In November 2010, a list of 254 mining licenses (all pertaining to alluvial mining operations) (the **Supplementary Draft List**) was unofficially released and published in the Mongolian media.

On 17 November 2010 the GOM adopted Resolution #299 (**Resolution #299**) which provides the procedure to be used in granting compensation to holders of minerals licenses affected by the Water and Forests Law. Resolution #299 provides that only the portion of the minerals license affected by the Water and Forests Law is to be terminated and the license holder is to only be awarded compensation for the terminated portion of the license.

The compensation structure set forth in Resolution #299 provides a different compensation structure depending on whether the license is an exploration license or a mining license (and a mining license that has not commenced mining activities is deemed to be an exploration license for purposes of the compensation structure). A request for compensation must include certain supporting documents such as annual exploration or mining work plans and annual financial statements and the GOM is required to review such documentation, including the taxes, licensing fees, and expenditures of the license holder. If the request for compensation is approved, the GOM is directed to grant such compensation to the license holder within two years following the date of receipt. Resolution #299 also provides for a set off—damage to the environment inflicted by the license holder must be assessed and the cost of such damage is deducted from the award of compensation.

On 8 June 2011 the GOM adopted Resolution #174 (**Resolution #174**) providing for “partially established boundaries” within which alluvial gold mining operations are prohibited under the Water and Forests Law. Under this resolution and the Water and Forests Law, existing affected licenses are to be revoked and the holders compensated. The press has reported that the “partially established boundaries” provided for in Resolution #174 is intended to cover the 254 alluvial gold mining licenses included in the

Supplementary Draft List. On 10 October 2011 MRAM published a list of 233 existing licenses which are covered by the “partially established boundaries” approved in Resolution #174, which licenses are to be revoked by MRAM. Affected license holders were instructed to submit requests for compensation to MRAM.

Resolution #174 is an effort by the GOM to partially comply with the provisions of the Water and Forests Law. There remains the potential for other areas within Mongolia to be later designated Mining Prohibited Areas by the GOM.

In early 2011 the United Movement of Mongolian Rivers and Lakes (the UMMRL) filed a lawsuit in the Sukhbaatar District Court of Ulaanbaatar against the GOM over its alleged failure to enforce the Water and Forests Law. The Sukhbaatar District Court dismissed the lawsuit on 15 March 2011. The UMMRL appealed to the Capital City Court and the Capital City Court dismissed the lawsuit on 11 June 2011. The UMMRL subsequently appealed to the Mongolian Supreme Court, and it has recently been reported in the Mongolian press that the Mongolian Supreme Court ruled in favor of the UMMRL on 20 October 2011 and has ordered the GOM to enforce the Water and Forests Law.

#### 2.2.5 Special Needs Land

Holders of minerals licenses are subject to the risk that the land covered by their minerals license may be declared a “special needs” land by national or local governmental bodies. Special needs land is a general term encompassing special protected areas (**Special Protected Areas**), land allocated for national defense and security, sites for conducting research, inter-aimag reserve rangelands or hayfields and micro-mines. Special Protected Areas are defined generally in the Land Law of Mongolia dated 7 June 2002 (the **Land Law**) and the Law of Mongolia on Special Protected Areas dated 15 November 1994 as an area of land to be protected by a governmental authority in order to conserve vegetation or wildlife.

If land is designated a Special Protected Area, any affected minerals license may be terminated to the extent that it overlaps such area, subject however to the obligation of the relevant governmental authority making such a decision to compensate the license holder. If the parties fail to reach an agreement as to the appropriate compensation and time frame for payment, the dispute will be referred to a court. However, the Minerals Law is not clear as to how such compensation is to be calculated. If the license holder is not paid within the required time period, then it has the right to recommence its activities within the affected license area.

If the relevant government agency gives public notice of the expiration of a special needs designation, the legal person that previously held the affected minerals license has an exclusive right for one month to reacquire the minerals license.

The Minerals Law requires minerals license holders to satisfy certain ongoing compliance obligations in order to retain their rights to a minerals license. One such requirement is that the license holder must annually submit an environmental protection plan to the DGMC. The environmental protection plan must be approved by the local governor of the relevant soum and a document evidencing the governor’s approval of the plan must be submitted to the DGMC when a mining or exploration license holder

files an application to extend its license and when an exploration license holder applies for a mining license.

In addition, the holder of a minerals exploration license has the first right to apply for a mining license covering any mineral deposit identified within the exploration license area. The application for a mining license is not a conversion from an exploration to a mining license, but rather involves an application for the issuance of a new license that replaces the existing exploration license.

#### 2.2.6 Moratoriums on Transfers and Issuances of Licenses

For several months in 2006 MRAM refused to permit transfers of minerals licenses. MRAM had apparently understood that a new law governing the transfer of minerals licenses would be adopted and unilaterally decided to prohibit the transfer of licenses until the new law was finalized. Although license holders objected to MRAM's decision on the grounds that MRAM had no legal power to take this action, officials at the agency refused to amend their chosen course of action. After the adoption of the Minerals Law in 2006, MRAM resumed approving minerals license transfers.

From time to time the GOM has also issued a moratorium on the issuance of new minerals licenses and on 9 February 2011 Parliament enacted the Law on the Prohibition of Issuance of New Exploration Licenses, which prohibited MRAM from issuing new minerals exploration licenses until 30 April 2011. After this law expired, MRAM continued to refuse to issue new exploration licenses and it was not clear whether MRAM's decision in this instance related to rumors that Parliament may be considering a similar prohibition law with a lengthier tenure or whether MRAM's decision relates Parliament's consideration of a new Minerals Law. On 3 June 2011 Parliament voted to prohibit issuance of new exploration licenses through 31 December 2011.

#### 2.2.7 Revocation of Minerals Licenses

On or around 10 May 2011 MRAM announced that more than 100 Mongolian companies were in danger of having their minerals licenses revoked due to non-payment or late payment of annual license fees, damage to the environment, failure to submit compliance reports, violations of land ordinances, improper transfers of the license to another entity, expiration of an applicable pre-mining agreement, or failure to adhere to safety measures. While government intervention such as revocations may be warranted if a license holder violated applicable laws, these revocations sometimes appear to be politically motivated. For example, in 2009 a Canadian mining company with a Mongolian subsidiary, Khan Resources Inc. (**Khan Resources**), was notified that its licenses to mine in Dornod aimag were suspended due to violations of certain laws including a failure to register deposit reserves. The Nuclear Energy Authority subsequently refused to re-register the licenses under the recently enacted Nuclear Energy Law and shortly thereafter the State reportedly entered into a joint venture with Russian state-owned uranium miner Atomredmetzoloto JSC (**ARMZ**) to develop the Dornod site. Khan Resources estimates that the company has spent approximately US\$40 million to develop this site and has filed a claim against the GOM with an international arbitration tribunal and attempted to effect service of process on ARMZ but to date the Russian Ministry of Justice has refused to effect service on the state-owned

enterprise citing Article 13 of the Hague Convention which states that a member State may refuse to comply with a request for service of process if compliance would infringe its sovereignty or security.

#### 2.2.8 Potential Enactment of New Minerals Law

Various factions within Mongolia have recently called for major changes to the Minerals Law as well as other related laws and governmental policies including the dissolution of the Investment Agreement entered into between Oyu Tolgoi and the GOM. On 26 April 2011 an open discussion on a new minerals law was conducted by the Office of the President of Mongolia. The discussion was arranged by the MMRE in cooperation with MRAM and other participants included governmental and quasi-governmental bodies. It is uncertain as to what affect, if any, a new minerals law may have on issues such as Strategic Deposits, state participation in the minerals sector, and the Water and Forests Law.

## **Part II. Due Diligence on the Company and the Licenses**

### **1. Executive Summary**

C@ has also asked us to perform due diligence on BDBL and the minerals licenses held by BDBL. The following are the key matters addressed in Part II of this Report:

#### **1.1 Corporate**

1. BDBL is a limited liability company validly existing under the laws of Mongolia (Registration number 5519004 and Certificate number 9011306120) with the power to own its assets and carry on its business as it is currently being conducted.
2. The Company currently has 10,000 issued and outstanding common shares each with a par value of 1,000 Mongolian Togrogs (MNT).
3. Peabody-Winsway Resources LLC, a limited liability company organized under the laws of Mongolia (Registration number 5170672 and Certificate number 9019031059) (PWR) is the registered holder of 100% of the issued and outstanding common shares of BDBL.
4. C@'s wholly-owned subsidiary, Draig Investments (Singapore) Pte. Ltd, a limited liability company organized under the laws of Singapore (Draig), proposes to become the registered holder of all of the issued and outstanding common shares of BDBL pursuant to a Share Sale Agreement dated 26 October 2011 between Peabody-Winsway Resources B.V.; PWR; Draig; C@; and the Company (the **Share Sale Agreement**).
5. The Company was registered with the State Registration Office of Legal Persons of Mongolia (the Mongolian company registrar often referred to as the **SRO**) on 4 October 2011 pursuant to a charter dated 3 October 2011 (the **Charter**).
6. The Charter and the Company's registration certificate (the **Registration Certificate**) provide that the Company shall engage in the business of domestic and foreign trade. The Company has indicated that the Charter will be amended in the near future to provide that the Company will engage in minerals exploration following which the SRO will amend the Registration Certificate to provide for minerals exploration as an additional activity of the Company (under Mongolian practice the addition to the Charter and the Registration Certificate of minerals exploration could not occur until the Licenses had been transferred to the Company).
7. The Charter and Registration Certificate provide that the Company's paid-in capital is 10,000,000 MNT. The SRO registers all amounts paid into the capital of Mongolian companies and reflects the same on a company's registration certificate.

8. Following the transfer of the 10,000 common shares of the Company to Draig, the Company will be considered a business entity with foreign investment under the Foreign Investment Law of Mongolia and the paid-in capital of the Company must be increased to at least US\$100,000 and the Company will need to be registered with the Foreign Investment Department of the Mongolian Ministry of Foreign Affairs and Trade.

## 1.2 Minerals Licenses

1. As of 31 October 2011, BDBL is the registered holder of the following minerals exploration licenses:

XV-009116	XV-010566	XV-012000	XV-012789
XV-013581	XV-013600	XV-013879	XV-013880

(collectively referred to as the **Licenses**). The Licenses cover a specific land area which is described by latitudinal and longitudinal coordinates on a license certificate issued by MRAM.

2. The Minerals Law sets forth detailed obligations that must be satisfied by a minerals license holder in order for it to retain its rights to the minerals license. We have reviewed letters received from MRAM in respect of the Licenses and have obtained access to the DGMC computer database and examined all information contained therein concerning the Licenses in the course of our due diligence. To the best of our knowledge, PWR (as the former holder of the Licenses) has materially complied with all of its obligations under the Minerals Law including its obligation to meet certain minimum expenditures per hectare of license area each calendar year. See Part I, Section 2.1.3. Schedule A and Schedule B contain additional information in respect of the Licenses prepared based on our review of the letters received from MRAM, the computer records of the DGMC, and certain documents provided by the Company.
3. Subject to the matters addressed in Part I, Section 2.2.1, none of the exploration licenses overlap any deposit that has been designated a Strategic Deposit or a possible Strategic Deposit in Resolution #27. See Part I, Section 2.2.1 and Section 2.2.3 for more information in respect of Strategic Deposits.
4. Licenses XV-012000, XV-013581, XV-013879, and XV-013880 are on the Draft List of licenses that may be affected by the Water and Forests Law. However, such list is not final and if the GOM implements the Water and Forests Law there remains the potential that more of the Licenses could be contained on such final approved list, or that certain of the licenses on the Draft List will be dropped from such list. See Part I, Section 2.2.4 for more information in respect of the Water and Forests Law and see Part II, Section 3.2 for more information on the land area of licenses XV-012000, XV-013581X, XV-013879, and XV-013880 affected by the Water and Forests Law.
5. Licenses XV-012000 and XV-010566 overlap with land which has been designated Special Protected Areas. See Part I, Section 2.2.5 for more information in respect of Special Protected Areas and see Part II, Section 3.2 for

more information on the land area of licenses XV-012000 and XV-010566 affected by the Special Protected Area designation.

## **2. Scope of Report and Sources of Information**

### **2.1 Scope of Report**

As described above, C@ has requested that we perform limited due diligence on the Company and the Licenses.

### **2.2 Sources of Information**

In connection with our preparation of this Report, we have examined the materials described below. In this connection, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, and the conformity to the original documents of all documents submitted to us as certified copies, conformed copies, photocopies, or facsimiles. We have also relied upon the completeness and accuracy of the public records which we have examined.

Our examination with respect to the Licenses was based upon (1) documents provided to us by the Company, including copies of the License certificates, and (2) information obtained from MRAM, the DGMC, and the Department of Geology and Survey (the DGS).

Our examination with respect to the Company was based upon (1) the Company Certificate, (2) information obtained from relevant agencies, and (2) a review of the Company charter.

Schedule A contains detailed information in respect of the Licenses prepared by us, based on our review of the computerized records of the DGMC on 31 October 2011 and based on our review of copies of the License certificates provided by the Company.

Schedule B contains detailed information in respect of the fulfillment by the holder of the Licenses of certain requirements of the Minerals Law prepared based on our review of certain documents provided by the Company and confirmation letters issued by the DGMC and the DGS.

Schedule C contains a table containing information concerning the Mining Prohibited Areas within the land area covered by four of the Licenses based on a review of unofficial information.



### 3. Status of the Company and the Licenses

The following is a summary of the results of our due diligence investigation. This summary is supplemented by a number of schedules which contain detailed information in respect of the various matters discussed.

#### 3.1 Status of the Company

##### 1. General

Company Name: BDBL LLC

Place of Incorporation: Ulaanbaatar (Registration number 5519004 and Certificate number 9011306120)

Date of Incorporation: 4 October 2011

Current Charter: Dated 3 October 2011

Registered Office: 13<sup>th</sup> Floor  
Monnis Tower  
Chinggis Avenue  
Sukhbaatar District-1  
Ulaanbaatar  
Mongolia

##### 2. Capitalization

Authorized Share Capital: 10,000 common shares (each with a par value of 1,000 MNT)

Shares Outstanding: 10,000

Registered Shareholder: PWR is the registered holder of 100% of the issued and outstanding common shares of BDBL

Paid-in Capital: 10 million MNT

Options: None to our knowledge—based on information supplied to us by the Company. There is no public repository of information in Mongolia where we can verify this information

Preemptive Rights: None to our knowledge—based on information supplied to us by the Company. There is no public repository of information in Mongolia where we can verify this information

3. Directors and Officers

Board of Directors: None (as permitted under the Company Law of Mongolia dated 2 July 1999)

Officers: Article 7 of the Charter of the Company provides that the chief executive officer of the Company is its executive director (the **Executive Director**). The Executive Director has the authority to manage day-to-day activities of the Company. The Executive Director reports to the Shareholders.

Bat-Ulzii Sukhbaatar was appointed Executive Director of the Company by resolution of the founding shareholder dated 3 October 2011.

4. Other

Business Activities: The Company's Charter and registration certificate (the **Registration Certificate**) provide that the Company shall engage in the business of domestic and foreign trade. The Company has indicated that the Charter will be amended in the near future to provide for the Company to engage in minerals exploration following which the SRO will amend the Registration Certificate to permit minerals exploration as an additional activity of the Company (under Mongolian practice the addition to the Charter and the Registration Certificate of minerals exploration could not occur until the Licenses had been transferred to the Company).

Update of Registration: Following the transfer of the 10,000 common shares of the Company to Draig, the Company will be considered a business entity with foreign investment under the Foreign Investment Law of Mongolia and the paid-in capital of the Company must be increased to at least US\$100,000 and the Company will need to be registered with the Foreign Investment Department of the Mongolian Ministry of Foreign Affairs and Trade.

3.2 **Status of the Licenses**

1. As of 31 October 2011, BDBL is the registered holder of the Licenses.
2. The Minerals Law sets forth detailed obligations that must be satisfied by a minerals license holder in order for it to retain its rights to the minerals license. We have reviewed letters received from MRAM in respect of the Licenses and

have obtained access to the DGMC computer database and examined all information contained therein concerning the Licenses in the course of our due diligence. To the best of our knowledge, PWR (as the former holder of the Licenses) has materially complied with all of its obligations under the Minerals Law including its obligation to meet certain minimum expenditures per hectare of license area each calendar year. See Part I, Section 2.1.3. Schedule A and Schedule B contain additional information in respect of the Licenses prepared based on our review of the letters received from MRAM, the computer records of the DGMC, and certain documents provided by the Company.

3. The Company has informed us orally that it is not a party to any material agreements (e.g., earn-in agreements, joint venture agreements, or similar agreements) with any third party concerning the Licenses. There is no public registry in Mongolia where this can be independently confirmed.
4. Once a mineral exploration license has been issued, there are no other special permits required for the holder thereof to engage in exploration activities. However, prior to the commencement of mining, the company must obtain a mining license and as the holder of a mining license must then obtain a number of ancillary permits, such as land use rights (rights to use the land surface), water rights, a permit to engage in mining activities, and other necessary operating permissions. See Part I, Section 2.1.7.
5. Based on a review of official and unofficial information available to us pertaining to mineral licenses which could be affected by the Water and Forest Law (see Part I, Section 2.2.4 for more details on this law which provides for the revocation of certain mineral licenses), portions of the land areas within licenses XV-012000, XV-013581, XV-013879, and XV-013880 fall within a potentially prohibited area. As noted in Part I, Section 2.2.4, the GOM has not yet formally designated these areas as being prohibited to minerals exploration and mining.
6. Attached as Schedule C is a table containing information concerning the potential Mining Prohibited Areas within the land area covered by four of the Licenses. This information is based on a review of unofficial information.
7. Two of the Licenses, XV-012000 and XV-010566, encompass land area that has been designated a Special Protected Area. By letter dated 5 November 2010 (the **First Letter**) the citizens' representative council of Gurvantes soum (a district of Umnugovi aimag) advised the governor of Gurvantes soum that the citizens' representative council had passed a resolution on 30 August 2010 that designated a certain land area as a Special Protected Area. The **First Letter** indicates that, as required by law, the citizens' representative council registered this Special Protected Area with the DGMC. Although the **First Letter** does not mention this, we have been advised that the Special Protected Area is to be established for the protection of snow leopards, an endangered animal.

The Special Protected Area registered with the DGMC encompasses all of the land area within License XV-012000 and a portion of the land area within License XV-010566.

In response to the First Letter, on 25 June 2011 PWR reports that it delivered a letter to the citizens' representative council of Gurvantes soum requesting compensation from the citizens' representative council due to the impact of the Special Protected Area classification on the affected Licenses. We were not provided a copy of this letter, but the letter is referenced in a responsive letter from the citizens' representative council to PWR dated 9 July 2011 pursuant to which the citizens' representative council rejected the compensation amount proposed by PWR (the **Second Letter**).

The citizens' representative council of Gurvantes soum has the right to establish a Special Protected Area. However, as mentioned under Part I, Section 2.2.5 of this Report, under the Minerals Law the citizens' representative council must arrange for compensation to be paid to affected license holders at an amount and within a time period agreed to by the parties and if such compensation cannot be agreed by the parties then the matter is referred to a court. To date no compensation or time frame has been agreed to by PWR or BDBL and thus BDBL has the legal right to continue to engage in exploration activities within the affected License areas. In the Second Letter, the Chairman of the Gurvantes soum citizen's representative council has acknowledged this current state of affairs—that the local authorities are unable to pay compensation to the license holder as required under the Minerals Law.

License XV-12000 must be renewed by 11 September 2012 and License XV-010566 must be converted to a mining license by 2 October 2014. In order to renew License XV-12000 (extend its term for an additional three years), the soum governor must approve an environmental protection plan which must be filed with the DGMC in connection with such renewal application. The First Letter instructs the soum governor not to renew any exploration licenses which encompass land within the Special Protected Area. By instructing the soum governor in this fashion, the local council seems to hope to halt mining activities within the designated area but avoid having to compensate the license holders.

If exploration work identifies an economic deposit, BDBL would need to apply for a mining license. The DGMC application for a mining license requires a reference letter of the soum governor in respect of the environmental protection plan to be attached to the application. In addition, as noted above, under the Licensing Law the aimag governor must approve the issuance of the mining license, although in practice MRAM issues mining licenses without obtaining such approval (as the requirement for obtaining this approval is written into the Minerals Law in connection with the issuance of an exploration license, but not in respect of the issuance of a mining license).

One of the additional permits required after the issuance of a mining license is a land possession or land use lease covering the surface area of the mining license area. These land rights must be obtained from the soum government. As a general matter, Mongolian law has not yet developed a regime for resolving disputes between the holders of surface rights and the holders of mineral rights. In this situation, the local soum governor could refuse to issue the requisite land

surface rights on the basis that the requested land area falls within a Special Protected Area and under the Land Law the requested rights cannot be issued. The Minerals Law provides that one of the rights of the holder of a mining license is to use land and water “in compliance with applicable laws.” The potential conflict which might arise in this situation is not explicitly addressed in the Land Law or the Minerals Law.

The Minerals Law permits a license holder to surrender a part of a license or transfer a part of a license to a legal person eligible to hold the license. Given that License XV-010566 only partially overlaps the Special Protected Area one potential solution to this problem (subject to the location of any identified coal deposits) is for BDBL to surrender the affected portion of the license to the DGMC and retain the non-affected portion of the license for exploration. License XV-012000 completely overlaps the Special Protected Area and accordingly a division of the license XV-012000 would not provide any relief.

The registered holder of the affected Licenses (or any other licenses affected by a classification as Special Protected Area) has the legal right to utilize the affected Licenses (until they expire or are revoked) until the license holder receives compensation from the local government. It appears that as a practical matter the local government does not have the financial resources to pay the requisite compensation. One option available to the local government is to convince the Mongolian Parliament to take responsibility for such payment. That is a political risk issue (and subject to an evaluation of what level of compensation BDBL could contemplate receiving if a Mongolian governmental entity with financial resources assumed the obligation to pay the compensation).

As noted, the local governors (soum and/or aimag) probably have the ability to attempt to block (a) renewal of the affected exploration license, and (b) issuance of a mining license and/or ancillary permissions needed to engage in mining operations. In respect of (a), it can be argued that the soum governor should provide his confirmation in respect of the environmental protection plan on the basis of applicable environmental and related law and should not use the Special Protected Area designation as a valid reason for refusing to provide his confirmation. However, this is one interpretation of conflicting laws and the issue could be resolved differently by a Mongolian court.

In respect of (b), it would seem that the general principal should be applied—if there is to be an effective taking of a license holder’s interest through the designation of a Special Protected Area then the license holder must be compensated. However, as noted in Part I, Section 1, laws are often poorly drafted and ambiguous. BDBL would technically be applying for a new license (mining as opposed to exploration) and the aimag governor could attempt to use the Special Protected Area status of the land to block the issuance of the mining license. Mongolian law only requires compensation to be paid if an existing license is terminated and Mongolian courts often take an extremely literal view of the law and therefore could rule that no license has been terminated and accordingly no compensation needs to be paid.

8. We are not aware of any other environmental or land rights issues affecting the Licenses other than the issues involving the Water and Forests Law and the Special Protected Area.

#### **4. Material Contracts**

BDBL has informed us that it has not entered into any material contracts other than the Share Sale Agreement and the eight license transfer agreements executed pursuant thereto. See Part II, Section 1.1.4.

## 5. Litigation

There is no independent repository of litigation information in Mongolia that an interested party can visit to determine whether a Mongolian company is or has been involved in litigation. If a third party has obtained permission letters signed and stamped by the company at issue, the Capital City Court (the supreme judicial authority for the city of Ulaanbaatar) and the Mongolian national arbitration court will provide information stating whether such company has been a defendant in any litigation matter in the local district court, the Capital City Court, or the arbitration court over a certain past period of time. We note, however, that this information may not be current, is unofficial (there is no official procedure established for providing litigation information to the public), and in our experience is sometimes unreliable.

PWR has indicated in the Share Sale Agreement that there is no pending, threatened, or actual litigation concerning BDBL or the Licenses and no information to the contrary has been presented to us or otherwise come to our attention.



## 6. Benefit

This Report is prepared for inclusion in a prospectus for the issuance of up to 28,000,000 shares in the capital of C@ at an issue price of AUD\$1.00 per share to raise up to AUD\$28,000,000 (the **Prospectus**). This Report is given solely for the benefit of C@, Renaissance Capital (Hong Kong) Limited, and Canaccord BGF Limited in connection with the Prospectus, and is provided on the basis that it will not, without our express written permission, be:

- (a) relied upon by any other person;
- (b) disclosed except to persons who in the ordinary course of C@ business have access to the papers and records of C@ and then only on the basis that they will make no further disclosure; or
- (c) filed with a government or other agency or quoted or referred to in a public document.

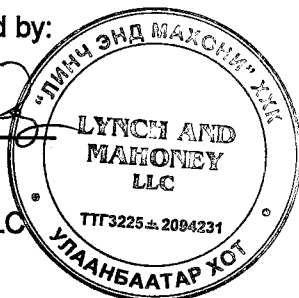
This Report is strictly limited to the matters stated in it and does not apply by implication to other matters. Further, it reflects the state of knowledge of only those partners and staff of Lynch & Mahoney LLC involved directly in the legal due diligence investigations as at the dates of the schedules to this document and the date set out below.

## 7. Signing

This Report is signed by:



Daniel Mahoney  
Executive Director  
Lynch & Mahoney LLC



Date: 8 November 2011

## INFORMATION RE MINERALS EXPLORATION LICENSES

Information current as of 31 October 2011 (A)

No	Lic # (B)	Issue date	Property name	License holder name	Size of area (ha) (C)	Current term expiration date (D)	Ultimate expiration date	Date most recent fee paid	Additional Notes
1	XV-009116	10 Jan 05	Ergen Usny Khudag-2	BDBL LLC	883,89	09 Jan 14	09 Jan 14	10 Jan 11	(D)
2	XV-010566	03 Oct 05	Gurvantes	BDBL LLC	25782,02	02 Oct 14	02 Oct 14	03 Oct 11	(D)
3	XV-012000	12 Sep 06	Shavan	BDBL LLC	7364,56	11 Sep 12	11 Sep 15	12 Sep 11	(D)
4	XV-012789	09 Oct 07	Olomgui	BDBL LLC	2253,79	08 Oct 13	08 Oct 16	09 Oct 11	(D)
5	XV-013581	21 Apr 08	Urtyn Am	BDBL LLC	541,26	20 Apr 14	20 Apr 17	21 Apr 11	(D)
6	XV-013600	23 Apr 08	Zamt Uul	BDBL LLC	8991,63	22 Apr 14	22 Apr 17	23 Apr 11	(D)
7	XV-013879	16 Jul 08	Teeg	BDBL LLC	2219,51	15 Jul 14	15 Jul 17	16 Jul 11	(D)
8	XV-013880	16 Jul 08	Khongor	BDBL LLC	14460,66	15 Jul 14	15 Jul 17	16 Jul 11	(D)

- (A) Based on information in the computers at the DGMC. In our experience, there have been instances where information concerning pledges and/or transfers that have been filed with the DGMC has not been recorded in the DGMC computers on the same day that the documents were filed. This factor should be taken into account in interpreting—and in relying on the accuracy of—this report.
- (B) Minerals Exploration Licence (MEL) numbers have a prefix XV. Under the Minerals Law of Mongolia, the initial term of an MEL is three years, and the holder may apply for two successive three-year extensions for a total cumulative term of nine years.
- (C) The DGMC records the expiration dates of license terms as of the anniversary date—e.g., the expiration date of the first term of license XV-009116 is recorded by the DGMC as 10 January 2014. This is not what the law provides. The license is granted for an initial term of three years, which means it expires on 09 January 2014, and we advise our clients to proceed on this assumption in respect of expiration dates of license terms. The expiration dates shown in the reflect this adjustment.
- (D) Our examination of the DGMC computer records with respect to the licence has disclosed no registered pledge of the licence and no registered application for transfer of the licence. The DGMC does not maintain records of other liens or encumbrances to which a licence may be subject.

## COMPLIANCE CHECKLIST RE EXPLORATION LICENSES OF BDBL LLC

MLM Art <sup>1</sup>	Description	Required to be Submitted	Status			
			9116X	10566X	12000X	12789X
18.2.7 48.1.1	Exploration Plan	Within 30 days of obtaining license and by June 30 each year from the next year	2007-2011√	2007-2011√	2007-2011√	2007-2011√
48.1.2 48.2	Exploration Activity Report	By February 15 each year	2007-2010√	2007-2010√	2007-2010√	2007-2010√
47.4	Registration of Extracted Minerals	If any	n/a	n/a	n/a	n/a
48.3	Reserves Report	Before expiration of License	n/a	n/a	n/a	n/a
48.1.3	Safety Compliance	By January 20 each year	2007-2010√	2007-2010√	2007-2010√	2007-2010√
38.1.1	Environmental Protection Plan (EPP)	Within 30 days of obtaining license and subsequently if amended	2010-2011√	2010-2011√	2010-2011√	2009-2011√
38.1.5 38.1.6	EPP Report	Annually	2007-2010√	2007-2010√	2007-2010√	2007-2010√
34	Annual License Fee	Annually	2005-2011√	2005-2011√	2006-2011√	2007-2011√
38.1.8	Bank Deposit of 50% of EPP Budget	Before commencing exploration activities	√	√	√	√
33.1 33.2	Minimum Exploration Expenditure Report	Annually	2007-2010√	2007-2010√	2007-2010√	2008-2010√

<sup>1</sup>MLM Art—is the Article of the Minerals Law of Mongolia dated 8 July 2006 pursuant to which such compliance is required.

√ - compliant  
n/a - not applicable

## COMPLIANCE CHECKLIST RE EXPLORATION LICENSES OF BDBL LLC

MLM Art	Description	Required to be Submitted	Status			
			13581X	13600X	13879X	13880X
18.2.7 48.1.1	Exploration Plan	Within 30 days of obtaining license and by June 30 each year from the next year	2007-2011√	2007-2011√	2007-2011√	2007-2011√
48.1.2 48.2	Exploration Activity Report	By February 15 each year	2008-2010√	2008-2010√	2008-2010√	2008-2010√
47.4	Registration of Extracted Minerals	If any	n/a	n/a	n/a	n/a
48.3	Reserves Report	Before expiration of License	n/a	n/a	n/a	n/a
48.1.3	Safety Compliance	By 20 January each year	2008-2010√	2008-2010√	2008-2010√	2008-2010√
38.1.1	Environmental Protection Plan (EPP)	Within 30 days of obtaining license and subsequently if amended	2010-2011√	2010-2011√	2010-2011√	2010-2011√
38.1.5 38.1.6	EPP Report	Annually	2008-2010√	2008-2010√	2008-2010√	2008-2010√
34	Annual License Fee	Annually	2008-2011√	2008-2011√	2008-2011√	2008-2011√
38.1.8	Bank Deposit of 50% of EPP Budget	Before commencing exploration activities	√	√	√	√
33.1 33.2	Minimum Exploration Expenditure Report	Annually	2008-2010√	2007-2010√	2008-2010√	2008-2010√

√ - compliant  
n/a - not applicable

### INFORMATION RE MINERALS EXPLORATION LICENSES OVERLAPPING PROHIBITED AREAS

No	License number	Property Name	Location	Issue date	Size of license area (ha)	Size of overlapped area (ha)
1	1200X	Shavan	Gurvantes soum Umnugobi province	12 Sep 06	7364.56	1305.56
2	13581X	Urtyn Am	Nariinteel soum Uvurkhangai province	21 Apr 08	541.26	19.21
3	13879X	Teeg	Nariinteel soum Uvurkhangai province	16 Jul 08	2219.51	65.04
4	13880X	Khonkhor	Nariinteel and Khairkhan Dulaan soum Uvurkhangai province	16 Jul 08	14460.66	1493.32



## 10. RISK FACTORS

The risks contained both in Section 3.9, the Solicitor's Report and this Section 10 should be considered carefully by potential investors.

### 10.1 Introduction

An investment in the Company is not risk free and prospective new investors should consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

### 10.2 Key risks

The key risks which the Directors consider are applicable to an investment in the Company were set out in Section 3.9 of this Prospectus, in the "Investment Overview" section.

These key risks are:

- (a) Re-Quotation of Shares on ASX
- (b) Counterparty and contractual risk
- (c) Sovereign and political risks associated with operating in Mongolia
- (d) Legal risks associated with operating in Mongolia
- (e) Amendments to legislation and development of new laws
- (f) Mineral licence title risks
- (g) Application of the Mongolian Water and Forests Law
- (h) Special Needs Land
- (i) Operating risks
- (j) Exploration success
- (k) Environmental risks
- (l) Infrastructure
- (m) Coal price volatility
- (n) Foreign exchange risk

Please refer to Section 3.9 of this Prospectus for further details of these risks.

### 10.3 General risks

#### Future capital requirements

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

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

#### Insurance risks

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

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

### 10.3 General risks (cont'd)

#### Competition risk

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

#### Government policy changes

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

#### Regulatory Risk

The Company's proposed exploration and development activities at the Project will be subject to extensive laws and regulations relating to numerous matters, including various resource licence consent conditions pertaining to environmental compliance and rehabilitation, taxation, social and labour relations, health and worker safety, waste disposal, water use, protection of the environment, successful land claims and heritage matters, protection of endangered and protected species and other matters. The Company will regularly require permits from regulatory authorities to authorise the Company's operations. These permits relate to exploration, development, production and rehabilitation activities.

Obtaining necessary permits can be a time-consuming process and there is a risk that the Company may not obtain these permits on acceptable terms, in a timely manner or at all. The costs and delays associated with obtaining necessary permits and complying with these permits and applicable laws and regulations could materially delay or restrict the Company from proceeding with the development of a project or the operation or further development of a reserve. Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in material fines, penalties or other liabilities. In extreme cases, failure could result in suspension of the Company's activities or forfeiture of resource licences.

#### Potential Acquisitions

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

#### Reliance on Key Personnel

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

#### Market risk

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

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) commodity price fluctuations;
- (e) changes in investor sentiment toward particular market sectors;
- (f) the demand for, and supply of, capital; and
- (g) terrorism and other hostilities.

#### General Economic Risks

Factors such as inflation, currency fluctuations, interest rates, supply and demand of capital and industrial disruption have an impact on business costs, commodity prices and stock market prices. The Company's operating costs, possible future revenues and future profitability can be affected by these factors, which are beyond the control of the Company.

#### International Operations

International sales and operations are subject to a number of risks, including:

- (a) potential difficulties in enforcing agreements (including joint venture agreements) and collecting receivables through foreign local systems;
- (b) potential difficulties in protecting intellectual property;
- (c) increases in costs for transportation and shipping; and
- (d) restrictive governmental actions, such as imposition of trade quotas, tariffs and other taxes.

Any of these factors could materially and adversely affect the Company's business, results of operations and financial condition.



### **10.3 General risks (cont'd)**

#### **Joint Venture Parties, Agents and Contractors**

The Directors are unable to predict the risk of financial failure or default by a participant in any earn-in agreement or joint venture to which the Company may become a party or the insolvency or managerial failure by which any of the contractors to be used in the future by the Company in any of its activities or the insolvency or other managerial failure by any of the other service providers to be used in the future by the Company for any activity.

### **10.4 Investment speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Company's securities.



## 11. MATERIAL CONTRACTS

As announced to ASX on 20 April 2011, the Company entered into an option agreement (**Option Agreement**) to acquire 100% of eight exploration licences located in Mongolia (**Licences**). The Company exercised its option to acquire the Licences on 15 July 2011 and the Option Agreement was subsequently replaced by a full form agreement (**Share Sale Agreement**).

Details of the Share Sale Agreement, and other material agreements to which the Company is a party, are set out below.

### 11.1 Share Sale Agreement – Acquisition of Project

On 26 October 2011, the Company entered into a Share Sale Agreement with Peabody-Winsway, being the sole shareholder of BDBL LLC (**BDBL**), to acquire 100% of the shares in BDBL.

The material terms and conditions of the Share Sale Agreement are as follows:

- (a) (**Consideration**): in consideration for the acquisition of BDBL, the Company shall pay Peabody-Winsway US\$7,870,000 (which includes a payment of US\$100,000 which was paid by the Company to Peabody-Winsway on 20 April 2011 to secure exclusive rights in relation to the Project and a deposit of US\$100,000 paid on signing of the Share Sale Agreement), plus any assessable value added tax that may be attributable to the sale of BDBL shares;
- (b) (**Conditions Precedent**): the Share Sale Agreement is conditional upon the following key conditions:
  - (i) C @ obtaining Shareholder approval for the purpose of ASX Listing Rule 11.1.2 for the transaction Acquisition;
  - (ii) C @ completing a minimum capital raising of \$10,000,000;
  - (iii) there being no material breach of the warranties provided by Peabody-Winsway in respect of the licences between the date of the Share Sale Agreement and the date of completion of the Acquisition; and
  - (iv) the licence transfer to BDBL has been registered correctly in accordance with the Minerals Law of Mongolia.

If these conditions are not satisfied by 50 days from the date of signing the Share Sale Agreement (or such later date agreed by the parties), the Share Sale Agreement shall terminate and the parties will be released from their obligations there under;

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

The Share Sale Agreement otherwise contains standard clauses typical for an agreement of this nature.

### 11.2 Deed of Assignment of Polo Royalty

On 26 October 2011, the Company entered into a deed of assignment and assumption with Peabody-Winsway and BDBL (**Deed of Assignment**). Pursuant to the Deed of Assignment, the Company has agreed to assume the obligations and liabilities of Peabody-Winsway under a royalty agreement dated 29 June 2010 between Peabody-Winsway and Polo Resources Limited (**Polo**) (**Royalty Agreement**).

Pursuant to the assignment of the Royalty Agreement, the Company is required to pay to Polo a royalty of 1% of the gross FOB mine site price (exclusive of any applicable Mongolian value added tax charged to the relevant buyer) per tonne of coal which is mined and sold from the License Area (**Royalty Payment**).

The Royalty Payment will be paid by the Company to Polo in US\$ within 30 days after the end of each quarterly period.

The Deed of Assignment will take effect from the date of settlement of the Share Sale Agreement.



### 11.3 Trinity MOU

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

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

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

- (a) **(Acquisition of Interests and formation of joint venture)**: if either of the parties acquires an interest in an exploration or mining project which meets the agreed criteria as set out in the Trinity MOU (**Interest**), the party shall hold the Interest for the benefit of an unincorporated joint venture to be formed between the Company and Trinity from the date of the acquisition of the Interest (**Joint Venture**);
- (b) **(Joint Venture – initial participating interests)**: upon the formation of the Joint Venture, the participating interests of the parties shall be:
  - (i) C @ - 90%; and
  - (ii) Trinity - 10%.Trinity shall not be required to contribute to budgeted Joint Venture expenditure in respect of this 10% participating interest until the resource defined within the Joint Venture area is estimated to be 200Mt or greater of JORC compliant indicated or inferred resources. Upon reaching this milestone, Trinity will be required to contribute to its pro rata share of Joint Venture expenditure in respect of its initial 10% participating interest;
- (c) **(Joint Venture – additional participating interest)**: Trinity shall have the right to acquire an additional 15% participating interest in the Joint Venture by paying to C @ an amount equal to 15% of all expenditure incurred by C @ that is attributable to the identification, evaluation and acquisition of the Interest. Trinity must make this payment within 60 business days following the formation of the Joint Venture. Trinity shall, at all times, be obliged to contribute its pro rata share of Joint Venture expenditure in respect of this 15% participating interest;
- (d) **(Operating committee)**: the Joint Venture shall be managed by an operating committee that is constituted by representatives of the Joint Venture participants, with each representative's voting power being proportionate to the corresponding participant's Joint Venture participating interest from time to time. The operating committee may appoint an operator to operate the Joint Venture; and
- (e) **(Formal Joint Venture agreement)**: the parties shall enter into a Joint Venture agreement to formalise the terms of the Joint Venture.

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

### 11.4 Ethica Heads of Agreement

On 27 April 2011 the Company and PT Ethica Trada Cermelang (**Ethica**) (together the Parties) entered into a heads of agreement (**Ethica HOA**) pursuant to which the Parties have agreed to work together to identify, acquire and develop exploration and mining projects (**JV Projects**).

- (a) **(Acquisition of interests and formation of joint venture)**: if the parties acquire a JV Project, the JV Project shall be held in a provisional separate unincorporated joint venture to be formed between the Company and Ethica from the date of the acquisition of the project (**Joint Venture**);
- (b) **(Joint Venture – initial participating interests)**: upon the formation of the Joint Venture, the participating interests of the parties shall be:
  - (i) Company - 90%; and
  - (ii) Ethica - 10% (**Ethica Interest**).

#### 11.4 Ethica Heads of Agreement (cont'd)

5% of the Ethica Interest will be a free-carried, fully-vested interest and recognised as a success fee for successfully identifying and arranging for the acquisition of the JV Project. The remaining 5% of the Ethica Interest in the Joint Venture will be a free-carried interest throughout the acquisition, development and construction phases of the JV Projects, but will cease to be a free-carried upon commencement of mine production.

- (c) **(Joint Venture – additional participating interest):** Ethica shall have the option to acquire an additional 10% equity interest in the Joint Venture (**Option**). After acquiring the additional 10% interest, Ethica will be obligated to comply with any cash calls made in respect of equity interests that are not free-carried. Ethica must exercise the Option within 90 days following commencement of production at the JV Project. Ethica shall, upon commencement of production at the JV Project, be obliged to contribute its pro rata share of Joint Venture expenditure in respect of the 5% equity interest that is free-carried but not fully-vested.
- (d) **(Formal Joint Venture agreement):** the Parties shall enter into a Joint Venture agreement to formalise the terms of the Joint Venture.
- (e) **(Term):** The initial six (6) month term of the Ethica HOA expired on 27 October 2011.

The term of the Ethica HOA has been extended for a further six (6) month period as provided for in the Ethica HAO, with an agreed additional monthly fee of 15 million Indonesian Rupiah to be paid to Ethica for the extended period.

#### 11.5 Executive Services Agreement – Mr Mark Earley

On 27 July 2010, the Company entered into an executive services agreement with Mr Mark Earley, pursuant to which Mr Earley has agreed to act as Managing Director of the Company with effect from the Company successfully completing the Offer (**ESA**).

Pursuant to the terms of the ESA, the Company will pay to Mr Earley \$300,000 plus superannuation (inclusive of GST and any other applicable taxes) per annum (**Annual Remuneration**) on the basis that Mr Earley commit a minimum of 35 hours a week to the Company. Mr Earley is further entitled to a one off cash bonus equivalent to 50% of one year's Annual Remuneration upon the Company successfully completing the acquisition of the first material project of the Company, as determined by the Board of Directors.

The ESA may be terminated by Mr Earley on giving three (3) months written notice to the Company. The Company may terminate the ESA without cause at any time by payment of six (6) months Annual Remuneration and payment of an amount that will constitute full satisfaction of the Company's obligations with respect to notice of termination.

#### 11.6 Non-Executive Director Appointment Letter - Mr Andrew Harrison

On 20 June 2005, the Company and Mr Andrew Harrison entered into a letter agreement pursuant to which Mr Harrison was appointed as a non-executive director of the Company (**Appointment Letter**).

Pursuant to the terms of the Appointment Letter, the Company must pay to Mr Harrison a director's fee of \$25,000 per annum (plus superannuation). The director's fee is subject to annual review and has been increased to \$60,000 since the execution of the Appointment Letter.

The agreement is terminated upon Mr Harrison ceasing to be a director of the Company.

Mr Harrison is also paid for additional consultancy work, as approved by the Board, which is currently set at \$60,000 (plus GST) per annum for work related to project generation, review and ongoing operations.

#### 11.7 Consultancy Agreement – Ms Jade Styants

On 16 June 2008, the Company, Ms Jade Styants, and Resources Corporate Services Pty Ltd (**Contractor**) entered into a consultancy agreement (**Consultancy Agreement**) pursuant to which the Contractor was engaged by the Company to provide Company Secretarial services of Ms Styants as consultant to the Company. The initial term was for 12 months. Unless terminated, the term shall be automatically renewed for further one year periods.

In consideration for the services provided by Ms Styants, the Company shall pay to the Contractor a fee at an initial rate of \$36,000 (plus GST) per annum on the basis that Ms Styants commits 20-25 hours per month to the Company. Upon a change in business or the acquisition or commencement of a new product the rate will increase to \$42,000. Ms Styants may be paid for additional time committed to the Company at the rate of \$120 per hour.

Either party may terminate the Consultancy Agreement by giving 2 months written notice.

Ms Styants was appointed as a non-executive director of the Company on 19 January 2011. It was agreed by the board to pay her a fixed fee of \$36,000 (plus GST) per annum, in addition to her fees as a Company Secretary.

#### 11.8 Offer Management Agreement

The Company will enter into an offer management agreement with Renaissance Capital (Hong Kong) Limited and Canaccord BGF Limited (together, the Joint Lead Managers) confirming the terms upon which the Joint Lead Managers have agreed to act as joint lead managers, including the Offer on the following key terms:

## 11.8 Offer Management Agreement (cont'd)

- (a) **(Conditions precedent):** the obligations of the Joint Lead Managers are conditional upon the satisfaction of certain conditions, including the satisfaction or waiver of all conditions under the Share Sale Agreement, and the Company obtaining all necessary Shareholder approvals at the Annual General Meeting with respect to the Offer, the issue of Options to the Joint Lead Managers, and the completion of the Acquisition;
- (b) **(Management and Selling Fee):** the Company shall pay each Joint Lead Manager a management and selling fee of 4.5% (plus GST) of the value of equity raised by the respective Joint Lead Manager under the Offer;
- (c) **(Costs):** the Company shall reimburse Renaissance Capital (Hong Kong) Limited its reasonable costs incurred in connection with the Offer;
- (d) **(Options):** concurrent with the issue of Shares pursuant to this Prospectus, the Company shall issue 250,000 Options (on a post-Consolidation basis) to each of Renaissance Capital (Hong Kong) Limited and Canaccord BGF Limited, exercisable at \$1.00 each within three years from the date of issue of the Options;
- (e) **(Termination):** the Joint Lead Managers may terminate the offer management agreement upon the occurrence of any of the termination events listed in the agreement;
- (f) **(Warranties):** the Company shall provide certain warranties to the Joint Lead Managers that are customary for an agreement of this nature; and
- (g) **(Right of first refusal):** subject to satisfactory completion of the Offer, each of the Joint Lead Managers shall have a first right of refusal to act as placing agent with respect to at least 50% of any proposed institutional offerings of the securities of the Company of at least \$20,000,000 in total, for a 12 month period from date of issue of Shares under this Prospectus.

## 11.9 Corporate Adviser Mandate – Azure Capital

On 15 August 2011 the Company entered into (and on 16 September 2011, agreed to update) a corporate mandate with Azure Capital Limited (**Azure**) pursuant to which Azure has agreed to act as corporate adviser to the Company.

In consideration for the provision of corporate adviser services by Azure, the Company will provide the following consideration to Azure:

- (a) **(Corporate advisory success fee):** upon the completion of the Offer, the Company shall issue to Azure 250,000 Options (on a post-Consolidation basis), exercisable at \$1.00 each within three years from the date of issue of the Options; and
- (b) **(Selling and lodgement fee):** the Company shall pay Azure a management fee of 1.5% on all funds raised under the Offer. Azure will also receive a 4.5% distribution fee on the funds it directly raises.



## 12. ADDITIONAL INFORMATION

### 12.1 Rights attaching to Shares

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

(a) **General meetings**

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

(b) **Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (i) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (ii) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such shares registered in the shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

(c) **Dividend rights**

Subject to the rights of persons (if any) entitled to shares with special rights to dividend the Directors may declare a final dividend out of profits in accordance with the Corporations Act and may authorise the payment or crediting by the Company to the shareholders of such a dividend. The Directors may authorise the payment or crediting by the Company to the shareholders of such interim dividends as appear to the Directors to be justified by the profits of the Company. Subject to the rights of persons (if any) entitled to shares with special rights as to dividend all dividends are to be declared and paid according to the amounts paid (not credited) on the shares in respect of which the dividend is paid. Interest may not be paid by the Company in respect of any dividend, whether final or interim.

(d) **Winding-up**

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, shares classified by ASX as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares.

(e) **Transfer of Shares**

Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the Listing Rules.

## 12.1 Rights attaching to Shares (cont'd)

### (f) Variation of rights

Pursuant to Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

## 12.2 Deeds of indemnity, insurance and access

The Company has entered into deed of indemnity, insurance and access with each of the Directors. Under these deeds, the Company agrees to indemnify each Director to the extent permitted by the Corporations Act against any liability arising as a result of the Director acting in the capacity as a director of the Company. The Company is also required to maintain insurance policies for the benefit of the Director and must also allow the Directors to inspect Company documents in certain circumstances.

## 12.3 Fees and benefits

Other than as set out below or elsewhere in this Prospectus, no:

- (a) Director of the Company;
- (b) person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- (c) promoter of the Company; or
- (d) underwriter (but not a sub-underwriter) to the issue or a financial services licensee named in the Prospectus as a financial services licensee involved in the issue,

has, or had within 2 years before lodgement of this Prospectus with the ASIC, any interest in:

- (e) the formation or promotion of the Company;
- (f) any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the offer of Shares under this Prospectus; or
- (g) the offer of Shares under this Prospectus,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons as an inducement to become, or to qualify as, a Director of the Company or for services rendered in connection with the formation or promotion of the Company or the offer of Shares under this Prospectus.

Nordic Geological Solutions LLC has acted as the Independent Technical Expert and has prepared an Independent Technical Report which has been included in Section 7 of this Prospectus. The Company estimates that it will pay Nordic Geological Solutions LLC a total of \$8,000 for these services. During the 24 months preceding lodgement of this Prospectus with the ASIC, Nordic Geological Solutions LLC has not received any other fees from the Company.

BDO has acted as Independent Accountant and has prepared an Independent Accountant's Report which has been included in Section 8 of this Prospectus. The Company estimates it will pay BDO a total of \$9,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, BDO has received \$6,648 (excluding GST) in other fees from the Company for work for taxation advice on the Acquisition.

Steinepreis Paganin has acted as the Australian solicitors to the Company in relation to the Offer and has been involved in due diligence enquiries on Australian legal matters. The Company estimates it will pay Steinepreis Paganin \$30,000 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Steinepreis Paganin has received \$29,223.46 (excluding GST) in other fees for other general legal services.

### 12.3 Fees and benefits (cont'd)

Lynch & Mahoney LLC has prepared the Solicitor's Report on the Project, which is included in Section 9 of this Prospectus. The Company estimates it will pay Lynch & Mahoney LLC US\$50,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Lynch & Mahoney LLC has received \$31,891.36 in fees from the Company in respect of legal counsel in Mongolia.

Azure Capital Limited has acted as the corporate adviser to the Company in relation to the Offer. The Company estimates it will pay Azure Capital Limited \$420,000 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Azure Capital Limited has received no other fees for other corporate advisory services.

Canaccord BGF Limited has acted as a joint lead manager to the Company in relation to the Offer. The Company estimates it will pay Canaccord BGF Limited \$630,000 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Canaccord BGF Limited has not received any fees from the Company.

Renaissance Capital (Hong Kong) Limited has acted as a joint lead manager to the Company in relation to the Offer. The Company estimates it will pay Renaissance Capital (Hong Kong) Limited \$630,000 (excluding GST) for these services. Subsequently, fees will be charged in accordance with normal charge out rates. During the 24 months preceding lodgement of this Prospectus with the ASIC, Renaissance Capital (Hong Kong) Limited has not received any fees from the Company.

### 12.4 Consents

Each of the parties referred to in this section:

- (a) does not make, or purport to make, any statement in this Prospectus other than those referred to in this Section; and
- (b) to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

Nordic Geological Solutions LLC has given his written consent to being named as the Independent Technical Expert to the Company in this Prospectus and to the inclusion of the Independent Technical Report in Section 7 in the form and context in which the report is included and to the inclusion of those statements in Section 5 of this Prospectus attributable to the Independent Technical Expert in the form and context in which they are included. Nordic Geological Solutions LLC has not withdrawn his consent prior to the lodgement of this Prospectus with the ASIC.

BDO has given its written consent to being named as Independent Accountant in this Prospectus and to the inclusion of the Independent Accountant's Report in Section 8 in the form and context in which the report is included. BDO has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

Steinepreis Paganin has given their written consent to being named as the Australian solicitors to the Company in this Prospectus. Steinepreis Paganin has not withdrawn their consent prior to the lodgement of this Prospectus with the ASIC.

Lynch & Mahoney LLC has given its written consent to being named as the Mongolian solicitors to the Company in this Prospectus and to the inclusion of the Solicitor's Report on the Project in Section 9 of this Prospectus in the form and context in which the report is included. Lynch & Mahoney LLC has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Azure Capital Limited has given its written consent to being named as the Corporate Advisor to the Company in this Prospectus. Azure Capital Limited has not withdrawn their consent prior to the lodgement of this Prospectus with the ASIC.

Canaccord BGF Limited has given its written consent to being named as a joint lead manager to the Offer in this Prospectus. Canaccord BGF Limited has not withdrawn their consent prior to the lodgement of this Prospectus with the ASIC. Canaccord BGF Limited was not involved in the preparation of any part of this Prospectus and did not authorise or cause the issue of this Prospectus. Canaccord BGF Limited makes no express or implied representation or warranty in relation to the Prospectus or the Offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Canaccord BGF Limited.

Renaissance Capital (Hong Kong) Limited has given its written consent to being named as a joint lead manager to the Offer in this Prospectus. Renaissance Capital (Hong Kong) Limited has not withdrawn their consent prior to the lodgement of this Prospectus with the ASIC. Renaissance Capital (Hong Kong) Limited was not involved in the preparation of any part of this Prospectus and did not authorise or cause the issue of this Prospectus. Renaissance Capital (Hong Kong) Limited makes no express or implied representation or warranty in relation to the Prospectus or the Offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Renaissance Capital (Hong Kong) Limited.

### 12.5 Litigation

As at the date of this Prospectus, the Company is not involved in any legal proceedings and neither the Directors are aware of any legal proceedings pending or threatened against the Company.



## 12.6 Electronic Prospectus

Pursuant to Class Order 00/044, the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please email the Company at [enquiries@cnow.com.au](mailto:enquiries@cnow.com.au) and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain a copy of the Prospectus from the Company's website at [www.cnow.com.au](http://www.cnow.com.au).

## 12.6 Electronic Prospectus (cont'd)

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## 12.7 Taxation

The acquisition and disposal of Shares in the Company will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

## 12.8 Forecasts

The Company intends, subject to the completion of the Acquisition, to become an exploration company. Given the speculative nature of coal exploration, production cannot be guaranteed and there exist significant uncertainties associated with forecasting future revenue. On this basis, the Directors believe that reliable forecasts cannot be prepared and accordingly have not included forecasts in this Prospectus.

## 12.9 Foreign Selling Restrictions

### Hong Kong

**WARNING:** This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the **Companies Ordinance**), nor has it been authorised by the Securities and Futures Commission (the **SFC**) in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong by means of any document, other than (i) to "professional investors" (as defined in the SFO and any rules made under that ordinance) or (ii) in other circumstances that do not result in this document being a "prospectus" (as defined in the Companies Ordinance) or that do not constitute an offer to the public within the meaning of that ordinance.

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Shares may sell, or offer to sell, such Shares in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such Shares.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

### Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division I, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately.

## 12.9 Foreign Selling Restrictions (cont'd)

You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

### United Kingdom

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the Shares. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA)

in the United Kingdom, and the Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "**relevant persons**"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

### United States

This document may not be distributed in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act of 1933 and applicable US state securities laws.



## 13. DIRECTORS' AUTHORISATION

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director and Proposed Director has consented to the lodgement of this Prospectus with the ASIC.

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**Andrew Harrison**  
For and on behalf of  
C@ Limited



## 14. GLOSSARY

Where the following terms are used in this Prospectus they have the following meanings:

**A\$** or **\$** means an Australian dollar.

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

**Annual General Meeting** means the annual general meeting of the Company to be held on 30 November 2011.

**Applicant** means a Shareholder or other party who applies for Shares pursuant to the Offer.

**Application Form** means Priority Offer Application Form or the General Offer Application Form as the case determines attached to or accompanying this Prospectus relating to the Offer.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange (as the context requires).

**BDBL** means BDBL LLC a company registered in Mongolia.

**Board** means the board of Directors as constituted from time to time.

**Business Day** means a week day when trading banks are ordinarily open for business in Perth, Western Australia.

**Company** means C @ Limited (to be re-named "Draig Resources Limited" on completion of the Acquisition) (ACN 110 439 686).

**Consolidation** means the consolidation of the Company's existing Securities (prior to the issue of Shares offered under this Prospectus), on the basis of twenty (20) Securities for every one (1) Security held (rounded up to the nearest whole number).

**Constitution** means the constitution of the Company.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means the current directors of the Company as at the date of this Prospectus.

**FOB** means free on board.

**General Offer** means the offer of up to 25,000,000 Shares including any Shares remaining after allocation of the Priority Offer on the terms set out in the Investment Overview Section 3.2 of this Prospectus.

**General Offer Closing Date** means the closing date of the General Offer being 5.00pm WST 1 December 2011 (as applicable), subject to these dates being extended, or the General Offer being closed early.

**General Offer Application Form** means the General Offer application form attached to or accompanying this Prospectus relating to the General Offer.

**Joint Lead Managers** means Renaissance Capital (Hong Kong) Limited and Canaccord BGF Limited.

**Listing Rules** means the official listing rules of ASX.



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

**Offer** means the offer to Shareholders and investors to apply for Shares and Options set out in Section 4 of this Prospectus, which incorporates the General Offer and the Priority Offer.

**Official List** means the Official List of ASX.

**Official Quotation** means official quotation by ASX in accordance with the Listing Rules.

**Option** means an option to acquire a Share.

**Priority Offer** means the offer of Shares to Shareholders of the Company on the Priority Offer Record Date, on the terms set out in the Investment Overview Section 3.2 of this Prospectus.

**Priority Offer Closing Date** means the closing date of the Priority Offer 5.00pm WST 30 November 2011 (as applicable), subject to these dates being extended, or the Priority Offer being closed early.

**Priority Offer Record Date** means the record date for determining entitlements to participate in the Priority Offer, being 5.00pm WST 10 November 2011.

**Priority Offer Application Form** means the Priority Offer application form attached to or accompanying this Prospectus relating to the Priority Offer.

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

**Prospectus** means this prospectus.

**Securities** means Shares and Options.

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

**Share Sale Agreement** means the share sale agreement between the Company and the shareholder of BDBL, the material terms of which are summarised in Section 11.1 of this Prospectus.

**Share Registry** means Security Transfer Registrars Pty Limited.

**Shareholder** means a holder of Shares.

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

**Trinity MOU** means the memorandum of understanding between the Company and Trinity, the material terms of which are summarised in Section 11.3 of this Prospectus.

**US\$** means an United States dollar.

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

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**C@LIMITED**  
*(to be renamed Draig Resources Limited)*

Suite 1, 64 Thomas Street , West Perth WA 6005  
Telephone: +61 8 9321 6988 | Facsimile: +61 8 9321 4022