
HUNNU COAL LIMITED

ABN 83 138 962 124

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY STATEMENT

PROXY FORM

TIME: 9:30 am (WST)

DATE: 31 May 2011

PLACE: Level 1, 33 Richardson Street
West Perth, WA 6005

This Notice of Annual General Meeting is an important document and requires your immediate attention. Please read it carefully. If you are in doubt as to what you should do, please consult your professional adviser.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The Annual General Meeting of the Shareholders of Hunnu Coal Limited which this Notice of Annual General Meeting relates to will be held at 9:30 am (WST) on 31 May 2011 at:

Level 1, 33 Richardson Street
West Perth, WA 6005

VOTING IN PERSON

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

VOTING BY PROXY

To vote by proxy, please complete and sign the proxy form enclosed and either:

- (a) deliver the proxy form by hand to the Company's registered office at Level 1, 33 Richardson Street, West Perth, Western Australia;
- (b) mail the proxy form to the Company's registered office at PO Box 826 West Perth, Western Australia, 6872; or
- (c) send the proxy form by facsimile to the Company on facsimile number +61 8 9200 4469,

so that it is received not later than 9:30 am (WST) on 29 May 2011.

Proxy forms received later than this time will be invalid.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Shareholders of Hunnu Coal Limited will be held at Level 1 33 Richardson Street, West Perth, Western Australia 6005 at 9:30 am (WST) on 31 May 2011.

The Explanatory Statement provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders of the Company on 29 May 2011 at 9:30 am (WST).

Terms and abbreviations used in this Notice and Explanatory Statement are defined in the Glossary.

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report of the Company for the financial year ended 31 December 2010 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

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

"That for the purposes of Section 250R(2) of the Corporations Act, and for all other purposes, approval is given for the adoption of the remuneration report as contained in the Company's annual financial report for the financial period ended 31 December 2010."

Short Explanation: The Corporations Act provides that a resolution that the remuneration report be adopted must be put to vote at a listed company's annual general meeting. The vote on Resolution 1 is advisory only and does not bind the Directors or the Company.

2. RESOLUTION 2 – RE-ELECTION OF A DIRECTOR – MR TIMOTHY FLAVEL

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

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

3. RESOLUTION 3 – ISSUE OF DIRECTOR OPTIONS TO MR MATTHEW WOOD – RELATED PARTY

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

"That, for the purpose of Section 208 of the Corporations Act 2001, ASX Listing Rule 10.11 and for all other purposes, approval be given for the Directors to allot and issue 2,500,000 Director Options to Mr Matthew Wood (or his nominee) on the terms and conditions set out in the Explanatory Statement."

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

4. **RESOLUTION 4 – ISSUE OF DIRECTOR OPTIONS TO MR GEORGE TUMUR – RELATED PARTY**

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

“That, for the purpose of Section 208 of the Corporations Act 2001, ASX Listing Rule 10.11 and for all other purposes, approval be given for the Directors to allot and issue 4,000,000 Director Options to Mr George Tumur (or his nominee) on the terms and conditions set out in the Explanatory Statement.”

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

5. **RESOLUTION 5 – ISSUE OF DIRECTOR OPTIONS TO MR TIMOTHY FLAVEL – RELATED PARTY**

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

“That, for the purpose of Section 208 of the Corporations Act 2001, ASX Listing Rule 10.11 and for all other purposes, approval be given for the Directors to allot and issue 1,500,000 Director Options to Mr Timothy Flavel (or his nominee) on the terms and conditions set out in the Explanatory Statement.”

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

6. **RESOLUTION 6 – ISSUE OF DIRECTOR OPTIONS TO MR DANIEL CRENNAN – RELATED PARTY**

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

“That, for the purpose of Section 208 of the Corporations Act 2001, ASX Listing Rule 10.11 and for all other purposes, approval be given for the Directors to allot and issue 500,000 Director Options to Mr Daniel Crennan (or his nominee) on the terms and conditions set out in the Explanatory Statement.”

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

7. RESOLUTION 7 – RATIFICATION OF PRIOR ISSUE OF SHARES

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

“That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 1,000,000 Shares on the terms and conditions set out in the Explanatory Statement”.

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

8. RESOLUTION 8 – RATIFICATION OF SHARE PLACEMENT

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

“That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 30,000,000 Shares on the terms and conditions set out in the Explanatory Statement”.

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

DATED: 18 APRIL 2011

BY ORDER OF THE BOARD

**MR TIMOTHY FLAVEL
EXECUTIVE DIRECTOR
HUNNU COAL LIMITED**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders of the Company in connection with the business to be conducted at the Annual General Meeting to be held at Level 1 33 Richardson Street, West Perth, Western Australia 6005 at 9:30 am (WST) on 31 May 2011.

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

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Annual General Meeting will include receipt and consideration of the annual financial report of the Company for the financial period ended 31 December 2010 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

The Company is not required to provide a hard copy of the Company's annual financial report to Shareholders unless a Shareholder has specifically elected to receive a printed copy.

Whilst the Company will not provide a hard copy of the Company's annual financial report unless specifically requested to do so, Shareholders may view the Company annual financial report on its website at www.hunnucoal.com.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

The Remuneration Report is set out in the Director's Report in the Company's 2010 Annual Report for the financial year ending 31 December 2010.

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

Section 250R(2) of the Corporations Act requires that a resolution to adopt the Remuneration Report be put to the vote of the Company at the Annual General Meeting. However, Shareholders should note that the vote on Resolution 1 is advisory only and is not binding on the Company or its Directors.

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

3. RESOLUTION 2– RE-ELECTION OF DIRECTOR- MR TIMOTHY FLAVEL

Clause 13.2 of the Constitution requires that at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third (rounded upwards in case of doubt), shall retire from office, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election.

The Directors to retire at an annual general meeting are those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by drawing lots.

A Director who retires by rotation under clause 13.2 of the Constitution is eligible for re-election.

The Company currently has four (4) Directors and accordingly one (1) must retire.

Mr Timothy Flavel, the Director longest in office since his last election, retires by rotation and seeks re-election.

4. RESOLUTIONS 3, 4 AND 5 – ISSUE OF DIRECTOR OPTIONS

4.1 General

The Company has agreed, subject to obtaining Shareholder approval, to allot and issue a total of 8,500,000 Options (**Director Options**) to Messrs Wood, Tumor, Flavel and Crennan (**Related Parties**) on the terms and conditions set out below.

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

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,
- (c) unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

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

The grant of the Director Options to the Related Parties requires the Company to obtain Shareholder approval because the grant of Director Options constitutes giving a financial benefit and as Directors, Messrs Wood, Tumor, Flavel and Crennan are a related parties of the Company.

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

4.2 Trading Price of Shares

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are quoted on the ASX. The highest, lowest and most recent market sale prices of the Company's securities on the ASX since listing on 12 February 2010 and immediately preceding the date of this Notice of Meeting and the respective date of those sales are:

Highest:	\$1.78 on 11 April 2011
Lowest:	\$0.335 on 12 February 2010
Last:	\$1.665 cents on 25 April 2011

4.3 Shareholder Approvals Required – Chapter 2E of the Corporations Act and ASX Listing Rule 10.11

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

- (a) the related parties are Messrs Mr Matthew Wood, Mr George Tumor, Mr Timothy Flavel and Mr Daniel Crennan who are related parties by virtue of being Directors;
- (b) the maximum number of Director Options (being the nature of the financial benefit being provided) to be granted to the Related Parties is:
 - (i) 4,000,000 Director Options to Mr George Tumor;
 - (ii) 2,500,000 Director Options to Mr Matthew Wood;
 - (iii) 1,500,000 Director Options to Mr Timothy Flavel; and
 - (iv) 500,000 Director Options to Mr Daniel Crennan;
- (c) the Director Options will be granted for nil cash consideration, accordingly no funds will be raised from the grant of the Director Options;
- (d) the Director Options will be granted to the Directors no later than 1 month after the date of the meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules) and it is anticipated the Director Options will be issued on one date;
- (e) the terms and conditions of the Director Options are set out in Schedule 1;
- (f) the value of the Director Options and the pricing methodology is set out in Schedule 2;
- (g) the relevant interests of the Related Parties in securities of the Company are set out below;

Related Party	Shares	Options
Mr Matthew Wood	7,725,001	500,000 ¹
Mr George Tumor	6,012,501	500,000 ¹
Mr Timothy Flavel	4,922,500	500,000 ¹
Mr Daniel Crennan	215,000	500,000 ²

¹Options exercisable at 20 cents each on or before 31 December 2014.

²Options exercisable at \$1.00 each on or before 30 June 2015.

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

Related Party	Current Financial Year	Previous Financial Period ¹
Mr Wood	\$77,700	\$364,080
Mr Tumur	\$77,700	\$340,177
Mr Flavel	\$48,000	\$229,200
Mr Crennan	\$10,000	\$193,419

¹previous financial period is from 19 August 2009 to 31 December 2010 and includes share based payments of \$69,200 for Messrs Wood, Flavel and Tumur and \$163,419 for Daniel Crennan.

- (i) if the Director Options granted to the Related Parties are exercised, a total of 8,500,000 Shares would be allotted and issued. This will increase the number of Shares on issue from 242,100,002 to 250,600,002 (assuming that no other Options are exercised and no other Shares issued) with the effect that the shareholding of existing Shareholders would be diluted by an aggregate of 3.39%.
- (j) The market price for Shares during the term of the Director Options would normally determine whether or not the options are exercised. If, at any time any of the Director Options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the Director Options, there may be a perceived cost to the Company; information on the trading history of the Shares on ASX since listing on 12 February 2010 is set out in Section 4.2 above;
- (k) the primary purpose of the issue of the Director Options is to provide consideration to the Related Parties for their services of assisting the Company in developing the Company strategy of creating a Mongolian focused resources company. Given this purpose and bearing in mind the exercise terms of the Director Options, the Directors do not consider that there are any significant opportunity costs to the Company or benefits forgone by the Company in issuing the Director Options upon the terms proposed;
- (l) the Board acknowledges that the grant of the Director Options to Mr Daniel Crennan is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the Board considers the grant of the Director Options to Mr Daniel Crennan reasonable in the circumstances, given the necessity to attract the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves; and
- (m) Mr Matthew Wood declines to make a recommendation to Shareholders in relation to Resolution 3 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 3, recommend that Shareholders vote in favour of Resolution 3. The Board (other than Matthew Wood) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution.
- (n) Mr George Tumur declines to make a recommendation to Shareholders in relation to Resolution 4 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a

material interest in the outcome of Resolution 4, recommend that Shareholders vote in favour of Resolution 4. The Board (other than George Tumur) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution;

- (o) Mr Timothy Flavel declines to make a recommendation to Shareholders in relation to Resolution 5 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 5, recommend that Shareholders vote in favour of Resolution 5. The Board (other than Timothy Flavel) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution; and
- (p) Mr Daniel Crennan declines to make a recommendation to Shareholders in relation to Resolution 6 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 6, recommend that Shareholders vote in favour of Resolution 6. The Board (other than Daniel Crennan) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution.

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

5. RESOLUTION 7 – RATIFICATION OF PRIOR ISSUE OF SHARES

5.1 General

On 10 December 2010, the Company acquired a 70% interest in the Zuun Gol and ArZuun Gol Coal Projects (**Acquisition**) by issuing to the vendor of the projects, Adamus Mountain LLC, a Mongolian company, 1,000,000 Shares in consideration for the acquisition. The subscriber pursuant to this issue was not a related party of the Company.

Resolution 7 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares (**Share Ratification**).

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

5.2 Technical information required by ASX Listing Rule 7.4

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Share Ratification:

- (a) 1,000,000 Shares were allotted;
- (b) the deemed issue price was \$0.845 cents per Share;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were allotted and issued to the vendor of the Zuun Gol and ArZuun Gol Coal Projects, Adamus Mountain LLC, a Mongolian company, who is not a related party of the Company; and
- (e) no funds were raised from this issue as the Shares were issued in consideration for the Acquisition.

6. RESOLUTION 8 – RATIFICATION OF SHARE PLACEMENT

6.1 General

On 9 March 2011, the Company announced the placement of 30,000,000 shares to Banpu Minerals (Singapore) Pte Ltd for consideration of \$45 million.

Resolution 8 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares (**Placement Ratification**).

A summary of ASX Listing Rules 7.1 and 7.4 is set out in Section 5 above.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

6.2 Technical information required by ASX Listing Rule 7.5

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Placement Ratification:

- (a) 30,000,000 Shares were allotted;
- (b) the deemed issue price was \$1.50 per Share;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were allotted and issued Banpu Minerals (Singapore) Pte Ltd, who is not a related party of the Company; and
- (e) as announced to the ASX on 9 March 2011, the Company intends to apply the funds raised from the issue towards fasting tracking the

development strategies for the Tsant Uul and Uust Khudag coal deposits in Mongolia.

7. ENQUIRIES

Shareholders are required to contact the Company Secretary on +61 8 9200 4267 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

\$ means Australian dollars.

Annual General Meeting or **Meeting** means the meeting convened by the Notice.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

ASX Listing Rules or **Listing Rules** means the Listing Rules of ASX.

Board means the board of directors of the Company.

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

Company means Hunnu Coal Limited (ABN 83 138 962 124).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Director Option means an Option granted pursuant to Resolutions 3 to 6 (inclusive) with the terms and conditions set out in Schedule 1.

Directors mean the current directors of the Company.

Explanatory Statement means the explanatory statement to the Notice.

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

Option means an option to acquire a Share.

Proxy Form means the proxy form accompanying the Notice.

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

Share means a share in the Company.

Shareholder means a shareholder in the Company.

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

SCHEDULE 1 – TERMS AND CONDITIONS OF DIRECTOR OPTIONS

The Director Options entitle the holder to subscribe for ordinary fully paid shares in the capital of the Company on the following terms and conditions:

- (a) The Director Options will expire at 5.00pm (WST) on 31 May 2014 (**Expiry Date**). Any Director Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
 - (b) Each Director Option gives the Option holder the right to subscribe for one Share. To obtain the right given by each Director Option, the Option holder must exercise the Director Options in accordance with the terms and conditions of the Director Options.
 - (c) The exercise price payable upon exercise of each Director Option will be \$2.00 Australian (**Exercise Price**).
 - (d) The Director Options shall vest 50% on 31 May 2012 and 50% on 31 May 2013 (**Vesting Date**).
 - (e) If the Director being the recipient of the Director Options issued pursuant to Resolutions 3-6 (inclusive) (as the case may be) ceases to be a Director prior to the Vesting Date, the relevant Director Options shall be forfeited.
 - (f) Once the Director Options are exercisable the Director Options may be exercised at any time prior to the Expiry Date, from time to time.
 - (g) An Option holder may exercise their Director Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Director Options specifying the number of Director Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Director Options being exercised;
- (Exercise Notice).**
- (h) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
 - (i) Within 5 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Director Options specified in the Exercise Notice.
 - (j) The Director Options are not transferrable.
 - (k) All Shares allotted upon the exercise of Director Options will upon allotment rank paripassu in all respects with other Shares.
 - (l) The Company will not apply for quotation of the Director Options on ASX. However, the Company will apply for quotation by ASX of all Shares allotted pursuant to the exercise of Director Options within 15 Business Days after the date of allotment of those Shares.
 - (m) In the event of any reorganisation (including consolidation, sub-division, reduction or return) of the issued capital of the Company before the expiry of any Director Options, the number of Options to which an Director Option holder is entitled or the

Exercise Price of the Director Options or both will be reconstructed (as appropriate) in accordance with the Listing Rules.

- (n) A Director Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Director Option can be exercised.
- (o) There are no participating rights or entitlements inherent in the Director Options and optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Director Options. However, the Company will ensure that for the purposes of the proposed issue notice of the new issue will be given to optionholders at least ten (10) Business Days before the record date. This will give optionholders the opportunity to exercise their Director Options prior to the date for determining entitlements to participate in any such issue.
- (p) **Change of Control:** Notwithstanding any other terms and conditions, all Director Options shall vest and may be exercised:
 - (i) during a bid period (as defined in the Corporations Act) following a bidder acquiring a relevant interest of greater than 50% of the Company's shares and the bid having been declared unconditional;
 - (ii) at any time after a Change in Control Event (being a shareholder, or a group of associated shareholders, becoming entitled to sufficient shares in the Company to give it or them the ability and that ability is successfully exercised, in a general meeting, to replace all or a member of the board) has occurred; or
 - (iii) on an application under Section 411 of the Corporations Act if a court orders a meeting to be held concerning a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other Company.

SCHEDULE 2 – VALUATION OF DIRECTOR OPTIONS

The Director Options to be issued to the Related Party pursuant to Resolutions 3 -6 (inclusive) have been valued by internal management. Using the theoretical Black & Scholes option model and based on the assumptions set out below, the Director Options were ascribed a value range, as follows:

	Valuation	Sensitivity Analysis		
Number of Director Options	8,500,000			
Share Price	\$1.50	\$1.25	\$1.75	\$2.00
Indicative value per Director Option	\$0.64	\$0.48	\$0.82	\$1.01
Value of Director Options	\$5,463,949	\$4,040,558	\$6,988,032	\$8,592,399
Assumptions:				
Valuation Date	18/04/11	18/04/11	18/04/11	18/04/11
Exercise Price	\$2.00	\$2.00	\$2.00	\$2.00
Expiry Date	31/05/2014	31/05/2014	31/05/2014	31/05/2014
Volatility	70%	70%	70%	70%
Risk free interest rate	4.89%	4.89%	4.89%	4.89%

NB: No discount has been applied in relation to the valuation to account for the vesting conditions of the Director Options. The valuation ranges noted above are not necessarily the market prices that the Director Options could be traded at and they are not automatically the market prices for taxation purposes.

PROXY FORM

**APPOINTMENT OF PROXY
HUNNU COAL LIMITED
ABN 83 138 962 124**

ANNUAL GENERAL MEETING

I/We

of

being a member of Hunnu Coal Limited entitled to attend and vote at the Annual General Meeting, hereby

Appoint

Name of proxy

OR

the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the Annual General Meeting to be held at 9.30 am (WST), on 31 May 2011 at Level 1, 33 Richardson Street, West Perth, Western Australia, and at any adjournment thereof.

If no directions are given, the Chair will vote in favour of all the Resolutions.

If the Chair of the Annual General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolution 3** please place a mark in this box.

By marking this box, you acknowledge that the Chair of the Annual General Meeting may exercise your proxy even if he has an interest in the outcome of Resolution 3 and that votes cast by the Chair of the Annual General Meeting for Resolution 3 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolution 3 and your votes will not be counted in calculating the required majority if a poll is called on Resolution 3.

OR

Voting on Business of the Annual General Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Re-Election of a Director – Timothy Flavel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Issue of Director Options to Related Party –Matthew Wood	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Issue of Director Options to Related Party – George Tumur	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Issue of Director Options to Related Party – Timothy Flavel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Issue of Director Options to Related Party – Daniel Crennan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Ratification of Prior Issue of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Ratification of Share Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

Signature of Member(s):

Date: _____

Individual or Member 1

Member 2

Member 3

Sole Director/Company Secretary

Director

Director/Company Secretary

Contact Name: _____ **Contact Ph (daytime):** _____

HUNNU COAL LIMITED
ABN 83 138 962 124

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at an Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) deliver the proxy form by hand to the Company's registered office at Level 1, 33 Richardson Street, West Perth, Western Australia;
 - (b) mail the proxy form to the Company's registered office at PO Box 826 West Perth, Western Australia, 6872; or
 - (c) send the proxy form by facsimile to the Company on facsimile number +61 8 9200 4469,

so that it is received not later than 9:30 am (WST) on 29 May 2011.

Proxy forms received later than this time will be invalid.