

17 February 2014

Ms Elizabeth Harris
Principal Adviser, Listings Compliance (Perth)
ASX Compliance Pty Limited
Level 8, 2 The Esplanade
PERTH WA 6000

Email: elizabeth.harris@asx.com.au

Dear Ms Harris,

MODUN RESOURCES LIMITED (ASX CODE: MOU) (the “Company”)

In regard to your letter of 13 February 2014 the Company confirms the following as reported within the December 2013 Quarterly Activities Report issued to ASX on 31 January 2014.

1. Receipts from product sales of nil

As the Company is at the stage of exploration and possible resource development it does not have any product sales.

2. Net negative operating cash flows for the quarter of \$484,000

The negative operating cash flows relate to the expenditure associated with the process of undertaking feasibility work and obtaining the final permits required to commence mining on the Nuurst Coal Project in Mongolia. This also includes the costs associated with maintenance of a Mongolian office, Perth office and corporate travel and negotiations for a coal-off take agreement for the Nuurst Coal Project.

3. Cash at end of quarter of \$0.26 million

At the end of the quarter, Modun had total cash reserves of \$0.26 million.

4. Estimated expenditure for the next quarter of \$0.285 million

This represents the proposed estimated expenditure for the quarter following the implementation of the substantial cost reduction programme announced to the ASX on 31 January 2014.

In relation to the questions raised within your letter the Company responds as follows:

Questions 1 to 3 Inclusive:

As reported within the December 2013 Quarterly Activities Report issued to ASX on 31 January 2014 the Company has implemented a substantial cost reduction programme aimed at reducing costs across the company. This will be effective until Modun can raise finance

subsequent to completing negotiations with the Government regarding the off-take agreement. This includes a reduction in staff levels, the termination of all contractors, downsizing of the Mongolian Office, and a significant reduction in employee salaries across the whole company.

As part of this cost cutting programme, Mr Rick Dalton resigned from his full-time position as Managing Director effective on 31 January 2014, but remains on the Board as a non-executive Director and continues to play a key role in the sourcing of a local partner and signing the off-take agreement. Mr Dalton will be paid at the same level as other non-executive Directors, being \$36,000 per year. Mr Hugh Warner has now filled the executive position as executive Chairman on an annual salary of \$36,000.

Mr Daniel Rohr, resigned from his full-time position as Chief Financial Officer effective 31 January 2014, but will continue to work with Modun in a part time capacity on an annual salary of \$50,000 per year. In addition, Mr Gerry Fahey has resigned from the Board of Directors, effective from 31 January 2014 and was replaced by the Modun Company Secretary, Mr Neil Hackett. Mr Hackett will retain his position as Company Secretary in addition to becoming a non-executive Director on an annual salary of \$36,000.

The changes to staffing levels will still enable Modun to progress discussions for the coal briquette off-take agreement with the Mongolian Government. However the remaining focus will be on sourcing a local partner to help fund the development of the Nuurst Project. The work associated with completing the bankable feasibility study or any other work required to advance the project has been suspended until a suitable funding partner has been found.

As reported within the December 2013 Quarterly Activities Report issued to ASX on 31 January 2014 the Company is seeking to raise capital and has been in discussion with a number of potential local partners who have expressed interest in investing in Modun or directly into the Nuurst Coal Project. These discussions remain ongoing.

Question 4

The Company confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

Question 5

The Company confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 12.2.

The Nuurst Coal Project remains a substantial asset of the Company. In November 2012, Modun announced a 478 million tonne JORC Code 2004 reported Coal Resource at Nuurst (326 million tonnes Measured, 104 million tonnes Indicated, 48 million tonnes Inferred). The Nuurst Coal Project is located 120 kilometres south of Mongolia's capital Ulaanbaatar and ten kilometres from existing rail infrastructure which links directly into China. This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. In November 2013, Modun submitted its Mongolian feasibility study for the Nuurst Project to MRAM. The Mongolian feasibility study was prepared according to Mongolian standards and is required to be completed and submitted to MRAM for review prior to the Company lodging any MRAM mining permit applications to commence mining.

The Mongolian feasibility study was successfully approved by MRAM in January 2014, which enables Modun to continue with the process of obtaining the final permits required to commence mining. This is an important part of the process in Mongolia because MRAM will only issue their approval for a Mongolian feasibility study if they believe the deposit is economically viable and sustainable.

The Mongolian feasibility study was independently prepared by Absolute Mining LLC who has a strong knowledge of local conditions and costs. The study identified the potential for a 136.9Mt mine of sub-bituminous thermal coal over a 30 year mining operation, with production ramping up to 4.9Mt of raw coal per annum and 500Kt of dried coal briquettes by the 4th year of operation. Indicative production costs are estimated at \$US11.50 per tonne for raw coal over the life of the mine, at today's costs, reflecting the low overall mining ROM strip ratio of 2.4:1. Negotiations with the Government for the Off-take Agreement remain ongoing.

Modun is seeking to raise capital and has been in discussion with a number of potential local partners who have expressed interest in investing in Modun or directly in the Nuurst Project. These discussions remain ongoing.

Further, for the purposes of ensuring that the Company has sufficient funds in order to continue its operations, the Company has available the potential to raise funds through the issue of shares, the sale of assets and Directors' loan funding subject to prevailing market conditions.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Neil Hackett".

Neil Hackett
Director and Company Secretary

Competent Person Statement

The information in this announcement that relates to the Nuurst Coal Resource is based on and fairly represents information compiled by Mr Dwiyoiko TU. Taruno of CSA Global Pty Ltd, who is a member of the Australasian Institute of Mining and Metallurgy. This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. Mr. Dwiyoiko TU. Taruno has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Mr Dwiyoiko TU. Taruno consents to the inclusion of such information in this report in the form and context in which it appears.



ASX Compliance Pty Limited
ABN 26 087 780 489
Level 8 Exchange Plaza
2 The Esplanade
PERTH WA 6000

GPO Box D187
PERTH WA 6840

Telephone 61 8 9224 0000
Facsimile 61 8 9221 2020

www.asx.com.au

13 February 2014

Mr Neil Hackett
Company secretary
Modun Resources Limited
Suite 7
245 Churchill Avenue
SUBIACO WA 6008

Dear Neil

Modun Resources Limited ("Company")

I refer to the Company's Quarterly Report in the form of Appendix 5B for the period ended 31 December 2013, released to ASX Limited ("ASX") on 31 January 2014, (the "Appendix 5B").

ASX notes that the Company has reported the following.

1. Receipts from product sales of nil.
2. Net negative operating cash flows for the quarter of \$484,000
3. Cash at end of quarter of \$260,000.
4. Estimated expenditure for the next quarter of \$285,000

In light of the information contained in the Appendix 5B, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 5B, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 5B for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response will be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me on **facsimile number +61 8 9221 2020** or **email Elizabeth.Harris@asx.com.au**. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than **3.00 pm WST on Monday 17 February 2014**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries please let me know.

Yours sincerely,

[sent electronically without signature]

Elizabeth Harris
Principal Adviser, Listings Compliance (Perth)
Direct: +61 8 9224 0011