



Pacific Coal Resources Ltd.
Annual Information Form
Fiscal Year Ended December 31, 2012

April 29, 2013

NOTE TO READER:

All references in this Annual Information Form to Common Shares, Options, Warrants, Compensation Options, units (if comprised of Common Shares and/or Warrants) and respective price per security, as applicable, even those that pre-date the Share Consolidation, have been adjusted to reflect the 7:1 Share Consolidation effected on March 25, 2013

TABLE OF CONTENTS

FORWARD-LOOKING INFORMATION	2
EXPLANATORY NOTES	8
EXCHANGE RATE INFORMATION	8
GLOSSARY OF TERMS	2
ABBREVIATIONS	9
TECHNICAL TERMS.....	9
INFORMATION CONCERNING THE COMPANY.....	10
GENERAL DEVELOPMENT OF THE BUSINESS.....	12
DESCRIPTION OF THE BUSINESS.....	19
RESERVES DATA AND OTHER INFORMATION.....	41
RISK FACTORS	22
DIVIDENDS AND DISTRIBUTIONS	64
DESCRIPTION OF CAPITAL STRUCTURE	65
MARKET FOR SECURITIES	65
DIRECTORS AND OFFICERS	67
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	73
INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	74
TRANSFER AGENT AND REGISTRAR.....	75
MATERIAL CONTRACTS	75
INTERESTS OF EXPERTS	75
ADDITIONAL INFORMATION.....	76

GLOSSARY OF TERMS

Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

“affiliate” a company is an **“affiliate”** of another company if (a) one of them is the subsidiary of the other, or (b) each of them is controlled by the same person. A company is **“controlled”** by a person if (a) voting securities of the company are held, other than by way of security only, by or for the benefit of that person, and (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the company. A person beneficially owns securities that are beneficially owned by (a) a company controlled by that person, or (b) an affiliate of that person or an affiliate of any company controlled by that person.

“AIF” or **“Annual Information Form”** means this annual information form dated April 29, 2013 in respect of the fiscal year ended December 31, 2012.

“Alpha” means Alpha Ventures Finance.

“Alorente” means Alorente Trading S.A.

“Acquisition Agreement” has the meaning set out in *“General Development of the Business”*.

“Agents” has the meaning set out in *“Description of Capital Structure”*.

“Alamota” means Alamota Holdings Corp.

“Assignment Agreement” means the assignment agreement dated May 6, 2010 among Lucien, Blue Pacific and Pacific Coal.

“associate” when used to indicate a relationship with a person, means (a) an issuer of which the person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to all outstanding voting securities of the issuer, (b) any partner of the person, (c) any trust or estate in which the person has a substantial beneficial interest or in respect of which the person serves as trustee or in a similar capacity, (d) in the case of a person who is an individual, (i) that person’s spouse or child, or (ii) any relative of that person or of his spouse who has the same residence as that person; but (e) where the TSXV determines that two persons shall, or shall not, be deemed to be associates with respect to a member firm, member corporation or holding company of a member corporation, then such determination shall be determinative of their relationships in the application of Rule D of the TSXV with respect to that member firm, member corporation or holding company.

“BACF” means Blue Advanced Colloidal Fuels (formerly Bioenergy International Inc. (BIOINT)).

“Barranquilla Port” means the port concession granted to Sociedad Portuaria Terminal de las Flores S.A. over the Magdalena River in Barranquilla, Colombia.

“BCBCA” means the *Business Corporations Act* (British Columbia).

“Board of Directors” or **“Board”** means the board of directors of the Company.

“Bosule” means Bosule Inc., the wholly-owned subsidiary of Vega incorporated under the laws of the Republic of Panama for the purposes of completing the Amalgamation.

“Blue Pacific” means Blue Pacific Assets Corp.

“Bolivar Gold” means Bolivar Gold Corp.

“**Caypa**” means a mine located in the municipality of Barrancas, La Guajira Department in Colombia.

“**Cafalu**” has the meaning set out in “*Description of the Business – Changes to Contracts*”.

“**Caypa Project**” means the open cast and underground mining project as more fully described in the Caypa Technical Report.

“**Caypa Technical Report**” means the NI 43-101 compliant report on the Caypa Project authored by SRK, dated November 1, 2010.

“**CAW**” has the meaning set out in “*General Development of the Business – Historical Overview – Investor Option Agreement with BACF*”.

“**CCC**” means Carbones Colombianos del Cerrejon S.A.S, a company incorporated under the laws of Colombia and a wholly-owned subsidiary of the Company.

“**CCW**” has the meaning set out in “*General Development of the Business – Historical Overview – Investor Option Agreement with BACF*”.

“**Cerro Largo Project**” means the mining project as more fully described in the Cerro Largo Technical Report.

“**Cerro Largo Technical Report**” means the NI 43-101 compliant report on the La Divisa mine authored by SRK, dated February 2011.

“**CGX Energy**” means CGX Energy Inc.

“**Chianto**” means Chianto S.A.

“**CIM**” means the Canadian Institute of Mining, Metallurgy and Petroleum.

“**Coalcorp**” means Coalcorp Mining Inc.

“**Compensation Options**” means the compensation options granted upon the completion of the RTO in exchange for the non-transferrable options granted to the Agents in connection with the Private Placement, with each such option being exercisable to acquire one Pacific Coal S.A. Unit. Each such Compensation Option was exercisable until March 14, 2013 at \$1.35 to acquire one Common Share and one-half of a Warrant (both pre-share consolidation).

“**Company**” or “**Pacific Coal**” means Pacific Coal Resources Ltd.

“**Common Shares**” means the common shares of the Company, and each share is a “**Common Share**”.

“**COP**” means Colombian pesos.

“**FOB**” means freight-on-board or free-on-board.

“**G&A**” has the meaning set out in “*General Development of the Business – Historical Overview – Cost Reduction Program*”.

“**Gran Colombia**” means Gran Colombia Gold Corp.

“**Grupo**” means Grupo Empresarial Ibiza.

“**IOA**” has the meaning set out in “*General Development of the Business – Historical Overview – Investor Option Agreement with BACF*”.

“IFRS” means, for fiscal years beginning on or after January 1, 2011, the Canadian generally accepted accounting principles for publicly accountable enterprises as defined by the Accounting Standards Board of The Canadian Institute of Chartered Accountants, as amended from time to time.

“Insider” if used in relation to an issuer, means: (a) a director or senior officer of the issuer; (b) a director or senior officer of a company that is an Insider or subsidiary of the issuer; (c) a person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the issuer; or (d) the issuer itself if it holds any of its own securities.

“Jam” means Jam Internacional S.A.S (formerly C.I. Jam Internacional S.A.), a company incorporated under the laws of Colombia.

“Jam Project” means the coal mining contract 7241, which concession has been granted to Cooperativa Boyacense de Productores de Carbón de Samacá Ltda., of which Jam is a member, and in respect of which concession Jam is entitled to conduct mining activities, as more fully described in the Jam Technical Report.

“Jam Technical Report” means the NI 43-101 compliant report on the Jam Project authored by SRK, dated August 1, 2010.

“La Divisa” or **“Cerro Largo”** means the coal mine located in the Cerro Largo area located in the La Jagua de Ibirico municipality in the department of Cesar, Colombia.

“La Tigra Project” means the mining title GKI-114 and the mining title IIS-11950 currently owned by Vortel, as more fully described in the La Tigra Technical Report.

“La Tigra Technical Report” means the NI 43-101 compliant report on the La Tigra Project authored by SRK, dated January 15, 2011.

“LCC” refers to the LCC Group, an energy services company based in Ireland.

“Lucien” means Lucien Financial Inc.

“Masering” means Masering S.A.S.

“Masering Transactions” has the meaning set out in *“General Development of the Business”*.

“MD&A” means the Company’s management discussion and analysis released concurrently with the Company’s financial statements.

“MDW” means minimum daily wage.

“Minex” means the 3-D mine modelling package.

“MOU” means Memorandum of Understanding.

“NDT” means Nano Dispersion Technology Inc.

“NI 43-101” means National Instrument 43-101 – *Standards for Disclosure of Mining Projects*.

“NI 51-102” means National Instrument 51-102 – *Continuous Disclosure Obligations*.

“Norcarbón” means Norcarbón S.A.S, title holder of 100% of the mining rights for the La Divisa coal mine.

“Oceans” means Oceans Maritime S.A.S.

“OPM” means Obras, Proyectos y Minería S.A.

“Pacific Coal S.A.” means Pacific Coal S.A., a company incorporated under the laws of the Republic of Panama.

“Pacific Coal S.A. Share” means a common share in the capital of Pacific Coal S.A.

“Pacific Coal S.A. Shareholders” means the registered holders of the Pacific Coal S.A. Shares.

“Pacific Coal S.A. Unit” means a unit issued in connection with the Private Placement in exchange for a subscription receipt of Pacific Coal S.A., which upon completion of the RTO, each such unit was exchanged for one Common Share and one-half of a Warrant.

“Pacific Coal S.A. Warrant” means one whole share purchase warrant of Pacific Coal S.A. which upon the completion of the RTO, was converted into one whole Warrant.

“Pacific Rubiales” means Pacific Rubiales Energy Corp.

“Pacific Stratus” means Pacific Stratus Energy Ltd.

“PHC” means Prospecta Hydrocarbons Corporation.

“PPG” mean Pacific Power Generation Corp.

“Preferred Shares” means the preferred shares of the Company.

“Private Placement” has the meaning set out in *“General Development of the Business”*.

“Proelectrica” means Proelectrica & CIA. S.C.A. E.S.P.

“Projects” means the various projects of the Company, including the Caypa Project, Cerro Largo Project, Jam Project and the La Tigra Project.

“QA/QC” means quality assurance/quality control.

“RTO” means the arm’s length reverse takeover transaction pursuant to which Vega indirectly acquired all of the issued and outstanding securities of Pacific Coal S.A. in exchange for the issuance of Common Shares. Under the terms of the RTO, each Pacific Coal S.A. Shareholder received one Common Share for every Pacific Coal S.A. Share held, each holder of a Pacific Coal S.A. Warrant received one Warrant for every Pacific Coal S.A. Warrant held and each holder of a Pacific Coal S.A. compensation option received one Compensation Option for every such compensation option held.

“SGS” means SGS S.A., a company that provides, amongst other things, services to the mining industry including inspection and sampling services, headquartered in Geneva, Switzerland, with offices worldwide.

“SPA” has the meaning set out in *“General Development of the Business”*.

“SRK” means SRK Consulting (UK) Limited.

“Subscription Receipts” has the meaning set out in *“General Development of the Business”*.

“Trayso” has the meaning set out in *“Description of the Business – Changes to Contracts”*.

“**TSP**” means Transportes Sanchez Polo S.A.

“**Technical Reports**” means collectively: the Caypa Technical Report, the Jam Technical Report, the La Tigra Technical Report, and the Cerro Largo Technical Report.

“**Transaction Agreement**” means the binding definitive agreement dated effective as of January 31, 2011 between Vega and Pacific Coal S.A. setting out the terms and conditions of the RTO.

“**TSXV**” means TSX Venture Exchange Inc., the exchange on which the Common Shares are listed.

“**Vega**” means Vega Resources Inc., a corporation incorporated under the BCBCA.

“**Vega Common Shares**” means the common shares in the capital of Vega.

“**Vega Warrant**” means one whole share purchase warrant of Vega entitling the holder to purchase one Vega Common Share for a price of \$2.31 (on a basis prior to the five-to-three pre-consolidation of Vega Common Shares determined at the meeting of the registered holders of the Vega Common Shares held on January 6, 2011) at any time prior to July 12, 2015.

“**Vortel**” means Vortel Corp., a corporation incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company.

“**Warrant**” means a warrant to purchase one Common Share at an exercise price of \$14.70 any time before March 14, 2016.

“**Xira**” means Xira Investments Inc., a company incorporated under the laws of the Republic of Panama.

FORWARD-LOOKING INFORMATION

All statements, other than statements of historical fact, contained or incorporated by reference in this Annual Information Form including, but not limited to, any information as to the future financial or operating performance of Pacific Coal constitute “forward-looking information” or “forward-looking statements” within the meaning of certain securities laws, including the provisions of the *Securities Act* (Ontario) and are based on expectations, estimates and projections as of the date of this AIF. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “estimates”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or states that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking information by its nature requires assumptions and involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information, and readers are cautioned not to place undue reliance on such information. Examples of such statements include, but are not limited to, statements pertaining to the Company’s proposed exploration and development activities and method for funding thereof, timing of development of undeveloped coal resources and reserves, coal and coking coal production levels, expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development, treatment under governmental regulatory regimes and tax laws, capital expenditure programs and the timing and method of financing thereof and proposed acquisitions by the Company, the development plans and status of coal assets, future growth and performance.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking information contained in this AIF. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the

Company as of the date of such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of Pacific Coal contained or incorporated by reference in this Annual Information Form, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth herein and in the Company's most recently filed Management's Discussion and Analysis, or as otherwise expressly incorporated herein by reference, as well as: (1) there being no significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment or otherwise; (2) availability of capital and financing to fund the Company's projects; (3) permitting, development, operations, expansion at the Projects (including, without limitation, land acquisitions for and permitting and construction of the new facilities) being consistent with our current expectations; (4) political developments in any jurisdiction in which the Company operates being consistent with its current expectations; (5) the viability, permitting and development of the Projects; (6) the exchange rate between the Canadian dollar, COP and the U.S. dollar being approximately consistent with current levels; (7) certain price assumptions for coal; (8) prices for thermal and coking coal remaining consistent with current levels; (9) production and cost of sales forecasts meeting expectations; (10) the accuracy of our current mineral reserve and mineral resource estimates; and (11) labour and materials costs increasing on a basis consistent with the Company's current expectations.

Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to: obtaining necessary financing and adequate insurance, managing risk, the economy generally, current and future stock prices, results of operations and exploitation, exploration and development activities, fluctuations in mineral prices and market conditions, overcapacity risk, disruptions in production, opposition to mining, fluctuations in transportation costs, unexpected increases in raw materials costs, the extent of mineral reserves and future growth and performance, imprecision in preliminary resource estimates, including estimates of the life and recovery thereof, the regulatory and foreign environment, delays in obtaining or failure to obtain necessary regulatory permits and approvals from government authorities, changes in government regulations and policies, including tax and trade laws and policies, future capital and other expenditures (including the amount, nature and sources of funding thereof), uncertainty of reserves estimates, uncertainties involved in interpreting drilling results and other geological data, unexpected geological or hydrological conditions, the availability of necessary exploration and development equipment, competitive advantages, fluctuations in foreign currency exchange rates, property title and investments, the existence of undetected or unregistered interests or claims over the property of the Company, business prospects and opportunities, transportation and construction delays, possible variations of ore grade or recovery rates, exploration costs varying significantly from estimates, failure of plant, equipment or processes to operate as anticipated, accidents, labour disputes and other risks of the mining industry, political instability, arbitrary changes in law, and anticipated and unanticipated costs. The factors identified above are not intended to represent a complete list of the factors that could affect the Company. Additional risk factors are noted under the heading "*Risk Factors*".

Many of these uncertainties and contingencies can affect the Company's actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Company. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. All of the forward-looking statements made in this Annual Information Form are qualified by these cautionary statements and those made in our other filings with the securities regulators of Canada including, but not limited to, the cautionary statements made in the "Risks and Uncertainties" section of the Company's most recently filed Management's Discussion and Analysis.

Should one or more of the above risks or uncertainties materialize, or should assumptions underlying the forward-looking information prove incorrect, actual results, performance or achievement may vary materially from those expressed or implied by the forward-looking information contained in this AIF. These risk factors should be carefully considered and readers are cautioned not to place undue reliance on forward-looking information, which is current only as of the date of this AIF. All subsequent forward-looking information attributable to the Company herein is expressly qualified in its entirety by the cautionary statements contained in or referred to herein. The Company does not undertake any obligation to release publicly any revisions to this forward-looking information to reflect events or circumstances that occur after the date of this AIF or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

EXPLANATORY NOTES

Presentation of Mineral Resources and Production Information

All mineral information contained herein has been prepared and presented in accordance with NI 43-101. The mineral resources and future production may be greater than or less than the estimates provided herein. The estimated future net revenue from the production of the disclosed mineral resources does not represent the fair market value of these resources.

Metric Conversion Table

The following table sets out the applicable conversion information for imperial and metric measures:

To convert from Metric	To Imperial	Divide By
Hectares	Acres	0.404686
Kilometres	Miles	1.609344
Kilograms	Pounds	0.453592
Tonnes	Short tons	0.907185
Metres	Yards	0.9144

Date of Information

Except as otherwise indicated in this AIF, all information disclosed in this AIF is as of April 29, 2013 and the phrase “as of the date hereof” and equivalent phrases refer to April 29, 2013.

Currency

In this AIF, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to “\$” are to Canadian dollars.

EXCHANGE RATE INFORMATION

United States Exchange Rate Information

The following table sets out: (1) the rate of exchange for one Canadian dollar in U.S. dollars in effect at the end of each of the following periods; (2) the high and low rate of exchange during those periods; and (3) the average rate of exchange for those periods, each based on the noon spot rate as published by the Bank of Canada. On April 29, 2013, the noon nominal rate for one Canadian dollar in U.S. dollars as published by the Bank of Canada was CDN\$1.00 = US\$ 0.9864.

Years ended December 31,	High	Low	Average	End of Period
2012	1.0299	0.9599	1.0004	1.0051
2011	1.0583	1.0110	1.0111	1.0170
2010	1.0054	0.9278	0.9709	1.0054

Colombia Exchange Rate Information

The following table sets out: (1) the rate of exchange for one Canadian dollar in Colombian pesos in effect at the end of each of the following periods; (2) the high and low rate of exchange during those periods; and (3) the average rate of exchange for those periods, each based on the noon spot rate as published by the Bank of Canada. On April 29, 2013 the noon nominal rate for one Canadian dollar in Colombian pesos as published by the Bank of Canada was CDN\$1.00 = COP 1,805.0542.

Years ended December 31,	High	Low	Average	End of Period
2012	1,893.9394	1,718.2131	1,797.4277	1,776.1989
2011	1,968.5039	1,792.1147	1,867.4484	1,904.7619
2010	1,960.7843	1,709.4017	1,840.5673	1,930.5019

On April 29, 2013 the official market exchange rate for one U.S. dollar in Colombian pesos as published by the Banco de la República (Colombia) was US\$1.00 = COP 1,833.12.

Years ended December 31,	High	Low	Average	End of Period
2012	1,942.70	1,7549.00	1796.83	1768.23
2011	1,972.76	1,748.41	1,846.97	1,942.70
2010	2,044.23	1,786.77	1,898.68	1,913.98

ABBREVIATIONS

bcm/bm ³	bank cubic metres
ha	hectares
km	kilometers
M	million
m	meters
mm	millimeters
m ²	square meters
m ³	cubic meters
Mt	million tonnes
tpa	tonnes per annum
US\$	United States dollars
COP	Colombian pesos

TECHNICAL TERMS

calorific value or CV	heating value of coal
capital expenditure	all other expenditures not classified as operating costs
carbonaceous	coal-like material, but less so than coal or shaly coal (the poorer quality coal with higher content of ash)
coal reserve	see mineral reserve
coal resource	see mineral resource

dilution	waste which is unavoidably mined with coal
dip	angle of inclination of a geological feature/rock from the horizontal
fault	the surface of a fracture along which movement has occurred
geophysical logging	measurement of physical parameters of rock in borehole
GPS	Global Positioning System
level	horizontal tunnel, the primary purpose of which is the transportation of personnel and materials
LOM	Life-of-Mine plan, which is a technical study to support depletion and annual scheduling of reserves. The study is normally completed to a minimum standard of pre-feasibility study level on a multi-disciplinary basis, and adequately demonstrates technical feasibility and economic viability of extraction
material properties	mine properties
mineral reserve	that part of a measured mineral resource or indicated mineral resource which can be extracted legally and at a profit under economic conditions that are specified and generally accepted as reasonable by the mining industry and which is demonstrated by a preliminary feasibility study or feasibility study.
mineral resource	a deposit of a natural, solid, inorganic or fossilized organic, substance in such quantity and at such grade or quality that extraction of the mineral at a profit is or may be possible.
resources of immediate interest	resources contained in coal seams that, because of favourable combinations of thickness, depth, quality and location, are considered to be of immediate interest for possible exploitation (paper 88-21 Geological Survey of Canada – A standardised coal resource/reserve reporting system for Canada).
resources of future interest	resources contained in coal seams that, because of less favourable combinations of thickness, depth, quality and location, are not of immediate interest for possible exploitation, but which may become of interest in the foreseeable future with some changes in economic factors and/or production technologies.
strike	direction of line formed by the intersection of strata surfaces with the horizontal plane, always perpendicular to the dip direction
TEM	technical economic model
washout	area where coal is absent

INFORMATION CONCERNING THE COMPANY

Name, Address and Incorporation

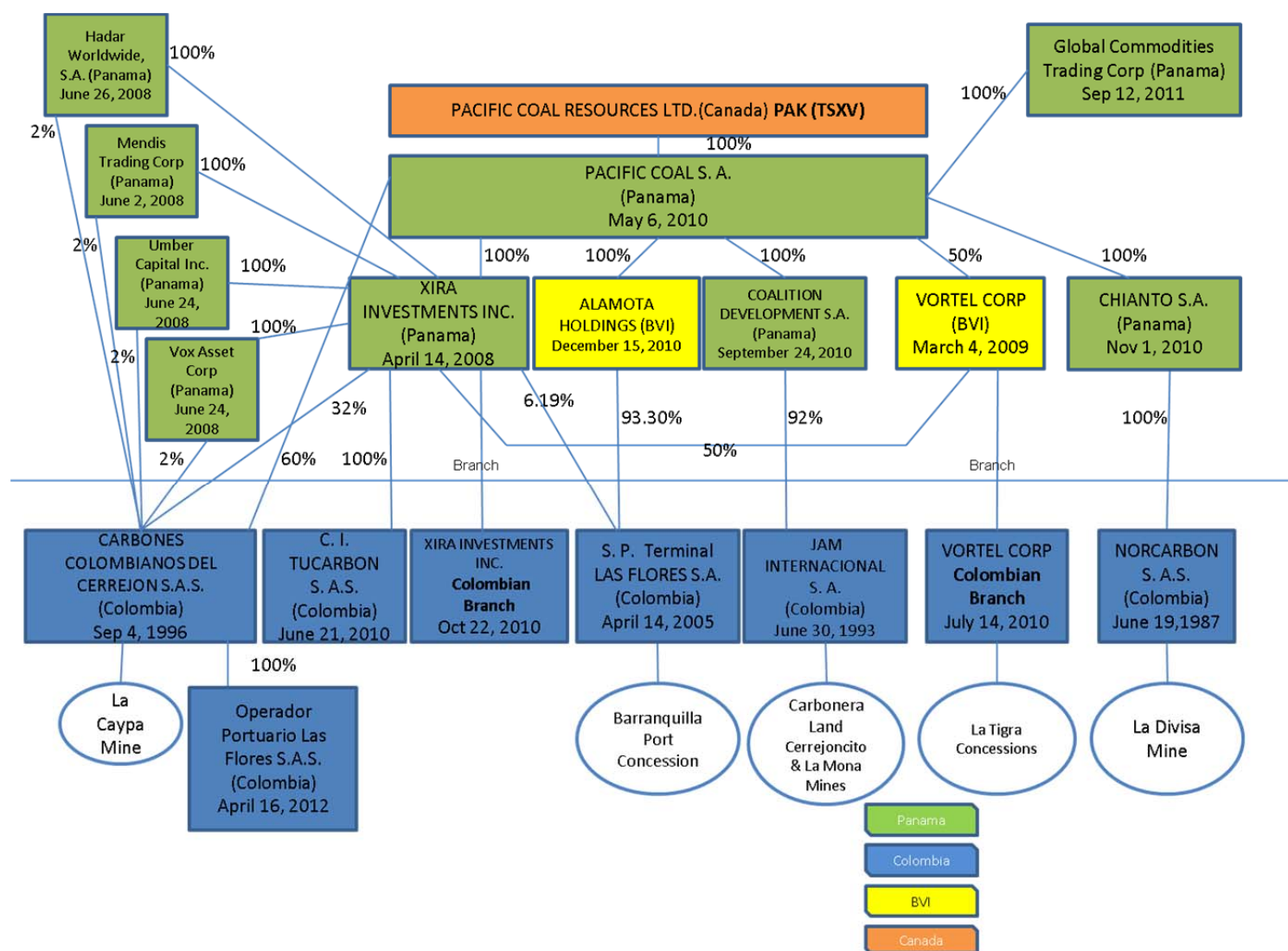
The full name of the Company is Pacific Coal Resources Ltd. The Company's registered office is at 1188 West Georgia Street, Suite 650, Vancouver, BC V6E 4A2, and its head office is at 333 Bay Street, Suite 1100, Toronto, Ontario M5H 2R2. The Company also has an operations office in Barranquilla, Colombia. The Company exists under the BCBCA.

The Company was incorporated pursuant to the provisions of the BCBCA on August 20, 1990 under the name Primo Gold Ltd. On April 30, 1994, Primo Gold Ltd. changed its name to "Primo Resources Ltd." On October 14, 1999, Primo Resources Ltd. changed its name to "Primo Resources International Inc." On May 2, 2003, Primo Resources International Inc. changed its name to "Vega Gold Ltd." On September 10, 2010, Vega Gold Ltd. changed its name to "Vega Resources Inc." and completed a 2:1 consolidation of its common shares. Vega Common Shares were listed on the TSXV under the trading symbol "VGR". At an annual and special meeting held on January 6, 2011, the Company's shareholders approved a consolidation of its share capital on a five (5) to three (3) basis in connection with an RTO as described below.

On March 10, 2011, the Company completed the RTO with Pacific Coal S.A., a company engaged in the acquisition, exploration and exploitation of coal, production of coke, asphalt and asphaltite properties in Colombia, pursuant to which the Company acquired all of the issued and outstanding securities of Pacific Coal S.A. by way of a three-cornered amalgamation with Bosule, then a wholly-owned subsidiary of the Company, in exchange for the issuance of securities of the Company. Prior to the completion of the RTO, the Company changed its name from “Vega Resources Inc.” to “Pacific Coal Resources Ltd.” Upon completion of the RTO, the securities of Pacific Coal S.A. were exchanged for securities of the Company on a one-for-one basis.

Inter-corporate Relationships

The following chart sets out the name and jurisdiction of incorporation of each of the Company’s subsidiaries.



GENERAL DEVELOPMENT OF THE BUSINESS

Since its inception, the Company had been involved in the acquisition, exploration and development of unproven mineral interests. It had interests in gold, silver, base and other precious metal exploration and development properties in Canada.

On January 31, 2011, the Company entered into an acquisition agreement (the “**Acquisition Agreement**”) with Pacific Coal S.A. to complete the RTO, after which it had interests in coal exploration and development properties in Colombia.

On March 10, 2011, pursuant to the Acquisition Agreement, the Company acquired all of the issued and outstanding shares of Pacific Coal S.A., and Pacific Coal S.A. amalgamated with Bosule. Pacific Coal S.A. continued as a wholly-owned subsidiary of the Company, and the Company changed its name from Vega Resources Inc. to Pacific Coal Resources Ltd.

Prior to the completion of the RTO, Pacific Coal S.A. completed a “best efforts” private placement (the “**Private Placement**”) of subscription receipts (the “**Subscription Receipts**”) pursuant to which Pacific Coal S.A. issued 149,500,000 Subscription Receipts for gross proceeds of \$201,825,000. Upon the satisfaction of certain escrow release conditions prior to the completion of the RTO, each Subscription Receipt was automatically exchanged, without payment of any additional consideration and with no further action on the part of the holder thereof, for one Pacific Coal S.A. Unit. Each Pacific Coal S.A. Unit consisted of one Pacific Coal S.A. Share and one-half of one Pacific Coal S.A. Warrant.

As a result of the RTO, the securities of Pacific Coal S.A., including those issued pursuant to the Private Placement, were exchanged for Common Shares and Warrants on a one-for-one basis. Each such whole Warrant entitles the holder to purchase one additional Common Share at an exercise price of \$14.70 per share until March 14, 2016.

Historical Overview

The following describes the significant events in the development of the Company’s business over the last three years.

Caypa Project

The Caypa Project, located in the Barrancas Municipality, Guajira Department in Colombia, is held by CCC. CCC is 100% indirectly owned by the Company through its subsidiaries. The Caypa Project currently has an annual production of 892,363 tonnes, and successfully exports approximately 85% of its production of high calorific value CV bituminous steam coal.

The Caypa Project was purchased by Xira from Coalcorp pursuant to a share purchase agreement dated June 27, 2008 (the “**SPA**”) for a purchase price of US\$25,000,000 to be paid in instalments, with the first instalment of US\$1,000,000 payable upon execution. While the initial instalment and a subsequent instalment were made on the date of execution, due to insufficient cash flow, Xira and its parent, Lucien, were unable to fulfill the payment obligations under the SPA. As a result, only 40% of CCC was transferred to Xira; the remaining 60% was placed in escrow. Lucien ultimately entered into an assignment agreement dated May 6, 2010 (the “**Assignment Agreement**”) among Lucien, Blue Pacific and Pacific Coal S.A. whereby Lucien assigned to Pacific Coal S.A. all of the shares of Xira in consideration for the assumption by Blue Pacific of the remaining payments and obligations owed to Coalcorp in connection with the acquisition of Xira and certain other payments related to a settlement agreement between Coalcorp and, among others, Blue Pacific and Xira. In January 2011, upon payment

of the final amount outstanding in relation to the Caypa Project, the remaining 60% of the CCC shares were released from escrow to Pacific Coal S.A.

The Caypa Project is an open cast mining operation with a remaining mine life of 8 months within the current open pit. CCC has accessed new reserves by developing a south pit to recover bituminous coal from an area that was previously designated for waste, thereby extending the life of the mine to 2018. The development work at the south pit and production began in 2012 and the production of coal is expected to commence in the first quarter of 2014.

Furthermore, the Company has identified the potential for an underground mining operation at Caypa that could lead to the recovery of additional high CV bituminous steam coal. The Company is currently in process of seeking and hiring a leading international underground operator at La Caypa with the expectation for underground mining resulting in production in 2014.

In December 2012, the Company terminated its long-standing mine operation agreement with OPM and entered into a contract with Masering, the former operator of the Cerro Largo mine to become the mining operator of La Caypa. The Company believes this change in operator will result in higher production and lower costs per tonne. The term of the contract is five years with the potential for both parties to agree to an extension. As part of its termination of the OPM mine operation agreement, the Company retrieved the equipment provided to OPM in commodatum and acquired from OPM approximately US\$4.5 million in mining equipment which will be used at the Company's Cerro Largo Project. With Masering in place, the Company anticipates producing 1.0 million tonnes of coal from La Caypa mine in 2013, a 12% increase over the production results of 2012.

Jam Project

Pacific Coal S.A. acquired indirect ownership of Jam on November 8, 2010. Jam is a Colombian company engaged in the mining of coking coal and the upgrading/processing of coking coal to coke for sale in local and export markets. The Jam Project is located in Samaca in the Boyaca Department of Central Colombia. The shareholders of Jam made a capital contribution of 92% of their shares to a Panamanian company called Coalition Development S.A. in exchange for 50% of the shares of Coalition Development S.A. Pacific Coal S.A. subsequently purchased those shares and Coalition Development S.A. became a wholly-owned subsidiary of Pacific Coal S.A. Jam is currently in the third phase of the process of restructuring its debt pursuant to Colombia's Law 550 of 1999, pursuant to which Xira is purchasing Jam's outstanding debt from its suppliers. The Company has completed phases 1 and 2 of such debt restructuring, involving labour-related and tax-related debt.

Metallurgical coal production out of the Cerrejoncito and La Mona underground mines, located in the Jam property, started in the third quarter of 2011 at levels of 500 tonnes per month. The Company's metallurgical coal production at Jam was suspended through the third quarter of 2012 as a consequence of high costs and weak international prices, and the plant focused on processing third party purchased materials for use in the production of coke. Coke production was held at minimal levels during the third quarter of 2012 as a result of low international coke prices, with activity during the quarter concentrated on conducting repairs to coking infrastructure. The agreements with Geoformaciones S.A.S for operation of these mines and the processing and operation of Jam's coking infrastructure was terminated in June 2012 in order to evaluate the economic feasibility of the underground mines.

During 2011, 80 beehive ovens were refurbished and an additional 80 constructed. The additional 80 ovens that were constructed have had structural problems and are not operational. As such, the Company is currently in the process of initiating legal proceedings against the contractor.

In the fourth quarter of 2012, after investigating various operational scenarios, the Company decided that the optimal decision for Jam was to enter into a commercial relationship with another mining company that has experience producing metcoal and coke, and then using the coke in its future operations or selling it to third parties. With this approach in mind, the Company believes it can finalize a deal that would result in a coke plant production ramp-up starting in May 2013. The Company is focusing on improving coking ovens and optimizing personnel at Jam, and anticipates re-starting metcoal production (dedicated to feeding coking ovens) and coke production in the second quarter of 2014.

La Tigra Project

La Tigra is a steam coal and asphaltite exploration project located in the Santander Department in Central Colombia. Xira and Pacific Coal entered into an MOU with Masering for the development of a mining operation at the La Tigra deposit comprising both asphaltite and high CV bituminous steam coal. Pursuant to the MOU dated April 29, 2010, as amended on August 27, 2010, Xira acquired a 50% interest in Vortel, which holds a 100% title over the La Tigra deposit, for a purchase price of US\$15,848,000.

Under a separate MOU entered into on November 30, 2010 between Pacific Coal S.A. and Masering, (i) Masering agreed to sell to Pacific Coal S.A. the remaining 50% interest in La Tigra through the sale of the remaining 50% of Vortel for a purchase price of US\$18,348,000, to be satisfied by the issuance of Pacific Coal S.A. Common Shares at an implied price of US\$1.00 per share; (ii) Pacific Coal S.A. agreed to purchase a 96.4% interest in Sociedad Portuaria Terminal de las Flores S.A., a Colombian company which holds the title to the Barranquilla Port, for US\$25,000,000, to be paid partially in cash of US\$15,000,000 and the remaining US\$10,000,000 by the issuance of Pacific Coal S.A. Common Shares at an implied price of US\$1.00 per share; and (iii) Pacific Coal S.A. agreed to acquire from Masering the mining operation agreement for the Cerro Largo Norte mine, one of two such agreements for the La Divisa mine, which grants Masering rights over a portion of the coal production and mine development, for cash consideration of US\$14,165,644 (collectively, the “**Masering Transactions**”). Pacific Coal S.A. issued 28,348,000 Pacific Coal S.A. Common Shares to Haverford Investments Ltd. on December 22, 2010 as partial consideration for the acquisition of the remaining 50% interest in Vortel Corp. and a 96.4% interest in Sociedad Portuaria Terminal de las Flores S.A. from Masering.

Drilling at the La Tigra deposit started in the second quarter of 2011 and 18 boreholes were drilled for a total of approximately 2,700 metres. Ariana Ltda. was contracted to undertake geophysical studies in the whole concession area. Ariana Ltda. delivered its report to the Company in April 2012 and as a consequence, adjustments were made to the exploration plan/grid in conjunction with SRK based on the report.

The Company has signed an agreement with a third-party to perform analysis of the exploration results to date, at the third-party's cost, to determine the prospects for the La Tigra Project. The analysis is expected to be completed in the second quarter of 2013, at which time the Company will determine an adequate course of action for the property.

Cerro Largo Project

At the time of the closing of the RTO, Pacific Coal S.A. owned a 14% interest in Chianto, which owns 100% of Norcarbón. Norcarbón is the title owner of 100% of the mining rights for the La Divisa Mine (also known as Cerro Largo). The Cerro Largo Project is located in La Jagua de Ibirico, a municipality in the department of Cesar, Colombia

On December 16, 2010, Pacific Coal S.A. entered into an option agreement for the irrevocable and exclusive option to acquire the remaining 86% of Chianto for cash consideration of approximately US\$73 million and payment in shares of approximately US\$2.5 million paid to Valle Eden Group Inc. and Sunny

Isles Holding S.A. This option agreement was exercised on March 29, 2011 and as a result the Company currently owns a 100% interest in Chianto, and full title to the La Divisa Mine property and operations.

Production at the mine was approximately 187,000 tonnes from March 29 to December 31, 2011 after the acquisition by the Company. Underground mining operations have terminated and the mine will be operated as an open pit mine. Further information can be found in the Technical Report for the La Divisa Mine filed on SEDAR at www.sedar.com.

In December 2010, Pacific Coal S.A. and Xira acquired from Masering the mining operation agreement for part of the La Divisa Mine (Cerra Largo), namely the North Pit, which grants rights over a portion of the coal production for the mine, for cash consideration of US\$14,165,644. This mine is fully permitted to exploit 800,000 tonnes per year and in 2013, the Company has reactivated the process to submit to the Colombian mining authority its PTIs for the mine to upgrade the production to 1.0 to 1.2 million tonnes per annum.

In March 2011, the Company agreed to terminate the contract with the company previously providing mining services in the south pit of the Cerro Largo mine. From April 2011 on, the Company retained Masering as the contracted operator at Cerro Largo. The Company paid Masering a tariff per coal tonne extracted and per cubic meter of waste moved.

The Company is working to reduce the operating costs per tonne and increase production at Cerro Largo, and is currently exploring different options for the mine to optimize use of the operations. Clearing mud concentrated at the bottom of the mine's open-pit continued through the third quarter of 2012 and was completed by the end of October of 2012, progress on which reduced the mine's stripping ratio in the third quarter of 2012.

On January 31, 2013, the Company signed an MOU with Pacific Power Generation Corp. ("PPG") and Proelectrica & CIA. S.C.A. E.S.P. ("Proelectrica"), both related parties, with the purpose of joining efforts for the incorporation of a company dedicated to the generation of electric power. The power plant would operate with coal from the Company's Cerro Largo mine. The transaction would include the Company selling all of the outstanding shares of Chianto to PPG for partial cash consideration and the remaining in shares of the newly incorporated power company. As a result of signing the MOU, the Company received a \$5.0 million advance from PPG, which the Company has pledged to return if the transaction is not completed. The term of this MOU is 13 months, during which time a number of technical verifications and a due diligence review of Norcarbon and Chianto by PPG must be satisfied before definitive contracts are entered into. As such, there is no assurance that the transaction will be concluded.

In an effort to continue to reduce operating costs, the Company assumed operations from Masering in April 2013, utilizing equipment already owned in addition to leased equipment obtained as part of the termination agreement with La Caypa's former operator. By operating the Cerro Largo mine in-house, the Company is able to eliminate the contractor's mark-up in the mine's operation and reduce working capital requirements. The Company believes that production from the Cerro Largo mine will be 600,000 tonnes in 2013, a 60% increase from the tonnage produced in 2012.

Barranquilla Port

On March 31, 2011, the Company finalized the acquisition of a 100% interest in Alamota, the only asset of which is its interest in Sociedad Portuaria Terminal de las Flores, S.A., a Colombian company which holds the title to a port concession in Barranquilla, Colombia. The acquisition price of US\$26.9 million was paid by cash of US\$15 million, US\$10 million by the issuance of 10,000,000 Common Shares and the assumption of an obligation with a value of US\$1.9 million. The long-term obligation assumed

represents amounts to be paid to the government over the next 16 years in connection with the port concession.

A final design and layout was provided on October 6, 2011 by Nathan Associates Inc. to the Company for the development of the Barranquilla Port, which the Company would fund in order to help transfer coal/coke at a greater and more reliable rate.

As a part of the change in strategic focus (explained in detail below) of the Company, the Board initiated a bid process for the sale of the Barranquilla Port in the fourth quarter of 2012. As at the date of this AIF, the bid process is ongoing and the Company has retained an independent valuator to conduct a valuation of the port concession.

Investor Option Agreement with BACF

In April 2011, Pacific Coal announced that it entered into an Investment Option Agreement (the “IOA”) with Alpha, NDT and BACF. Pursuant to the IOA, Pacific Coal had the right to acquire up to a 20% equity interest in BACF in exchange for a US\$20 million investment. BACF, with the initial support of NDT and Alpha, is well advanced in the development of a technology whereby asphaltite, coal and/or pet coke may be crushed to a nano particle size and combined with water, resulting in a colloidal suspension fuel intended to serve as an alternate to fuel oil for the electricity generation industry. This suspension is generally referred to as Colloidal Coal in Water or (“CCW”) or Colloidal Asphaltite in Water (“CAW”). In May 2012, NDT was granted a U.S. patent for the CCW technology. NDT in turn granted exclusive rights to the use of the patent to BACF as well as a 36-month exclusivity period related to any vehicle developed by using the patent.

Under the IOA, Pacific Coal agreed to advance US\$5 million out of its US\$20 million investment in BACF in exchange for a 5% equity interest and the Company agreed to fund the remaining US\$15 million upon successful testing of CCW/CAW. The Company will earn a 1% equity interest in BACF for every US\$1 million invested, up to a maximum of 20% equity interest for a US\$20 million investment.

Pursuant to the IOA, the Company was awarded additional rights including:

- (i) An exclusive option to negotiate a 50/50 joint venture with BACF to build one or more plants to produce and market CCW/CAW out of its mines in Colombia. The plant(s) shall be operated by BACF and BACF shall be entitled to an operating fee to cover operating costs and expenses, plus a 6% technology royalty on the sales of CCW/CAW out of such plant(s). Pacific Coal shall have the right to sell the coal and/or asphaltite to the joint venture company at market prices;
- (ii) Exclusive marketing rights for the CCW/CAW produced by the plant(s) with a 2% agency fee on such sales;
- (iii) A pre-emptive right to purchase, at its option, such number of securities in any future equity offerings by BACF in order to maintain its 20% equity interest; and
- (iv) For so long as it is in compliance with the IOA and remains a shareholder of BACF, the Company shall have the right to appoint a representative to the board of directors of BACF.

Alpha is a private company controlled, directly or indirectly, by Serafino Iacono, Miguel de la Campa, José Francisco Arata (each a director of the Company) and other investors, which has been funding and supporting NDT and BACF in the research and development of alternate fuels, including the colloidal technology, since 2009. In addition, pursuant to the IOA, Pacific Coal acknowledged the exclusive marketing right granted by BACF/NDT to Pacific Rubiales, which holds 14.35% of the shares of the Company and has five directors who are also directors of the Company, whereby Pacific Rubiales earns a marketing fee of 2% of the total sales of any colloidal pet coke in water (CPW) cargo produced and sold by Pacific Rubiales.

On October 9, 2012 the Company announced its intention to sell its 5% equity interest in BACF to Pacific Rubiales for cash consideration of US\$5,000,000. In addition to transferring its 5% equity interest in BACF, the Company has assigned to Pacific Rubiales the right to acquire up to an additional 5% equity interest in BACF for an additional investment of up to US\$5,000,000. The Company continues to retain an option to acquire up to a 10% equity interest in BACF by investing up to US\$10,000,000.

New Truck Fleet

A new truck fleet was delivered in full to the Company towards the end of the second quarter of 2011, including 100 trucks in total. The delivery of these new trucks increased the total truck fleet available to Pacific Coal to 200 trucks (including trucks provided by other transportation companies), which covered the Company's export schedule comfortably for the balance of 2011.

In its effort to refocus on its core assets, the Company has initiated a bid process for the sale of the truck fleet, requesting a proposal for the purchase of the truck fleet and the provision of transportation services for the transport of coal from the mines to the port.

At the same time, Transportes Sanchez Polo S.A. ("**TSP**") was also retained to provide fleet management for an initial one-year period, allowing for annual renewals. Currently, the Company has a service agreement in place with TSP until July 30, 2013.

Normal Course Issuer Bid

On July 4, 2011, the Company filed a Notice of Intention to commence a normal course issuer bid with the TSXV. Under the bid, the Company had the right to purchase for cancellation up to a maximum of 10% of the Common Shares that comprise the Company's public float through the facilities of the TSXV. The price the Company would pay for any such Common Shares would be the market price at the time of the acquisition.

The bid commenced on July 4, 2011 and remained open until July 3, 2012 at which time it expired without renewal. A total of approximately 1.6 million Common Shares (or approximately 3.5% of the issued and outstanding Common Shares) were purchased for cancellation under the normal course issuer bid.

New Sales Purchase Agreement

In the third quarter of 2011, the Company entered into a sales purchase agreement with LCC for the supply of 700,000 tonnes of coal per annum. The long-term contract extends the existing relationship between the two companies to 2019. Pricing for deliveries under this sales purchase agreement is to be agreed upon on an annual basis and shall be based on the forward price curves.

Cost Reduction Program

In July 2012, in an effort to reduce the general and administrative ("**G&A**") expenses of the Company and recognizing that the size of the board of directors of the Company was larger than other comparable companies of similar size, Federico Restrepo and Laureano von Siegmund voluntarily resigned from the board of directors of the Company.

On August 30, 2012, the Company announced that it had undertaken a comprehensive cost cutting program including payroll and G&A reductions. During the first quarter of 2012, actions taken contributed to a decrease of 9% in G&A expenses to \$4.4 million as compared to \$4.8 million in the first quarter of 2012, in addition to the 12% decrease already realized in the first quarter of 2012.

During the third quarter of 2012, actions taken contributed to a decrease of 20% in G&A expenses to \$3.6 million as compared to \$4.4 million in the second quarter of 2012, in addition to the 12% and 9% decrease already realized in the first and second quarter of 2012 respectively. Based on the success of the cost cutting program, management expects a continued decrease in the quarterly G&A run rate, with a projected run rate of \$1.9 million per quarter in 2013.

Management Reshuffle and Change in Strategic Focus

During 2012, beginning with the resignation of the Company's Chief Operating Officer in April, the Company experienced a management reshuffle, including:

- (i) the resignation of the Company's Chief Financial Officer and appointment of a new Chief Financial Officer in June 2012;
- (ii) the appointment of an Executive Chairman in September 2012;
- (iii) the resignation of the Company's Chief Executive Officer in October 2012; and
- (iv) the appointment of a new Chief Operating Officer and Executive Vice-President in October 2012.

Re-focusing the strategy of each of the Company's revenue generating assets has been a focus of the senior management team in the second half of 2012, determining whether each asset fits into the Company's long-term plans. Based on this analysis, the Company sold its BACF investment, in addition to an investment held in a carbon credit fund and other assets which were either idle or which use was not being maximized. Cash from these sales is being used in the Company's operating and selling activities at its producing coal sites in order to maximize their efficiency. The Company continued this long-term re-focus subsequent to December 31, 2012, signing an MOU with PPG and Proelectrica with the hopes of contributing the Cerro Largo mine to a newly formed thermal coal power plant joint venture in approximately three years. Subsequent to year-end, the Company also began working with a consultant to explore the potential of liquid shipment through the Barranquilla port; a service the Company has noted is sought in Colombia and requires low capacity from a load management perspective. The fourth quarter of 2012 also saw the Company reassess the current operations of its three main mine sites, with the goal of eliminating any issues that had hindered these units in the past.

The Company also continued its focus on reducing G&A expenses, reducing costs to \$3.1 million and \$2.3 million in the third and fourth quarter, respectively, for a total of \$5.4 million compared to \$9.0 million in the second half of 2011, a 40% decrease. The Company expects a continued decrease in the quarterly G&A run rate to approximately \$1.9 million in 2013.

Subsidiary Reorganization

In November 2012, the Board approved management's proposal to undertake a corporate re-organization to simplify the organization structure of the Company by merging or liquidating subsidiaries. As part of the reorganization, CCC changed the nature of its legal existence so that there is no longer a minimum shareholder requirement.

Subsequent Events

Voluntary Warrant Delisting

At the close of market on March 19, 2013 the Company effected the voluntary delisting of 74,749,976 Warrants, being all of the Company's Warrants that were trading on the TSXV. Due to the minimal trading volume of the warrants, the Company elected to delist the warrants to further its ongoing cost reduction initiative undertaken in 2012.

Share Consolidation

On March 11, 2013, at a Special Meeting of Shareholders, a resolution was passed to give authority to the Board to effect a consolidation of the Common Shares on a basis of seven old shares for one new share. On March 13, 2013, the Board elected to proceed with the consolidation of the Common Shares on a seven to one basis as approved by Shareholders. The share consolidation was made effective at the open of markets on March 25, 2013.

2013 Outlook

The Company concluded 2012 with a brighter outlook on the future after enduring a year with various operational issues, as well as an international contraction in coal prices. The Company persevered, minimizing costs where required and implementing operational plans devised by the strong new senior management team. Minimizing costs included replacing the operator at the La Caypa mine and commencing plans to self-operate Cerro Largo, both significant decisions that the Company believes will assist in bringing costs to reasonable levels.

The Company's focus in 2013 will continue to be exploring and developing the Projects, and improve efficiencies in transport and infrastructure to increase revenue. Other areas of focus for 2013 include: (i) commence development of south pit expansion and surface work for underground mine at La Caypa; (ii) increase production and reduce strip ratios at Cerro Largo; and (iii) prepare and issue updated NI 43-101 compliant technical reports for Cerro Largo and La Caypa.

Significant Acquisitions

The Company did not complete any significant acquisitions during the financial year ended December 31, 2012 for which disclosure is required under Part 8 of NI 51-102.

DESCRIPTION OF THE BUSINESS

Summary

The Company is a Canadian-based coal, coking coal, asphalt and asphaltite exploration, development and mining company focused on producing, development-stage and exploration-stage properties, with a primary emphasis on Colombia. The Company owns rights to interests in four exploration and mining projects as described herein, all of which are located in Colombia. In addition to its head office in Toronto and registered office in Vancouver, the Company has an office in Barranquilla, Colombia, where it occupies approximately 250 square meters of subleased space at Calle 74, #56-36, Oficina 901.

Production

The Company's principal product is thermal coal and metallurgical coke. The Company's production in 2012 was derived from the La Caypa and Cerro Largo mines. The coal sales of the Company are primarily focused in Europe, with customers with whom the Company has fostered long-term relationships.

During the fourth quarter of 2012, La Caypa produced 188,342 tonnes and a total of 892,363 tonnes for the full year of 2012 with a stripping ratio of 8.78:1. Cerro Largo produced 86,414 tonnes in the fourth quarter of 2012 and 375,719 tonnes for 2012 while the stripping ratio was reduced from 22.34:1 in 2011 down to 19.52:1 in 2012.

For 2012, the Company produced 1.27 million tonnes of thermal coal and 20,610 tonnes of coke. In 2013, the Company expects to produce 1.6 million tonnes of thermal coal. The Company's revenues for 2012 were US\$129.1 million, realizing average revenue of US\$98.22 per tonne of coal sold in 2012.

Exploration

Exploration continues at all of the Company's properties with the objective of updating its resources and reserves through the completion of NI 43-101 compliant technical reports in connection with open pit and underground resources at Cerro Largo and La Caypa, which are expected to be released in the third quarter of 2013.

Specialized Skill and Knowledge

Operations in the mining industry mean that the Company requires professionals with skills and knowledge in diverse fields of expertise. In the course of its exploration, development, and operations, the Company requires the expertise of drilling engineers, exploration geophysicists and geologists and employs, directly and indirectly, such persons. The market in Colombia for such skilled professionals is in high demand. Despite the extremely competitive market for such professionals, the Company has managed to hire and retain the professionals and experts it requires for its operations. For further information, see "Risk Factors – Shortage of Experienced Personnel and Equipment."

Competitive Conditions

The mining industry is inherently competitive. The Company faces competition in the areas of finance, technical facilities, and acquisition of assets. While the Company has been successful in its ability to acquire properties from other organizations in the industry, there is no assurance that it will continue to do so. Nonetheless, the management of the Company believes that it will be able to compete successfully with local and foreign competitors in Colombia and elsewhere in Latin America. See below at "Risk Factors - Competition".

Employees

As at the date hereof, the Company has 4 employees at its head office in Toronto, Canada, and approximately 274 employees in Colombia.

Foreign Operations

The Company's material property interests are located in Colombia. The Company's activities in foreign jurisdictions may be affected by possible political or economic instability and government regulations relating to the mining industry and foreign investors therein. The risks created by this potential political and economic instability include, but are not limited to: extreme fluctuations in currency exchange rates and high rates of inflation. Changes in exploration or investment policies or shifts in political attitude in such jurisdictions may adversely affect the Company's business. Mineral exploration and mining activities may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of property, environmental legislation, land use, land claims of local people, water use and property safety. The effect of these factors on the Company cannot be accurately predicted. Further information is provided under the heading entitled "Risk Factors".

Business Cycles

The mining business is subject to mineral price cycles. The marketability of minerals is also affected by worldwide economic cycles. The Company's operations are related and sensitive to the market price of coal. Coal prices fluctuate widely and are affected by numerous factors such as global supply, demand, inflation, exchange rates, interest rates, forward selling by producers, production, global or regional political, economic or financial situations and other factors beyond the control of the Company. See below at "Risk Factors".

Environmental Protection

The mining industry in Colombia is subject to environmental laws and regulations under varied governmental legislation relating to the protection of the environment, including requirements for closure and reclamation of mining properties. Compliance with such obligations and requirements can mean significant expenditures and/or may constrain the Company's operations in the country. Breach of environmental obligations could lead to suspension or revocation of requisite environmental licenses and permits, civil liability for damages caused and possible fines and penalties, all of which may significantly and negatively impact the Company's position and competitiveness. See below at "Risk Factors".

Social or Environmental Policies

The Company receives legal updates and hires consultants in order to comply with the laws and regulations of Colombia. The Company has dedicated employees responsible for all matters affecting the environment and local municipalities. While the Company endeavours to meet all of its environmental obligations, it cannot guarantee that it has and will be in compliance at all times. Nonetheless, management believes that operations are in substantial compliance with all material Colombian environmental laws and regulations. See below at "Risk Factors".

Changes to Contracts

The following are the changes to contracts of the Company that occurred in the past year that are expected to materially effect the Company:

- In November 2012, the Company communicated to OPM its intention to terminate the La Caypa mine operation agreement, effective December 28, 2012. Due to the fact that OPM unexpectedly terminated operations on December 7, 2012, the Company had to effectively terminate the mine operation agreement with OPM. Both parties signed a termination agreement in March 2013. A claim and counterclaim were settled as part of the mine operation termination agreement. Additionally, the Company is in negotiations with Banco Colpatria and Banco de Occidente about acquiring OPM's mining equipment through leases that will be used at the Company's Cerro Largo operation.
- On December 17, 2012, the Company entered into a 5 year mining operation contract with Masering with respect to the operation of the La Caypa mine. The contract includes a requirement for the Company to contribute 50% of the revenue generated from coal sales from La Caypa to a trust, from which Masering will draw the value of its monthly invoices before the Company can access the remaining funds. However, this operating contract has more favourable economic terms for the Company than the previous one.
- In October 2012, the Company sold its 5% equity interest in BACF and the right to acquire up to an additional 5% equity interest in BACF, to Pacific Rubiales for cash proceeds of \$5.0 million. The Company retains the right to acquire a 10% equity interest in BACF.

- In September 2012, the Company renewed its contract with Carbones y Transportes Trayso Ltda. (“**Trayso**”) for transportation services from La Caypa to the Carbosán port until September 2013. The transportation fee per tonne relating to this agreement was COP 37,376/tonne. This contract has a one year term and is renewable yearly if agreeable by both parties.
- During the period ended June 30, 2012, the Company entered into an agreement to purchase CI Cafalu S.A.S. (“**Cafalu**”) and its subsidiaries for a total purchase price of \$2.0 million. The Company provided a \$1.0 million deposit during the negotiation stage of the purchase in the fourth quarter of 2011, which is to be used towards the purchase price. Under the agreement, it was agreed that the Company shall not manage, control or benefit from Cafalu and its subsidiaries until the full purchase price is paid; however, negotiations with respect to the outstanding amount are ongoing.
- Effective January 1, 2012, the Company modified the terms of its 10 year coal screening contract with Oceans in respect of both the Cerro Largo and La Caypa projects. Under the revised terms, the Company is billed monthly on a cost plus margin basis.
- In July 2012, Xira assigned its truck fleet and related loan to CCC and Norcarbon on a 60/40 basis. The fleet administration contract with TSP was also assigned according to the same ratio. A new fleet administration contract was entered into with TSP by CCC and Norcarbon in their respective pro rata proportions for transportation services until July 2013.

RISK FACTORS

The business and operations of the Company are subject to a number of risks. The Company considers the risks set out below to be the most significant to existing and potential investors in the Company, but not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Company is currently unaware or which it considers to be material in relation to the Company’s business actually occur, the Company’s assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects are likely to be materially and adversely affected. In such circumstances, the price of the Company’s securities could decline and investors may lose all or part of their investment.

Ongoing Need for Financing

Although the Company generates revenues, its ability to continue exploration, development, acquisition and divestiture efforts will also be dependent on its continued attractiveness to equity investors. The Company may incur operating losses as it continues to expend funds to explore and develop its properties and possibly other properties in excess of its projected revenues from sales of coal and coal products. Even if the Company’s financial resources are currently sufficient to fund its exploration programs, and allow the Company to arrive at conclusions regarding commercial viability of the resources in its properties, there is no guarantee that the Company will be able to profitably develop its properties. Additionally, should the Company require additional capital to continue exploration, development, acquisition and divestiture, failure to raise such capital could result in the Company going out of business. From time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company’s debt levels above industry standards.

The Company has outstanding indebtedness and may incur additional indebtedness in the future, including by way of debentures, additional notes and/or credit facilities. A portion of the cash flow

generated by properties owned by the Company will be devoted to servicing such debt and there can be no assurance that the Company will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on the debt.

Liquidity and Financing Risk

The Company has incurred and might incur additional debt in order to fund its exploration and operational programs, which would reduce its financial flexibility and could have a material adverse effect on the Company's business, financial condition or results of operation.

The Company's ability to meet any debt obligations and reduce its level of indebtedness depends on future performance. General economic conditions, mineral prices and financial, business and other factors affect the Company's operations and future performance. Many of these factors are beyond the Company's control. The Company cannot assure investors that it will be able to generate sufficient cash flow to pay the interest on any debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. Factors that will affect its ability to raise cash through an offering of securities or a refinancing of any debt include financial market conditions, the value of its assets and performance at the time the Company needs capital. The Company cannot assure investors that it will have sufficient funds to make such payments. If the Company does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it might have to sell significant assets. Any such sale could have a material adverse effect on the Company's business, operations and financial results.

Failure to obtain additional financing on a timely basis, if required, could cause the Company to reduce or delay its proposed operations.

The majority of sources of funds expected to be available to the Company for its acquisition and development projects are expected to be largely derived from the issuance of equity. While Pacific Coal has been successful in the past in obtaining equity financing to undertake its currently planned exploration and development programs, there is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Going Concern

To continue as a going concern, the Company must generate profitable operations in the future through its planned capital investments and expected resultant increase in mineral production and development or continue to secure new funding. While the Company has cash balances and cash flow from production, these may not be sufficient to fund the Company's planned capital investment program and working capital requirements. As such, it may need to pursue credit facilities or delay discretionary expenditures which may have an impact on the rate of future growth in its expected mineral production. There can be no assurance that these initiatives will be successful. These circumstances lend significant doubt as to the ability of the Company to meet its business plan and obligations as they come due.

Exploration, Development and Operations

Exploration and development of mineral deposits involves a high degree of risk which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing properties. Although the mineral resource figures set out herein have been carefully prepared and reviewed or verified by an independent qualified person, these amounts are estimates only and no assurance can be given that an identified mineral resource will ever become a mineral reserve or in any way qualify as a commercially mineable (or viable) coal which can be legally and economically exploited. Estimates of mineral resources and any potential determination as to whether a mineral deposit will be commercially viable can also be affected by such

factors as: deposit size; strip ratios; unusual or unexpected geological formations; proximity to infrastructure; mineral prices, which are highly cyclical; environmental factors; unforeseen technical difficulties; work interruptions; government regulations, including regulations relating to permitting, prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; and other factors that are beyond the control of the Company. The exact effect of these factors cannot be accurately predicted.

The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration and mine development programs and its ability to mine coal deposits that have the geological characteristics that enable them to be mined at competitive costs, which may be affected by a number of factors. Substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that any such deposit will be commercially viable or that the funds required for development can be obtained on a timely basis. Further, replacement deposits may not be available when required or may not be capable of being mined at costs comparable to those of depleting mines.

Mining operations generally involve a high degree of risk. The Company's operations will be subject to all the hazards and risks normally encountered in the exploration, development and production of minerals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, pit wall slides, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, the mine and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although appropriate precautions to mitigate these risks are taken, operations are subject to hazards such as equipment failure or failure of structures which may result in environmental pollution and consequent liability. Even though the Company intends to obtain and maintain liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Future Production Rates

The figures for the Company's future production are estimates based on interpretation and assumptions and actual production may be less than is currently estimated. The Company cannot give any assurance that it will achieve its production estimates. The failure of the Company to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, profitability, results of operations and financial condition. The Company's mineral properties' ability to demonstrate sufficient economic returns will also affect the availability and cost of financing. These production estimates are dependent on, among other things, the accuracy of mineral resource estimates, ground conditions, physical characteristics of mines and the coal therein, and the accuracy of estimated rates and costs of mining and processing.

The Company's actual production may vary from its estimates for a variety of reasons, including: actual coal mined varying from estimates of grade, tonnage, dilution and other characteristics; short-term operating factors; mine failures, slope failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labour shortages or strikes; civil disobedience and protests; and restrictions or regulations imposed by government agencies or other changes in the

regulatory environments. Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property of the Company or others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable forcing the Company to cease production. It is not unusual in new mining operations to experience unexpected problems during the start-up phase. Depending on the price of coal and coking coal, the Company may determine that it is impractical to commence or, if commenced, to continue commercial production at a particular site.

Transportation and Port Costs

Transportation costs represent a significant portion of the total cost of delivered minerals and, as a result, play a critical role in a customer's purchasing decision. Increases in transportation costs could make the Company's extracted minerals less competitive against substitute minerals or could make some of the Company's operations less competitive than other sources.

The Company will depend upon barge, trucking, overland conveyor and other systems to deliver coal and other minerals to its customers. European coal customers typically arrange and pay for transportation of coal from the ship to the point of use. Disruption of transportation services because of weather-related problems, strikes, lock-outs, excessive demand for their services or other events could temporarily impair the Company's ability to supply coal to customers and thus could adversely affect the Company's revenue and results of operations.

Transportation and port costs are a significant component of the total cost of supplying coal and other minerals. Disruptions of these transportation or port services because of weather-related problems, insurgency, strikes, lock-outs, transportation delays or other events could temporarily impair the Company's ability to supply its minerals to customers and may result in lost sales. In addition, increases in transportation or port costs, including increases in the cost of fuel, or changes in other costs relative to transportation or port costs for minerals produced by competitors, could adversely affect profitability. To the extent such increases are sustained, the Company could experience losses and may decide to discontinue certain operations, forcing the Company to incur closure or care and maintenance costs, as the case may be. Additionally, lack of access to transportation may hinder the expansion of production at some of the Company's properties and the Company may be required to use more expensive transportation alternatives.

Global Markets and Economic Conditions

Recent global financial conditions have been characterized by increased volatility and many financial institutions have either gone into bankruptcy or creditor protection or have had to be rescued by governmental authorities. In recent years, access to public financing has been negatively impacted by sub-prime mortgage defaults in the United States, the liquidity crisis affecting the asset-backed commercial paper and collateralized debt obligation markets, massive investment losses by banks with resultant recapitalization efforts and deterioration in the global economy. More recently, the European debt crisis has affected equity investor sentiment and if it worsens could also affect worldwide credit markets which might impact the Company. Notwithstanding various actions by governments, concerns continue about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Banks had been adversely affected by the worldwide economic crisis and had severely curtailed existing liquidity lines, increased pricing and introduced new and tighter borrowing restrictions to corporate borrowers, with extremely limited access to new facilities or for new borrowers. These factors, if they were to reoccur, could negatively impact the Company's ability to access liquidity needed for the Company's business in the longer term.

These factors may impact the ability of the Company to obtain equity or debt financing in the future on terms favourable to the Company. Additionally, these factors, as well as other related factors, may cause decreases in asset values, which may result in impairment losses. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of its securities may be adversely affected.

To the extent the Company relies on the capital markets for necessary capital expenditures, the businesses, financial condition and operations of the Company could be adversely affected by: (i) continued disruption and volatility in financial markets; (ii) continued capital and liquidity concerns regarding financial institutions generally and hindering the Company's counterparties specifically; (iii) limitations resulting from governmental action in an effort to stabilize or provide additional regulation of the financial system; or (iv) recessionary conditions that are deeper or last longer than currently anticipated.

In addition, certain of our customers could be unable to pay us, in the event that they are unable to access the capital markets to fund their business operations.

Fluctuating Prices

The Company's future revenues, if any, are expected to be in large part derived from the extraction and sale of minerals, particularly coal. The prices of minerals have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the Company's control including international economic and political trends, volatility in the credit and financial markets, strong investment demand, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the prices of minerals, and therefore the economic viability of any of the Company's exploration and operations projects, cannot accurately be predicted. If the prices of minerals decline, there could be a material effect on the Company's operations.

Mining Risks and Insurance Risks

The mining industry is subject to significant risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological conditions, labour force disruptions, civil strife, unavailability of materials and equipment, weather conditions, pit wall failures, rock bursts, cave-ins, flooding, seismic activity, water conditions and gold bullion losses, most of which are beyond the Company's control. These risks and hazards could result in: (i) damage to, or destruction of, mineral properties or producing facilities; personal injury or death; environmental damage; (ii) delays in mining; and (iii) monetary losses and possible legal liability. As a result, production may fall below historic or estimated levels and the Company may incur significant costs or experience significant delays that could have a material adverse effect on the Company's financial performance, liquidity and results of operation.

The Company maintains insurance to cover some of these risks and hazards. The insurance is maintained in amounts that are believed to be reasonable depending on the circumstances surrounding each identified risk. No assurance can be given that such insurance will continue to be available, or that it will be available at economically feasible premiums, or that the Company will maintain such insurance. The Company's property, liability and other insurance may not provide sufficient coverage for losses related to these or other risks or hazards. In addition, the Company does not have coverage for certain environmental losses and other risks; as such coverage cannot be purchased at a commercially reasonable cost. The lack of, or insufficiency of, insurance coverage could adversely affect the Company's cash flow and overall profitability.

Overcapacity Risk

During the mid-1970s and early 1980s, a growing coal market and increased demand for coal attracted new investors to the coal industry, spurred the development of new mines and resulted in added production capacity throughout the industry, all of which led to increased competition and lower coal prices. Similarly, any sustained increase in future coal prices could encourage the development of expanded capacity by new or existing coal producers. Any overcapacity could reduce coal prices in the future.

Market Risks – Dependence on Continued Demand

Reduced demand from or the loss of the Company's largest customers could have an adverse impact on its ability to achieve projected revenue. Decreases in demand may result from, among other things, a reduction in consumption by the electric generation industry and/or the steel industry, the availability of other sources of fuel at cheaper costs and a general slow-down in the economy. When the Company's contracts with customers expire, there can be no assurance that the customers either will extend or enter into new long-term contracts or, in the absence of long-term contracts, that they will continue to purchase the same amount of coal as they have in the past or on terms, including pricing terms, as favourable as under existing arrangements. In the event that a large customer account is lost or a long-term contract is not renewed, profits could suffer if alternative buyers are not willing to purchase the Company's coal on competitive terms.

Changes in Price, Volume or Terms of Coal Supply Agreements

Coal supply agreements typically contain provisions that permit the parties to adjust the contract price upward or downward at specified times. These contracts may be adjusted based on inflation or deflation and/or changes in the factors affecting the cost of producing coal, such as taxes, fees, royalties and changes in the laws regulating the mining, production, sale or use of coal. In a limited number of contracts, failure of the parties to agree on a price under those provisions may allow either party to terminate the contract. Coal supply agreements also typically contain force majeure provisions allowing temporary suspension of performance by us or the customer for the duration of specified events beyond the control of the affected party. Most coal supply agreements contain provisions requiring us to deliver coal meeting quality thresholds for certain characteristics such as Btu, sulfur content, ash content, grindability and ash fusion temperature. Failure to meet these specifications could result in economic penalties, including price adjustments, the rejection of deliveries or, in extreme cases, termination of the contracts.

Disruptions in Production

Other factors affecting the production and sale of minerals that could result in decreases in profitability include: expiration or termination of leases, environmental permits or licenses, or sales price re-determinations or suspension of deliveries under mineral supply agreements; future litigation; the timing and amount of insurance recoveries; work stoppages or other labour difficulties; mine worker vacation schedules; mining and processing equipment failures and unexpected maintenance problems; a disruption in the supply of commodities used in mining, such as steel, copper, rubber products, ammonium nitrate/fuel oil, and liquid fuels; and changes in the market for certain minerals and general economic conditions. Adverse weather conditions such as heavy rain and flooding, equipment replacement or repair, fires, amounts of rock and other natural materials and other geological conditions can also have a significant impact on operating results of the Company.

Risks with Title to Mineral Properties

The Company does not maintain insurance against title nor does the Company expect to maintain such insurance; however, the Company posts guarantees with the government and title-holders to ensure compliance with its contracts. Notwithstanding this, title on mineral properties and mining rights involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history of many mining properties. The Company has diligently investigated and continues to diligently investigate and validate title to its mineral claims; however this should not be construed as a guarantee of title. The Company is continuously in the process of establishing the certainty of the title of mineral concessions which it holds either directly or through its equity interest in its subsidiaries or will be seeking to consolidate those titles through a government-sanctioned process. The Company cannot give any assurance that title to properties it acquired individually or through historical share acquisitions will not be challenged or impugned and cannot guarantee that the Company will have or acquire valid title to these mining properties. The possibility also exists that title to existing properties or future prospective properties may be lost due to an omission in the claim of title, or by the Company's inability to honour its contractual purchase obligations. Mining titles generally allow for renewals and the Company has no reason to expect that renewals will not be granted in the normal course; however, the Company cannot give assurances that title to its mining properties will be renewed as required. The mining rights granted to the Company under the Cerro Largo concession expire on June 5, 2021 and under La Caypa, on December 31, 2033.

On January 23, 2012, the Minister of Mines (Colombia) announced that it will commence a public tender to commence the legal and technical audit of all exploration and exploitation licenses in Colombia. The audit process will take approximately 30 months. As a result of the auditing to be carried out by the successful contractor, the Minister of Mines (Colombia) has stated that titles may be cancelled or fines may be imposed if the audit shows that the applicable law has not been or is not being complied with by mining companies. Although the Company believes that it is in substantial compliance in all material respects with applicable material laws and regulations in Colombia, the Company cannot assure that the results of the audit will not result in further inquiry or actions taken by the Minister of Mines (Colombia). No such audits were conducted in respect of the Company in 2012.

Labour Matters and Employee Relations

The Company's ability to achieve its future goals and objectives is dependent, in part, on maintaining good relations with its employees and minimizing employee turnover. A prolonged labour disruption at any of its material properties could have a material adverse impact on its operations as a whole. To date, the Company has not experienced any material work stoppages at its facilities by its employees, nor has it experienced any disputes with unions that have had a material effect on the Company's operations. However, if future disputes with the Company's own labour unions should arise, they may not be resolved without significant work stoppages or delays, which could have an adverse effect on the Company's revenues.

Moreover, labour action by people not employed by the Company but by contractors at site or even at neighbouring sites, as recently experienced by the Company, can have and has had a material impact on the Company's operations, which could have an adverse effect on the Company such as loss of production (see the Company's press releases dated January 30 and February 6, 2012).

The Company's ability to achieve its future goals and objectives is dependent, in part, on maintaining good relations with its employees and minimizing employee turnover. A prolonged labour disruption at any of its material properties could have a material adverse impact on its operations as a whole.

Oversupply of Coking Coal

The prices for coking coal have a significant impact on Jam and, in turn, could have a significant impact on the Company's profitability, and are dependent on the supply/demand balance for coking coal and, to a lesser degree, the economic conditions of the markets into which the coal is sold. Where significant new sources of supply to be developed, this supply/demand balance could be altered. In the past, there have been periods of oversupply of coking coal in the market, which have resulted in price decreases. An oversupply of coking coal in world markets or a general downturn in the economies of any of the Company's significant markets or potential markets could have a material adverse effect on the profitability of the Company and, accordingly, the value of its securities.

Governmental Regulation and Permitting

The mineral exploration and development activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. Although the Company's exploration, development and mining activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail exploration, development or production. Amendments to current laws and regulations governing the Company's operations, or more stringent implementation thereof, could have an adverse impact on the Company's business and financial condition.

The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments and management plans or issuance of environmental licenses. Environmental legislation is evolving in a manner that means standards are stricter, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of the Company's future operations.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities that cause operations to cease or be curtailed. Other enforcement actions may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violations of applicable laws or regulations.

The operations of the Company require licenses and permits from various governmental authorities. The Company will use its best efforts to obtain all necessary licenses and permits to carry on the activities which it intends to conduct, and it intends to comply in all material respects with the terms of such licenses and permits. However, there can be no guarantee that the Company will be able to obtain and maintain, at all times, all necessary licenses and permits required to undertake its proposed exploration and development, or to place its properties into commercial production and to operate mining facilities thereon. In the event of commercial production, the cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or preclude the economic development of the Company's properties.

In addition, failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Ability to Continue Acquiring and Developing Economically Recoverable Coal Resources/Reserves

A component of the Company's future success is its ability to continue acquiring coal resources and/or reserves for development that have the geological characteristics that allow them to be economically mined. Replacement reserves may not be available or, if available, may not be capable of being mined at costs comparable to those characteristic of the depleting mines. An inability to continue acquiring economically recoverable coal resources and/or reserves could have a material impact on the Company's cash flows, results of operations or financial condition.

Regulatory and Permitting Delays

The Company could encounter regulatory and/or permitting delays in the future. The Company will endeavour to ensure timely application for any government permits necessary for carrying out its business in Colombia. However, the past ability of the Company to obtain all necessary permits in a timely fashion is not a guarantee of future results as factors that are beyond the Company's control, such as bureaucratic impediments, minor changes in legislation and even government holidays, could substantially impede the timing of receiving essential permits and delay or stall the Company's exploration efforts. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations could reduce demand for minerals, increase the Company's costs and have a material adverse impact on the Company. Moreover, failure to obtain regulatory approvals, or failure to obtain them on a timely basis, could result in delays and abandonment or restructuring of the projects undertaken by the Company and increased costs, all of which could have a material adverse effect on the Company.

Risk of Foreign Operations

The Company's operations may be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's operations in Colombia, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Company's exploration, development and production activities in Colombia could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company.

Stage of Development

An investment in the Company is subject to certain risks related to the nature of the Company's business and the early stage of development of the Company's business. There are numerous factors which may affect the success of the Company's business which are beyond the Company's control including local,

national and international economic and political conditions. The Company's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome.

Economic and Political Factors

Emerging Market Country

There are certain economic risks that are inherent in any investment in an emerging market country such as Colombia. Economic instability in Colombia and in other Latin American and emerging market countries has been caused by many different factors, including the following:

- high interest rates;
- changes in currency values;
- high levels of inflation;
- exchange controls;
- wage and price controls;
- changes in economic or tax policies;
- the imposition of trade barriers; and
- internal security issues.

Any of these factors could have an adverse impact on the Company's financial condition and results of operations.

Economic and Political Developments

The Company's projects are located in Colombia; consequently it is dependent upon the performance of the Colombian economy. As a result, the Company's business, financial position and results of operations may be affected by the general conditions of the Colombian economy, price instabilities, currency fluctuations, inflation, interest rates, regulation, taxation, social instabilities, political unrest and other developments in or affecting Colombia over which the Company has no control. In addition, the Company's exploration and production activities may be affected in varying degrees by political stability and government regulations relating to the industry.

In the past, Colombia has experienced periods of weak economic activity and deterioration in economic conditions. The Company cannot assure that such conditions will not return or that such conditions will not have a material adverse effect on the Company's business, financial condition or results of operations.

The Company's financial condition and results of operations may also be affected by changes in the political climate in Colombia to the extent that such changes affect the nation's economic policies, growth, stability or regulatory environment. Exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, wealth taxes, expropriation of property, environmental legislation and site safety. There can be no assurance that the Colombian government will continue to pursue business-friendly and open-market economic policies or policies that stimulate economic growth and social stability. Any changes in the Colombian economy or the Colombian government's economic policies, in particular as they relate to the mining industry, may have a negative impact on the Company's business, financial condition and results of operations.

Although Colombia has a long-standing tradition respecting the rule of law, which has been bolstered in recent years by the present, and former government's policies and programs, no assurances can be given that the Company's plans and operations will not be adversely affected by future developments in

Colombia. The Company's property interests and proposed exploration activities in Colombia are subject to political, economic and other uncertainties, including the risk of expropriation, nationalization, renegotiation or nullification of existing contracts, mining licenses and permits or other agreements, changes in laws or taxation policies, currency exchange restrictions, and changing political conditions and international monetary fluctuations. Future government actions concerning the economy, taxation, or the operation and regulation of nationally important facilities such as mines, could have a significant effect on the Company.

Any changes in regulations or shifts in political attitudes are beyond the Company's control and may adversely affect the Company's business. Exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income and/or mining taxes, expropriation of property, environmental legislation and permitting and mine and/or site safety.

Exchange Controls

Foreign operations may require funding if their cash requirements exceed operating cash flow. To the extent that funding is required, there may be exchange controls limiting such funding or adverse tax consequences associated with such funding. Colombia does not currently have any exchange controls and none are anticipated. In addition, taxes and exchange controls may affect the dividends that the Company receives from its foreign subsidiaries or branch offices of foreign subsidiaries. Exchange controls may prevent the Company from transferring funds abroad.

There can be no assurance that the Colombian governmental authorities will not require prior authorization or will grant such authorization for the Company's foreign subsidiaries or branch offices of foreign subsidiaries to make dividend payments to Pacific Coal and the Company cannot assure that there will not be a tax imposed with respect to the expatriation of the proceeds from the Company's foreign subsidiaries or branch offices of foreign subsidiaries. The implementation of a restrictive exchange control policy, including the imposition of restrictions on the repatriation of earnings to foreign entities, could affect the Company's ability to engage in foreign exchange activities, and could also have a material adverse effect on the Company's business, financial condition and results of operations.

Decline in Economic Growth

Colombia experienced a slowdown in its economic growth in 2009 and other adverse economic and financial effects as a result of the global economic crisis. Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

A significant decline in the economic growth of any of Colombia's major trading partners, such as the United States, could have a material adverse impact on Colombia's balance of trade and adversely affect Colombia's economic growth. The United States is Colombia's largest export market. A decline in United States' demand for imports could have a material adverse effect on Colombian exports and Colombia's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment loses favour with international investors, Colombia could be adversely affected by negative economic or financial developments in other emerging market countries. Colombia has been adversely affected, to one degree or another, by such contagion effects on a number of occasions, including following the 1997 Asian financial crisis, the 1998 Russian financial crisis, the 1999

devaluation of the Brazilian *real*, the 2001 Argentine financial crisis and the current global economic crisis. Similar developments can be expected to affect the Colombian economy in the future.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Colombia.

In addition, there can be no assurance that these events will not adversely affect Colombia's economy and its industries.

Seizure or Expropriation of Assets

Pursuant to Article 58 of the Colombian constitution, the Colombian government can exercise its eminent domain powers in respect of the Company's assets in the event such action is required in order to protect public interests. According to Law 388 of 1997, eminent domain powers may be exercised through: (i) an ordinary expropriation proceeding (*expropiacion ordinaria*), (ii) an administrative expropriation (*expropiacion administrativa*) or (iii) an expropriation for war reasons (*expropiacion en caso de guerra*). In all cases, the Company would be entitled to a fair indemnification for the expropriated assets. However, indemnification may be paid in some cases years after the asset is effectively expropriated.

However, the indemnification may be lower than the price for which the expropriated asset could be sold in a free market sale or the value of the asset as part of an ongoing business.

Local Legal and Regulatory Systems

The jurisdictions in which Pacific Coal operates its exploration, development and production activities may have different or less developed legal systems than Canada or the United States, which may result in risks such as:

- effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or, in
- it being more difficult to obtain or retain title in an ownership dispute;
- a higher degree of discretion on the part of governmental authorities;
- the lack of judicial or administrative guidance on interpreting applicable rules and regulations;
- inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; and
- relative inexperience of the judiciary and courts in such matters.

In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial systems to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for the Company's business. These licenses and agreements may be susceptible to revision or cancellation and legal redress may be uncertain or delayed.

Colombia – Less Developed Country

The Company's foreign operations involve substantial costs and are subject to certain risks because the mining industries in the countries in which the Company operates are less developed. The mining industry in Colombia is not as efficient or developed as the mining industry in Canada. As a result, the Company's exploration and operating activities may take longer to complete and may be more expensive than similar operations in Canada. The availability of technical expertise, specific equipment and supplies

may be more limited than in Canada. The Company expects that such factors will subject the Company's operations in Colombia to economic and operating risks that may not be experienced in Canada.

Sanctions by the United States Government

The United States government may impose economic or trade sanctions on Colombia that could result in a significant loss to the Company. Colombia is among several nations whose progress in stemming the production and transit of illegal drugs is subject to annual certification by the President of the United States. Although Colombia has received certifications in the past, there can be no assurance that, in the future, Colombia will receive certification or a national interest waiver. The failure to receive certification or a national interest waiver may result in any of the following:

- all bilateral aid, except anti-narcotics and humanitarian aid, would be suspended;
- the Export-Import Bank of the United States and the Overseas Private Investment Corporation would not approve financing for new projects in Colombia;
- United States representatives at multilateral lending institutions would be required to vote against all loan requests from Colombia, although such votes would not constitute vetoes; and
- the President of the United States and Congress would retain the right to apply future trade sanctions.

Each of these consequences could result in adverse economic consequences in Colombia and could further heighten the political and economic risks associated with the Company's operations there. Any sanctions imposed on Colombia by the United States government could threaten the Company's ability to obtain necessary financing to develop the Company's Colombian properties. There can be no assurance that the United States will not impose sanctions on Colombia in the future, nor can the Company predict the effect in Colombia that these sanctions might cause.

Guerilla and other Criminal Activity

Colombia was home to South America's largest and longest running insurgency, and during the 40-year course of armed conflict between government forces and anti-government insurgent groups and illegal paramilitary groups, both funded by the drug trade, Colombia has experienced significant social upheaval and criminal activity relating to drug trafficking. Insurgents have attacked and kidnapped civilians and violent guerrilla activity exists in some parts of the country.

While the situation has improved dramatically in recent years, there can be no guarantee that the situation will not again deteriorate. Any increase in kidnapping and/or terrorist activity in Colombia or in the areas of the Company's projects generally may disrupt supply chains and discourage qualified individuals from being involved with the Company's operations. Additionally, the perception that matters have not improved in Colombia may hinder the Company's ability to access capital in a timely or cost effective manner. There can be no assurance that continuing attempts to reduce or prevent guerilla, drug trafficking or criminal activity will be successful or that guerilla, drug trafficking and/or criminal activity will not disrupt the Company's operations in the future.

Legal Systems

As a civil law jurisdiction, Colombia has a legal system which is different from the common law jurisdictions of Canada. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by changes in governments, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

Litigation

From time to time, the Company or its subsidiaries may be the subject of litigation arising out of the Company's operations. The Company's subsidiaries are currently involved in various legal disputes and there is no guarantee that these disputes will be resolved in favour of the Company. As such, certain fines, penalties or damages may have to be paid by the Company, which may have a significant impact on profitability. Specific disclosure of current legal proceedings, and the risks associated with current proceedings and litigation generally, is disclosed under the heading entitled "Legal Proceedings".

Changes in Legislation

The mining industry in Colombia is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and the Company will be unable to predict what additional legislation or amendments may be enacted. Amendments to current laws, regulations and permits governing operations and activities of mining companies, including environmental laws and regulations which are evolving in Colombia, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenditures and costs, affect the Company's ability to expand or transfer existing operations or require the Company to abandon or delay the development of new properties.

The current Colombian mining code was enacted in 2001 and amended in 2010. The 2010 amendment was declared unconstitutional in 2011 by the Colombian Constitutional Court due to inadequate consultations prior to enactment. The Constitutional Court, however, left it in force for two more years (until May 2013) for the Government to propose, and Congress to approve, a new amendment. No new amendment of the mining code is expected to be passed by May 2013; therefore, it is expected that the original 2001 mining code (without the 2010 amendment) will be back in force. However, the government has announced its intention to introduce before Congress a bill to amend the 2001 mining code which could be approved in late 2013 or in 2014. Although changes to the law are expected to mostly deal with applications for concessions, which should not affect the Company, they could also include environmental, zoning and control issues, which, together with any local zoning regulations, could have an impact on the Company's activities.

Legislative changes may have an adverse impact on the Company's operations and performance, including any changes to tax legislation. Tax legislation in many jurisdictions undergo continuous review, and changes to tax legislation may potentially have an adverse impact on the Company's operations.

Corruption

The Company's operations are governed by laws which generally prohibit bribery and other forms of corruption. The Company has policies in place to prevent any form of corruption or bribery, which includes requiring that all employees participate in ethics awareness training, enforcement of policies against giving or accepting money or gifts in certain circumstances and commencing in 2013, employees were required to sign an annual certification confirming that each employee has not violated any of the Company's policies, including those in respect of applicable anti-corruption or bribery legislation. Despite the training and policies, it is possible that the Company, or some of its subsidiaries, employees or contractors, could be charged with bribery or corruption as a result of the unauthorized actions of its employees or contractors. If the Company is found guilty of such a violation, which could include a failure to take effective steps to prevent or address corruption by its employees or contractors, the Company could be subject to onerous penalties and reputational damage. A mere investigation itself could lead to significant corporate disruption, high legal costs and forced settlements (such as the imposition of an internal monitor). In addition, bribery allegations or bribery or corruption convictions

could impair the Company's ability to work with governments or non-governmental organizations. Such convictions or allegations could result in the formal exclusion of the Company from a country or area, national or international lawsuits, government sanctions or fines, project suspension or delays, reduced market capitalization and increased investor concern.

Fluctuations in Currency Exchange Rates

The Company reports its financial results and maintains its accounts in United States dollars and the market for coal is principally denominated in United States dollars. The Company's operations in Colombia will make it subject to further foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. Colombia has a free and unrestricted supply and demand market. The Company will be exposed to foreign exchange risk from the exchange rate of the COP relative to the Canadian and US dollars. Foreign exchange risk is mainly derived from assets and liabilities stated in COP.

Decommissioning Liabilities

Mining, processing, development and exploration activities are subject to various laws and regulations governing the protection of the environment. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

The IFRS, International Accounting Standard 37 – *Provisions, Contingent Liabilities and Contingent Assets*, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated decommissioning liabilities.

Environmental Matters

The Company will be conducting operations in areas that were previously mined by several different individuals and entities, some of whom were the owners of the mining rights that have been acquired by the Company and some of whom were third parties. Certain of the operations previously conducted may have been conducted without environmental permits or licenses and may not have been compliant with applicable environmental standards. As a result, the historical operations of these predecessor operators may have generated significant environmental contamination and may expose the Company to future liabilities with respect to remediation of the properties and associated clean-up costs.

While the Company will endeavour to comply with all applicable environmental permits and regulations, it will take some time to regularize environmental compliance and there can be no assurance that environmental authorities in Colombia will not take enforcement actions during such period or that the Company may be able to seek any form of indemnification from predecessor operators.

In an effort to be conscientious in minimizing such environmental side-effects, the Company has engaged in a forestation project which will enable it to earn Carbon Capture Credits by the end of 2014.

Changes to Environmental Laws

The Company's operations will be subject to the extensive environmental risks inherent in the mining industry. The current operations of the Company, including development activities, commencement of production on its properties, potential mining and processing operations and exploration activities require permits from various governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Existing and possible future environmental legislation, regulations and actions could cause significant additional expense, capital expenditures, restrictions and delays in the activities of the Company. Although the Company believes that it is in substantial compliance in all material respects with applicable material environmental laws and regulations, there are certain risks inherent in its activities such as accidental spills, leakages or other unforeseen circumstances, which could subject the Company to extensive liability.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing (i) operations to cease or be curtailed or (ii) termination of mineral rights, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Greenhouse Gases

There is increasing public concern in respect of the environmental impact of carbon dioxide and other greenhouse gases. The Company's mining operations will produce significant quantities of greenhouse gases. While still unclear at this time, Colombia may ultimately enact regulations to reduce or limit the production of these gases. Large quantities of fossil fuels are and will be consumed by the equipment and coal processing plants at the mine sites. The transportation and hauling of the Company's products will also produce greenhouse gases. It is unknown at this time what the full impact of any new regulations might be on the Company's business, but the likely effect will be to increase its costs for fuel, energy and transportation.

The current lack of clarity regarding national and international climate change initiatives creates uncertainty and risk for the Company as it attempts to execute its business plan. Due to the fact that national and international climate-related regulations have not yet been fully developed, it is difficult to accurately assess the magnitude of these costs.

The coal products that will be sold by the Company also produce greenhouse gases as they are consumed. Increasing social and political pressure to reduce greenhouse gas emissions may lead to the development of alternative technologies that are not dependent upon the use of coal, although the timeframe for this change is expected to be relatively long due to the large capital investments required and the current lack of proven, cost-effective alternative technologies.

Opposition to Mining

The Company's business may be affected by environmental activists who engage in activities intended to disrupt the Company's business operations. As a result, there could be delays or losses in transportation and deliveries of coal to the Company's customers, decreased sales of the Company's minerals and extension of time for payment of accounts receivable from the Company's customers, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The mineral exploration and mining business is competitive in all of its phases. The Company will compete with numerous other companies and individuals, including competitors with greater financial, technical and other resources than the Company, in the search for and acquisition of exploration and development rights on attractive mineral properties. The Company's ability to acquire exploration and development rights on properties in the future will depend not only on its ability to develop the properties on which it currently has exploration and development rights, but also on its ability to select and acquire exploration and development rights on suitable properties for exploration and development. There is no assurance that the Company will continue to be able to compete successfully with its competitors in acquiring exploration and development rights on such properties.

The Company will compete with coal producers in various regions of the Americas and overseas for international sales and possible future domestic sales. In recent years, the competitive environment for coal was impacted by sustained growth in a number of the largest markets in the world, including the United States, China, Japan and India, where demand for both electricity and steel supported pricing for steam and metallurgical coal. The economic stability of these markets has a significant effect on the demand for coal and the level of competition in supplying these markets. The cost of ocean transportation and the value of the United States dollar in relation to foreign currencies significantly impact the relative attractiveness of our coal as the Company will compete on price with other foreign coal producing sources. During the last several years, the coal industry has experienced increased consolidation, which has contributed to the industry becoming more competitive. Increased competition by competing coal producers or producers of alternate fuels in the markets in which we serve could cause a decrease in demand and/or pricing for our coal, adversely impacting our cash flows, results of operations or financial condition.

Shortage of Experienced Personnel and Equipment

The ability to identify, negotiate and consummate transactions that will benefit the Company is dependent upon the efforts of the Company's management team. The loss of the services of any member of management could have a material adverse effect on the Company. The Company's future mining exploration and development activities may require significant investment in additional personnel and capital equipment. Given the current shortage of equipment and experienced personnel within the mining industry, there can be no assurance that the Company will be able to acquire the necessary resources to successfully implement its business plan.

Furthermore, while the Company has full-time key management personnel, certain of the directors and officers of the Company are directors and officers of other reporting issuers and, as such, will devote only a portion of their time to the affairs of the Company.

Raw Materials Cost

Unexpected increases in raw material costs could significantly impair the Company's operating profitability. The Company's mining operations use significant amounts of steel, petroleum products and other raw materials in various pieces of mining equipment, supplies and materials. If the price of steel,

petroleum products or other input materials increase, the Company's operational expenses will increase, which could have a significant negative impact on its profitability.

Shortage of Mining Equipment and Supplies

The recent growth in global mining activities has created a demand for mining equipment and related supplies that outpaces supply. As a result, operations could be adversely affected if the Company encounters difficulties obtaining equipment and other supplies on a timely basis. In the event that the Company was unable to secure required mining equipment on a timely basis, expansion activities, production, productivity and costs could be negatively affected, materially reducing the value of the securities.

Possible Volatility of Stock Price

The market price of the Common Shares can be subject to wide fluctuations in response to factors such as actual or anticipated variations in the Company's results of operations, changes in financial estimates by securities analysts, general market conditions, the issuance of additional Common Shares or securities convertible or exchangeable into or exercisable to acquire Common Shares, and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the Common Shares.

Potential Conflicts of Interest

Some of the individuals serving as directors or officers of the Company are also directors, officers and/or promoters of other reporting and non-reporting issuers, including those engaged in exploration and production of resources in Colombia. Aside from the potential conflict of interest arising therefrom, as of the date of this AIF and to the knowledge of the directors and officers, there are no existing conflicts of interest between the Company and its directors or officers other than as disclosed in "*Directors, Officers and Promoters - Conflicts of Interest*". Situations may arise where the directors and/or officers of the Company may be in competition with the Company. Any conflicts of interest will be subject to and governed by the laws applicable to directors' and officers' conflicts of interest. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Risks Associated with Acquisitions

Acquisitions of mineral properties or companies are based in large part on engineering, environmental and economic assessments made by the acquiror, independent engineers and consultants. These assessments include a series of assumptions regarding such factors as recoverability and marketability of mineral resources, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of minerals and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the control of the Company. All such assessments involve a measure of geologic, engineering, facility operations, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

Integration of Recent and Future Acquisitions

The future success of the Company will depend to some extent on the success of management of the Company in integrating the operations, technologies and personnel of the various companies and assets

acquired by the Company, as well as companies or assets the Company may acquire in the future. The failure of the Company to achieve such integration could result in the failure of the Company to realize some or all of the anticipated benefits and could impair the results of operations, profitability and financial results of the Company. In addition, such integration may result in unanticipated operational problems, expenses, liabilities and diversion of management's attention.

Interest Rate Risk

Borrowings under the Company's credit facilities are at variable rates of interest and expose it to interest rate risk. If interest rates increase, the Company's debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and the Company's net income and cash flows, including cash available for servicing the Company's indebtedness, will correspondingly decrease. Assuming all credit facilities are fully drawn, each quarter point change in interest rates would result in less than a US\$0.1 million change to annual interest expense of the Company's indebtedness. From time to time, the Company may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, the Company may not maintain interest rate swaps with respect to all of its variable rate indebtedness, and any swaps it enters into may not fully mitigate the Company's interest rate risk. To date, the Company has not used derivative financial instruments to manage its interest rate risk.

Enforcement of Civil Liabilities

Substantially all of the Company's assets are located outside of Canada and most of the directors and officers of the Company are resident outside of Canada. As a result, it may be difficult or impossible to enforce judgments granted by a court in Canada against the assets of the Company or the Company's directors and officers residing outside of Canada.

Forward-Looking Information may Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumptions and uncertainties are found under the heading "Forward-Looking Information".

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, community, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations. Disruptions in the supply of products and services required for the Company's activities in any of the jurisdictions in which it operates would also adversely affect the Company's business, results of operations and financial condition.

Dividends

Any payments of dividends on the Common Shares of the Company will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other

factors which the Board of Directors may consider appropriate in the circumstance. It is unlikely that the Company will pay dividends in the immediate or foreseeable future.

Joint Ventures

The Company has entered into and may enter into joint ventures in the future. Any failure of a joint venture partner to meet its obligations to the Company or third parties, or any disputes with respect to the parties' respective rights and obligations could have a material adverse affect on such joint ventures. In addition the Company may be unable to exert influence over strategic decisions made in respect of properties that are the subject of such joint ventures.

Increased Costs and Compliance Risks as a Result of Being a Public Company

Legal, accounting and other expenses associated with public company reporting requirements have increased significantly in the past few years. The Company anticipates that general and administrative costs associated with regulatory compliance will continue to increase with recently adopted or amended corporate governance requirements.

Third-Party Insurance and Self-Insured Risks

The Company's operations will be subject to certain events and conditions that could disrupt operations, including fires and explosions, accidental mine water discharges, coal slurry releases and impoundment failures, natural disasters, equipment failures, maintenance problems and flooding. The Company maintains or will maintain insurance policies that provide limited coverage for some, but not all, of these risks. Even where insurance coverage applies, there can be no assurance that these risks would be fully covered by insurance policies and insurers may contest their obligations to make payments. Failures by insurers to make payments could have a material adverse effect on the Company's cash flows, results of operations or financial condition.

Repatriation of Earnings Risk

There are currently no restrictions on the repatriation from Colombia of earnings to foreign entities. However, there can be no assurance that restrictions on repatriations of earnings from Colombia will not be imposed in the future.

Other Risks

Foreign investments involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. The Company may be unable to address these risks successfully, or at all, without incurring significant costs, delay or other operating problems. The Company's inability to resolve any of such risks could have a material adverse impact on its business, consolidated financial condition and consolidated results of operations.

RESERVES DATA AND OTHER INFORMATION

The following information concerning each of: the Caypa Project, the Jam Project, the La Tigra Project, and the Cerro Largo Project has been summarized from and is qualified in its entirety by the Technical Report applicable to each project. The disclosure in this AIF has been prepared with the consent of the author responsible for each Technical Report and in most cases, is a direct extract of the disclosure contained in each applicable Technical Report and has not been updated as of the date of the respective Technical Report. The Company has obtained title opinions from reputable Colombian law firms providing reassurances of title held by the Company in respect of each of the Caypa Project, the Jam

Project, the La Tigra Project and the Cerro Largo Project. The Technical Reports have been filed with certain Canadian securities regulatory authorities pursuant to NI 43-101 and are available for review on SEDAR at www.sedar.com.

The preparation of updated technical reports has been suspended in light of the Company's operational changes during the fourth quarter of 2012. The Company plans to resume exploration studies in the second quarter of 2013 with an anticipated release of updated reports towards the end of the third quarter of 2013. Therefore, all of the information contained in this section is as at the date of the respective Technical Report.

The Caypa Project

The Caypa Technical Report was authored by Paul Bright of SRK at the request of Pacific Coal. The terms of reference were to undertake a data review and complete a NI 43-101 compliant technical report with an update on the remaining coal resources at the La Caypa coal mine, together with a scoping level review of the options available for extending the mine's life.

Property, Location and Description

The Caypa open pit coal mine is situated in northern Colombia, 2.5 km from the village of Patilla, located near to the town of Barrancas, within the Cesar-Ranchería depression. It has been operated by CCC under a contract with the owners, the Comunidad del Cerrejón, since 1996. For two years prior to that it was operated by a Chilean Company, Caypa S.A.

The mine operates in the "El Cerrejón Zone Central" licence area under which the Comunidad del Cerrejón owns the rights to the soil and subsoil, including the coal, rather than the state which is usually the case in Colombia. Within the total 5,415 ha of the El Cerrejón Zone Central which contains a number of coal mining operations some 300 ha is let under contract to CCC to exploit and commercialise and it is the latter area which forms the La Caypa licence area. Royalties are payable to the Comunidad del Cerrejón by the operator, CCC. The royalties are paid on an agreed formula, based on the published price of coal exported from Puerto Bolivar and are calculated on a quarterly basis with an agreed minimum tonnage.

Coal is transported by road truck on public roads approximately 250 km to the northwest to the port of Santa Marta. CCC has a commercial contract in place with the port authorities. The site has access to local power and water and a local workforce with mining skills.

Accessibility, Climate, Infrastructure

The site is located at 11°3' N, 72°40' W in the department of Guajira in northern Colombia, South America. Access to the site is from a tarmac highway near the town of Barrancas, which provides links to the ports of Riohacha to the North and Santa Marta to the Northwest. There are a number of small towns close by and scattered, isolated villages. The climate is warm tropical with short rainy seasons in November and April and the mine is able to operate throughout the year.

The mine is self-sufficient in water resources, power is available from the national grid locally and there is a pool of experienced open pit mining personnel in the area. The licence area is limited in area and there was previously a constraint in available waste tipping space which resulted in long and relatively steep waste haulage routes, however with the completion of coaling operations in the west of the pit (sector A) and the commencement of in pit backfilling the operations are now more efficient.

The area is a low lying plain at some 150 m elevation, consisting of Savannah grasslands and scrub which is dissected by watercourses of the Cesar – Rancheria catchment.

History

The mine has been operated by a number of companies since its inception in 1993. Operators have worked coal from a number of areas within the site and some of these can be seen as remnant pits on the current topography. In recent years, CCC has operated a more organised and systematic approach.

The mine was acquired by Adobe Ventures (subsequently Coalcorp) in 2006. The mine has continued to be operated by CCC. For details of acquisition of CCC by the Company, please see “*General Development of Business – Historical Overview*”. Production between April 2005 and June 2010 has been approximately 4.96 Mt.

Geological Setting

Regional, Local and Property Geology

Coal is produced from the Cerrejón Formation in the César Valley. This Cerrejón Formation is a repetitive sequence of alternating sandstone, siltstone, coal and seatearths with no recognisable marker beds, making seam correlation difficult in areas of complicated structure. The sequence has been substantially shortened in some areas of the valley by thrusting (very low angle faults which push part of the sequence substantial distances over other parts of the sequence) and to a lesser extent by normal faults.

The Cerrejón Formation is part of the Triassic to mid-Miocene sequence of sediments that filled a regional basin in the northern part of South America (extending eastwards to the Llanos Basin in Venezuela). The Cerrejón Formation is approximately 900 m in thickness and of Palaeocene (Tertiary) age. There is an angular unconformity of approximately 15° between the Cerrejón Formation and the overlying Tobacco Formation. The base of the Cerrejón Formation rests on the Manantial Formation, a 145 m sequence of calcareous beds containing abundant fossilised oysters.

Geology Type

The deposit has been affected by a degree of tectonic deformation, largely by broad open folds between large thrust faults. Those faults that affect the seams within the site are generally of small displacement (less than 10 m). Although dips are generally steep, the site is considered to be of moderate geological complexity.

Deposit Type

The La Caypa mine licence covers part of a shallow sedimentary deposit. Exploration to date has largely been concentrated on those seams likely to be exploited by surface mining methods to a depth of 150 m. The deposit contains additional resources which may be amenable, subject to the necessary technical studies being undertaken, to underground mining. The deposit has been affected by a degree of tectonic deformation, largely by broad open folds between large thrust faults. Those faults that affect the seams within the site are generally of small displacement (less than 10 m). Although dips are generally steep, the site is considered to be of moderate geological structural complexity.

Exploration

Data are available from historical production records and surveys, historical borehole records and surveys, downhole geophysical logs, measured and surveyed seam sections within the pit and an ongoing program of drilling and geophysical logging.

Mineralisation

La Caypa is located within a sedimentary basin and coal is produced from the Central Member of the Cerrejón Formation, a 900-1100 m thick Triassic to mid-Miocene repetitive sequence of banded siltstone, shale, subordinate sandstone and thin carbonates, with numerous coal seams distributed throughout the stratigraphic sequence. Although lacking in distinctive marker beds, the Cerrejón Formation has been divided into three Members on the basis of the distribution and thickness of the coal seams, with the productive Central Member containing up to 60 coal seams with an average thickness of 3.8 m. There are around 40 economically recoverable seams, and current open pit production is centred on those ranging from 0.7 m to 10 m thick. The coal mined is low-ash, low-sulphur, non-caking bituminous coal, which is suitable for power station fuel and for pulverised fuel injection in steel manufacture. (Morales and Lopez 2007).

Drilling

At the time of the CESC report, 291 boreholes had been drilled on the site and were reviewed by CESC as part of the reserve estimation process. All holes were open holes, most of which had been geophysically logged with resistivity, gamma and/or density tools. CESC came to the conclusion that only 188 were of a sufficient quality for use in the resource model.

Among the reasons for disregarding of holes, CESC stated:

- uncertainty regarding the borehole position;
- duplicate borehole numbers; and
- failure or poor quality of one or more of the geophysical tools.

CCC has had an ongoing program of drilling for exploration and production purposes using the following equipment, which is owned by CCC and operated by site staff:

- 1 Drilling rig Ingersol Rand, MT5BHXL, made in 1982;
- 1 MXII Geophysical Logging unit, with Logshell processing software for a three channel recording;
- Caliper Probe 2CAA-100;
- Polyelectric Probe 2PEA-1000; and
- Poly-Gamma Probe 2PGA-1000.

At the time of the Caypa Technical Report, drilling was continuing on site and SRK has received records of 274 boreholes at March 2010, including 225 open holes for 23,048.26 m and 31 cored holes for 8768.32 m.

Sampling Method and Approach

At the time of SRK original report there had been no cored drilling undertaken on site, coal quality information was confined to production analysis records, although, in general terms, the seam quality was considered to be well known from neighbouring mines, historical production data and publicly available data. Since 2006 further exploration has been carried out which included core drilling and 249 samples from 22 boreholes have subsequently been analysed.

Sampling and analysis is regularly undertaken at a number of stages during the production, and transport process. Sampling has been summarized in the Caypa Technical Report.

In addition, in order to satisfy coal sales contracts, samples are taken on coal shipments leaving site and on arrival at the port facility, and following loading. These samples are analysed at SGS and certified results are provided.

SRK considers that the sampling procedures at La Caypa have proved adequate and that there is a reasonable correlation between cored borehole sample, in situ channel sample and production sample results. There is a small but acceptable amount of ash dilution during the mining process.

Data Verification

SRK has been able to examine historical borehole records, downhole geophysical logs in hard copy analogue and digital format; has inspected seam sections within the pit; and has been provided with reports, paper records, graphical logs, geophysical logs and electronic records, plans, spreadsheets and various databases relating to exploration activity.

SRK was not present during the drilling, geophysical logging and sampling carried out by the mine operator but has examined and verified a number of representative geophysical logs available on site and compared them to the corresponding open hole and cored thicknesses as recorded on the databases provided. SRK has examined representative analyses certificates from the SGS lab in Barranquilla which indicate that the analyses were carried out by a laboratory which was certificated to operate in accordance with ASTM standards. SRK was able to carry out in situ bulk density tests and visit the on-site laboratory. Analytical data from various sources, channel samples, borehole samples and delivery certificates were examined and compared for consistency. Data provided were also compared with publicly available local and historical records.

SRK was provided with annual topographic survey surfaces and has included these in its digital geological model and reconciled annual production against the model volumes for the same periods and derived recovery factors.

Mineral Resource and Mineral Reserve Estimates

1. Resource estimation and reporting parameters

The basis of resource reporting in the current report is:

- Within 250 m radius of a data point – Measured Resource;
- Between 250 m and 750 m radius of a data point - Indicated Resource;
- Between 750 m and 2,250 m radius of a data point - Inferred Resource;
- Minimum average seam thickness assessed at 0.50 m. for potential open pit resources; and
- Minimum seam thickness of 1.8 m for potential underground resources.

On the basis of bulk density tests carried out on site and site experience, an SG of 1.3 has been used in the current estimates.

Resources are reported against the end of March 2010 surveyed surface and are effective at that date.

Resource estimates are given for in situ coal in:

- Remaining Resources – those remaining in the planned pit, to determine remaining life of the current planned pit.
- Resources – those between the planned pit, the site boundary and the -500 m level, which SRK considers is a likely depth constraint for underground mining. These estimates are not inclusive of the remaining resources above.

- Included within the latter resources will be those that can possibly be exploited by:
 - A limited extension to the planned open pit by pushing back the high wall and mining to the -30/-60 levels.
 - Coal which can possibly be accessed by auger or high wall mining in the high wall or eastern side walls of the open pit.
 - Coal with the potential for underground mining to the -500 m level.

2. Remaining Resources

Remaining Resources at end of October 2010

In-situ resources remaining in the current planned pit are shown as remaining resources in the table below.

Geology Type: Moderate	Deposit Type	
Remaining Resources	Surface	Underground
Measured	3.54 Mt	
Indicated		
Inferred		
ASTM Coal Rank	High volatile bituminous Type B/C	

Using its updated model and topographic surveys provided by CCC, SRK made a comparison of expected production from the model for 2008 and 2009 against actual production for these years and has estimated that the recovery has been 76%. SRK notes that the latter figure represents a mining recovery factor which includes a small proportion of coal left in the western section of the designed pit and now unlikely to be recovered. Applying this recovery to the remaining resources above, SRK estimates that approximately three years production, at current production rates, remained in the designed pit at March 2010.

Production since 2005 until the end of March 2010 was 4.96 Mt. SRK is not aware of any relevant issues which might materially affect the resource estimate above.

3. Additional Resources

SRK has assessed those seams with an average thickness of greater than 1.8 m as being potentially suitable for underground mining. The resources assessed lie either beneath, or to the south of, the highwall of the current and planned open pit.

Additional Resources La Caypa March 2010

Geology Type: Moderate	Deposit Type	
Additional Resources	Surface	Underground
Measured	7.66	35.81
Indicated		17.76
Inferred		
Total	7.66	53.58
ASTM Coal Rank	High volatile bituminous Type B/C	

The qualified person responsible for the estimate is Paul Bright, BSc, C.Eng, Principal Geologist with SRK and independent of Vega and the Company. Mineral resources are not mineral reserves and do not

have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

Conclusions and Recommendations

The remaining resources estimated within the currently designed pit at La Caypa will support current production rates for approximately three years. Opportunities exist for limited extension of the open pit operations subject to further technical studies, design, planning and regulatory permits. Additional resources have been established, which SRK considers are likely to support production by underground, auger or highwall mining methods, subject to further technical studies. Recovery factors from the estimated resources will vary according to the mining methods and equipment selected.

In order to avoid a hiatus in production at La Caypa, SRK recommends that planning for future phases of production at La Caypa commences immediately and suggests the following order of priority.

1. Technical studies, including planning in order to design and implement an extension to the existing open pit operations. Followed by:
2. Technical studies for auger mining operations to phase with open pit mining benches. Followed by:
3. Technical studies for the design of underground mining operations/test mining.

As a basis for the technical studies outlined above SRK recommends a program of 10 boreholes of an average depth of 200 m in order to test the geotechnical parameters in the area of the proposed extension to the open pit, and to test roof and floor conditions, rock and coal strength, gas content and to define coal positions along the planned access drive to access coal resources beneath the open pit. SRK estimates the cost of such a program, to include planning, supervision, geological and geotechnical logging, laboratory testing and geophysical logging would be US\$595,000.

The Jam Project

The Jam Technical Report was prepared by Paul Bright of SRK at the request of the Company. The terms of reference were to undertake a date review and complete a NI 43-101 compliant technical report relating to the Jam Project.

Property, Location and Description

The Jam Project, licensed under concession Contract 7241 between Cooperativa Boyacense de Productores de Carbón de Samacá Ltda. and Ingeominas, the Colombian Mining and Geological agency, is located at approximately 5°26'53" N 73°35'10" W in the Cordillera Oriental of Colombia and in the municipality of Samaca in the department of Boyaca. The licence area of 52.34 ha is an elongated area some 385 m wide and more than 1,500 m long with surface elevations ranging from 2960 m to 3,380 m on the northern slope of the east west trending ridge to the west of Samaca.

The concession is currently in the ownership of Jam. Pacific Coal S.A., through a wholly-owned Panamanian company, Coalition Development S.A., has purchased a 92% interest in the company for a purchase price of \$4 million. The remaining 8% is also indirectly controlled by Coalition Development S.A.

Mineral Rights

Exploration and mining in Colombia is governed by the Mining Law 685 of 2001. All mineral resources are the property of the state. Under the Mining Law of 2001 there is only one type of concession which

includes exploration, construction and mining which is valid for 30 years and can be extended for a further 30 years.

A surface tax (canon superficial) is due annually during the exploration and construction phases of the concession and calculated per hectare (ha) as multiples of the MDW which is adjusted annually. The MDW in 2010 in Colombian Pesos was 17,166.67 or equivalent to approximately US\$9.

Under the Mining Law 1382 of 2010 the following changes were introduced:

- The exploration phase can now be up to 11 years (previously limited to 5),
- Contract length reduced to 30 +20 (previously 30 +30),
- Surface tax is the same for all sizes of concession but increases from year 6.

The objective of this new mining law is to encourage technical exploration and sustainable development/exploitation of state and private owned resources.

SRK understands that all required permits are in place and are valid until December 1, 2029.

Accessibility, Climate and Infrastructure

The Jam Project is located on a ridge, reaching an elevation of over 3,000 m, to the west of the town of Samaca which is accessible by good paved highways: the Tunja-Samacá-Guachetá road to the north and troncal central between Bogotá-Ubaté-Guachetá to the south. From Samaca the access road, of approximately 20 km, to the project area is a gravel road which is used by numerous small mines, many with small coke ovens, located along the ridge. A cooperative of the local mines carries out some maintenance and watering for dust suppression.

The climate of the area, although located in the tropics, is moderated by altitude. The area of the property has an annual precipitation of 900 mm. There are two distinct dry periods (December to March and June to September) and two rainy seasons (April - May and October - November). Temperature varies only very slightly throughout the year with a day time average of 12° to 18° C. June is the coolest month and daily temperatures rise until January. The climate of the area will allow mining operations to continue throughout the year.

The vegetation is one of low montano dry forest, with the primary vegetation represented by a series of small redoubts of herbaceous and arbustivas species (arboloco, encenillo, dividivi, upacon, hayuelo, penca) and the secondary vegetation by a eucalyptus forest that almost covers 80% of the total area.

There are numerous small mines operating in the region, many of which are operating small coke ovens, and there is a local mining cooperative which is able to provide support services.

Power, water and mining personnel are available within the local area. At this early stage of development it is considered unlikely that washing of the run-of-mine product will be required to that no tailings disposal area will be necessary.

History

Previous exploration work on the property was conducted by the owners of Jam and is described later in this summary. The presence and general disposition of a number of coal seams has been established by previous drilling.

Limited small scale mining has previously taken place on the site and a battery of coke ovens has been partially constructed. No recent operations on the Jam licence were evident at the time of SRK's visit. One of the drawings provided by Jam indicates an area of previous workings located to the west of the

licence area, probably on the La Grande Seam. SRK recommends that further information relating to previous underground working be sought as part of any ongoing investigation.

Geological Setting

1. Regional

The Jam Project lies within carboniferous (coal bearing) area 801 as described in El Carbon Colombiano Recursos, Reservas y Calidad published by the Colombian Mining and Geological Institute Ingeominas. The project area is located on the north western limb of the Checua-Lenguazaque syncline, a south west – north east trending structure which extends south westwards into the neighbouring department of Cundinamarca.

The coal bearing strata are of Cretaceous age and are contained within the Guaduas formation consisting of a sequence of interbedded arenaceous and argillaceous sedimentary rocks, carbonaceous sediments and coal seams. In the licence area the coal bearing strata are unconformably overlain by a variable thickness of unconsolidated Quaternary superficial deposits and colluvium. Strata within the site dip gently at 14° to the south east.

2. Local Geology

Five coal seams of thickness 1.0 m or greater have been identified by the drilling program. These are, in descending stratigraphic order: La Comercial, Siete Bancos, La Grande, La Tercera and La Limpia with average thicknesses of 1.4 m, 1.7 m, 2.2 m, 1.0 m and 1.0 m respectively.

1. **La Comercial Seam** identified in borehole P3 and consisting of an upper and lower leaf of 0.20 m and 1.0 m thickness respectively, separated by a parting of 0.3 mm.
2. **Siete Bancos Seam** identified in boreholes P2 and P3 and consisting of a variable interval of nearly 3 m of two or three coal leaves of up to a metre thickness with mudstone partings and coal traces.
3. **La Grande Seam** identified in boreholes P1, P2, P3 and P5 and consisting of two main leaves of 1.50 m and 0.50 m separated by a parting of 0.30 m.

Deposit Type

The deposit is a sedimentary deposit and seams are considered likely to be continuous in extent from crop or subcrop down dip and along strike up to and beyond the concession limits. The location of the seams on a sloping topography, their thickness and vertical interval between seams, the presence in some areas of superficial deposits are considered by SRK likely to result in uneconomic stripping ratios so that the seams are likely to be amenable to underground rather than surface mining methods. The geological structure of the site is considered to be simple. SRK's recommended drilling program is designed to confirm and add detail to previous work and to gather samples in order to establish geotechnical parameters, seam methane content and coal quality parameters, particularly those that relate to suitability for production of a metallurgical coke product.

Exploration

Previous work on the property has been limited to that conducted by the current owner of Jam.

Jam has provided topographical and surface geological maps of the site which are based on field mapping and interpretation of aerial photography, following on from data compilation and review. Subsequently drilling results were used to confirm and improve geological interpretation.

Limited underground working has previously been undertaken. Amongst the data provided is a single certified laboratory sample which was identified as the La Limpia Seam. SRK understands that, following description of recovered core by Jam's supervising geologist, the coal interval was sampled, bagged and despatched to the laboratory.

Mineralisation

The Jam Project is a sedimentary deposit located on the north western limb of the Checua-Lenguazaque syncline, a south west – north east trending structure which extends south westwards into the neighbouring department of Cundinamarca. Individual coal seams are interbedded stratigraphic units and are likely to be continuous over the licence area down dip from outcrop and/or subcrop positions. Some coal seams may have sedimentation structures (washouts) and/or structural displacements (faults) which may reduce their attractiveness for mining or impact on the mining method selected and consequently on efficiency, productivity and mining economics.

The coal bearing strata are of Cretaceous age and are contained within the Guaduas formation consisting of a sequence of interbedded arenaceous and argillaceous sedimentary rocks, carbonaceous sediments and coal seams. In the licence area the coal bearing strata are unconformably overlain by a variable thickness of unconsolidated Quaternary superficial deposits and colluvium. Strata within the site dip gently at 14° to the south east.

Drilling

Five cored boreholes of NQ or HQ diameter and with a maximum depth of 300 m were drilled by Jam in the licence area. The boreholes were cored and are reported to have been geophysically logged although SRK has not viewed the logs. The total metreage drilled was approximately 900 m. Holes are shown as vertical on Jam's cross sections, but it is not known whether any verticality surveys were undertaken. SRK was able to briefly examine core stored in Samaca, and they did indicate coal however SRK is unable to determine the quality of the coal. SRK notes that the boxes examined were well labelled.

Sampling Methods and Approach

The Company has not undertaken any sampling on the licence area. Access to fresh coal seam samples is not currently available without drilling. There is no description of the sampling methodology or protocols used for Jam and as such SRK did not review the same. SRK understands from discussions on site that, following description of recovered core by Jam's supervising geologist, the coal interval was sampled, bagged and despatched to the laboratory, consistent with common industry practice. However the single analysis provided cannot be considered representative and the proposed exploration program is designed to obtain further samples with rigorous QA/QC protocols applied to sampling methods and chain of custody of samples.

Data Verification

SRK has not been able to verify independently the results of Jam's borehole drilling program, but has visited the project area, briefly viewed core, seen evidence of previous drilling at a GPS location consistent with the reported borehole locations and made geological observations consistent with the reported geology. SRK has also been able to compare the data provided by Jam with publicly available information.

Mineral Resource and Mineral Reserve Estimates

In Colombia, in-situ resources for coal deposits are generally classified under the system adopted by the Colombian State Company, EcoCarbon (Sistema de Clasificación de Recursos y Reservas de Carbón).

The system is based on distances from control or 'information points', borehole information and or underground measured and surveyed coal thickness points. The categories are as follows:

1. 250 m radius from such points of information for Reservas Medidas class (Measured);
2. between 250 m and 750 m radius for Reservas Indicadas (Indicated) class;
3. between 750 m and 2,250 m for Reservas Inferidas (Inferred) class; and
4. Reservas Hipoteticas (hypothetical) class for greater than 2,250 m radius from information point.

Where no points of information relate to a deposit, "Reservas" are classed as Especulativas (Speculative).

SRK notes that no mining recovery factors are applied to the in-situ "Reservas" classes and that they consequently correspond to resources as generally accepted in international formal systems of classification and reporting.

Jam has provided an historical estimate of "Reservas" for the licence area and SRK offers the following comments on it. SRK has not done sufficient work, nor does it consider the sufficient information is currently available, to classify the historical estimate as current mineral resources or mineral reserves; Vega is not treating the historical estimate as current mineral resources or mineral reserves as defined in sections 1.2 and 1.3 of NI 43-101 and consequently the historical estimate should not be relied upon. In particular:

- The information points used as a basis for the in-situ "Reservas" quoted by Jam are seam thicknesses intersected in the limited number of boreholes. SRK has not independently measured core samples or examined geophysical logs, and cannot verify the accuracy of the seam thicknesses used or confirm the classification of "Reservas". In addition coal quality data is not available for most of the seams intersected. SRK cannot confirm therefore that the Jam estimates are compliant with the CIM standards of reporting and considers that they should rather be viewed as a preliminary indication of the project's potential.
- Jam has estimated "Reservas" for the Siete Bancos, La Grande La Tercera and La Limpia Seams. Of these SRK considers that La Limpia and La Tercera are too thin to be mined efficiently by underground methods and they should not therefore be included in the estimates.
- The seam section of the Siete Bancos Seam with its interbanded coals and dirt partings means that it either has to be selectively hand mined or, if it is to be mined more efficiently, it will probably require the construction of a wash plant in order to produce a product. Further drilling, analyses and study are required to establish that the seam is potentially mineable.
- La Comercial Seam has not been included in Jam's estimates but is a potentially mineable seam subject to further drilling analysis and study.
- The seam areas used in the estimates appear reasonable on the basis of information currently available, although SRK notes that the estimates contain a slight overestimate in that areas measured in the horizontal plane have been converted to areas measured on the inclined plane. As the seam thicknesses used have been vertical rather than "true" thickness the area correction was not necessary. Overall the change is not considered material.
- Density used appears to be reasonable in the absence of laboratory tests, at 1.3.
- As discussed previously the "Reservas" quoted are equivalent to in situ resources as generally reported in international standards of reporting.

Conclusion and Recommendations

SRK considers that the project is at an exploration stage. Further drilling and sampling is required. Jam have identified an area of coal which is potentially amenable to underground mining, the overall potential resource base is likely to be limited and is likely to preclude capital expenditure on the scale required for

highly mechanised mining methods. However it may be possible to achieve a degree of mechanisation for efficient small scale mining.

Coal quality based on the limited data currently available is a low ash, low sulphur, high CV coal with an indication of coking properties the single sample analysed may not be representative and further testing is required. The presence of numerous small mines in the area suggest that the coal available is likely to have coking properties and consequently to possibly command premium prices. Further work is required to confirm the quantity and quality of coal and particularly its coking properties potentially available on the Jam licence.

SRK recommends a phased program of work:

1. Further drilling, coring, and sampling, with appropriate quality assurance/quality control procedures and protocols, in order to establish the geological structure and coal quality, including coking, properties of La Comercial, La Grande and possibly Siete Bancos Seams and to provide the basis for a new, CIM compliant, Coal Resource estimate.

SRK recommends a program of 8 boreholes of between 70 and 350 m in order to obtain a minimum of three samples of each of the potentially mineable seams for analyses. SRK's cost estimate for the drilling program, supervision and analyses is shown in the table below:

Item	Quantity	Unit Cost (US\$)	Total Cost (US\$)
drilling (m)	2,200	\$200	\$404,000
geophysical logging (per borehole)	8	\$250	\$2,000
analyses (per sample)	12	\$500	\$6,000
geological supervision, logging, sampling			\$90,000
contingency 10%			\$41,000
TOTAL			\$543,000

2. Following a review and satisfactory outcome to the above a preliminary scoping level study to select an appropriate mining method and equipment and a high level Technical Economic Model to determine likely mining costs and potential revenues should be undertaken.

The La Tigra Project

The La Tigra Technical Report was prepared by Paul Bright of SRK at the request of the Company. The terms of reference were to undertake a data review and complete a NI 43-101 compliant technical report relating to the coal mining licence contracts GKI-114 and IIS-11950.

Property, Location and Description

The La Tigra Project is located at approximately 7°33' N 74°22'12" W on the western flanks of the Cordillera Central adjacent to the Magdalena Valley, Colombia, in the department of Santander close to its border with Norte de Santander.

The project comprises two contact areas, GKI-114 and IIS-11950, there are two small areas excluded from the former contract and the net areas of the contracts are approximately 4300 ha and 1400 ha respectively.

The La Tigra mining titles GKI-114 and IIS-11950 have been assigned to Vortel. Xira acquired a 50% interest in Vortel pursuant to the MOU dated April 29, 2010, as amended and updated on August 27,

2010, for a purchase price of US\$15,848,000, and the remaining 50% pursuant to the Masering Transactions.

Mineral Rights

Exploration and mining in Colombia is governed by the Mining Law 685 of 2001. All mineral resources are the property of the state. Under the Mining Law of 2001 there is only one type of concession which includes exploration, construction and mining which is valid for 30 years and can be extended for a further 30 years.

A surface tax (canon superficial) is due annually during the exploration and construction phases of the concession and calculated per hectare (ha) as multiples of the MDW which is adjusted annually. The MDW in 2010 in Colombian Pesos is 17,166.67 or equivalent to approximately US\$9.

Under the Mining Law 1382 of 2010 the following changes were introduced:

- The exploration phase can now be up to 11 years (previously limited to 5)
- Contract length reduced to 30 +20 (previously 30 +30)
- Surface tax is the same for all sizes of concession but increases from year 6

The objective of this new Mining Law is to encourage technical exploration and sustainable development/exploitation of state and private owned resources.

Accessibility, Climate and Infrastructure

The site is located some 70 km north west of the town of Bucaramanga, the department capital, and is accessed from good paved roads between Bucaramanga and La Paz. Barrancabermeja, a centre for petroleum refining and a port on the Magdalena River is approximately 80 km to the south west; the Atlantic railroad also passes within 80 km of the site.

History

The Licence area has been the subject of previous petroleum exploration activity and very limited small scale or artisanal coal and/or asphaltite extraction. SRK considers it to be an early stage exploration project.

Geological Setting

The La Tigra project is located in an area of late Cretaceous to early Tertiary sediments, with locally a cover of Quaternary deposits from the Magdalena Valley Basin. Structurally the licence lies between the La Tigra and Lebrija faults. The Nuevo Mundo synclinal axis lies to the east of the area and small anticlinal axes are recorded between the latter and the La Tigra Fault. In the area visited by SRK the strata dip at 40° to the north west.

Significant intersections of the Umir and La Luna formations which are known to include coals have been reported on the licence area.

The oil seep visited by SRK in May 2010 is located at a valley on the down dip side of a ridge above the tunnel in the north west of the licence area and the occurrence is consistent with a spring line like outcrop of a permeable host impregnated with hydrocarbons or bitumens in the strata overlying the coal seam mined in the tunnel.

Deposit Type

Currently there is a small underground mine operating in the north west of the licence area. Further exploration is required in order to evaluate the potential for surface and or underground coal mining, to determine whether the asphaltite occurs as impregnations or as vein like deposits related to faulting and whether the latter are amenable to surface or underground mining.

Exploration

The area has been subject to exploration for petroleum potential and a number of relevant seismic lines and borehole records are available for the area. SRK has reviewed the available information and considers that it is consistent with SRK's own geological observations and the reported geology of the licence area. A summary of the data received from the ANH is shown in the table below:

Log information: Logs in original format (service), well logs	Registros Editados	Well log	2
Documents, Graphical Maps, posters, Columns, Graphical Seismic sections	Imágenes de Pozo	Img	195
Documents, Graphical Maps, posters, Columns, Graphical Seismic sections	Historias de Pozo	Document	31
Seismic Field 2D	Linea Sismica (Seg-y + Ukooa)	Seismic Line	9
Seismic Process 2D	Linea Sismica (Seg-y + Ukooa + Imagen)	Seismic Line	25
Documents, Graphical Maps, posters, Columns, Graphical Seismic sections	Reportes de Observador	Document	28

Mineralisation

Coals, solid bitumens (asphaltites) and oil seeps have been reported on La Tigra. SRK considers it likely that the occurrences are inter related probably with a common sapropelic source.

In physical appearance, from its light weight and from its analysis the coal sampled at stockpile at the tunnel at the north west of the La Tigra licence area may be a Sapropelic or Boghead coal. SRK notes the very high CV of the sample taken.

Solid bitumens include natural asphalts, asphaltites, mineral waxes and related substances. They are known to occur as surface pools, as veins or as impregnations occupying the pore space of sands and other rocks.

Varieties of naturally occurring bitumen: asphalts are of variable consistency, ranging from a highly viscous fluid to a solid, whereas asphaltites are all solid; asphalts fuse readily, but asphaltites fuse only with difficulty; asphalts may, moreover, occur with or without appreciable percentages of mineral matter, but asphaltites usually have little or no associated mineral matter.

Many asphalts occur as viscous impregnations in sandstones, siltstones, and limestones. Most such deposits are thought to be petroleum reservoirs from which volatile constituents have been stripped by exposure of the rock. Relatively pure asphalt occurs in Kern, San Luis Obispo, and Santa Barbara counties in California. Occurrences of asphalt are also known in Kentucky and Oklahoma. Although asphalt seeps have long been known in France, Greece, Russia, Cuba, and other countries, the best known and largest are those of Venezuela and Trinidad.

Asphalt is also derived from petroleum in commercial quantities by removal of volatile components. It is an inexpensive construction material used primarily as a cementing and waterproofing agent.

The asphaltites (gilsonite, grahamite, and glance pitch) were probably derived from a saline lacustrine sapropel and owe their variable properties to differences in environment of deposition. These substances occur on a large scale in the Uinta Basin of north eastern Utah, where they are derived from upper Eocene Green River sediment source rocks, most of which are oil shales high in carbonate content. The asphaltite deposits of the Uinta Basin consist of numerous vertical north west trending veins varying in width up to 6 m; they are continuous in length for up to 25 km and also to depths of hundreds of feet. The veins are related to faults and fractures into which viscous hydrocarbons were introduced later solidifying. The asphaltites of south eastern Turkey occupy a similar geological environment and are mainly used for power generation. SRK has proposed an exploration program for La Tigra on the basis that any asphaltites found are likely to occupy similar vein like occurrences related to faulting.

The Uinta Basin is one of the main sources of the world's supply of Gilsonite. Gilsonite has many industrial applications, as an additive in drilling muds and printing inks, as a waterproofing agent and adhesive, in iron foundry moulding, in the manufacture of fireworks and high purity carbon electrodes. Prices of Gilsonite are currently around \$175 a tonne but may increase if additives and special processing are involved. SRK understands that Gilsonite has been reported in the south of contract GKI-114.

The oil seep visited by SRK in May 2010 is located at a valley on the down dip side of a ridge above the tunnel in the north west of the licence area and the occurrence is consistent with a spring line like outcrop of a permeable host containing hydrocarbons or bitumens in the strata overlying the coal seam mined in the tunnel.

Drilling

Previous drilling in the licence area was undertaken as part of a petroleum exploration program. SRK has obtained data relating to a number of these holes from ANH. ANH has reported that no data is available from five boreholes: La Tigra 5, La Tigra 9, La Tigra 6, La Tigra 3 and La Tigra 4 which are in the GKI-114 licence.

Sampling Methods and Approach

SRK has not seen records of previous sampling methods but recommends that future sampling of bitumens and oil seeps should be undertaken using suitable glass receptacles as the lighter volatile fractions may not be contained in plastic sample bags. SRK took a random grab sample of stockpile coal for analysis. The results are shown below:

La Tigra Sample

On the Dry Basis	%	As Received	%
Fixed Carbon	37.6	Fixed Carbon	37.2
Volatile Matter	61.0	Volatile Matter	60.3
Ash	1.4	Ash	1.4
		Moisture	1.1
	100.0		100.0
Sulphur	3.94%	Sulphur	3.90%
Gross Calorific Value	9505 cal/g 39790 KJ/kg	Gross Calorific Value	9400 cal/g 39360 KJ/kg

Note 1: The sample was of a non-banded, glossy black appearance, easily friable by hand and easily ignited over a flame. When ground to a fine state, addition of methylene chloride showed an instant brown discoloration, suggesting an easily soluble organic fraction was present in the fuel.

Note 2: The BS Swelling No test did not produce a standard profile residue. A residue was obtained, easily broken, but not in swollen form, save for some creep up the walls of the test crucible. In this regard the residue was more reminiscent of the residue produced from a heavy oil material.

Data Verification

SRK has visited the project area, sampled coal stockpiles, taken GPS locations which are consistent with the licence area and made geological observations consistent with the reported geology. SRK has also been able to compare the data provided with publicly available information.

Mineral Resource and Mineral Reserve Estimates

In a report outlining the geological potential of the licence, Masering has provided historical resource estimates. For coal these are reported to be based on information from the Yumeca 1 and 2 boreholes and are based on 11 coal seam intersections for a total thickness of some 32 m of coal and to be based on the areal extent of the Umir formation. For asphaltite, these are reported to be based on thicknesses intercepted in the tunnel and a notional areal extent. From the information currently available SRK cannot confirm that the thickness, quality and continuity of the coal seams, their potential for mining, or that the continuity, geological setting and grade of the asphaltites has yet been established to a degree that allows for classified resources to be estimated. SRK considers, however, that the presence of coal, solid bitumens and oil seeps at various locations in the licence area has been established, that the area has potential and is worthy of further exploration.

Conclusion and Recommendations

From the information currently available, SRK cannot confirm that the thickness, quality and continuity of the coal seams and their potential for mining, or that the continuity, geological setting and grade of the Asphaltites has yet been established to a degree that allows for classified resources to be estimated. SRK considers, however, that the presence of coal, solid bitumens and oil seeps at various locations in the licence area has been established, that the area has potential and is worthy of further exploration.

SRK recommends a phased program of work in order to establish the geological setting, continuity, grade and extent of coal and solid bitumen occurrences in the project area:

Phase 1 - Further data review, aerial photograph and/or satellite image interpretation, field mapping and sampling, trenching, geophysical investigation including magnetic and ground penetrating radar traverses.

Phase 2 - A preliminary program of drilling, coring, and sampling, with appropriate Quality Assurance/Quality Control procedures and protocols, in order to establish geological structure and coal and/or asphaltite quality parameters. SRK considers that the amount of drilling in Phase 2 is not contingent on the results of Phase I which will identify the location of holes and type of drilling (angled or vertical) to be used.

SRK recommends an initial program of 12 boreholes of between 175 and 350 m in depth. The location of the holes will be determined following a review of the work carried out in Phase 1 above. SRK's cost estimate for phase 1 is US\$80,000 and for phase 2 including the initial drilling program, supervision and analyses is US\$915,000.

Following a review and satisfactory outcome to the above phases a preliminary scoping level study should be undertaken to select an appropriate mining method and equipment and a high level Technical Economic Model to determine likely mining costs and potential revenues.

The Cerro Largo Project

The Cerro Largo Technical Report was prepared by Paul Bright of SRK at the request of the Company. The terms of reference were to undertake a data review and complete a NI 43-101 compliant technical report relating to the Cerro Largo Project.

Property, Location and Description

The Cerro Largo Mine is located at approximately 73°16'W 9°33'N in the La Jagua de Ibirico coalfield in the department of Cesar, some 115 km to the south of the department capital Valledupar, and 8 km from La Jagua de Ibirico town, in the southeast of the department. There are no communities or settlements in the immediate vicinity of the mine area. The mine is currently in the ownership of Norcarbón, is at an early stage of development and is being mined by the opencast method by a number of subcontractors. The coalfield is recorded as containing High Volatile Bituminous type B coals (ASTM classification) with relatively high calorific values (approximately 12,600 Btu/lb) and low sulphur.

Water and power are available locally and paved highways providing access to Valledupar and Caribbean ports pass close the site from where access is by a gravel road which is currently being upgraded.

The relief of the area is undulating to rugged, with steep slopes and elevations ranging from 235 m to 475 m above sea level in the area of interest. Run off is rapid and the main drainage to the north and north west is by the seasonal Canime and Santa Cruz streams respectively. Towards the south the permanent Sororia stream also drains the area, although its flows diminish greatly during dry periods.

Mineral Rights

Exploration and mining in Colombia is governed by the Mining Law 685 of 2001. All mineral resources are the property of the state. Under the Mining Law of 2001 there is only one type of concession which includes exploration, construction and mining which is valid for 30 years and can be extended for a further 30 years.

A surface tax (canon superficial) is due annually during the exploration and construction phases of the concession and calculated per hectare (ha) as multiples of the MDW which is adjusted annually. The MDW in 2010 in Colombian Pesos (COP) was 17,166.67 or equivalent to approximately US\$9.

Under the Colombian Mining Law 1382 of 2010 the following changes were introduced:

- ref 1. The exploration phase can now be up to 11 years (previously limited to 5)
- ref 2. Contract length reduced to 30 +20 (previously 30 +30)
- ref 3. Surface tax is the same for all sizes of concession but increases from year 6

The objective of this new Mining Law is to encourage technical exploration and sustainable development/ exploitation of state and private owned resources.

Licence

The licence is 488 ha in area, though the original Contract 031-92 was signed on May 15, 1992 for an area of 339 ha. Two amendments were signed on July 31, 1997 and November 8, 2000 to modify the area. The contract is current, valid until 2032 and agreed for medium scale mining.

Pacific Coal S.A. acquired from Masering the mining operation agreement for part of Cerro Largo, the North Pit, which grants Masering rights over a portion of the coal production for the mine Masering for a cash consideration of US\$14,165,644.

For details of acquisition of the Cerro Largo Project by the Company, please see “*General Development of Business – Historical Overview*”.

Adjoining the Norcarbón licence on the Cerro Largo sector are licences owned by Drummond and Carbones del Caribe (the latter recently acquired by Vale). Glencore is currently operating an open pit mine on the adjacent La Jagua sector.

Accessibility, Climate and Infrastructure

Access

The area is linked to the Colombian Caribbean port of Santa Marta, some 250 km to the north, by means of a well specified national highway (troncal). The troncal is accessed some 40 km from the municipality of La Jagua de Ibirico. The area is also linked by an asphalt highway to the department capital Valledupar, 115 km to the north east.

The main Atlantic railroad that links to Santa Marta with the interior also lies near the trunk road, some 40 km from La Jagua. There is limited capacity available for transport northwards to Santa Marta to other than holders of equity in the Fenoco railway project. The line also links to ports on the Magdalena river some 100 km to the south where there may be barging options available to the Caribbean ports of Cartagena and Barranquilla.

Climate

The area has a tropical warm climate with an average temperature of 28°C. Two wet seasons occur from April to June and from August to November. In general the rest of the year is dry, with annual precipitation of less than 1300 mm a year. December to March is the driest period.

Land Use

Cerro Largo mine is located in the Forest Reserve of “Los Motilones”, which is one of 7 national protected areas of importance for wildlife, flora and fauna in Colombia. There are no communities or settlements in the immediate vicinity of the mine area. The main residential area is La Jagua de Ibirico which is a municipality and a town in the Department of Cesar. The municipality is rich in coal, which is extensively exploited by various mining companies. The main economic activity is mining; however livestock and agriculture are also significant activities.

Infrastructure

Water and power are available locally and paved highways providing access to Valledupar and Caribbean ports pass close the site from where access is by a gravel road which is currently being upgraded. The area has an active mining industry and a skilled workforce is locally available.

History

Cerro Largo consists of a single concession area (Contract 031-92) of 488 ha. It was first licensed in 1992 and is under Norcarbón’s ownership. There are currently two sub-contract coal mining operations on the concession using open pit methods. Historically, total production has been approximately 400,000 tonnes per annum (tpa) or less.

Exploration and mining at Cerro Largo has developed in a number of stages. Exploration originally consisted of surface mapping including access to adits and other workings on the slopes of the Cerro Largo ridge. Three cored boreholes were originally drilled and in 2004 a series of a further 11 holes were added. Seismic surveys were carried out in the area as part of a regional petroleum exploration program.

Underground mining, using low productivity and labour intensive methods, has taken place at three locations on the concession on seams M5 and M45, but no underground mining is now taking place.

Geological Setting

Regional Setting

The departments of Guajira and Cesar are the main thermal coal producing regions of Colombia with combined production for export from the Cerrejon (Guajira) and Drummond (Cesar) open pit mines alone currently exceeding 50 million tonnes per annum (Mtpa). Both mines are operating on coal measures within the Los Cuervos formation of Palaeocene age.

The La Jagua de Ibirico coalfield is located to the east of the La Loma area of Cesar where a number of mines, including Drummond's Pribbenow open pit, are operating in the La Loma coalfield. The productive measures are also contained in the Los Cuervos Formation. The La Jagua coals are significantly higher in calorific value than the coals of the la Loma area. The coalfield is divided into two sectors by the axis of the Cerro Largo Anticline and Arenas Blancas Fault. The La Jaguar sector lies to the north and the Cerro Largo sector to the south of the anticlinal axis. A number of mines are currently operating on the La Jagua sector.

Local Geology

The licence lies on the southeast limb of the Cerro Largo Anticline. The coal seams outcrop on the northwest flank of Cerro Largo and the strata dip to the southeast at up to 35° over the licence area. To the west, the Marjeva Fault lies close to the licence boundary and forms a limit to potential coal working in that direction. To the south and east the disturbed zone of the Cerro Largo Fault limits potential working. The combination of the south easterly dip of the strata and the hill rising in the same direction rapidly increases the stripping ratio to the southeast.

The geological plans and sections provided by Norcarbón are based on geological mapping together with information from access to the numerous adits and crop workings and exploration trenches in the area. There is also a limited amount of borehole information from the original three cored holes and one open hole drilled in the area and the subsequent 11 holes drilled in 2004. SRK has viewed a report summarising the seam thickness information from each of the sites at which seams have been recorded, but the information did not include accurate location information. Detailed drill logs and geophysical logs of the 2010 boreholes have been made available to SRK although not those of previous drilling.

Deposit Type

The Cerro Largo mine licence covers part of a shallow sedimentary deposit. Exploration to date has largely been concentrated on those seams likely to be exploited by surface mining methods to a depth of 150 m. The deposit contains additional resources which may be amenable, subject to the necessary technical studies being undertaken, to underground mining. The deposit has been affected by a degree of tectonic deformation, largely by broad open folds between large thrust faults. Those faults that affect the seams within the site are generally of small displacement (less than 10 m). Although dips are generally steep, the site is considered to be of moderate geological structural complexity.

Exploration

Exploration work has been carried out by previous owners and includes:

The geological plans and sections provided by Norcarbón are based on surface geological mapping together with information from access to the numerous adits and crop workings and exploration trenches in the area.

SRK has viewed reports summarising the seam thickness information from each of the sites at which seams have been recorded, but the information did not include accurate location information.

Mineralization

A series of coal seams outcrop in the central area of the site area and dip southwards to the southern boundary, along strike the seams are continuous to the western site boundary, up to and beyond the Marjeva fault near the site boundary. To the east the crops swing around the and are limited by the Cerro Largo and Sororia faults to the south. Open pit mining is constrained by batter slopes to the western and southern boundaries and by the seam outcrops to the east. Coal quality in the La Jagua and Cerro Largo coalfield is significantly higher than in the adjacent La Loma area with lower moistures and higher calorific values.

Drilling

Three cored holes and one open hole were originally drilled in the area, though no information has been provided about the “pozo sismico” (P-67) indicated on Norcarbón’s plans. 11 holes were drilled in 2004, primarily to delineate zones of burnt coal. The bulk of the previous drilling is concentrated in central and northern areas of the licence. Objective records of the drilling programs, such as detailed drill logs, core photographs or geophysical logs of the boreholes which have been drilled, have not, as yet, been made available to SRK. A Further 11 holes for 2,878.95 m of drilling were completed during 2010 and the positions and geophysical records of these holes have been supplied to SRK.

The 2010 drilling has much improved the drill hole coverage, further drilling may still be required to better define the position of the disturbed zone of the Cerro Largo fault, which will limit potentially mineable seams in the southeast. It may also be necessary to drill further holes to better define the extent of the zones of burnt coal.

Vertical Boreholes record vertical seam thickness intercepts and true seam thickness can be derived by multiplying the vertical seam thickness by $1/\cosine$ of the angle of dip.

Sampling Methods and Approach

A small number of holes from the 2010 cored drilling undertaken on site include coal quality information. Quality information is also available from to production analysis records, and, in general terms, the seam quality was considered to be well known from neighbouring mines, historical production data and publicly available data.

Sampling and analysis is regularly undertaken at a number of stages during the production and transport process.

The following samples are taken during production:

1. Channel samples
2. Face samples
3. Production samples

And the following are taken during transport:

4. Truck samples
5. Port samples
6. Ship load out samples

The sampling procedures at Cerro Largo have proved adequate to satisfy coal sales contracts and are agreed with customers. SRK is not aware, however, that any reconciliation is taking place and considers that, whilst the quality of coal produced is meets contract requirements, loss and dilution factors and the depletion of resources are not well understood. SRK recommends that regular reconciliation between geological models, on site surveys and coal and waste production is introduced and the results monitored and used to improve geological models, loss and dilution and operational performance and to maximise coal recovery.

Data Verification

SRK has not been able to independently verify most of the borehole data and surface data on which previous estimates of resources and reserves has been based as it was not present during the drilling and objective records of the program such as geophysical logs, core photographs or core were not available for examination. The 2010 drilling data however included geophysical logs for a number of holes and SRK has viewed these objective records of the drilling and examined them for coal thicknesses. SRK has also visited the site, and has been able to make general geological observations, view the faces and coal seams as present in accessible areas and was able to take seam thickness measurements at three locations which are described below.

SRK WP1 (E1089060, N1548126): The measured seam consisted of an upper leaf of 0.65 m, a carbonaceous mudstone parting of 0.07 m and a lower leaf of 0.39 m. The thickness recorded by SRK was true seam thickness. Dip was measured at 25° to the south east (130°). In the face, some 3 m above this seam, another seam was observed. SRK concludes that the seam measured was seam 8 and the seam above was seam 5. The seam was sampled and SRK is awaiting the result of the analysis.

SRK WP2 (E1088949, N1548167): True seam thickness was measured at 1.32 m, dip 20° to the south east (125°). The seam was interpreted to be Seam 5. The seam was sampled and SRK is awaiting the result of the analysis.

Between the two locations above SRK observed a low angle reverse fault in the face consistent with the Geominas mapped position and throw of the El Hobo Fault (Falla El Hobo).

SRK WP 4 (E1088325, N1547905.7036): Two seams were measured. The upper seam was cleaned ready for coaling and was measured at 0.55 m thick and dipping 30° to the south east (135°). Some 4 m below this horizon a further seam was measured at 1.34 m thickness SRK interprets the lower seam as being seam 30, with the upper seam being the unnamed rider seam above seam 30. Seam 30 was sampled and SRK is awaiting the results of the analysis.

SRK has acquired public domain results from seismic surveys which cross the area and has interpreted the records. The initial impression is that there are reflectors consistent with the structural interpretation of the licence presented by Geominas and that there is also an indication of northerly dipping reflectors. Further study, georeferencing of the seismic images, and possibly calibration drilling is recommended.

From its examination of all available information SRK has not discovered any inconsistencies in the data provided.

Coal Resource and Reserve Estimates

Historical Resource and Reserve Estimates

In Colombia, in-situ resources for coal deposits are generally classified under the system adopted by the Colombian State Company, EcoCarbon, the Sistema de Clasificación de Recursos y Reservas de Carbón.

The classification system, which is designed to give “assurance of existence” categories for in situ coal estimates, is based on distances from control or ‘information points’, usually borehole information and or underground measured and surveyed coal thickness points. The categories are as follows:

- 250 m radius from such points of information for Reservas Medidas class (Measured);
- between 250 m and 750 m radius for Reservas Indicadas (Indicated) class;
- between 750 m and 2,250 m for Reservas Inferidas (Inferred) class; and
- Reservas Hipoteticas (hypothetical) class for greater than 2,250 m radius from information point.

Where no points of information relate to a deposit, reservas are classed as Especulativas (Speculative). It should be noted that no mining recovery or economic limiting factors have been applied to the in-situ ‘reserve’ (reservas) classes in the Colombian system used to derive them and that these “reservas” consequently correspond to resources as generally accepted in international formal systems of classification and reporting. The tonnages estimated are in situ coal quantities and should it should not be inferred from them that the quantities are mineable, recoverable or saleable.

An estimate of in situ coal quantities for Cerro Largo was provided by Kilbury. The estimate relates to a pit shell developed within a site area limited by the protection zone of Caños Santiago at East, by the Caño Canime at North and 50 m from Marjeva Fault at South. Kilbury’s pit Shell uses batter slopes of 28° in alluvium and 60° in rock of the Cuesta Formation. Other parameters used include a minimum seam thickness of 0.7 m a density of 1.3. Kilbury have made a 5% allowance for geological losses. Mining recovery of 88% and a dilution allowance based on 1inch dilution at roof and floor with a density of 1.7 are also quoted in Kilbury’s methodology. SRK notes that the latter allowances are not required for in situ estimates and it is not clear to SRK that they have been applied.

Kilbury have used the cross sectional area method of calculation for the estimate SRK has made random checks of the areas measured and has found them reasonable. SRK notes that Kilbury has also made allowances for coal already removed by underground mining and areas of burnt coal.

In international reporting systems, in order to derive proven or probable reserves from measured or indicated resources, it is necessary to demonstrate the technical feasibility and economic viability of mining by the compiling of a detailed LOM and a TEM. SRK has not, to date, seen any detailed LOM plans for Cerro Largo, but understands that any plans that may exist, such as for the north and south contracts with Masering and Kilbury, are for limited tonnages at relatively low stripping ratios (2.2 Mt at 6:11:1, and 3 Mt at 8.3:1 for Masering and Kilbury, respectively) and comprise a small proportion of the in situ resources quoted below.

SRK Resource and Reserve Estimates

SRK critically reviewed, and incorporated the available data into the 3-d mine modelling package Minex. Recent topographic survey from November 2010 including the position of faces was used as a reference surface.

Resource estimation and reporting parameters used were:

- Within 250 m radius of a data point – Measured Resource;
- Between 250 m and 750 m radius of a data point - Indicated Resource;
- Between 750 m and 2,250 m radius of a data point - Inferred Resource;
- Minimum average seam thickness assessed at 0.50 m for potential open pit resources; and
- Minimum seam thickness of 1.8 m for potential underground resources.

An SG of 1.3 has been used in the current estimates.

Resources are reported against the end of November 2010 surveyed surface and are effective at that date.

Resource estimates are given for in situ coal in:

- Resources of immediate interest– those resources contained in an open pit shell for which the associated waste volumes can be contained within the present licence boundary.
- Resources of future interest those between the above and geological or licence boundaries. These resources may possibly be accessed by additional land or licence acquisition or by alternative mining methods.

Geology Type: Moderate	Deposit Type	
Resources of immediate interest	Surface	Underground
Measured	6.06	
Indicated	3.4	
Inferred	2.18	
TOTAL	11.64	
ASTM Coal Rank	High volatile bituminous	
	Type B/C	
Resources of future interest	Surface	Underground
Measured	3.18	
Indicated	1.55	
Inferred	0.15	4.7
TOTAL	4.88	4.7

Mineral resources are not mineral reserves and do not have demonstrated economic viability. There is no certainty that mineral resources can be upgraded to mineral reserves through continued exploration.

Conclusions and Recommendations

SRK draws the following conclusions:

- The Cerro Largo Mine has a resource of relatively high quality thermal coal which would command premium prices for selected products and may add value as a blend with coal from other producers in the region and further afield.
- The Cerro Largo resources are currently being worked by two small separate open pit contracts.
- An in situ resource has been adequately proved by exploration drilling to date. Further work to delimit areas of burnt coal and to define the fault limits may improve resources.
- Because of the absence, at this stage, of detailed mining plans and economic models, SRK is unable to classify any Coal Reserves.
- Limited modelling and scoping studies by SRK, based entirely on the data provided, suggests that an in situ coal resource of 10.8 Mt is potentially available, which would be potentially mineable from a single open pit area. Further exploration and detailed design will be required to confirm resources, derive mineable reserves and to develop a mine plan which can demonstrate that the coal can be mined economically.
- Preliminary studies and limited modelling by SRK, based entirely on the data provided, suggest that further resources are potentially available which would be potentially accessible by underground methods. .

- The current contract and coal take up contract arrangements are complex and the liabilities of the current contract mining arrangements require further examination and due diligence.
- Further drilling and analyses is likely to be required.
- Further geotechnical drilling and input to design will be required to continue mining in the short term and for any expansion.
- Hydrogeological and surface hydrological investigations and design are likely to be required for any expansion to the current operations.
- Environmental conditions and permits need to be checked.

SRK recommends that a program of further drilling and mining evaluation and design to a level of at least of a pre-feasibility study. Key targets of such a program would include but not be limited to:

- Delimit areas of burnt coal;
- Delimit the position and structure of the Cerro Largo fault disturbed zone;
- Acquire additional geotechnical data;
- Update geological models;
- Develop the optimum economic open pit design;
- Develop the design of underground operations beyond the open pit limits.

SRK recommends a program of 8 boreholes of 100 m maximum depth to delineate areas of burnt coal and 4 boreholes of 500 m maximum depth to investigate the position of the Cerro Largo fault zone. SRK's cost estimate for the drilling program, supervision and analyses is shown in the table below:

Cost Estimate of Exploration Program

Item	Quantity	Unit Cost (US\$)	Total Cost (US\$)
Drilling (m)	2,200	200	440,000
Geophysical logging (per borehole)	12	250	3,000
Analyses (per sample)	20	500	10,000
Geological/Geotechnical Supervision, logging, sampling			110,000
Contingency 10%			57,000
TOTAL			620,000

SRK considers that such an approach would maximize the economic returns which could potentially be won from the Cerro Largo resource.

The Company intends to follow all such recommendations.

DIVIDENDS AND DISTRIBUTIONS

No dividends on Common Shares have been paid or issued by the Company since the completion of the RTO in March 2011. Management anticipates that the Company will retain all future earnings and other cash resources for the future operation and development of its business. Except as otherwise disclosed herein or pursuant to the TSXV's policies and the BCBCA, there are no restrictions on the Company that would prevent it from paying a dividend or distribution. However, the Company does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Board of Directors after taking into account many factors including the Company's operating results, financial condition and current and anticipated cash needs.

DESCRIPTION OF CAPITAL STRUCTURE

General Description of Capital Structure

The authorized capital of the Company consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares. Prior to the completion of the RTO in March 2011, the Company consolidated its issued and outstanding Common Shares on a three-for-five basis. As of opening of trading on March 25, 2013 the Company once again consolidated its issued and outstanding shares on a one-for-seven basis. As at the date hereof, there are 46,018,108 Common Shares issued and outstanding as fully paid and non-assessable and no Preferred Shares. As at the date hereof, there are 3,851,431 Common Shares reserved for issuance pursuant to the exercise of options, of which 3,851,431 have been granted and are fully vested. As at the date hereof, there are 10,678,541 Warrants and 42,857 Vega Warrants issued and outstanding.

Common Shares

Subject to the rights of the holders of Preferred Shares, the holders of Common Shares are entitled to (i) dividends, if, as and when declared by the Board of Directors and subject to the conditions attached to the preferred shares; (ii) notice of meetings of the Company shareholders and one vote per Common Share at such meetings; and (iii) upon liquidation and subject to the rights of the holders of preferred shares, to share equally in such assets of the Company as are distributable to the holders of the Common Shares. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights.

Preferred Shares

The Board of Directors may issue preferred shares in one or more series alter the articles of the Company to create any series of preferred shares and to fix before their issuance any designation, rights and restrictions. The preferred shares shall rank prior to the Common Shares of the Company with respect to the repayment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Company.

Warrants

The following table describes the outstanding Warrants of the Company as at April 29, 2013:

Number of Warrants Outstanding and Exercisable	Exercise Price	Expiry Date
10,678,541 ⁽¹⁾	\$14.70	March 14, 2016

Notes:

(1) The Warrants were issued pursuant to the RTO in exchange for Pacific Coal S.A. Warrants issued under the Private Placement.

In addition, there are 42,857 Vega Warrants outstanding which are exercisable at \$2.31 until July 12, 2015.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are listed on the TSXV under the trading symbol "PAK". The closing price of the Common Shares on April 29, 2013 was \$1.240. The Common Shares commenced trading on the TSXV following the RTO on March 14, 2011.

The Company's Warrants were listed on the TSXV under the trading symbol "PAK.WT". The Warrants were delisted effective as of close of business March 19, 2013. For further information, see "Historical Overview - Subsequent Events - Voluntary Warrant Delisting."

Common Shares

The following table sets out the high and low trading of the Common Shares for the periods indicated, as reported by the TSXV:

Period (2012)	High	Low	Trading Volume⁽¹⁾
December	\$1.260	\$0.770	2,193,404
November	\$1.260	\$0.735	2,254,572
October	\$1.120	\$0.735	4,857,883
September	\$1.400	\$1.015	70,536
August	\$1.715	\$0.805	348,506
July	\$1.260	\$0.700	255,212
June	\$1.680	\$1.190	36,475
May	\$2.310	\$1.015	196,593
April	\$2.485	\$1.645	167,621
March	\$2.870	\$2.415	837,902
February	\$2.940	\$2.380	1,086,044
January	\$3.290	\$2.625	755,574

Notes:

- (1) The above table reflects the trading information for Pacific Coal Common Shares as it appears on the TMX website.

Warrants

The following table sets out the high and low trading of the Warrants for the periods indicated, as reported by the TSXV. As of market close on March 19, 2013 the Warrants were delisted.

Period (2012)	High	Low	Trading Volume⁽¹⁾
December	\$0.035	\$0.035	146,371
November	\$0.070	\$0.035	48,043
October	\$0.070	\$0.035	2,921,571
September	\$0.035	\$0.035	24,757
August	\$0.070	\$0.035	48,714
July	\$0.035	\$0.035	205,849
June	\$0.035	\$0.035	52,714
May	\$0.140	\$0.105	12,429
April	\$0.105	\$0.105	13,643
March	\$0.210	\$0.140	63,929
February	\$0.210	\$0.140	171,022
January	\$0.420	\$0.035	51,241

Notes:

- (1) The above table reflects the trading information for Pacific Coal Warrants during the 2012 year as it appears on the TMX website.

Prior Sales

There are no securities of the Company that were issued but not listed on a marketplace during the most recently completed financial year of the Company and up to the date hereof, other than the following:

Date of Grant	Type of Security	Number of Securities	Exercise/Conversion Price	Expiry Date
October 30, 2012	Options	585,714	\$0.77	October 30, 2017
January 22, 2013	Options	71,429	\$1.75	January 22, 2018

Escrowed Securities

To the Company's knowledge, there are no securities of the Company which are subject to escrow or to contractual restriction on transfer as at April 29, 2013.

DIRECTORS AND OFFICERS

As of the date hereof, the directors and executive officers of the Company (as a group) owned, or exerted direction or control over, a total of 4,749,321 Common Shares, representing approximately 10.32% of the total outstanding Common Shares.

The following table sets forth the name, state or province and country of residence of each director and executive officer of the Company, as well as such individual's position within the Company, principal occupation within the five preceding years and number of Common Shares beneficially owned by each such director or executive officer. Information as to residence, principal occupation and Common Shares owned is based upon information furnished by the person concerned and is as at the date hereof.

Each of the directors, with the exception of Mr. Martinez, was elected to the Board of Directors at the Annual and Special Meeting of Shareholders held on June 13, 2012. Each director will hold office until the next annual general meeting of the Company or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the BCBCA and the articles of the Company.

Name, Municipality of Residence and Position or Office	Director Since	Principal Occupation	Company Common Shares Held Directly or Indirectly
Serafino Iacono⁽⁵⁾ Caracas, Venezuela Director	January 6, 2011	Mr. Iacono has been Executive Co-Chairman of the board of directors and a director of Pacific Rubiales, a TSX listed oil and gas company since January 23, 2008. From August 21, 2006 to January 23, 2008, he was the Co-Chairman of the board and Co-founder of Pacific Stratus. From February 2003 to February 2006 he was the Chief Executive Officer of Bolivar Gold, a gold producer. Mr. Iacono has been involved in the financing and development of mining, oil and other resources projects in the United States, Latin America and Europe for over twenty eight years and has raised more than three billion dollars for numerous natural resource projects internationally. Currently, Mr. Iacono is also a director and Executive Co-Chairman of Gran Colombia and a director of CGX Energy.	364,928

Name, Municipality of Residence and Position or Office	Director Since	Principal Occupation	Company Common Shares Held Directly or Indirectly
Miguel de la Campa ⁽¹⁾⁽⁵⁾ Caracas, Venezuela Director	January 6, 2011	Mr. de la Campa has been the Executive Co-Chairman of the board and a director of Pacific Rubiales since January 23, 2008. From August 21, 2006 to January 23, 2008, he was the Co-Chairman of the board and Co-founder of Pacific Stratus. From February 2003 to February 2006 he was the President and Co-founder of Bolivar Gold. Mr. de la Campa has been involved in the financing and development of mining, oil and other resource projects in the United States, Latin America, Europe and Africa for over thirty years. Currently, Mr. de la Campa is also a director and Executive Co-Chairman of Gran Colombia. He holds a BSFS in International Economics and a Masters Degree in Political Economics from Georgetown University.	5,185
Hernan Martinez Barranquilla, Colombia Executive Chairman and Director	September 4, 2012	Mr. Martinez is the Executive Chairman and a director of the Corporation. He served as the Colombian Minister of Mines and Energy from July 2006 to August 2010 and he has also served as President of International Colombia Resources Corporation, President of Atunec S.A., President and Chief Executive Officer of Exxon Mobil Colombia S.A., and Manager of Corporate Planning for Esso Colombiana S.A. Mr. Martinez currently sits on the board of directors of CB Gold Inc., Pacific Rubiales and Gran Colombia. He previously was a director of various private and public companies, including Interconexion Electrica S.A. ESP, Transmision Electrica S.A., and Inversura S.A., ISAGEN Energia Productiva, and was Chairman of the board of Carton de Colombia. Mr. Martinez has also served as Council President and Representative of the President of Colombia at the National Hydrocarbons Agency.	28,571
José Francisco Arata ⁽²⁾⁽⁵⁾ Caracas, Venezuela Director	January 6, 2011	Mr. Arata has been the President and a director of Pacific Rubiales since January 23, 2008. From August 21, 2006 to January 23, 2008, he was the CEO and a director of Pacific Stratus. From July 1997 to February 2006 he was the Executive Vice President and a director of Bolivar Gold. Mr. Arata has over twenty-nine years of experience in mineral and oil exploration in a number of countries in Latin America. He began his professional career with Maraven, an affiliate of PDVSA, where he held a variety of positions within the Exploration & Production Department. After leaving PDVSA, he started a number of private ventures in the Venezuelan mining industry. Mr. Arata is also a director of CGX Energy. Mr. Arata has a degree in Geology from the University of Torino, Italy and a degree in Geological Engineering from the Central University of Venezuela.	25,926
Ronald Pantin ⁽⁶⁾ Caracas, Venezuela Director	January 6, 2011	Mr. Pantin is the Chief Executive Officer and a director of Pacific Rubiales and is also a director of CGX Energy. Mr. Pantin worked in the Venezuelan oil industry for	185,714

Name, Municipality of Residence and Position or Office	Director Since	Principal Occupation	Company Common Shares Held Directly or Indirectly
		twenty-three years prior to his appointment as CEO of Pacific Rubiales in 2007. Mr. Pantin held a number of senior positions within Petróleos de Venezuela (“PDVSA”), including Vice President of Corpoven, Vice President of PDVSA E&P, President of CVP, President of PDVSA Exploration, President of PDVSA Services, and Executive Vice President of PDVSA Oil & Gas. Immediately after PDVSA, Mr. Pantin joined Enron Venezuela as its President. Mr. Pantin holds two bachelors of science degrees in Petroleum Engineering and Management Science from Mississippi State University with the highest distinction in the year 1975 and two masters of science degrees in Petroleum Engineering and Industrial Engineering from Stanford University in 1977.	
Michael Steven Greene⁽³⁾ Miami, United States Director	January 6, 2011	Mr. Greene is the Managing Partner and President of M.S. Greene & Associates, P.A., a private practice law firm in Miami, Florida, since 2000. He is also the President and owner of Greene Industrial Park, a business which comprises nearly a quarter million square feet of commercial property since 2009. Mr. Greene was formerly the President and CEO of Flagship Games International Inc., one of the largest gaming consultants and vendors in the cruise line industry from 2004 through 2008.	Nil
Jaime Perez Branger⁽¹⁾⁽⁴⁾⁽⁵⁾ Bogotá, Colombia Director	January 6, 2011	Mr. Perez Branger has over 30 years of experience in finance and capital markets generally. He is the founder and managing director of Next Ventures Corp., a financial advisory firm since 2005. He was the Executive Chairman of PetroMagdalena Energy Corp. from June 2011 to July 2012 and the President of C.A. Agropecuaria from 2003 to 2011. He also serves on the board of Gran Colombia and has acted as director and advisor to a number of Latin American companies and business guilds. Mr. Perez Branger holds a Masters of Economics from the London School of Economics.	68,712
Miguel Rodriguez Pully, Switzerland Director	January 6, 2011	Mr. Rodriguez has extensive experience in the private, public and academic sectors and has been a director of Pacific Rubiales since 2008. He has served as a business consultant; Professor of Economics, Instituto de Estudios Superiores de Administración (IESA), Caracas, from 1984 to 2006; Economic and Planning Minister of Venezuela and Chief of Economic Cabinet from 1989-1992; President of the Venezuelan Central Bank in 1992.; Dean, Faculty of Economics and Social Sciences, Universidad Santa María, from 2002 to 2004; Chairman, Astra Fund (Davos Group) from 2005 to 2006; Chairman Incofin, Inc. (Davos Financial Group) from 1997 to 2006; and President of MRConsultores and Incofin, Inc., from 1995-2006; Senior Advisor to the World Bank, 1992-1994; Governor of the World Bank, IMF	5,000

Name, Municipality of Residence and Position or Office	Director Since	Principal Occupation	Company Common Shares Held Directly or Indirectly
		and the Inter American Development Bank from 1989 to 1992. Mr. Rodriguez is also a director of D.Societe Financiere in Genève since 2010. Mr. Rodriguez has two Masters Degrees (1981, 1982) and a Ph.D. (1984) in Economics each from Yale University, specializing in Money and Banking, International Trade and Finance and Macroeconomics, and has written extensively on subjects relating to economics and finance.	
Oscar Ordonez Barranquilla, Colombia Director	January 6, 2011	President and co-founder of Masering S.A.S., a Colombian mineral and hydrocarbon exploration and production company, since July 1988.	4,049,714
Patricia Herrera Barranquilla, Colombia Chief Financial Officer	N/A	Ms. Herrera has been the Company's Chief Financial Officer of the Company since June 25, 2012 and President of Estudios y Consulorias SAS since April 2002. Ms. Herrera has also acquired post-graduate degrees in Accounting Management and Financial Management, both from Universidad Oberta de Catalunya, on March 2, 2012 and March 4, 2011, respectively.	Nil
Peter Volk Toronto, Canada General Counsel	N/A	Mr. Volk is the General Counsel of the Company . He is also General Counsel of Pacific Rubiales (January 2008 - present) and Gran Colombia (August 2010 – present). He was General Counsel and Secretary of Pacific Stratus (October 2004 - January 2008) and General Counsel and Secretary of Bolivar Gold (July 1997 - February 2006).	15,571
Luigi Salemi Nieto Barranquilla, Colombia Chief Operating Officer	N/A	Mr. Nieto has served as Chief Operating Officer of the Company since October 1, 2012. Prior to this he was an advisor and consultant to various companies from June 2009 to September 2012. He has also previously served as the Advisor and Mine Director at Operacion Minera Siglo XXI S.A. – OPM S.A. from December 2006 to May 2009.	Nil
Ricardo Plata Barranquilla, Colombia Executive Vice-President	N/A	Mr. Plata has been the Executive Vice-President of the Company since October 1, 2012. Before joining the Company, Mr. Plata was a Professor of Colombian Economy at the Universidad del Norte from January to June 2010 and the Executive Director of Fundesarrollo from July 2009 to September 2012. Prior to this he was the Administrative Vice-President of Supertiendas y Droguerias Olympica from April 2005 to March 2006.	Nil

Notes:

- (1) Member of the Company's Compensation, Corporate Governance and Nominating Committee.
- (2) Member of the Company's Audit Committee.
- (3) Chair of the Company's Compensation, Corporate Governance and Nominating Committee.
- (4) Chair of the Company's Audit Committee.
- (5) Messrs. Iacono, de la Campa, Arata and Perez Branger control, or provide investment advice to the holders of, 88% of the shares of Blue Pacific, a corporation incorporated under the laws of the British Virgin Islands which owns 24.37% of the issued and outstanding Common Shares.
- (6) Mr. Pantin is the CEO of Pacific Rubiales, which owns 14.35% of the issued and outstanding Common Shares and will have the right to nominate one director to the Board of Directors as long as it owns at least 2% of the Company's equity.

Corporate Cease Trade Orders or Bankruptcies

During the ten years preceding the date of this AIF, no director, officer or promoter of the Company or shareholder anticipated to hold a sufficient number of securities of the Company to affect materially the control of the Company is or has been a director, officer or promoter of any person or issuer that, while

such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied that person or issuer access to any exemptions under applicable securities legislation for a period of more than 30 consecutive days or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person.

Penalties or Sanctions

During the ten years preceding the date of this AIF, no director, officer or promoter of the Company or shareholder anticipated to hold a sufficient number of securities of the Company to affect materially the control of the Company or a personal holding corporation of such persons is or has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions proposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered important to a reasonable securityholder of the Company.

Personal Bankruptcies

During the ten years preceding the date of this AIF, no proposed director, officer or Promoter of the Company or shareholder anticipated to hold a sufficient number of securities of the Company to affect materially the control of the Company, or a personal holding corporation of such persons is or has become bankrupt, made a proposal under bankruptcy or insolvency legislation or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold their assets.

Conflicts of Interest

Some of the individuals serving as directors or officers of the Company are also directors, officers and/or promoters of other reporting and non-reporting issuers, including those engaged in exploration and production of resources in Colombia. Aside from the potential conflict arising therefrom, as of the date of this AIF and to the knowledge of the directors and officers of the Company, there are no existing conflicts of interest between the Company and any of the directors or officers of the Company other than the following:

- Serafino Iacono, Miguel de la Campa, José Francisco Arata and Jaime Perez Branger control, or provide investment advice to the holders of, 88% of the shares of Blue Pacific, which as of the date hereof indirectly holds 24.37% of the issued and outstanding Common Shares.
- Alorete, which is 80% owned by Blue Pacific, is entitled to a 5% agency fee on all sales of coal from the contracts that were in place prior to the RTO. This fee will not apply to sales made under the new sales purchase agreement with LCC or any sales contract entered into by the Company after the RTO or any sales contract inherited from the acquisition of Cerro Largo. The Company is currently in discussions with Alorete to suspend this agency contract.
- Masering, of which Oscar Ordonez is the co-founder and President, and Alorete are jointly entitled to a royalty on production from La Tigra equal to US\$1.00 per tonne of coal produced and US\$0.15 per barrel equivalent of hydrocarbons produced. Masering is the operator of the La Divisa mine pursuant to the exploitation contract assigned to the Company.
- Masering also has in place an option to use part of the port capacity at the Barranquilla port for 5 years from the date on which coal operation at the port begins. Masering can move up to 20% of port capacity but no more than 350,000 tonnes of coal for a tariff of cost plus a 10% utility margin.

- On December 17, 2012, CCC and Masering entered into a 5-year mining operation contract for the Caypa mine, with the possibility of extension. The contract includes a requirement for the Company to contribute 50% of the revenue generated from coal sales from La Caypa to a trust, from which Masering will draw the value of its monthly invoices before the Company can access the remaining funds. However, this operating contract has more favourable economical terms for the Company.
- In July 2012, the Company entered into a payment structure plan via a Memorandum of Understanding (MOU) with Masering to settle the outstanding accounts payable balance of US\$14.8 million owed by the Company to Masering. In accordance with the MOU, the Company was required to settle approximately US\$7.0 million of the amount outstanding in the second half of 2012 and the remaining US\$7.8 million in July 2013, plus interest accrued on the balance subsequent to the initiation of the MOU. The Company has pledged the mining title for the Cerro Largo mine to Masering as a guarantee for the obligations derived from the MOU. Please see refer to the Company's MD&A for the year ended December 31, 2012 for further details.
- As long as Pacific Rubiales, a British Columbia company of which Ronald Pantin is the CEO and a director, Serafino Iacono, Miguel de la Campa and José Francisco Arata are officers and directors, Miguel Rodriguez is a director and Peter Volk is an employee, owns at least 2% of the equity of the Company, it has (a) an exclusive option for one year from the date of the start of commercial production at the La Tigra Project to negotiate and enter into: (i) an agreement for the purchase at prevailing market prices of up to 500,000 tonnes of the project's total production of asphalt and/or coal each year, for a period of up to 10 years from the date of the start of such commercial production; and (ii) a joint venture to build a plant to produce, refine and market asphalt and/or asphaltite produced at the project, and (b) the entitlement to nominate one director to the Board of Directors.
- Alpha, with whom the Company has entered into an investment option agreement, is a private company controlled, directly or indirectly, by Serafino Iacono, Miguel de la Campa, José Francisco Arata and other investors, which has been funding and supporting NDT and BACF in the research and development of alternate fuels, including the colloidal technology since 2009. In addition, pursuant to the IOA, Pacific Coal acknowledges the exclusive marketing right granted by BACF/NDT to Pacific Rubiales, which holds more than 10% of the shares of the Company and has 5 directors who are also directors of the Company, whereby Pacific Rubiales earns a marketing fee of two percent (2%) of the total sales of any colloidal pet coke in water (CPW) cargo produced and sold by Pacific Rubiales. As of October 2012, the Company assigned its 5% equity interest and part of its investment rights under the IOA to Pacific Rubiales for US\$5 million.
- The Company has entered into a 10 year coal screening contract with Oceans (as of December 2011) for services that cannot be provided by the operator at either the Caypa or Cerro Largo mine. Oceans is controlled by Blue Pacific.

Promoters

There have been no promoters as defined in the relevant Canadian securities legislation of the Company during the two years immediately preceding the date of this AIF other than Blue Pacific, which was a promoter of Pacific Coal S.A. and consequently, the Company. The registered address of Blue Pacific is in Tortola, British Virgin Islands, and as at the date of this AIF, Blue Pacific owns 11,213,857 (24.37%) of the outstanding Common Shares.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

From time to time, the Company is the subject of litigation arising out of the Company's operations. Damages claimed under such litigation may be material or may be indeterminate and the outcome of such litigation may materially impact the Company's financial condition or results of operations. While the Company assesses the merits of each lawsuit and defends itself accordingly, the Company may be required to incur significant expenses or devote significant resources to defend itself against such litigation. These claims (if any) are not currently expected to have a material impact on the Company's financial position.

As of the date of this AIF and to the knowledge of the directors and officers of the Company, there are no legal proceedings to which the Company is, or has been a party or of which any of its property is, or has been, the subject matter of, other than the following:

- There are four pending actions initiated by DIAN (the Colombian national tax authority) against the Company relating to transfer pricing matters in 2008 and 2007. In the event of adverse rulings in all four actions, the claim would be approximately US\$1.2 million.
- The Municipality of Barrancas had previously attempted to enforce a US\$20,000,000 sanction arising from its claim that CCC should have submitted a nil local tax return (Impuesto de Industria y Comercio). CCC is exempted from this tax by national tax laws. The Municipality of Barrancas has recalled several of its own administrative measures that aimed to enforce the proposed sanction, but the judicial process of annulling the resolution that created the sanction is still underway.
- The Company has launched proceedings in respect of administrative resolutions that gave rise to a tax called "Estampilla Pro Universidad de la Guajira" which imposes a tax equivalent to 2% of all contract entered into and executed in the Department of La Guajira, except for mining contracts.
- Casa Inglesa is claiming title over 8.6 hectares of the land known as "La Piña", covering 15 ha, forming a portion of the Barranquilla Port. Casa Inglesa has bought a petition to Instituto Geografico Agustin Codazzi (the agency in charge of determining the boundaries and measurement of each property) requesting a cadastre ID for their possession. This petition was denied based on the fact that the only property register in the respective area was "La Piña" in favour of Masering. Masering has also filed a countersuit against Casa Inglesa requesting protection of Masering's possession right over the 8.6 hectares. On April 19, 2012, the Attorney General determined that a procedural fraud had been committed which affected the actions and proceedings of public employees involved in this case. This ruling cancelled all of the public deeds registered in favor of Casa Inglesa.
- Class action lawsuit launched by Rocío Peña Ramos against among others, CCC, aiming to close all of the mines that operate in the La Jagua de Ibirico Municipality, because the plaintiff claims that the Environmental Management Plans and Reforestation Plans approved by the Minister of Environment were not well-conceived and the defendants are not complying with the environmental obligation imposed by these authorities. This process is in the evidentiary phase.
- Environmental administrative claim filed in 2012 against Norcarbon by ANLA (the National Authority for Environmental Licenses) claiming breaches of its obligations that arise from the Prosierra Forrestral Compensation Agreement. The Company responded to the administrative claim on March 16, 2012 and no response has been received from ANLA to date.

- Norcarbon has filed a lawsuit against Servicio Geologico Colombiano (formerly Ingeominas) on March 23, 2012 claiming the amount of approximately US\$1.8 million in respect of the interpretation of the compensation fee clause and reimbursement of excess amounts paid. This action is in its initial stages- the judge has admitted the lawsuit and it is in the process of being served to the defendant.

To the reasonable knowledge of the management of the Company, there are no other proceedings contemplated where the Company will become a party or of which any of its property will be the subject matter.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The following sets out the material interests of: i) any director and executive officers; ii) any persons beneficially owning, control or directs more than 10% of Common Shares; and iii) associates or affiliates of i) and ii), in any transaction within the three most recently completed financial years and the current financial year that has materially affected or is reasonably expected to materially affect the Company:

- Alorete, which is 80% owned by Blue Pacific is entitled to a 5% agency fee on all sales of coal from the contracts that were in place prior to the RTO. This fee will not apply to sales made under the new sales purchase agreement with LCC or any sales contract entered into by the Company after the RTO or any sales contract inherited from the acquisition of Cerro Largo. The Company is currently in discussions with Alorete to suspend this contract.
- Masering, of which Oscar Ordonez is the co-founder and President, and Alorete, are jointly entitled to a royalty on production from La Tigra equal to US\$1.00 per tonne of coal produced and US\$0.15 per barrel equivalent of hydrocarbons produced.
- Masering was the operator of the Cerro Largo mine until April 2013, and as of December 2012, is the operator of the Caypa mine. On December 17, 2012, CCC and Masering entered into a 5-year mining operation contract for the Caypa mine, with the possibility of extension. The contract includes a requirement for the Company to contribute 50% of the revenue generated from coal sales from La Caypa to a trust, from which Masering will draw the value of its monthly invoices before the Company can access the remaining funds. However, this operating contract has more favourable economical terms for the Company.
- In November 2010, the Company acquired its La Tigra property, the Barranquilla Port and the mining operation contract for the Cerro Largo Norte mine under the Masering Transactions.
- In July 2012, the Company entered into a payment structure plan via MOU with Masering to settle the outstanding accounts payable balance of US\$14.8 million owed by the Company to Masering. Please see “Directors and Officers – Conflicts of Interest” for further details.
- A number of directors and an officer of the Company are also officers of Pacific Rubiales, a company which has certain arrangements with Pacific Coal. Please see “Directors and Officers – Conflicts of Interest” for further details.
- Alpha, with whom the Company has entered into an investment option agreement, is a private company controlled, directly or indirectly, by Serafino Iacono, Miguel de la Campa, José Francisco Arata and other investors, which has been funding and supporting NDT and BACF in the research and development of alternate fuels, including the colloidal technology since 2009. Please see “Directors and Officers – Conflicts of Interest” for further details.

- During the third quarter of 2011, the Company had entered into a real estate arrangement whereby it had made a US\$1.0 million payment to Grupo to secure an exclusivity period of 14 months. The Company had the right to unilaterally terminate such arrangement at any time with the deposit amount being reimbursed without penalty. In May 2012, the Company terminated the real estate arrangement and received a full reimbursement of the US\$1.0 million deposit.
- During the year ended December 31, 2011, the Company entered into a US\$4 million coal processing and handling services contract with Oceans. Oceans is controlled by Blue Pacific. The services provided under this contract replace more expensive crushing and coal handling components of the services not originally rendered by the contracted mine operators at Caypa and Cerro Largo. The terms of this coal screening contract were modified during the year ended December 31, 2012. Under the revised terms, the parties eliminated the take or pay clause and the Company is now billed monthly on a cost plus margin basis.

TRANSFER AGENT AND REGISTRAR

Equity Financial Trust Company at its Toronto office located at 200 University Ave., Suite 400, Toronto, Ontario, M5H 4H1 is transfer agent and registrar of the Common Shares.

MATERIAL CONTRACTS

The Company did not enter into any material contracts during the most recently completed financial year, and has not entered into any material contract before the most recently completed financial year that is still in effect, other than material contracts entered into in the ordinary course of business that are not required to be filed under National Instrument 51-102 – *Continuous Disclosure Obligations* and the contracts set forth below:

- the letter agreement dated December 7, 2010 between Pacific Coal S.A. and Vega in respect of the RTO;
- the Transaction Agreement dated effective as of January 31, 2011 between Vega and Pacific Coal S.A. setting out the terms and conditions of the RTO;
- the warrant indenture dated February 25, 2011 between Pacific Coal S.A. and Equity Financial Trust Company; and
- the filing statement dated as of February 28, 2011 filed in respect of the RTO.

Copies of all material contracts may be inspected at the Company's offices located at 333 Bay Street, Suite 1100, Toronto, Ontario, M5H 2R2, Canada, by appointment during normal business hours.

INTERESTS OF EXPERTS

The auditors of the Company are KPMG LLP, Chartered Accountants, Toronto, Ontario. KPMG LLP were first appointed auditors of the Company on March 9, 2011. KPMG LLP has advised the Company that they are independent in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

SRK prepared the Technical Reports. As of the date hereof, the authors of these reports each held less than one per cent of the outstanding securities of the Company, or of any Associate or Affiliate of the Company, when they prepared the Technical Reports and did not receive any or received less than a one per cent direct or indirect interest in any securities of each of Pacific Coal Pacific Coal S.A. and Vega, or

of any Associate or Affiliate of either of them, in connection with the preparation of the Technical Reports.

ADDITIONAL INFORMATION

Additional information about the Company, including, but not limited to, directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's stock option plan is contained in the management information circular of the Company dated as of April 23, 2013. Additional financial information is provided in the audited annual financial statements and management's discussion and analysis and the unaudited interim financial statements. This information and other pertinent information regarding the Company can be found on SEDAR at www.sedar.com.