

**COALCORP MINING INC.**

**ANNUAL INFORMATION FORM  
FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2008**

Dated: September 4, 2008

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## GLOSSARY OF TERMS

The following is a glossary of certain terms used in this AIF. Terms and abbreviations used in the financial statements of the Corporation and in the appendices to this AIF are defined separately and the terms and abbreviations defined below are not used therein, except where otherwise indicated. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

### Defined Terms

**“2006 Acquisitions”** means, collectively, the Americoal Acquisition, Neo Coal Acquisition, Coalcorp BVI Acquisition and Andean Acquisition;

**“AIF”** means this Annual Information Form dated September 4, 2008 in respect of the financial year ended June 30, 2008;

**“Americoal”** means Americoal Corporation Ltd.;

**“Americoal Acquisition”** means the acquisition of all of the issued and outstanding shares of Americoal pursuant to the Blue Pacific Agreement;

**“Andean”** means Andean Coal Corporation;

**“Andean Acquisition”** means the acquisition of all of the issued and outstanding shares of Andean pursuant to the Next Com Agreement;

**“Blue Pacific”** means Blue Pacific Assets Corp.;

**“Blue Pacific Agreement”** means the letter agreement dated September 27, 2005 (as amended November 23, 2005), between the Corporation and Blue Pacific governing the Americoal Acquisition, the NeoCoal Acquisition and the Coalcorp BVI Acquisition;

**“Board of Directors”** means the board of directors of the Corporation;

**“Caypa Mine”** means the Caypa open pit thermal coal mine located in northern Colombia;

**“Cerrejón”** means Carbones Colombianos del Cerrejón, S.A.;

**“César”** means Compañía Carbones del César, S.A., the operator of the La Francia Property;

**“Coalcorp BVI”** means Coal Corp Ltd., formerly Panamerican Ports Corp Ltd.;

**“Coalcorp BVI Acquisition”** means the acquisition of all of the issued and outstanding shares of Coalcorp BVI pursuant to the Blue Pacific Agreement;

**“Coal Corp Colombia”** means the Colombian branch office of Coalcorp BVI;

**“Common Shares”** means the common shares in the capital of the Corporation;

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

“**FOB**” means “free on board”, as understood and used in common industry practice;

“**FOT**” means “free on truck”, as understood and used in common industry practice;

“**La Francia I**” means the La Francia I coal mine (including Blocks A, B and C as described in the La Francia Technical Report) located in the César region of Colombia;

“**La Francia II**” means the La Francia II concession (including Block D as described in the La Francia Technical Report) located in the César region of Colombia;

“**La Francia Property**” means, collectively, La Francia I and La Francia II;

“**La Francia Technical Report**” the technical report dated May 2008 in respect of the La Francia Property prepared by Paul Bright, BSc, MIMMM, CEng; Keith Philpott, MSc, CGeol, EurGeol; Jon Woolliscroft, BEng, CEng; Stephen Rhodes, CGeol, Alan McCracken, CEng, BSc. and Richard Oldcorn, MSc, CGeol of SRK Consulting for the Corporation entitled “Technical Report La Francia I and II Blocks A, B, C and D”;

“**NeoCoal**” means NeoCoal Corporation AVV;

“**NeoCoal Acquisition**” means the acquisition of a 100% interest in NeoCoal pursuant to the Blue Pacific Agreement;

“**Next Com**” means Next Com Limited;

“**Next Com Agreement**” means the letter agreement dated September 29, 2005 between the Corporation and Next Com governing the Andean Acquisition;

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

“**person**” includes an individual, body corporate, partnership, syndicate or other form of unincorporated entity;

“**SRK Consulting**” means SRK Consulting (UK) Ltd.;

“**TSX**” means the Toronto Stock Exchange; and

“**TSX Venture Exchange**” means the TSX Venture Exchange Inc.

### **CIM Standard Definitions**

The estimated mineral reserves and mineral resources for La Francia I and La Francia II have been calculated in accordance with the “CIM Standards on Mineral Resources and Reserves – Definitions and Guidelines” prepared by the CIM Standing Committee on Reserve Definitions and approved by the CIM Council of the Canadian Institute of Mining, Metallurgy and Petroleum in December 2005 (the “**CIM Standards**”). The following definitions are reproduced from the CIM Standards:

“mineral resource” means a concentration or occurrence of diamonds, natural solid inorganic material, or natural fossilized organic material including base or precious metals, coal and industrial minerals in or on the Earth’s crust in such form

and quantity and of such grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories;

- “inferred mineral resource” means that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes;
- “indicated mineral resource” means that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed;
- “measured mineral resource” means that part of a mineral resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity;
- “mineral reserve” means the economically mineable part of a measured or indicated mineral resource demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined;
- “probable mineral reserve” means the economically mineable part of an indicated mineral resource and, in some circumstances, a measured mineral resource demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified; and
- “proven mineral reserve” means the economically mineable part of a measured mineral resource demonstrated by at least a Preliminary Feasibility Study. This study must

include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

### FORWARD-LOOKING STATEMENTS

Certain statements in this AIF may constitute “forward-looking” statements regarding, among other things, the Corporation’s beliefs, plans, objectives, strategies, estimates, intentions or expectations, including as they relate to its operating and financial results, capital expenditures and the ability to execute on its operating, investing and financing strategies. These forward-looking statements are based on certain assumptions by management, certain of which are set out herein. Inherent in these forward-looking statements are known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this AIF, such statements use words such as “may”, “will”, “expect”, “believe”, “plan”, “intend”, “anticipate”, “estimate” and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this AIF. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking statements contained in this AIF are based upon what management of the Corporation believes are reasonable assumptions, the Corporation cannot assure readers that actual results will be consistent with these forward-looking statements. Investors and others should carefully consider risk factors and not place undue reliance on these forward-looking statements. These forward-looking statements are made as of the date of this AIF. The Corporation anticipates that subsequent events and circumstances may cause the Corporation’s views to change and the Corporation assumes no obligation to update or revise any forward looking statements to reflect new events or circumstances, except as required by law.

Forward-looking statements included in this AIF include, but are not limited to, statements with respect to:

- the Corporation’s integrated coal strategy and the benefits to be derived therefrom;
- the Corporation’s expectation of achieving total coal production of 6.0 million tonnes per year (“**mtpa**”) by the end of 2010;
- the timing and cost of initiating production at Block C of La Francia I and ultimately La Francia II;
- the expected date of completion of the Ferrocarriles del Norte de Colombia rail system (the “**Fenoco Rail Line**”) and the expected costs associated with the acquisition of rolling stock and the completion of the rail connection between the La Francia Property and the Fenoco Rail Line (the “**Fenoco Rail Spur**”);
- the Corporation’s expectations with respect to port capacity;
- the Corporation’s expectations with respect to capacity of rail access to ports near Santa Marta;
- projected stripping ratios;
- the anticipated cash requirement for additional facilities to maintain mining equipment, store fuel and house workers;
- the timing and cost of capital expenditures;
- the development of the Corporation’s exploration properties and infrastructure;
- the impact of production quantity, quality and cost, sales quantity and prices on cash flow;

- the quantity and mineability of coal reserves;
- treatment under governmental regulatory regimes, particularly in Colombia;
- the consummation of transactions to dispose of non-core assets and any expected cost savings as a result therefrom; and
- realization of the anticipated benefits of acquisitions and dispositions.

Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this AIF include, but are not limited to:

- possible political or economic instability in Colombia;
- potential disputes relating to title to, or the extent of, the Corporation's mining concessions;
- the inability or failure to obtain necessary government or other third-party consents or approvals where required, including those necessary to implement certain aspects of the Corporation's integrated coal strategy;
- the inability to obtain further financing, if and when required, on terms acceptable to the Corporation;
- fluctuations in the price of coal;
- governmental regulation of the mining industry in Colombia, including environmental regulation;
- the inability to obtain necessary equipment, if and when required, in order to support project expansion on terms acceptable to the Corporation;
- limited access to transportation infrastructure and disruptions in or increased costs of transportation or port services;
- reserve estimates and replacement of reserves;
- liabilities inherent in mining operations;
- fluctuation in foreign exchange or interest rates;
- competition for, among other things, capital, additional properties and skilled personnel; and
- the other factors considered under "Risk Factors".

## GENERAL MATTERS

References in this AIF to "\$" are to Canadian dollars and references to "US\$" are to United States dollars.

The industry and other statistical data presented in this AIF, except where otherwise noted, have been compiled from sources and participants which, although not independently verified by the Corporation, are considered by the Corporation to be reliable sources of information. References in this AIF to research reports or articles should not be construed as depicting the complete findings of the entire referenced report or article and such report or article is expressly not incorporated by reference into this AIF.

**Effective June 14, 2007, the Corporation completed a consolidation of its issued and outstanding Common Shares on a 1 for 7 basis. All references herein to numbers of Common Shares and securities exchangeable for, or convertible into, Common Shares (including, without limitation, the CCJ.WT Warrants and CCJ.WT.A Warrants (each as hereinafter defined)) and the sale, market or exercise price thereof (as applicable), unless otherwise indicated, have been adjusted to reflect the consolidation (with all fractions rounded to the nearest whole number).**

Unless otherwise specified, the information contained in this AIF is presented as at June 30, 2008.

## EXCHANGE RATE INFORMATION

The following table sets out: (i) the rate of exchange for one Canadian dollar in United States dollars in effect at the end of each of the following periods; (ii) the high and low rate of exchange during those periods; and (iii) the average rate of exchange for those periods, each based on the noon spot rate as published by the Bank of Canada. On September 3, 2008, the closing rate for one Canadian dollar in United States dollars as published by the Bank of Canada was \$1.00 = US\$0.9425.

	High	Low	Average	End of Period
Six-Month Period Ended June 30,				
2008	1.0289	0.9686	0.9929	0.9817
2007	0.9388	0.8504	0.8504	0.9404
2006	0.9013	0.8640	0.8784	0.8969
Calendar Year ended December 31,				
2007	1.0905	0.8437	0.9304	1.0120
2006	0.8613	0.7965	0.8255	0.8581
2005	0.8690	0.7872	0.8254	0.8577

## CORPORATE STRUCTURE

### **Name, Address and Incorporation**

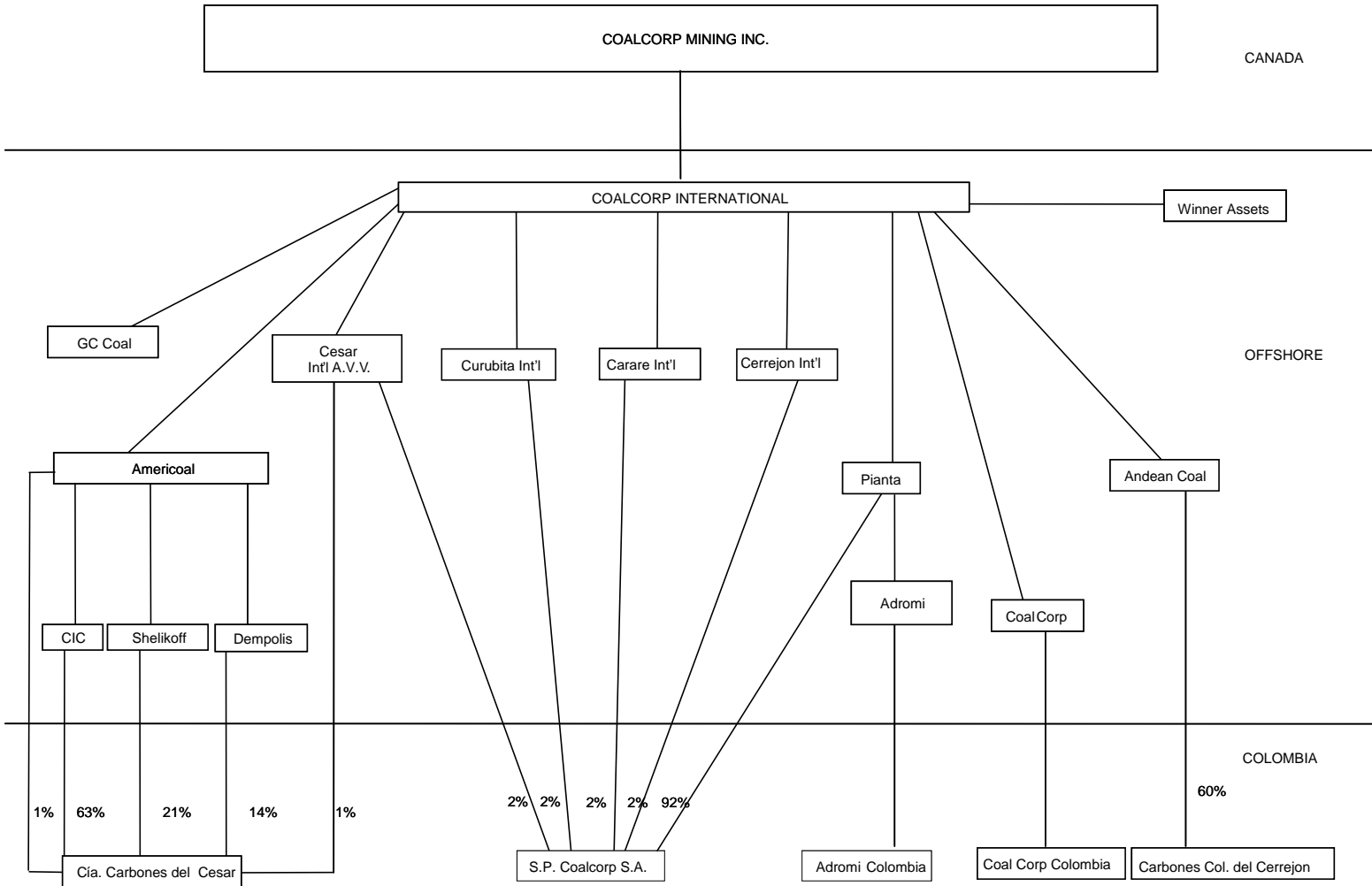
The Corporation was incorporated under the laws of the Province of British Columbia on June 1, 1995 as Madoc Mining Company Ltd. On January 28, 1999, the Corporation changed its name to Adobe Ventures Inc. and, subsequently, on October 27, 2005, to Coalcorp Mining Inc.

The Corporation's head office is located at Suite 1400, 220 Bay Street, Toronto, Ontario M5J 2W4 and its registered office is located at 650-1188 West Georgia Street, Vancouver, British Columbia V6E 4A2. The Corporation also has corporate offices in Colombia located at Bogotá and Barranquilla and a site office at La Francia I.

### **Intercorporate Relationships**

The following chart illustrates the relationship between the Corporation and its material subsidiaries, together with the jurisdiction of incorporation of each such subsidiary and the percentage of voting securities beneficially owned, or controlled or directed, directly or indirectly, by the Corporation. The intercorporate relationships are complicated by the fact that Colombian corporate law requires a corporation have at a minimum of five shareholders.

Except where otherwise indicated, each subsidiary is wholly-owned by its parent.



Legend

	COMPANY NAME	JURISDICTION
Carare Int'l	Carare International A.V.V.	Aruba
Cerrejon Int'l	Cerrejón International A.V.V.	Aruba
Cesar Int'l	Cesar International A.V.V.	Aruba
Coalcorp International	Coalcorp International A.V.V.	Aruba
Curubita Int'l	Curubita International A.V.V.	Aruba
Adromi	Adromi Capital Corp.	Panama
CIC	Carbones Internacionales del Cesar S.A.	Panama
Dempolis	Corporación Dempolis S.A.	Panama
Shelikof	Shelikof Group Inc.	Panama
Americoal	Americoal Corporation Ltd.	British Virgin Islands
Andean Coal	Andean Coal Corporation	British Virgin Islands
Coal Corp	Coal Corp Ltd.	British Virgin Islands
Winner Assets	Winner Assets Corp	British Virgin Islands
Carbones Col. del Cerrejon	Carbones Colombianos del Cerrejón S.A.	Colombia
Coal Corp Colombia	Coal Corp Ltd. (Colombian branch office)	Colombia
Adromi Colombia	Adromi Capital Corp. (Colombian branch office)	Colombia
Cia. Carbones del Cesar	Compañía Carbones del Cesar S.A.	Colombia
GC Coal	GC Coal Limited	Ireland

## **BUSINESS OF THE CORPORATION**

Effective June 4, 2001, the Corporation was designated as inactive by the TSX Venture Exchange as it was deficient in terms of meeting TSX Venture Exchange tier maintenance requirements. The Corporation was “reactivated” in late 2002, with the stated objective of remaining in the mineral exploration business. Shortly after completing the 2006 Acquisitions (as hereinafter described in greater detail), the Corporation graduated from the TSX Venture Exchange to the TSX.

The business of the Corporation (including a description of significant events affecting development of the business of the Corporation and a description of the principal assets of the Corporation) is described below.

### **Integrated Coal Strategy**

The Corporation is currently engaged in the business of operating coal mines and the development of other coal mining related assets located in Colombia, including various coal transport infrastructure projects. César, a wholly-owned subsidiary of the Corporation, is the operator of La Francia I. The Corporation also holds the right to La Francia II, which is contiguous with Block C of La Francia I, interests in other assets that it expects to use to develop operating ports and to increase access to rail infrastructure and interests in approximately 33,759 hectares of prospective exploration ground in the primary coal producing areas of Colombia.

The Corporation’s goal is to become a leading intermediate-sized, vertically-integrated coal company. In particular, the Corporation intends to expand its business to include the production, export and international trade of coal and to act as a consolidator of small coal operations in Colombia, all through direct ownership in coal production, transportation and related coal port export facilities. Collectively, the operation of producing coal mines and the ownership of transportation and coal port export facilities is referred to as the Corporation’s “integrated coal strategy”.

The Corporation’s objective in implementing the integrated coal strategy is to fill a void in the Colombian coal industry that is characterized by a few large coal producers and several small coal producers. The gross disparity in size between large and small coal producers in Colombia constrains small producers in that they have limited influence to secure access to Colombia’s limited transportation infrastructure, including rail and port facilities. This access to infrastructure is necessary for small producers to access international export markets for their coal production and to competitively sell superior quality Colombian coal in international markets.

The Corporation intends to develop excess capacity for the transportation and export of coal produced in Colombia, which it plans to utilize either by expanding its own production capabilities, organically or through acquisitions, or as a profit centre providing export services to third party coal producers.

The Corporation’s transportation strategy is focused on: (i) the development of rail infrastructure to increase coal transport capacity to northern ocean ports; (ii) the potential use of the Magdalena River to transport coal as an alternative to rail and truck transport, including the construction of a river port at Capulco; and (iii) the development of an ocean port for the international export of coal. Each aspect of the transportation strategy is described in greater detail below:

Rail Transport – On March 27, 2006, a consortium of Colombian coal producers, including César, acquired a 100% interest in Ferrocarriles del Norte de Colombia, S.A. (“**Fenoco**”), a Colombian company holding a 30-year concession contract (through to 2029) for the operation, maintenance and rehabilitation

of the Fenoco Rail Line, which is the northern railway in Colombia. César acquired an 8.43% interest in Fenoco at a cost of US\$7.5 million, ensuring railway capacity to the Corporation of up to 3.5 million tonnes of coal per year. The Corporation is also required to share in the costs for the upgrading and expansion of the Fenoco Rail Line (the Corporation's share being approximately US\$19 million, including a US\$14 million access fee).

The Corporation has also expended considerable resources on the construction of the Fenoco Rail Spur to connect the La Francia Property to the Fenoco Rail Line. Construction of the Fenoco Rail Spur has commenced and is expected to be completed by the end of October 2008 and operative in November 2008. Once completed, the Corporation expects to have capacity of up to 3.5 million tonnes of annual rail access to transport its coal to the northern ocean ports near Santa Marta. In April 2008, the Corporation made a formal request to Fenoco to increase its annual capacity to 6.0 million tonnes by 2010, confirmation of which is still pending.

For further details concerning Fenoco, the Fenoco Rail Line and the Fenoco Rail Spur, see "Business of the Corporation – Fenoco Interest and Rail Spur Connection".

River Transport – In addition to truck and rail transport, the Corporation is developing a river transport strategy. This strategy involves development of a downstream port on the Magdalena River at Capulco and the use of commercial barge services or, if economic, a fleet of Corporation-owned barges, to transport materials north to ocean ports at Barranquilla.

The capital cost of the downstream port is currently estimated at US\$30.0 million. Although it is not possible to accurately determine operating costs for the downstream port plus barge transport to Barranquilla, it is believed that this approach has the potential to reduce transport costs by approximately 50% as compared to current trucking costs.

The proposed river port has received all necessary port concession permits (including a 30-year concession to operate a river port) and the Corporation is currently in the process of modifying its previously granted environmental permit in order to meet the requirements related to an enlargement of the river port concession area. The Corporation had requested, and received approval for, an enlargement of the current concession area (specifically an extension of 250 meters up and 470 meters down the current concession area).

Ocean Port – The Corporation intends to develop an ocean port at Barranquilla. The Corporation has elected to partner with an existing concession holder to jointly develop a multi-purpose port to take advantage of the Magdalena River to provide export capacity in cape-size ships for all coal producers and ultimately other cargoes for import and export. The planned expanded port operations are subject to local regulatory approval, the granting of a national environmental license and the granting of a local construction permit.

In addition, the Corporation holds a 14.17% interest in the Propuerto consortium which is planning to build a 20 million tonne annual capacity port facility at Santa Marta. This port development is still at the planning stage.

In April 2008, the Colombian government made an offer to all coal producers in Colombia to build a new port at Ciénaga – Santa Marta, referred to as "Puerto Nuevo", to ship coal from 2010 to 2036. The port project requires a total investment of approximately US\$320 million and is expected to have a loading capacity of 30 million tonnes per year. The Corporation has agreed to participate in the project on a basis that would allow it to access a guaranteed loading volume of 7.0 million tonnes per year, with a take or pay commitment of 4.9 million tonnes per year. Puerto Nuevo is still at the planning stage.

The primary focus of the Corporation's integrated coal strategy is to secure the infrastructure necessary to export its coal production to international markets. A secondary benefit of the strategy will be the ability to reduce the Corporation's transportation costs to port, as well as the possibility of serving as a profit centre providing transportation and export services to third party coal producers.

The implementation of certain of these strategies and the construction of the Barranquilla port, the Magdalena River port, the Propuerto port and Puerto Nuevo are subject to the completion of detailed feasibility and other studies, which are ongoing, and in the case of the Propuerto port and Puerto Nuevo, to the financial commitment of other third party investors and the final approval of the project by the Colombian government. The estimated capital costs provided above are management estimates and there can be no assurance that all or any of these strategies will be successfully implemented by the Corporation, as they are dependent on the results of studies and other factors beyond the control of the Corporation.

### **Initial Acquisition of Coal Assets in Colombia**

On September 27, 2005, the Corporation entered into the Blue Pacific Agreement pursuant to which the Corporation agreed to acquire certain interests in each of Americoal, NeoCoal and Coalcorp BVI. At the time that the Blue Pacific Agreement was entered into, each of Americoal, NeoCoal and Coalcorp BVI held the right to acquire certain coal properties or coal-related assets located in Colombia (including La Francia I).

On September 29, 2005, the Corporation entered into the Next Com Agreement, pursuant to which the Corporation agreed to acquire all of the issued and outstanding shares of Andean. At the time that the Next Com Agreement was entered into, Andean held the right to acquire all of the issued and outstanding shares of Cerrejón, the operator of the Caypa Mine.

Each of the Americoal Acquisition, the NeoCoal Acquisition, the Coalcorp BVI Acquisition and the Andean Acquisition was completed on February 8, 2006, and each transaction is described in greater detail below.

#### Americoal Acquisition – La Francia I

Pursuant to the Blue Pacific Agreement, the Corporation acquired all of the issued and outstanding shares of Americoal. Upon completion of the Americoal Acquisition, Americoal held all of the issued and outstanding shares of César, the operator of the La Francia I mine. The Americoal Acquisition was subject to the completion of a technical report in respect of La Francia I prepared in accordance with NI 43-101 confirming at least 16.6 million tonnes of coal falling within the proven and probable reserve or inferred resource categories.

In consideration for the acquisition of Americoal, the Corporation issued 1,714,286 Common Shares to Blue Pacific and paid cash consideration of US\$1.25 million. The Corporation also assumed all of Americoal's purchase obligations relating to César, including the payment of US\$45.0 million (less accrued liabilities of approximately US\$9.0 million) to the beneficial shareholders of César. Blue Pacific was also granted a royalty interest of US\$1.00 per tonne on all of La Francia I's future production.

On February 17, 2006 the Corporation received environmental approval for large scale mining at La Francia I that permitted the Corporation to increase production over 800,000 mtpa.

As part of Americoal Acquisition, the Corporation also assumed a contract for the sale of coal to a Chilean company for a total of 600,000 tonnes at US\$31.50 per tonne. Since the completion of the Americoal Acquisition, the Corporation has engaged in negotiations with the third party customer to amend the terms of the contract on terms more favourable to the Corporation. As of the date of this AIF, no final agreement has been reached in this regard.

La Francia I is described in greater detail below under the heading “Description of La Francia Property” and in the La Francia Technical Report. The La Francia Technical Report is incorporated by reference in this AIF and is available for review in its entirety under the Corporation’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

Pursuant to the Americoal Acquisition, the Corporation also acquired a 14.17% interest in the Propuerto consortium which is planning to build a 20 million tonne annual capacity port facility at Santa Marta. This port development is still in the planning stage.

#### NeoCoal Acquisition – La Curubita I Concession

Pursuant to the Blue Pacific Agreement, the Corporation acquired a joint venture interest in NeoCoal, a corporation existing under the laws of Aruba. At the time of the acquisition, NeoCoal had an agreement with Guillermo Arboleda (“**Arboleda**”), an unrelated third party, who had applied to the relevant Colombian governmental authority to acquire a 2,500 hectare coal exploration concession known as La Curubita I (the “**La Curubita I Concession**”). Pursuant to this agreement, NeoCoal ultimately acquired a 90% participating interest in the La Curubita I Concession.

In consideration for the acquisition of NeoCoal, the Corporation issued to Blue Pacific 571,429 Common Shares and the Corporation paid US\$0.5 million to Arboleda. Blue Pacific was also granted a royalty interest of US\$1.00 per tonne on all production in respect of the La Curubita I Concession.

Following an assessment of the resource potential for the La Curubita I Concession at the beginning of 2007, the carrying value of the mineral property was written off and the La Curubita I Concession has reverted to Arboleda.

#### Coalcorp BVI Acquisition – Cartagena Coal Port Assets

Pursuant to the Blue Pacific Agreement, the Corporation acquired all of the issued and outstanding shares in Coalcorp BVI. Upon completion of the acquisition, Coalcorp BVI held: (i) 57 hectares of land on the coast of the Caribbean Sea near the industrial zone of Cartagena, Colombia (the “**Cartagena Port Land**”), which land the Corporation intended to use as a coal port; and (ii) all of the issued and outstanding shares of Carbones del Carare, S.A. (“**Carare**”), the holder of a lapsed permit for the operation of a coal port (which the Corporation intended to utilise to obtain a new port permit) (Carare and the Cartagena Port Land being referred to, collectively, as the “**Cartagena Port**”).

In consideration for the acquisition of the Cartagena Port, the Corporation issued to Blue Pacific 1,714,286 Common Shares, paid a finder’s fee of US\$0.25 million to an unrelated third party, and committed to pay Blue Pacific a royalty of US\$0.30 per tonne shipped through the Cartagena Port. The Corporation also assumed all of Coalcorp BVI’s purchase obligations relating to the Cartagena Port, consisting of the payment of US\$14.2 million, US\$13.9 million paid for the value of the lapsed permit held by Carare to operate a coal port, US\$0.1 million for all of the issued and outstanding shares of Carare (less any accrued liabilities of Carare) and US\$0.2 million of acquisition costs.

Following the completion of the Coalcorp BVI Acquisition, the Corporation pursued the development of the Cartagena Port. In March, 2006, the National Institute for Concessions in Colombia granted a temporary authorization for the Corporation's proposed Cartagena Port, which allowed the Corporation to begin basic site clearance and preparation to proceed with construction while awaiting the issuance of the final permit authorizing construction of the port facilities, and in December 2006, the National Institute of Concessions approved a new 30-year concession for the proposed Cartagena Port. In June 2007, the Corporation expanded the area of the Cartagena Port Land through the acquisition of two parcels of adjacent land totaling approximately 99 hectares, in consideration for the payment of a total of US\$ 7.0 million. The Corporation spent a total of approximately US\$2.7 million on expenditures related to port development activities.

In October 2007, Colombian President Alvaro Uribe announced that the Colombian government would not allow the development of the Corporation's proposed Cartagena Port, citing concerns about the effect the port would have on developing tourism in the area. This announcement came despite confirmation from the Council of Cartagena that the lands where the port is located included harbor and industrial uses in addition to tourism. President Uribe also stated that the Colombian government would work with the Corporation to find an acceptable alternative location for the Corporation's proposed ocean port. The Corporation has since worked with the Colombia government to identify an alternative site for an ocean port for the export of coal. See "Business of the Corporation – Alternative Site for Ocean Port".

As a result of the inability of the Corporation to develop the Cartagena Port for the export of coal, the Corporation determined pursuant to the Strategic Review Process (as hereinafter defined) that it would be in the interests of the Corporation to attempt to dispose of the assets comprising the Cartagena Port. The Strategic Review Process is described in greater detail under the heading "Business of the Corporation – Results and Recommendations of the Strategic Review Process".

On June 27, 2008, the Corporation entered into an agreement of purchase and sale (the "**Cartagena Port Sale Agreement**") with Lando Industrial Park Inc., a Panamanian joint venture led by a group of Italian private equity investors, and Promotora de Energía Eléctrica de Cartagena & Cia, S.C.A. E.S.P. ("**Proelectrica**"), to sell the Cartagena Port. Consideration payable to the Corporation by the purchasers consisted of US\$20.0 million, payable in cash, of which US\$5.0 million was paid at the closing of the transaction. Subsequent payments of US\$10.0 million and US\$5.0 million are to be made with 120 days and 485 days of closing, respectively.

Proelectrica is a Cartagena, Colombia-based electrical utility that is 21.7% owned indirectly by Pacific Rubiales Energy Corp. A number of directors of Pacific Rubiales Energy Corp., which is a TSX-listed oil and gas production company, are also directors of the Corporation (namely, Serafino Iacono, Miguel de la Campa, Jose Francisco Arata, Neil Woodyer, Augusto Lopez and Miguel Rodriguez). All common directors abstained from voting on, and approving, the sale of the Cartagena Port. The Board of Directors received independent valuations of the port lands that were sold that valued the lands at between US\$8.8 million and US\$10.6 million. Carare had incurred approximately US\$1.8 million to obtain the existing port license.

#### Andean Acquisition – Caypa Mine

Pursuant to the Next Com Agreement, the Corporation acquired all of the issued and outstanding shares of Cerrejón, the operator of the Caypa Mine. The Caypa Mine had been in continuous production since 1993 and, at the time of the Andean Acquisition, it had proven reserves of 8.8 million tonnes and inferred resources of 2.5 million tonnes.

Prior to the Andean Acquisition, Cerrejón was a wholly-owned subsidiary of Enel SpA (“**Enel**”), Italy’s largest electricity utility company. In consideration for the acquisition of Andean, the Corporation paid US\$1.0 million to Next Com. The Corporation also assumed all of Andean’s purchase obligations relating to the acquisition of Cerrejón, consisting of the payment of US\$32.6 million. After May 31, 2006, the Corporation, on behalf of Andean, also made a working capital adjustment payment to Enel equal to US\$3.5 million. The amount of this payment is currently the subject of arbitration proceedings between the Corporation and Enel.

Following the completion of the Andean Acquisition, the Corporation concluded that it was unlikely that the Caypa Mine would be cash flow positive in the near or medium term and that it represented an undesirable drain on the Corporation’s cash reserves. The Corporation determined pursuant to the Strategic Review Process that it would be in the interests of the Corporation to attempt to dispose of the Caypa Mine. The Strategic Review Process is described in greater detail under the heading “Business of the Corporation – Results and Recommendations of the Strategic Review Process”.

On June 27, 2008, the Corporation, through its subsidiaries which collectively held all of the issued and outstanding shares of Cerrejón, entered into an agreement of purchase and sale (the “**Caypa Sale Agreement**”) with Xira Investment Inc. (“**Xira**”), an arm’s length private company incorporated under the laws of Panama, to: (i) sell 40% of the issued and outstanding shares of Cerrejón for consideration of US\$20.0 million (the “**Initial Consideration**”) plus a US\$1.00 per tonne sales commission on all future sales of coal from the Caypa Mine, and (ii) provide the Corporation with an option (the “**Sales Option**”), exercisable until December 31, 2010, to sell to Xira the remaining 60% interest in Cerrejón for additional consideration of US\$5.0 million. The Initial Consideration is payable in tranches. US\$1.0 million was paid on closing on July 2, 2008, and subsequent payments of US\$7.0 million, US\$6.0 million and US\$6.0 million are to be made 13, 22 and 25 months, respectively, thereafter. The Cerrejón shares sold under this Caypa Sale Agreement are being held in escrow and are subject to a pledge held by the Corporation until the Initial Consideration is paid in full.

### **Fenoco Interest and Rail Spur Connection**

On March 27, 2006, a consortium of Colombian coal producers, including César, acquired a 100% interest in Fenoco, a Colombian company holding a 30-year concession contract (through to 2029) for the operation, maintenance and rehabilitation of the Fenoco Rail Line. César acquired an 8.43% interest in Fenoco at a cost of US\$7.5 million, ensuring railway capacity to the Corporation of up to 3.5 million tonnes of coal per year. The tariff for the transport of coal was set at US\$2.14/tonne, a reduction of approximately 70% from the current cost of transport. All consortium members, including César, have signed “take or pay agreements” with respect to 70% of their guaranteed capacity.

The consortium participating in Fenoco will be responsible for upgrading the stretch of the railway that transports the coal exports from the César Department of Colombia, at a cost of approximately US\$230 million. Investments in the Fenoco Rail Line include the construction of a second rail line, a new communications system and the rehabilitation and maintenance of the existing rail line.

The Corporation’s share of costs for the upgrading and expansion of the Fenoco Rail Line is estimated to be approximately US\$19 million (including a US\$14 million access fee). In this regard, US\$3.5 million was spent in fiscal 2007 and US\$2.7 million in fiscal 2008. It is anticipated that US\$7.8 million will be spent in fiscal 2009 and the balance thereafter. It is anticipated that the upgraded Fenoco Rail Line will be capable of transporting up to 63.0 million tonnes of coal per year, or approximately double its current capacity.

In February 2008, the Corporation received approval of its application for an environmental license for the Fenoco Rail Spur to connect the La Francia Property with the Fenoco Rail Line. Construction of the Fenoco Rail Spur has commenced and is expected to be completed by the end of October 2008 and operative in November 2008. Once completed, the Corporation expects to have capacity of up to 3.5 million tonnes of annual rail access to transport its coal to the northern ocean ports near Santa Marta. The Corporation expects to spend approximately US\$52.5 million to connect the La Francia Property to the Fenoco Rail Line, including costs associated with the initial purchase of rolling stock (including four diesel locomotives and 143 bottom discharged coal freight cars) and loading systems. As of June 30, 2008, the Corporation had spent US\$37.3 million of the estimated total project costs. The balance of US\$15.2 million will be spent in fiscal 2009 to complete the Fenoco Rail Spur and the construction of the loading systems, stockyard and rail loop at the mine.

The Corporation has also commenced the process of requesting from Fenoco additional capacity of 2.5 million tonnes for 2010, for a total of 6.0 million tonnes of annual rail access. If successful, this is expected to provide the Corporation not only with additional capacity to transport its anticipated increased production (which is expected to reach 6.0 mtpa by the end of 2010), but also allow the Corporation to transport its coal at a significantly reduced cost to that currently experienced. Coal is currently trucked to port by the Corporation. The Corporation intends to acquire additional rolling stock in fiscal 2009 in advance of this capacity increase due to the long lead times required by the manufacturers for ordering and delivery of the rail equipment. The Corporation currently expects to spend an estimated US\$32 million to acquire an additional fleet similar to its initial purchase (four diesel locomotives and 143 bottom discharged coal freight cars), a portion of which will be financed from proceeds of the June 2008 Offering and the balance either from vendor-backed or similar arrangements or operating cash flow.

## **La Francia II Acquisition**

Pursuant to an option to purchase agreement dated April 7, 2006, as amended August 16, 2006 and further amended November 15, 2006 (the “**Option Agreement**”) between Intercontinental Resources Inc. (“**Intercontinental**”) and Pianta Ltd. (“**Pianta**”), a wholly-owned subsidiary of the Corporation, Pianta acquired an option to purchase all of the issued and outstanding shares of Adromi Capital Corp. (“**Adromi**”), the holder of title to La Francia II, for consideration equal to: (i) US\$2.75/tonne of measured resources and US\$2.00/tonne of suitable resources, less US\$1.0 million previously paid by Pianta as consideration for the option (the “**Acquisition Payment**”); and (ii) a royalty of US\$1.00/tonne, payable quarterly, on all future production from La Francia II.

In connection with the calculation of the Acquisition Payment under the Option Agreement, Intercontinental commissioned Marston & Marston Inc. (“**Marston**”) and Pianta commissioned SRK Consulting to establish the size of each resource category. Based on the reports prepared by Marston and SRK Consulting, the amount of the Acquisition Payment was determined to be US\$124.5 million.

The Corporation subsequently elected to exercise the option to acquire all of the issued and outstanding shares of Adromi. The transaction closed on March 22, 2007, upon payment by the Corporation of the Acquisition Payment.

La Francia II is described in greater detail below under the heading “Description of La Francia Property” and in the La Francia Technical Report. The La Francia Technical Report is incorporated by reference in this AIF and is available for review in its entirety under the Corporation’s SEDAR profile at [www.sedar.com](http://www.sedar.com).

## **The BHP Agreement**

On April 11, 2007 the Corporation completed an agreement with BHP Billiton covering the majority of its coal exploration portfolio in Colombia. Under the terms of the agreement, BHP Billiton was granted the option to earn a 50% interest in any particular deposit discovered by sole funding 100% of exploration expenditures, subject to an annual minimum of US\$2.5 million until the completion of a pre-feasibility study. The agreement entitled BHP Billiton to earn a further 10% in the deposit by funding all expenditures through the completion of a feasibility study and assisting the Corporation in arranging for financing its share of development costs.

In April 2008, BHP Billiton advised the Corporation of its intention to terminate the option agreement. The Corporation is currently in discussions with BHP Billiton in respect of matters arising out of the termination of the agreement.

## **Alternative Site for Ocean Port**

In connection with the announcement by Colombian President Alvaro Uribe that the Colombian government would not allow the development of the Corporation's proposed Cartagena Port, President Uribe stated that the Colombian government would work with the Corporation to find an acceptable alternative location for the Corporation's proposed ocean port.

By late October 2007, the Corporation and the Colombian government had identified three alternatives with respect to the location for the proposed port to be built by the Corporation on the Caribbean coast of Colombia. A site in the area of Barranquilla, at the mouth of the Magdalena River, was considered by the Corporation to be the optimum site. At the same time, the Colombian government offered to the Corporation certain incentives in connection with the development of its proposed ocean port, including a potential of free zone status that would bring reductions in income taxes from 33% to 15% annually and also total exoneration of import duties and value-added tax on all equipment needed for the construction of the port that will come into Colombia.

The Corporation had previously obtained a 30-year river port concession and approval for related infrastructure for the construction of a river port at Capulco on the Magdalena River. The construction of a river port at Capulco forms part of the Corporation's coal transportation strategy. If implemented, coal could be transferred to barges and transported down the Magdalena River to northern sea ports on the Caribbean Sea, including at Barranquilla.

In January 2008, the Corporation completed its review of available port concessions in Barranquilla and elected to partner with an existing concession holder to jointly develop a multi-purpose port to take advantage of the Magdalena River to provide export capacity in cape-size ships for all coal producers and ultimately other cargoes for import and export. The planned expanded port operations are still subject to, among other things, local regulatory approval, the granting of a national environmental license and the granting of a local construction permit.

## **Acquisition Proposal**

On February 1, 2008, the Corporation announced that it had received a non-binding unsolicited proposal (the "**Proposal**") from a third party to acquire all of the Corporation's issued and outstanding Common Shares. Following receipt of the Proposal, the Board of Directors established a special committee of independent directors to evaluate the Proposal and make a recommendation to the board of directors. The special committee and its advisors had various discussions with the interested third party with a view to

entering into a customary standstill and confidentiality agreement on terms acceptable to the Corporation. The parties could not reach an agreement as to arrangements for due diligence and exclusivity. As a result, the Proposal expired on February 4, 2008 in accordance with its terms and the Corporation announced this fact on the same date.

### **Masering Agreement**

On April 22, 2008, the Corporation completed negotiations with Masering S.A. (“**Masering**”), as lead operator, to partner with the existing mine contractor to support the expansion of production at La Francia I. Under the resulting agreement (the “**Masering Agreement**”), Masering and its consortium partners (the “**Masering Consortium**”) will increase the equipment fleet at the mine site through to November 2008 with the addition of 29 Caterpillar 777F haul trucks, four excavators (17 cubic metres), two Caterpillar 16M graders and two drill machines. In accordance with the agreement, the Corporation will make a US\$7.7 million advance payment to Masering on account of their downpayment for the equipment, which will be recovered by the Corporation through future mine operating cost rate reductions. A further agreement regarding mining operations and continued use of this equipment must be negotiated prior to the end of December 2008, failing which the Corporation may be required, at the election of the Masering Consortium, to purchase the equipment or pay for its relocation. .

### **Strategic Review Process**

On February 7, 2008, the Board of Directors unanimously approved the initiation of a strategic review process in respect of the business of the Corporation (the “**Strategic Review Process**”). The Strategic Review Process included a review of various strategic alternatives with the objective of maximizing shareholder value, including strategic alliances, financing opportunities, mergers, acquisitions, a sale of all or part of the business and other alternatives potentially in the best interest of the Corporation’s shareholders. The Board of Directors retained GMP Securities L.P. and Endeavour Financial International Corporation as exclusive financial advisors in connection with the Strategic Review Process.

On May 14, 2008, the Corporation announced the results of the Strategic Review Process. Pursuant to the Strategic Review Process (which included detailed financial analysis), the Corporation determined that the inherent value of its assets was significantly in excess of any and all proposals it received in connection with the Strategic Review Process and, therefore, the Corporation developed a new strategic plan (the “**Strategic Plan**”) to unlock this value and as a means of enhancing value for its shareholders. The key features of the Strategic Plan are highlighted below:

- the completion of the June 2008 Offering;
- a focus on further developing the Corporation’s core assets, comprising Blocks A/B and C at La Francia I and Block D at La Francia II, as well as its infrastructure assets, comprising interests in the Fenoco Rail Line and the Fenoco Rail Spur and the proposed ocean port at Barranquilla and river port at Capulco;
- the execution of the Masering Agreement, which will introduce new equipment to the extraction process at Block A/B and which will be critical in bringing Block C into production;
- the acquisition of additional mining equipment to be used at La Francia I to assist in achieving total production of 6.0 mtpa;
- the retainer of SRK Consulting to assist the Corporation in operating and expanding production at La Francia I (specifically Block C at La Francia I);
- the disposition of non-core assets, including the Cartagena Port and the Caypa Mine; and

- implementing cost-cutting measures, focusing on general and administrative expenses (including a 25% salary reduction for senior management) and the re-purchase the Corporation's sales agency arrangement with GC Coal Limited ("GC Coal").

Following the announcement of the Strategic Plan on May 14, 2008, the Corporation determined to focus its attention on the development of Block C of La Francia I, as a means of increasing total coal production.

The proceeds of the June 2008 Offering are being primarily directed towards initiating production at Block C. The Corporation is currently undertaking studies that will culminate in a new technical report which will integrate all blocks of the La Francia Property and include a single strategic mining plan, technical economic model and updated resource and reserve statements.

Certain aspects of the Strategic Plan are discussed in greater detail below.

#### Focus on Core Assets

The Corporation is dependent on the development of Block C at La Francia I in order to bring current capacity of approximately 2.0 mtpa to a planned capacity of approximately 6.0 mtpa by the end of 2010. The La Francia Technical Report reported an estimated proven total coal reserve of 21.9 million tonnes for Block A/B and 17.7 million tonnes for Block C, for a total estimated proven coal reserve at La Francia I of 39.6 million tonnes. The Corporation has also identified measured and indicated resources at the La Francia Property, some of which are not yet classified as reserves, and will determine whether portions of such resources may be upgraded to reserves as the development of the property progresses.

The Corporation's Strategic Plan focuses on these almost 40 million tonnes of reported coal reserves, without accounting for reserves that may be added as the Corporation reviews and revises its current mining plan. The planned increase in production to 6.0 mtpa is expected to take 18 months from implementation to completion and will allow the Corporation to take further advantage of sales of coal at spot prices, which are anticipated by the Corporation to remain high over the near to medium terms.

The Corporation also retains an extensive land position in and around the César region of Colombia of approximately 24,238 hectares, near the La Francia Property, and it intends to continue to explore these areas in effort to expand its resource base.

In conjunction with the expansion of production at La Francia Property, construction of the Fenoco Rail Spur to connect the La Francia Property with the Fenoco Rail Line has commenced and is expected to be completed in October 2008 and operative in November 2008. Once completed, Coalcorp expects to have capacity of up to 3.5 million tonnes of annual rail access to ship its coal to the northern ocean ports near Santa Marta. The Corporation has also commenced the process of requesting from Fenoco additional capacity of 2.5 million tonnes of annual rail access for 2010 and later. If successful, this is expected to provide the Corporation not only with additional capacity to transport the increased tonnage, but also allow the Corporation to transport its coal at a significantly reduced cost to that currently experienced. Coal is currently trucked to port by the Corporation.

The Corporation anticipates that, for the foreseeable future, port capacity will be available to it for the sale of its increased production.

### Implementation of Masering Consortium Contract Mining Arrangement

The Corporation has retained SRK Consulting to assist it in the review of its overall mining operations at La Francia I and La Francia II and, in particular, to assess the potential to expand production from the current operations of under 2.0 mtpa to 6.0 mtpa. The Corporation will focus its attention initially on the reported coal reserves of approximately 40 million tonnes at La Francia I. A key component to the increase in production, in particular through the initiation of production at Block C of La Francia I, will be the implementation of the Masering Consortium contract mining arrangement.

SRK Consulting has estimated that the Corporation's current equipment complement limits extraction capability to just under 2.0 mtpa. The implementation of the contract mining arrangement with the Masering Consortium will see the introduction of new waste stripping equipment, consisting of four Rh120 excavators. This equipment has the capacity to produce an additional 2.0 mtpa, which will result in combined capacity (with the current contractor and existing equipment) of approximately 4.0 mtpa.

The Corporation anticipates that a cash outlay over two years of approximately \$30 million will be required to be dedicated to the acquisition of equipment (as detailed below), to which the Corporation has allocated \$10 million of the net proceeds of the June 2008 Offering for the acquisition of equipment in the first year.

### Acquisition of Additional Mining Equipment by Masering

SRK Consulting has recommended that, in addition to the equipment that Masering has allocated to its contract with the Corporation, Masering expend approximately \$50 million in acquiring new equipment. This equipment will include two RH200 (26m<sup>3</sup>) excavators, with a capacity of 6.6 Mm<sup>3</sup> per year. The acquisition of these excavators would result in a combined fleet capacity as follows:

• Two Rh200 excavators (26m <sup>3</sup> buckets)	@ 6.6 Mm <sup>3</sup> per unit	13.2 Mm <sup>3</sup> per year
• Two Rh120 excavators (15m <sup>3</sup> buckets)	@ 3.8 Mm <sup>3</sup> per unit	7.6 Mm <sup>3</sup> per year
• Four Rh120 excavators (17m <sup>3</sup> buckets)	@ 4.3 Mm <sup>3</sup> per unit	17.2 Mm <sup>3</sup> per year
• Three Cat 365/345 excavators	@ 0.9 Mm <sup>3</sup> per unit	<u>2.7 Mm<sup>3</sup> per year</u>
Total waste capacity		40.7 Mm <sup>3</sup> per year

The capacity calculations above assume an average stripping ratio of 6.5 m<sup>3</sup>/t coal (6.26 mtpa).

The Masering Consortium is contractually obligated to bring 29 100t haul trucks to site with the new waste excavation fleet, which will satisfy the requirements for the existing excavators. Therefore, a new fleet of trucks for the RH200 excavators will be required. SRK Consulting has recommended that the Masering Consortium acquire 10 Cat 785 (140t) haul trucks, which can be utilized between both of the large sized excavators.

The Corporation's current coaling fleet consists of coal excavators (Cat 330 and Cat 345) and the 30t road coal transport trucks. The Corporation anticipates that in order to handle expanded production the fleet will need to increase at least twofold.

Finally, the Corporation and SRK Consulting have also assessed the Corporation's drilling fleet and ancillary equipment, inclusive of tracked bulldozers, graders and other associated equipment and have estimated that additional expenditures may be required to upgrade and supplement this equipment.

It is anticipated that the last of the Masering Consortium's four Rh120 excavators will be delivered to site at the end of September 2008 and will be ready for production in the middle of November 2008. At that

time, the coal mining capacity of the Corporation is anticipated to be approximately 4.0 mtpa. Although the equipment will be directed towards the initiation of production at Block C of La Francia I, the equipment will also be available for use, and will improve efficiencies in production, at Block A/B pending the start of production at Block C.

The ordering and delivery of the larger excavation fleet (Rh200) and associated 140t haul trucks will require considerable lead time, resulting in a 12 month programme with commissioning on site by approximately mid-2009. It will also require negotiation of further agreements with the Masering Consortium or other operators. Therefore, assuming satisfactory arrangements with the Masering Consortium are achieved, the Corporation anticipates that production will reach the 6.0 mtpa milestone by the end of 2010.

### Expansion of Infrastructure

The Corporation will be required to expand existing infrastructure and facilities in order to implement its plan to expand production, in particular through the development of Block C of La Francia I. This includes, among other items, the construction of maintenance shops, a crushing plant, all mine services and infrastructure, the moving of the town of El Hatillo and a palm oil plantation and also the initial phase of the diversion of the Calenturitas River. SRK Consulting has estimated these infrastructure costs to total \$45 million.

### Revising La Francia I Mining Plan

The ability of the Corporation to increase production to 6.0 mtpa is dependent not only on the acquisition of additional equipment, but also on converting the current mining profile at La Francia I Block A/B. SRK Consulting is in the process of reviewing the La Francia I Block A/B mine design and plan, and will be recommending several changes with a view to expanding the mine operations. The Corporation is currently redesigning the mine by introducing two additional 30 metre deep working benches in the southwest advancing wall, while at the same time reducing the current upper bench to ensure a 30 metre level between all benches. The benches will be interconnected with 20 metre wide ramps in the advancing wall.

Waste stripping, at an estimated cost of \$17 million, will be required in the advance areas of Block C before coal can be recovered, equivalent to two advance cuts to a depth of 20 metres, priced at current mining rates.

### Disposition of Non-Core Assets

In order to focus its energies and finances on the infrastructure and production assets that are critical to the Corporation's success, the Corporation has determined that all assets not core to those objectives should be disposed of or wound down. In particular, the Corporation identified the disposition of the Caypa Mine and the Cartagena Port as non-core assets pursuant to the Strategic Review Process.

Pursuant to the Strategic Plan, the Corporation has successfully disposed of the Caypa Mine and the Cartagena Port. The material terms of the sale of the Caypa Mine are described under the heading "Business of the Corporation – Coal Corp BVI Acquisition – Cartagena Coal Port Assets" and the material terms of the sale of the Cartagena Port are described under the heading "Business of the Corporation – Andean Acquisition – Caypa Mine".

### Cost Reduction Measures

The Corporation has implemented a number of cost-cutting measures, focusing on general and administrative expenses. The sale of the Caypa Mine and Cartagena port assets will generate savings in general and administrative costs, and additional measures have already been taken, including workforce reductions in Colombia. Additionally, members of senior management have taken a 25% salary reduction and consulting arrangements have been reduced.

Further, the Corporation has acquired its existing coal sales agency arrangement with GC Coal through the acquisition of all of the issued and outstanding shares of GC Coal pursuant to the GC Coal Agreement. This acquisition is expected to result in significant cost savings as the Corporation increases coal production to the anticipated 6.0 mtpa level. The material terms of the acquisition of GC Coal are described under the heading “Business of the Corporation – GC Coal Acquisition”.

### **GC Coal Acquisition**

On June 25, 2008, the Corporation entered into an agreement with Fleur Investments Limited and Platone S.A. (the “**GC Coal Agreement**”), pursuant to which it acquired its existing coal sales agency arrangement with GC Coal through the acquisition of all of the issued and outstanding shares of GC Coal. The acquisition of GC Coal was an arm’s length transaction. Consideration for the acquisition consisted of the issuance of 6,649,342 Common Shares, valued at US\$10.0 million (as at the date of closing), and the payment of US\$10.0 million in cash. The Corporation also paid the vendors US\$2.0 million in cash on account of sales commissions that were due to GC Coal. As part of the acquisition, the Corporation retained the services of the GC Coal employee who has been primarily responsible for negotiating all of the Corporation’s coal sales agreements to date.

Assuming the anticipated increase in future production from the La Francia Property, the Corporation expects to realize substantial savings from the acquisition of GC Coal as a result of eliminating the obligation to pay sales commissions under the coal sales agency agreement.

### **Financings**

#### Bridge Loans

In connection with the entering into of the Blue Pacific Agreement and the Next Com Agreement, the Corporation obtained third-party bridge financing, in the aggregate amount of US\$7.5 million (the “**Bridge Loans**”), which was repaid upon closing of the 2006 Acquisitions. The Bridge Loans had a term of up to one year, were unsecured and bore interest of 1% per month, payable monthly in arrears. As partial consideration for the Bridge Loans, the Corporation issued an aggregate of 214,286 Common Share purchase warrants (the “**Bridge Warrants**”). Each Bridge Warrant was exercisable to acquire a Common Share any time on or prior to September 22, 2007 at a price of \$4.20 per share. All of the Bridge Warrants expired unexercised.

#### February 2006 Offering

On February 8, 2006, the Corporation completed the issue and sale of 42,857,143 subscription receipts (“**Subscription Receipts**”) by way of a (final) short form prospectus dated February 1, 2006, for aggregate gross proceeds to the Corporation of \$180.0 million (the “**February 2006 Offering**”). Each Subscription Receipt entitled the holder thereof to acquire one Common Share and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a “**CCJ.WT**”).

**Warrant**”), without payment of additional consideration and without any further action, upon satisfaction of, among other things, the receipt of all required regulatory and other approvals in respect of the 2006 Acquisitions and the satisfaction or waiver of all other material conditions to the completion of the 2006 Acquisitions, other than the payment of the purchase price of the 2006 Acquisitions (such conditions, collectively, the “**Escrow Release Conditions**”). The Subscription Receipts were issued and sold in accordance with the terms and conditions of an agency agreement dated February 1, 2006 between the Corporation, GMP Securities L.P. and Canaccord Capital Corporation.

The Escrow Release Conditions were satisfied on February 8, 2006 and, as a result, the escrowed funds were released to the Corporation and 42,857,143 Common Shares and 21,428,572 CCJ.WT Warrants were issued by the Corporation pursuant to the automatic exercise of the Subscription Receipts.

The CCJ.WT Warrants are governed by the terms and conditions of a warrant indenture dated February 8, 2006 (the “**CCJ.WT Warrant Indenture**”) between Equity Transfer & Trust Company, as warrant agent, and the Corporation. Each CCJ.WT Warrant entitles the holder thereof to purchase one Common Share at a price of \$5.60 at any time before 5:00 p.m. (Toronto time) on February 8, 2011. The CCJ.WT Warrants are listed on the TSX under the trading symbol “CCJ.WT”.

On February 17, 2006, the Corporation completed the issue and sale of 6,428,571 Common Shares and 3,214,286 CCJ.WT Warrants, for further gross proceeds to the Corporation of \$27.0 million, pursuant to the exercise of the over-allotment option granted to the agents under the February 2006 Offering.

The net proceeds of February 2006 Offering were used principally to fund the completion of the 2006 Acquisitions, for capital expenditures, to repay the Bridge Loans and for general corporate purposes.

#### August 2006 Offering

On August 17, 2006, the Corporation completed the issue and sale of 115,000 units by way of a (final) short form prospectus dated August 1, 2006, for aggregate gross proceeds to the Corporation of US\$115.0 million (the “**August 2006 Offering**”). Each unit was comprised of a face value US\$1,000 principal amount senior secured guaranteed note (a “**Series A Note**”) and 30 Common Share purchase warrants of the Corporation (each, a “**CCJ.WT.A Warrant**”). The Series A Notes bear interest at a rate of 12% per annum and mature on August 31, 2011. The units were issued and sold, at a price of US\$1,000 per unit, in accordance with the terms and conditions of an underwriting agreement dated as of August 1, 2006 between the Corporation and GMP Securities L.P., Canaccord Capital Corporation and Sprott Securities Inc. (now Cormark Securities Inc.).

The Series A Notes were created and issued under a first supplemental trust indenture made as of August 17, 2006 to a trust indenture made as of August 17, 2006 (collectively, the “**Trust Indenture**”), between Equity Transfer & Trust Company, as trustee, and the Corporation. The Trust Indenture specifies the terms and conditions upon which the Series A Notes are created and issued or may be created and issued and sets out the rights of the registered holders of the Series A Notes. The Series A Notes are senior secured guaranteed debt obligations of the Corporation and are fully and unconditionally guaranteed by some of the Corporation’s subsidiaries (the “**Subsidiary Guarantees**”). The Series A Notes and the Subsidiary Guarantees are senior secured obligations that rank pari passu in right of payment to all unsecured and unsubordinated indebtedness of the Corporation and the respective subsidiaries, but have priority with respect to the assets over which security is granted to the trustee. The Subsidiary Guarantees secure certain assets of the Corporation, including its material Colombian coal mining assets. The Series A Notes are listed on the TSX under the trading symbol “CCJ.NT.U”.

The CCJ.WT.A Warrants are governed by the terms and conditions of a warrant indenture dated August 17, 2006, as amended March 19, 2007 (the “**CCJ.WT.A Warrant Indenture**”) between Equity Transfer & Trust Company, as warrant agent, and the Corporation. Each CCJ.WT.A Warrant entitles the holder thereof to purchase one Common Share at a price of \$8.40 at any time before 5:00 p.m. (Toronto time) on August 17, 2011. The CCJ.WT.A Warrants are listed on the TSX under the trading symbol “CCJ.WT.A”.

The net proceeds of August 2006 Offering were used to help fund investments in infrastructure projects in Colombia. These projects included the connection to, and upgrading of, the Fenoco Rail Line and the development of the Cartagena Port and the downstream port at Capulco on the Magdalena River.

#### March 2007 Offering

On March 13, 2007, the Corporation completed the issue and sale of 32,857,143 Common Shares and 16,428,571 CCJ.WT.A Warrants by way of a (final) short form prospectus dated March 7, 2007 for aggregate gross proceeds to the Corporation of \$140.0 million (the “**March 2007 Offering**”). The Common Shares and CCJ.WT.A Warrants were issued and sold in accordance with the terms and conditions of an underwriting agreement dated as of February 2007 between the Corporation and GMP Securities L.P., Canaccord Capital Corporation and Sprott Securities Inc. (now Cormark Securities Inc.).

On March 19, 2007, the Corporation completed the issue and sale of 4,285,794 Common Shares and 2,142,857 CCJ.WT.A Warrants, for further gross proceeds to the Corporation of \$21.0 million, pursuant to the exercise of the over-allotment option granted to the underwriters under the March 2007 Offering.

The net proceeds of the March 2007 Offering were principally used to complete the La Francia II Acquisition. See “Business of the Corporation – La Francia II Acquisition”

#### June 2008 Offering

On June 5, 2008, the Corporation completed the issue and sale of 66,700,000 Common Shares and 66,700,000 Common Share purchase warrants (the “**CCJ.WT.B Warrants**”) by way of a (final) short form prospectus dated May 30, 2008 for aggregate gross proceeds of approximately \$120.1 million (the “**June 2008 Offering**”). The Common Shares and CCJ.WT.B Warrants were issued and sold in accordance with the terms and conditions of an underwriting agreement dated as of May 30, 2008 between the Corporation and GMP Securities L.P., Canaccord Capital Corporation, Loewen, Ondaatje, McCutcheon Limited and Macquarie Capital Markets Canada Ltd.

The CCJ.WT.B Warrants are governed by the terms and conditions of a warrant indenture dated June 5, 2008 (the “**CCJ.WT.B Warrant Indenture**”) between Equity Transfer & Trust Company, as warrant agent, and the Corporation. Each CCJ.WT.B Warrant entitles the holder thereof to purchase one Common Share at a price of \$2.50 at any time before 5:00 p.m. (Toronto time) on June 5, 2013. The CCJ.WT.B Warrants are listed on the TSX under the trading symbol “CCJ.WT.B”.

On June 27, 2008, the Corporation completed the issue and sale of 10,000,000 Common Shares and 10,000,000 CCJ.WT.B Warrants, for further gross proceeds to the Corporation of \$18.0 million, pursuant to the exercise of the over-allotment option granted to the underwriters under the June 2008 Offering.

The proceeds of the June 2008 Offering are being used principally to implement the Corporation’s plan to increase production to 6.0 mtpa by the end of 2010 by developing Block C at La Francia I, make final capital contributions to the Fenoco Rail Line, further fund construction of the Fenoco Rail Spur connecting the Fenoco Rail Line to the La Francia Property, fund equipment acquisitions and related

infrastructure costs, fund the increase in infrastructure and facilities required to support the Corporation's expansion plan and fund pre-stripping operating costs.

## **Exploration Properties**

### The Francia Concessions

In May 2006, the Corporation obtained rights to four additional coal exploration properties located near La Francia I (collectively, the "**Francia Concessions**") from Corte Nova Ltd. for aggregate consideration of US\$5.4 million. Each of the agreements under which the Francia Concessions were acquired by the Corporation provided for a US\$1.00 per tonne royalty and varying additional royalty payments based on additional measured resources or indicated resources upon completion of a 12-month exploration program. Following an assessment of the resource potential for these properties, US\$3.6 million of the total consideration was written off during fiscal 2007 and the concessions reverted to the vendor in lieu of remaining payments amounting to US\$1.8 million.

### The Soral Concessions

In August 2006, the Corporation entered into an agreement with Soral Cape Ltd. to acquire the rights to 25 additional coal exploration concessions in the César and Santander departments of Colombia representing in excess of 85,000 hectares. The concessions were acquired for aggregate consideration of US\$9.3 million. The agreement provides for varying additional acquisition payments based on additional indicated resources. Following an assessment of the resource potential for these concessions, US\$2.1 million of the total consideration, plus additional deferred expenditures of US\$0.5 million, were written off during fiscal 2007, and 19 of the concessions reverted to the vendor in lieu of remaining payments amounting to US\$1.7 million. During the fiscal year ended June 30, 2008, all but one remaining concession was written off and reverted to the vendors by the Corporation. See "Summary of Exploration Properties" below for information regarding the exploration properties currently held by the Corporation.

### The Palazi Concessions

In November 2006, the Corporation entered into an agreement with Palazi Ltd. to acquire the rights to 28 additional coal exploration concessions in the César and Santander departments of Colombia representing in excess of 92,000 hectares. The concessions were acquired for aggregate consideration of US\$6.3 million. The agreement also provides for a production royalty as additional consideration of US\$1 per tonne of coal produced out of each concession. Following an assessment of the resource potential for these concessions, US\$1.4 million of the total consideration, plus additional deferred expenditures of US\$0.3 million, was written off during fiscal 2007 and 17 of the concessions reverted to the vendor in lieu of remaining payments amounting to US\$2.1 million. During the fiscal year ended June 30, 2008, all of the remaining concessions were written off and reverted to the vendors by the Corporation. See "Summary of Exploration Properties" below for information regarding the exploration properties currently held by the Corporation.

### The Curubita Concessions

In May 2006, the Corporation obtained rights to four additional coal exploration properties located near the Corporation's Curubita I Concession (collectively, the "**Curubita Concessions**") from Corte Nova Ltd. for aggregate consideration of US\$1.3 million. Each of the agreements under which the Curubita Concessions were acquired by the Corporation provided for a US\$1.00 per tonne royalty and varying additional royalty payments based on additional proven, measured or superior resources upon completion of a 12-month exploration program. Following an assessment of the resource potential for these

properties, US\$1.2 million of the total consideration was written off during fiscal 2007 and all of the properties reverted to the vendor in lieu of remaining payments amounting to US\$0.1 million.

### Summary of Exploration Properties

The Corporation currently holds 12 exploration concessions, located mainly in the Cesar area of Colombia, and one concession application, accounting for a total of approximately 33,759 hectares.

### **Coal Sales**

During the year ended June 30, 2008, the Corporation sold a total of 1.7 million tonnes from La Francia I at an average realized price of US\$43 per tonne. Sales were comprised of 1.5 million tonnes on an FOT mine basis at an average realized price of US\$37 per tonne and 0.2 million tonnes on an FOB port basis at US\$95 per tonne. Mine operating costs at La Francia I in the same period averaged US\$33 per tonne produced including royalties averaging approximately US\$4 per tonne. The Corporation also paid sales commissions of approximately US\$2 per tonne plus, on the coal sold on an FOB port basis, the Corporation paid costs of transporting the coal to port and port handling costs of another US\$20 per tonne.

The Corporation also sold 1.0 million tonnes of coal from its Caypa mine during the year ended June 30, 2008 at an average realized price of US\$66 per tonne. The Corporation disposed of its interest in the Caypa mine on June 27, 2008, and all coal sales commitments under the contracts related to the Caypa mine were assumed by the purchasers.

For fiscal year 2009, the Corporation expects to produce approximately 3.4 million tonnes of coal from the La Francia mine which have substantially already been sold to customers at prices averaging US\$65 per tonne on an FOB port basis.

As of September 4, 2008, the Corporation has also committed under coal sales contracts to deliver an aggregate total of 27.3 million tonnes of coal from its La Francia Property during fiscal years 2010 through 2014 at an average FOB port price of US\$83 per tonne.

### **Employees**

As at June 30, 2008, the Corporation and its subsidiaries had approximately 166 employees. At September 1, 2008, the Corporation and its subsidiaries had approximately 129 employees.

### **Environmental Protection**

The Corporation is currently in compliance with all material environmental regulations applicable to its activities. Minor issues identified upon the acquisition of La Francia I and the Capypa Mine have been addressed through new environmental management plans (“**EMPR**”) for each. The EMPRs for La Francia I, the Caypa Mine and the Magdalena River port were submitted to and approved by the Ministry of the Environment, although the EMPR for Magdalena River port will have to be modified in order to include the areas that were added to the port concession since the date of the EMPR. The financial and operational effects of environmental protection requirements on capital expenditures, earnings and expenditures during the financial year ended June 30, 2008 were not material.

## **Social or Environmental Policies**

While it is important to the Corporation to build strong relationships with the communities in which it operates, it has not adopted a formal social policy that is fundamental to its operations. César, as part of the EMPR process, is required to support and fund certain social obligations, primarily related to hiring and spending locally and providing adequate health and safety information and services to its employees. As well, César has adopted a number of national conventions relating to air, road and environmental protection and supporting local municipalities and businesses.

The Corporation is committed to complying with all environmental laws and regulations applicable to its activities but at the present time, it has not adopted an environmental policy that is fundamental to its operations.

## **Senior Management Changes**

Effective September 1, 2008, Mr. Luis Urdaneta was appointed as Chief Executive Officer of the Corporation. Mr. Urdaneta is a graduate of Zulia University (Venezuela) and Penn State University (United States) and has degrees in petroleum engineering and computer science. After holding increasingly senior positions with Lagoven S.A., a subsidiary of PDVSA, Venezuela's national oil company, in 1986 he was given the job of founding Carbozulia, S.A. and appointed President. Under Mr. Urdaneta's leadership, Carbozulia developed the Paso Diablo mine, the largest coal mine in Venezuela, which is expected to produce 7.5 million tonnes by 2009. Mr. Urdaneta moved back to PDVSA in 1994, where he took increasingly senior positions, ultimately retiring in 1999 as President of the Board of Directors and Executive President of PDV America Inc. Since then, he has worked as a consultant, primarily in energy and project management.

Effective June 1, 2008, John Malysa was appointed as Chief Operating Officer of the Corporation's Colombian operations. He is based in Colombia with a particular focus on the implementation of the Strategic Plan. Mr. Malysa is a Registered Professional Engineer with a Bachelor of Science degree in Mining Engineering and an MBA. Mr. Malysa has over thirty years of experience in all aspects of both surface and underground mine exploration, design, feasibility, construction and operations management, including over eighteen years of experience working in South America. His recent work experience in South America includes acting as General Manager of a gold mine in Venezuela for Gold Fields Limited, as President of Ecuadorian Operations for Ecuacorriente Resources (a subsidiary of Corriente Resources Inc.), and as General Manager of a coal mine in Venezuela for Carbones de la Guajira (a subsidiary of Interamerican Coal N.V.).

## **DESCRIPTION OF LA FRANCIA PROPERTY**

The Corporation's only material mineral property is its La Francia Property. The La Francia Technical Report comprises SRK Consulting's independent technical report on coal resources and reserves held by the Corporation in respect of: (i) the La Francia I open pit coal mine (Block A/B); (ii) Block C of La Francia I; and (iii) La Francia II (Block D), all located in the Department of César in north east Colombia. Blocks A/B and C of La Francia I were acquired by the Corporation in February 2006. Block D, which lies immediately to the north of La Francia I, was acquired by the Corporation in March 2007.

The coal resources of Block D form a contiguous extension of the coal resources of Block C of La Francia I. The La Francia Technical Report summarizes the previously reported resources of Blocks A/B, C and D and the previously reported reserves of Block A/B. In addition, the La Francia Technical Report

includes estimated reserves for Block C, which are limited to those coal resources and reserves that can be exploited from an open pit contained within Block C of the current La Francia I licence area.

Set out below is a brief summary of the La Francia Technical Report relating to the Corporation's La Francia Property. Terms defined in the summary below have the same meaning given to those terms in the La Francia Technical Report. This summary is qualified in its entirety by reference to the complete text of the La Francia Technical Report which is incorporated by reference herein and which is available its entirety under the Corporation's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **Property Description, Location and Ownership**

The Corporation has current ownership of Blocks A/B, C and D. La Francia I is comprised of Concession 5160 and La Francia II is comprised of Concession FED-103.

Both La Francia I and La Francia II are located in the Municipality of El Paso in the Department of César, Colombia, South America, northeast of the town of La Loma and the village of El Hatillo, at approximately 9°38' N, 73°34'W.

La Francia I (including Block C) is currently permitted for development. La Francia II is not currently permitted, however, the Corporation does hold the mining rights for the area. Negotiations are currently ongoing regarding ownership of the land and/or surface mining rights for the remainder of the area. Legal remedies are available under Colombian law, if necessary, to assist in reasonable negotiations to secure surface rights. To the Corporation's knowledge, there are no factors that should prevent La Francia II from being permitted.

### **Geology and Mineralization**

Geologically the property is located within the Cesar-Ranchería basin of Tertiary age, which includes all the mines within the Cesar and Guajira departments (including the Cerrejón complex). The basin is bounded by the east west striking Oca Fault to the north, by the igneous massif of the Sierra Nevada de Santa Marta to the north west, by the Perija Mountains to the south east and by a system of large faults to the west.

The coal bearing strata in the region are contained within the Tertiary age (Palaeocene) Los Cuervos Formation, which is divided into three members, the Upper, Middle and Lower. The Lower Member comprises predominantly claystones and siltstones with layers of sandstone and occasional coal seams. The Middle Member is the main productive member and comprises a sequence of claystones, siltstones, sandstones and up to 60 coal seams. The Los Cuervos Formation is between 245 and 1600 m thick.

### **Status of Exploration, Development and Operations**

Exploration and development at the La Francia Property has developed in a number of stages. Initially, the Corporation acquired a property over which exploration had been concentrated in an area to the east of the Hatillo fault, which runs north east to south west diagonally through La Francia I. This area, Block A/B, had been sufficiently explored to have resources stated, a mining plan developed and reserves stated by late 2005. Block A/B has been producing coal since its acquisition by the Corporation. Ongoing exploration at Block C, to the west of the Hatillo fault, enabled an updated resource estimate to be made for this Block in 2007 along with updated resources for Block A/B. At this time, the Corporation acquired the adjacent La Francia II property and its resources were estimated. Exploration is well advanced and drilling is now largely targeted at specific issues, for example, in a number of areas around

the licence boundary it may be possible to add resources and reserves by negotiating boundary and exploration agreements with neighbouring properties.

### Conclusions

SRK Consulting has estimated the following coal reserves for Blocks A/B and C on La Francia I.

#### La Francia I Block A/B

Proven Reserves*	21.9 Mt
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\* As at January 1, 2005. Depleted for production until May 1, 2008, losses not accounted for.

#### La Francia Block C

Proven Reserves*	17.73 Mt
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\* As at May 1, 2008.

SRK Consulting has estimated the following coal resources for Blocks A/B, C and D on the La Francia Property. In each case, the measured and indicated resources are inclusive of the mineral reserves identified above.

#### La Francia I Block A/B

Deposit Type	ASTM Coal Rank	Resources of Immediate Interest (tonnes)		Resources of Future Interest (tonnes)		In Situ Resources (tonnes)	
		Measured	Indicated	Measured	Indicated	Measured	Indicated
Surface	Bituminous	47,312,154	1,332,173	1,937,362	2,070,925	49,249,516	3,403,098
Total in Situ Resources (tonnes)*							52,652,614

\* As at February 2007. No depletion for production has been applied since that date.

#### La Francia I Block C

Deposit Type	ASTM Coal Rank	Resources of Immediate Interest (tonnes)		Resources of Future Interest (tonnes)		In Situ Resources (tonnes)	
		Measured	Indicated	Measured	Indicated	Measured	Indicated
Surface	Bituminous	43,575,378	7,530,040	661,132	882,337	44,236,510	8,412,377
Total in Situ Resources (tonnes)*							52,648,887

\* As at February 2007. Includes reserves quoted in pre-feasibility study.

La Francia II Block D

Deposit Type	ASTM Coal Rank	Resources of Immediate Interest (tonnes)		Resources of Future Interest (tonnes)		In Situ Resources (tonnes)	
		Measured	Indicated	Measured	Indicated	Measured	Indicated
Surface	Bituminous	40,184,508	206,164	526,098	6,693	40,710,607	2,212,857
Total in Situ Resources (tonnes)*							42,923,464

\* As at February, 2007.

La Francia I and II Blocks A/B, C and D

Total Measured and Indicated in Situ Resources (tonnes)*	148,224,965
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\* As at February 2007. Includes reserves quoted in pre-feasibility study but excludes reserves and resources mined until December 2006.

Mineral resources are not mineral reserves and have no economic viability.

SRK Consulting considers that the working of Block C within the present La Francia I licence boundary is technically achievable. On completion of Block C the Corporation will have a number of options for future development subject to additional exploration and negotiation with neighbouring properties having been concluded by that time. Such agreements would be mutually beneficial as coal recovery by open pit methods on both sides of the licence would not involve loss of coal from batter slopes from the boundary. Careful consideration should be given to the timing of developments at Blocks C and A/B in order to optimize potential, in particular the main constraint on the present design is the limitation of waste tipping room while developing both areas simultaneously which in turn limits the maximum depth of development possible on Block C.

The capital costs required to develop Block C are dependent on whether the Corporation elects to lease, own or contract fully equipment and on the and the final terms of the Corporation's arrangements with Masering, the mine contractor.

**Recommendations**

La Francia I Block A/B

Complete engineering studies which are currently taking place into the feasibility of increasing production rates and available reserves on Block A/B. SRK Consulting notes that following this review some of the resources currently allocated to Block C may initially be allocated to Block A/B.

SRK Consulting recommends, and the Corporation has indicated its intentions of, developing an integrated strategic mining development plan, technical economic model and updated resource and reserve estimates for the various blocks of the La Francia Property.

La Francia I Block C

SRK Consulting recommends the implementation of a mining plan on Block C as follows:

Year one of the mining plan for Block C is as outlined in the La Francia Technical Report. SRK Consulting notes that the pre-strip development period includes time for moving a township and palm oil plantation, river diversion works, hydrological, hydrogeological, geotechnical and other studies.

Capital costs associated with year one of the development phase estimated by SRK Consulting include:

- infrastructure and other – US\$45,000,000
- mining equipment (lease initial payment) – US\$10,120,000
- sustaining capital - US\$720,000

Operating costs associated with year one of the development phase estimated by SRK Consulting include:

- pre-stripping – US\$17,000,000

#### La Francia II Block D

SRK Consulting recommends that the Corporation undertake mine planning and acquisition of permits for La Francia II.

### **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized capital of the Corporation consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value.

As at the date hereof, 173,007,049 Common Shares and no preferred shares are issued and outstanding. From time to time, the Corporation has issued warrants exercisable to acquire an aggregate of 121,221,439 Common Shares (at exercise prices ranging from \$2.50 to \$8.40) and options exercisable to acquire an aggregate of 4,969,555 Common Shares (at exercise prices ranging from \$1.33 to \$6.23) pursuant to the Corporation's stock option plan.

#### **Common Shares**

Subject to the rights of the holders of preferred shares of the Corporation, the holders of Common Shares are entitled to dividends, if, as and when declared by the Board of Directors, to one vote per Common Share at meetings of the shareholders of the Corporation and upon liquidation, dissolution or winding-up, to share equally in such assets of the Corporation as are distributable to the holders of Common Shares.

#### **Preferred Shares**

The preferred shares of the Corporation may be issued in one or more series and, with respect to the payment of dividends and the distribution of assets in the event that the Corporation is liquidated, dissolved or wound-up, rank prior to the Common Shares. The Board of Directors has the authority to issue preferred shares in series and determine the price, number, designation, rights, privileges, restrictions and conditions, including dividend rights, redemption rights, conversion rights and voting rights, of each series without any further vote or action by shareholders. The holders of preferred shares do not have pre-emptive rights to subscribe for any issue of securities of the Corporation.

## DIVIDENDS

The Corporation has not declared or paid a dividend in its history. Other than pursuant to applicable TSX rules, there are no restrictions on the Corporation that would prevent it from paying a dividend. However, the Corporation intends to retain future earnings for reinvestment in the Corporation's business and, therefore, has no current intention to pay dividends on its Common Shares in the foreseeable future. The Corporation's dividend policy will be reviewed from time to time in the context of its earnings, financial condition and other relevant factors.

## MARKET FOR SECURITIES

### Trading Price and Volume

#### Common Shares

The Common Shares are listed on the TSX under the trading symbol "CCJ". The closing price of the Common Shares on September 3, 2008, the last trading day prior to the date of this AIF, was \$1.27.

The following table sets out the high and low trading prices and the trading volume of the Common Shares for the periods indicated, as reported by the TSX.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Trading Volume</u>
<b>2008</b>			
June	\$1.85	\$1.43	13,815,586
May	\$1.89	\$1.06	10,035,418
April	\$2.60	\$1.50	6,486,434
March	\$2.75	\$2.00	3,485,941
February	\$2.94	\$2.06	20,385,698
January	\$2.30	\$1.51	21,604,741
<b>2007</b>			
December	\$2.40	\$1.98	16,364,721
November	\$3.38	\$1.50	18,756,712
October	\$3.36	\$1.75	21,778,554
September	\$3.76	\$3.25	3,683,706
August	\$4.84	\$3.52	5,464,787
July	\$5.48	\$4.38	8,387,099
June	\$4.75	\$4.34	3,831,832

CCJ.WT Warrants

The CCJ.WT Warrants are listed on the TSX under the trading symbol “CCJ.WT”. The closing price of the CCJ.WT Warrants on September 3, 2008, the last trading day prior to the date of this AIF, was \$0.035.

The following table sets out the high and low trading prices and the trading volume of the CCJ.WT Warrants for the periods indicated, as reported by the TSX.

Period	High	Low	Trading Volume
<b>2008</b>			
June	\$0.145	\$0.070	722,816
May	\$0.205	\$0.080	684,044
April	\$0.185	\$0.085	1,031,724
March	\$0.245	\$0.160	417,769
February	\$0.295	\$0.130	3,243,797
January	\$0.245	\$0.130	1,050,714
<b>2007</b>			
December	\$0.280	\$0.180	1,819,771
November	\$0.650	\$0.150	1,308,139
October	\$0.700	\$0.300	2,631,284
September	\$1.000	\$0.750	85,100
August	\$1.550	\$0.900	158,721
July	\$2.000	\$1.450	507,184
June	\$1.600	\$1.400	102,456

CCJ.WT.A Warrants

The CCJ.WT.A Warrants are listed on the TSX under the trading symbol “CCJ.WT.A”. The closing price of the CCJ.WT.A Warrants on September 3, 2008, the last trading day prior to the date of this AIF, was \$0.045.

The following table sets out the high and low trading prices and the trading volume of the CCJ.WT.A Warrants for the periods indicated, as reported by the TSX.

Period	High	Low	Trading Volume
<b>2008</b>			
June	\$0.065	\$0.035	221,642
May	\$0.075	\$0.050	1,586,743
April	\$0.085	\$0.045	1,190,912
March	\$0.100	\$0.070	983,041
February	\$0.170	\$0.050	5,493,279
January	\$0.140	\$0.070	658,502
<b>2007</b>			
December	\$0.130	\$0.085	485,014
November	\$0.250	\$0.080	1,644,648
October	\$0.295	\$0.095	2,523,761
September	\$0.400	\$0.200	356,504
August	\$0.650	\$0.360	283,442
July	\$0.800	\$0.570	721,754
June	\$1.000	\$0.700	664,978

CCJ.WT.B Warrants

The CCJ.WT.B Warrants commenced trading on the TSX, under the symbol “CCJ.WT.B”, on June 5, 2008. The closing price of the CCJ.WT.B Warrants on September 3, 2008, the last trading day prior to the date of this AIF, was \$0.20.

The following table sets out the high and low trading prices and the trading volume of the CCJ.WT.B Warrants for the periods indicated, as reported by the TSX.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Trading Volume</u>
<b>2008</b>			
June	\$0.500	\$0.260	3,305,300

Series A Notes

The Series A Notes are listed on the TSX under the trading symbol “CCJ.NT.U”. The closing price of the Series A Notes on September 3, 2008, the last date of trading prior to the date of this AIF, was US\$89.50.

The following table sets out the high and low trading prices and the trading volume of the Series A Notes for the periods indicated, as reported by the TSX.

<u>Period</u>	<u>High (US\$)</u>	<u>Low (US\$)</u>	<u>Trading Volume</u>
<b>2008</b>			
June	-	-	-
May	-	-	-
April	\$93.000	\$92.000	32,500
March	\$91.500	\$91.500	20,000
February	-	-	-
January	\$95.000	\$93.000	52,920
<b>2007</b>			
December	\$90.000	\$90.000	10,490
November	\$98.000	\$97.500	2,220
October	-	-	-
September	\$105.000	\$103.000	350
August	\$103.000	\$103.000	10,000
July	\$105.000	\$105.000	10,200
June	\$105.250	\$105.000	24,980

### PRIOR SALES

The Corporation did not issue any securities that are not listed or quoted on a Canadian or foreign marketplace during the financial year ended June 30, 2008, other than the following options exercisable to acquire Common Shares granted under the Corporation's stock option plan:

<b>Date of Grant</b>	<b>Number of Common Shares Issuable under Options</b>	<b>Exercise Price per Common Share</b>	<b>Expiry Date</b>
September 26, 2007	5,600	\$5.25	September 26, 2012
June 3, 2008	250,000	\$1.54	June 3, 2013
June 9, 2008	150,000	\$1.54	June 9, 2013

Subsequent to June 30, 2008, the Corporation granted further stock options exercisable to acquire an aggregate of 500,000 Common Shares under the Corporation's stock option plan as set out below:

<b>Date of Grant</b>	<b>Number of Common Shares Issuable under Options</b>	<b>Exercise Price per Common Share</b>	<b>Expiry Date</b>
September 2, 2008	500,000	\$1.33	September 2, 2013

### ESCROWED SHARES

To the knowledge of the Corporation, no Common Shares or securities convertible or exchangeable into Common Shares are currently being held in escrow or are subject to a contractual restriction on transfer.

### DIRECTORS AND OFFICERS

#### Directors and Officers of the Corporation

The name, location of residence, the number of voting securities beneficially owned, or controlled or directed, directly or indirectly, positions or offices held with the Corporation and the principal occupation during the past five years for each director and executive officer of the Corporation is set out in table below:

<b>Name and Location of Residence<sup>(1)</sup></b>	<b>Position or Office</b>	<b>Principal Occupation During Past 5 Years</b>	<b>Director of Corporation Since</b>	<b>Number of Common Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly<sup>(2)</sup></b>
Luis Urdaneta Caracas, Venezuela	Chief Executive Officer	Chief Executive Officer since September 2008. Consultant in organizational matters, outsourcing, compensation management, energy, project management and the use and development of information systems since January 2000.	N/A	Nil

<b>Name and Location of Residence<sup>(1)</sup></b>	<b>Position or Office</b>	<b>Principal Occupation During Past 5 Years</b>	<b>Director of Corporation Since</b>	<b>Number of Common Shares Beneficially Owned, or Controlled, Directly or Indirectly<sup>(2)</sup></b>
Michael Davies Burlington, Canada	Chief Financial Officer	Chief Financial Officer since May 2007. From May 2007 to May 2008, Chief Financial Officer of Energentia Resources Inc. From September 2004 to May 2007, Director of Finance for The Clorox Company of Canada Ltd., and from June 2001 to September 2004, Chief Financial Officer of Century II Holdings Inc.	N/A	Nil
Peter Volk Toronto, Canada	General Counsel & Secretary	General Counsel and Secretary since September 2005. Currently serves as General Counsel and Secretary of Medoro Resources Ltd. and Pacific Rubiales Energy Corp. General Counsel and Secretary of Energentia Resources Inc. from January 2007 to May 2008 and of Bolivar Gold Corp. from July 1997 to February 2006.	N/A	28,096
Juan Manuel Pelaez Bogota, Colombia	Vice President, Business Development	Vice President, Business Development since February 2006. From March 2007 to May 2008, Chief Executive Officer and President of Energentia Resources Inc. From August 2006 to January 2008, Country Manager, Colombia of Pacific Stratus Energy Ltd. and from April 2002 to July 2005, Director, Estrella Automotriz S.A., a company in the automotive industry.	N/A	285,715 <sup>(6)</sup>
Jose Francisco Arata Torino, Italy	Executive Vice President, Exploration & Director	Executive Vice President, Exploration since February 2006. Currently serves as a director and Executive Vice President, Exploration of Medoro Resources Ltd. and director and President of Pacific Rubiales Energy Corp. From October 2004 to January 2008, Director of Pacific Stratus Energy Ltd. and from August 2006 to January 2008, Chief Executive Officer of Pacific Stratus Energy Ltd. From March 2007 to May 2008, Director of Energentia Resources Inc.	October 17, 2006	23,810

Name and Location of Residence <sup>(1)</sup>	Position or Office	Principal Occupation During Past 5 Years	Director of Corporation Since	Number of Common Shares Beneficially Owned, or Controlled or Directed, Directly or Indirectly <sup>(2)</sup>
Serafino Iacono Firenze, Italy	Executive Director & Director <sup>(5)</sup>	Currently serves as a director of Medoro Resources Ltd. and Pacific Rubiales Energy Corp. Served as Chief Executive Officer of the Corporation from March 2005 to September 2008 and since September 2008 has served as Executive Director. From August 2006 to January 2008, Director of Pacific Stratus Energy Ltd. and from February 2003 to February 2006, Chief Executive Officer of Bolivar Gold Ltd.	March 1, 2005	89,800
Miguel de la Campa Caracas, Venezuela	Executive Director & Director <sup>(5)</sup>	Currently serves as a director of Medoro Resources Ltd. and Pacific Rubiales Energy Corp. Served as President of the Corporation from November 2005 to September 2008 and since September 2008 has served as Executive Director. From September 2005 to January 2008, Director of Pacific Stratus Energy Ltd. and from February 2003 to February 2006, President and Chief Operating Officer of Bolivar Gold Ltd.	May 29, 2006	173,787
Michael Beckett <sup>(3)(4)</sup> London, England	Director <sup>(5)</sup>	Currently serves as a director of Endeavour Financial Corporation, Medoro Resources Ltd., Mvelaphanda Resources Limited, Northam Platinum Ltd., Orica Ltd., Egypt Trust Limited and Thomas Cook Group PLC. From March 2007 to May 2008, Director of Energentia Resources Inc.	March 1, 2005	2,858
Neil Woodyer Monaco	Director <sup>(5)</sup>	Founding Partner and Managing Director of Endeavour Financial Corporation. Currently serves as a director of Pacific Rubiales Energy Corp.	March 1, 2005	Nil
Robert Metcalfe <sup>(3)(4)</sup> Toronto, Canada	Director <sup>(5)</sup>	Counsel with Metcalfe, Blainey & Burns LLP since January 2001.	September 7, 2006	17,429

<b>Name and Location of Residence<sup>(1)</sup></b>	<b>Position or Office</b>	<b>Principal Occupation During Past 5 Years</b>	<b>Director of Corporation Since</b>	<b>Number of Common Shares Beneficially Owned, or Controlled, Directly or Indirectly<sup>(2)</sup></b>
Augusto Lopez <sup>(4)</sup> Bogota, Colombia	Director <sup>(5)</sup>	Retired Director to a number of Latin American boards since 1999 including Bavaria S.A. and Avianca S.A. Managing Partner of Latino Americana de Consultores de Negocios, a consulting firm. Chairman of Mercurius Ventures, a risk capital management firm. Currently serves as a director of Pacific Rubiales Energy Corp. From November 2006 to January 2008, director of Pacific Stratus Energy Ltd. and from March 2008 to May 2008, director of Energentia Resources Inc.	November 17, 2007	Nil
Miguel A. Rodriguez <sup>(3)</sup> Caracas, Venezuela	Director <sup>(5)</sup>	Currently serves as a director of Pacific Rubiales Energy Corp. From November 2006 to January 2008, Director of Pacific Stratus Energy Ltd. From 2005 to 2006, Chairman Astra Fund (Davos Group), from 1997 to 2006, Chairman Incofin, Inc. (Davos Group), and from 1995 to 2006, President of MRConsultores and Incofin, Inc.. From 1984 to 2006, Professor of Economics, Instituto de Estudios Superiores de Administración (IESA), Caracas and from 2002 to 2004, Dean, Faculty of Economics and Social Sciences, Universidad Santa María.	January 12, 2007	Nil
Stephen Wilkinson Vancouver, Canada	Director	President and Director of ValGold Resources Ltd., a mineral exploration company, since September 2002. From 1999 to September 2002, President and Director of Northern Orion Explorations Ltd., a mineral exploration company.	September 2, 2008	Nil
Allan Wakefield Georgetown, Canada	Director	Consultant to technology and industrial companies to drive strategy and raise funding since 2004. Served as Audit Committee Chairman, privatization committee member and as independent director of Hollinger Inc. from 2004 to 2005. Chief Financial Officer of Inxight Software Inc. from 2001 to 2003.	September 2, 2008	Nil

Notes:

- (1) The information as to residence is based on information furnished to the Corporation by the respective directors and executive officers as at the date of this AIF.
- (2) The information as to shares beneficially owned, or controlled or directed, directly or indirectly, is based upon information furnished to the Corporation by the respective directors and executive officers as at the date of this AIF. The percentage of ownership in all cases is less than 1%.
- (3) The Audit Committee is comprised of Messrs. Beckett, Metcalfe and Rodriguez. Mr. Beckett serves as the chair of the Committee. The charter of the Audit Committee is attached to this AIF as Appendix B.
- (4) The Compensation Committee is comprised of Messrs. Metcalfe, Lopez and Beckett. Mr. Metcalfe serves as the chair of the Committee. The charter of the Compensation Committee is attached to this AIF as Appendix A.
- (5) The term of the directorship will expire at the next annual general meeting of the shareholders of the Corporation.
- (6) No direct or indirect holdings; however, investment advice and direction is provided to a third party which holds these shares.

As of the date of this AIF, the directors and executive officers of the Corporation (as a group) owned, or controlled or directed, directly or indirectly, a total of 621,495 Common Shares, representing approximately 0.0036% of the Corporation's total outstanding Common Shares.

### **The Audit Committee**

The Audit Committee is comprised of Messrs. Beckett, Metcalfe and Rodriguez. Messrs. Metcalfe and Rodriguez are independent as of the date of this AIF.

Upon acceptance by the TSX of the appointment of Messrs. Wilkinson and Wakefield to the Board of Directors, it is anticipated that one of them will be appointed to the Audit Committee in place of Mr. Beckett. Both Mr. Wilkinson and Mr. Wakefield are independent as of the date of this AIF.

### **The Compensation Committee**

The Compensation Committee is comprised of Messrs. Metcalfe, Lopez and Beckett. Messrs. Metcalfe and Lopez are independent as of the date of this AIF.

### **Biographies of Directors**

Serafino Iacono – Mr. Iacono was the Chairman, Chief Executive Officer and co-founder of Bolivar Gold Corp. with gold operations in Venezuela. He currently serves as a director of Medoro Resources Ltd. and Pacific Rubiales Energy Corp. He has over twenty years of experience in the Canadian capital markets and has raised more than US\$1.0 billion in the last thirteen years for various natural resource projects internationally.

Miguel de la Campa – Mr. de la Campa was the President, Chief Operating Officer and co-founder of Bolivar Gold Corp. He currently serves as a director of Pacific Rubiales Energy Corp. and Medoro Resources Ltd. Over the last twenty years, he has been involved in the financing and development of mining, oil and other resource projects in the United States, Latin America, Europe and Africa.

Jose Francisco Arata – Mr. Arata is the Vice-President, Exploration of the Corporation and is the President of Pacific Rubiales Energy Corp. He currently serves as a director of Medoro Resources Ltd. and Pacific Rubiales Energy Corp. He has over 25 years experience in mineral and oil exploration in a number of countries in South America. Mr. Arata was also co-founder and Executive Vice-President, Exploration at Bolivar Gold Corp.

Neil Woodyer – Mr. Woodyer is the President and Chief Executive Officer and a director of Endeavour Financial Corporation, a TSX-listed resource merchant banking company. He also serves as a director of Pacific Rubiales Energy Corp. His experience in the natural resource sector and finance spans thirty years, including Chief Executive Officer positions with Lloyds International Trading, a subsidiary of Lloyds Bank specializing in project and trade finance and commodity trading, and Amalgamet's group of New York and Latin American-based metal trading and mining finance companies. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Michael Beckett – Mr. Beckett is a director of Endeavour Financial Corporation, a TSX-listed resource merchant banking company. He also currently serves as a director of Medoro Resources Ltd. He has also served as the Chairman to several international public corporations, including Endeavour Mining Capital Corp. (now, Endeavour Financial Corporation), Ashanti Goldfields Company Limited, Watts Blake Bearne & Company plc, London Clubs International plc, and Clarkson plc. In addition, he holds directorships with several diverse and international natural resource companies, including Northam Platinum Limited. Formerly, he was a Managing Director of Consolidated Goldfields plc, where one of his responsibilities included the management of its international investment portfolio.

Robert J. Metcalfe - Counsel with Metcalfe, Blainey & Burns LLP since January 2001. Currently serves on numerous public and private boards including Envirotower Inc., natural resource corporation NXA Inc., AirIQ Inc. and ION Enterprises Inc. Retired director of Radiant Energy Corporation, numerous of the Conwest Exploration Company Limited natural resource corporations, including Central Patricia Gold Mines Limited, Iron Bay Trust Inc., Faraday Resources (Uranium) Ltd., and Chimo Gold Mines Inc. as well as Canada Lands Company Limited, the largest real estate corporation in Canada, and past Director and Chairman of CN Tower Limited.

Augusto Lopez – Mr. Lopez is the former President of Bavaria S.A., Colombia's largest producer of beverages, and sits on the boards of numerous Canadian, Colombian and Latin American enterprises involved in the securities, television, airline, cellular and banking industries, among others. He currently serves as a director of Pacific Rubiales Energy Corp. Mr. Lopez has also received many governmental and professional citations, both within Colombia and throughout the world.

Miguel A. Rodriguez – Mr. Rodriguez has extensive experience in the private, public and academic sectors. He currently serves as a director of Pacific Rubiales Energy Corp. He has served as chairman of Astra Fund and Incofin, Inc., both part of the Davos Financial Group, and was a professor of Economics at the Venezuelan Institute for Advanced Studies in Administration. In addition to consulting and advisory roles for the public sector, Mr. Rodriguez has previously acted as the President of the Central Bank of Venezuela, and served as Governor to the Interamerican Development Bank, the World Bank and the International Monetary Fund.

Stephen Wilkinson – Mr. Wilkinson is a mining executive, corporate director and business consultant based in North Vancouver, British Columbia. Since September 2002, he has served as President, Chief Executive Officer and Director of ValGold Resources Ltd., an international mining development company. Mr. Wilkinson has extensive experience in the mining and finance industries having served as an officer and director of several private and public companies, supplemented over the past three decades by experience working for mining companies and government agencies.

Allan Wakefield – Mr. Wakefield has 40 years of experience in finance, general management and board management. He has most recently worked as a consultant to industrial and technology companies, and has previously served as a director and member of the special committee of Hollinger Inc. He has worked internationally for Alcan Aluminum Limited, Spar Aerospace Ltd. and Indal Limited in various general management, strategic and finance-related roles. While with Alcan, he launched “blue box” recycling and brought aluminum cans into Canada, for which he was honored by the United Nations for services to the environment.

### **Corporate Cease Trade Orders**

Except as disclosed below, no director or executive officer of the Corporation is, or was within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Corporation), that: (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes hereof, “order” means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

Serafino Iacono, a director of the Corporation, Miguel de la Campa, a director of the Corporation and Peter Volk, the General Counsel and Secretary of the Corporation, as directors and/or officers of Chivor Emerald Corporation Limited, are subject to cease trade orders of the Ontario Securities Commission dated June 15, 2000 due to the failure to file financial statements within prescribed time periods. These statements were not filed due to Chivor Emerald Corporation Limited’s lack of funds to pay for an audit of such financial statements.

Robert Metcalfe and Allan Wakefield, directors of the Corporation, were judge-affirmed independent directors of Hollinger Inc. from September 27, 2004 to July 21, 2005, in which capacity they were the subject of a management and insider cease trade order (since lifted) which existed prior to their appointment to the board of directors of Hollinger Inc., due to the inability of Hollinger Inc. to file financial statements resulting from the non-filing of financial statements by Hollinger Inc.’s US subsidiary, Hollinger International Inc.

Stephen Wilkinson, a director of the Corporation is also a director of HMZ Metals Inc. (HMZ-TSX) which issuer applied for and was granted a management cease trade order in connection with the late filing of interim financial statements for the period ended June 30, 2005. The management cease trade order was put into effect August 24, 2005 and revoked pursuant to a Revocation Order dated October 21, 2005. The management cease trade order was again invoked on April 18, 2006 and was removed in June 2008.

### **Bankruptcies**

No director, officer, promoter or control person of the Corporation (or a personal holding company of any such person) is, or within the ten years prior to the date of the AIF has become, bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets.

No director or executive officer of the Corporation or, to the knowledge of the Corporation, shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation: (a) is, as at the date of this AIF, or has been within the 10 years before the date of this AIF, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, 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 its assets; or (b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become 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 the director, executive officer or shareholder.

### **Penalties and Sanctions**

No director or executive officer of the Corporation or, to the knowledge of the Corporation, shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

There are potential conflicts of interest to which the directors or officers of the Corporation may be subject in connection with the operations of the Corporation. All of the directors and officers are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of the Corporation. Accordingly, situations may arise where the directors and officers will be in direct competition with the Corporation. Conflicts, if any, will be subject to the procedures and remedies as provided under the *Business Corporations Act* (British Columbia).

### **Management Contracts**

Management functions of the Corporation and its subsidiaries are not performed by a person other than the directors or executive officers of the Corporation or subsidiary.

## **RISK FACTORS**

An investment in securities of the Corporation involves significant risks, which should be carefully considered by prospective investors before purchasing such securities. Such risk factors could materially affect the Corporation's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Corporation. The risks described herein or in documents incorporated by reference herein may not be the only risks facing the Corporation. Additional risks not currently known may also have an adverse impact on the Corporation's business or operations.

### **Foreign Country and Political Risk**

The Corporation's principal mineral projects are located in Colombia and consequently the Corporation is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mineral concessions or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and government regulations relating to the mining industry. Colombia is home to South America's largest and longest running insurgency. Any changes in regulations or shifts in political attitudes are beyond the control of the Corporation and may adversely affect its business. Mining operations and further 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, expropriation of property, environmental legislation and mine and/or site safety.

### **Title Matters**

The acquisition of title to mineral concessions in Colombia is a detailed and time consuming process. Title to and the area of mining concessions may be disputed. The Corporation's properties may also be subject to unforeseen aboriginal title claims. While the Corporation has diligently investigated title to all mineral concessions and has followed usual industry practice in obtaining satisfactory title opinions in respect of its mining concessions and, to the best of its knowledge, title to all of its properties is in good standing, this should not be construed as a guarantee of title. Title to the properties may be affected by undisclosed and undetected defects.

### **Implementation of Strategic Plan**

The successful implementation of the Strategic Plan is subject to a number of conditions including, but not limited to, the ability of the Corporation to revise the current mine design and plan at La Francia I and La Francia II (in particular with respect to bringing Block C at La Francia I into production) to allow for the expansion of production from 2.0 mtpa to 6.0 mtpa within the projected timelines, the ability of the Corporation to obtain required permits and to commence production at La Francia II, the ability of the Masering Consortium to obtain the necessary equipment for the implementation of the new mine plan and its ability, in conjunction with the existing mine operators, to deliver on the commitments undertaken in their agreement with the Corporation, the ability of the Corporation to secure additional rail and port capacity to match anticipated increases in production and the costs associated with the acquisition of rolling stock and the completion of the Fenoco Rail Spur not materially exceeding expected costs. As a number of such conditions are beyond the control of the Corporation, there can be no assurance that they will be met and, consequently, that the Corporation will be able to successfully implement some or all of the Strategic Plan. In addition to the Masering Agreement, a further agreement regarding mining operations and continued use of the equipment under the Masering Agreement must be negotiated prior to the end of December 2008. If the Corporation does not reach an agreement with Masering, the

Corporation may be required, at the election of the Masering Consortium, to purchase additional equipment which will require additional funds. There can be no assurance that such additional funds will be available on terms acceptable to the Corporation, if at all, and might involve substantial dilution to existing shareholders of the Corporation. The failure to successfully implement the Strategic Plan, or parts of it, may have a material adverse effect on the Corporation.

### **Implementation of Business Strategy**

The implementation of certain aspects of the integration and infrastructure strategies described herein, including the Strategic Plan, are subject to the completion of detailed feasibility studies. There can be no assurance that the Corporation will be able to successfully implement some or all of these strategies. Further, the implementation of these strategies is subject to factors beyond the control of the Corporation, including, for example, the receipt of necessary consents and government approvals. In addition, in order to implement its business strategy additional funds may be required to complete the infrastructure development projects. There can be no assurance that such additional financing will be available on terms acceptable to the Corporation, if at all, and might involve substantial dilution to existing shareholders of the Corporation.

In order to implement the strategies set out under “Description of the Business”, including the construction of the Barranquilla port, the investments in Propuerto and barge operations, additional funds may be required. There can be no assurance that such additional funds will be available on terms acceptable to the Corporation, if at all, and might involve substantial dilution to existing shareholders of the Corporation.

The operation of a port and the granting of a concession to operate a port are subject to permitting by land use and environmental authorities.

### **Additional Capital**

The exploration and development of the Corporation’s properties, including continuing exploration and development projects, the construction of mining facilities and commencement of mining operations and the growth of the Corporation, may require substantial additional financing. Failure to obtain sufficient financing could result in a delay or indefinite postponement of exploration, development or production on any or all of the Corporation’s properties or even a loss of a property interest. An important source of funds available to the Corporation is through the sale of equity capital, properties, royalty interests or the entering into of joint ventures. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Corporation and might involve substantial dilution to existing shareholders of the Corporation. Failure to raise capital when needed would have a material adverse effect on the Corporation’s business, financial condition and results of operations and ability to grow.

### **Environmental and other Regulatory Requirements**

The activities of the Corporation are subject to environmental regulations promulgated by government or government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. Breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, 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 a potential to reduce the profitability of operations.

The current exploration, development and production activities of the Corporation require certain permits and licenses from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety, mine permitting and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that all licenses and permits which the Corporation may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Corporation may undertake.

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 exploration operations may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

### **Integration of Acquired Companies**

The Corporation is still in the process of completing the integration of certain of the acquisitions completed during the past two years. Further, a key component of the Corporation's growth strategy is to complete further acquisitions of, or business combinations with, small coal producing companies in Colombia. Prior acquisitions and business combinations (including the 2006 Acquisitions and the acquisition of La Francia II) involve inherent risks, including assumption of transaction costs, risk of non-completion, undisclosed liabilities, assimilation and successfully managing growth. While the Corporation conducts extensive due diligence and takes steps to ensure successful assimilation, factors beyond the Corporation's control could influence the results of acquisitions. There can be no assurance that the Corporation will be able to identify, acquire and integrate appropriate assets or companies for acquisition or obtain financing for such acquisitions on satisfactory terms. There can also be no assurance that competition for acquisition candidates will not escalate, thereby increasing the costs of making acquisitions.

Part of the Corporation's growth strategy inherently assumes that it will be able to identify and finance suitable acquisition candidates on terms acceptable to the Corporation and that these acquisitions, if pursued and completed, will be integrated successfully. The Corporation may encounter problems in connection with the integration of any new businesses, such as: amount of cost savings that may be realized as the result of integration of an acquired business; unanticipated production issues with acquired properties; diversion of management attention; difficulty with personnel and loss of key employees; and compatibility of financial control and information systems.

### **Additional Mining Concessions May Not Be Granted**

The Corporation has interests in a number of applications for additional mining concessions. Some or all of these concessions may not be granted. The granting of concessions is subject to availability of the land, the favourable opinion of the authorities of applicable local mining authorities and a technical evaluation by relevant governmental authorities. With respect to certain applications in which the

Corporation holds an interest, there are other applications by third parties for portions of the land comprising the concession applied for, which may, if any such applications are successful, decrease the total area comprising the concession once granted.

### **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 Corporation is 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 enforcement thereof, could have a material adverse impact on the Corporation and cause increases in expenditures and costs, affect the Corporation's ability to expand or transfer existing operations or require the Corporation to abandon or delay the development of new mining properties.

### **Repatriation of Earnings**

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia (including minerals) be repatriated to Colombia. However, purchase of foreign currency is allowed through any Colombian authorized financial entity for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign stockholders and other foreign expenses.

### **Coal Price and Volume Volatility**

The Corporation's profits are directly related to the volume and price of coal sold. Price volatility could have a significant impact on the future revenues and profitability of the Corporation. Coal demand and price are determined by numerous factors beyond the control of the Corporation including the demand for electricity, the availability of competitive coal supplies, international exchange rates and political and economic conditions and production costs in major coal producing regions. The Corporation's dependence on foreign markets may result in instability due to political and economic factors in those foreign jurisdictions which is beyond the control of the Corporation. The combined effects of any or all of these factors on coal price or volume are impossible for the Corporation to predict. If realized coal prices fall below the full cost of production of any of the Corporation's operations and remain at such level for any sustained period, the Corporation will experience losses, which may be significant, and may decide to discontinue affected operations, forcing the Corporation to incur closure or care and maintenance costs, as the case may be.

### **Transportation and Port Costs**

Disruption in or increased costs of transportation and port services could make coal a less competitive source of energy or could make the Corporation's coal less competitive than other sources of coal. The coal industry depends on rail, trucking, ocean-going vessel and barge transportation to deliver shipments of coal to customers, and transportation and port costs are a significant component of the total cost of supplying coal. Disruptions of these transportation or port services because of weather-related problems, insurgency, strikes, lock-outs, transportation delays or other events could temporarily impair ability to supply coal to customers and may result in lost sales. In addition, increases in transportation or port costs, or changes in costs relative to transportation or port costs for coal produced by competitors, could

adversely affect profitability. To the extent such increases are sustained, the Corporation could experience losses and may decide to discontinue certain operations forcing the Corporation to incur closure or care and maintenance costs, as the case may be.

### **Access to Transportation Infrastructure**

Access to transportation infrastructure to ship coal economically within Colombia and to export coal internationally is currently limited. While the Corporation is taking steps to access existing rail infrastructure, further expand rail infrastructure, develop river transportation and develop a river port at Capulco, there is no guarantee that these efforts will be successful. Lack of access to transportation may hinder the expansion of production at the Corporation's mining properties and the Corporation may be required to use more expensive transportation alternatives.

### **Disruptions in Production**

Other factors affecting the production and sale of coal that could result in decreases in profitability include: expiration or termination of, or sales price re-determinations or suspension of deliveries under, coal supply agreements; future litigation; the timing and amount of insurance recoveries; work stoppages or other labour difficulties; mine worker vacation schedules and related maintenance activities; and changes in the coal market and general economic conditions. Weather conditions, equipment replacement or repair, fires, variations in thickness of the layer or seam of coal, amounts of rock and other natural materials and other geological conditions can have a significant impact on operating results.

### **Reserve Estimates and Replacement of Reserves**

While the estimates of coal reserves included in this AIF have been prepared in accordance with industry standards and applicable law (including NI 43-101) based on information which the Corporation believes to be reliable, coal reserves disclosed in this AIF and in documents incorporated by reference should not be interpreted as assurances of mine life or of the profitability of current or future operations given that there are numerous uncertainties inherent in the estimation of economically recoverable coal reserves. Estimates of coal reserves and net cash flows necessarily depend upon a number of variable factors and assumptions such as: geological and mining conditions, which may not be fully identified by available exploration data or may differ from the Corporation's experience in current operations; historical production from the area compared with production from other producing areas; the assumed effects of regulation by governmental agencies; and assumptions concerning coal prices, operating costs, severance and excise taxes, development costs and reclamation costs, all of which may vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities attributable to any particular group of properties, classifications of reserves based on risk of recovery and estimates of net cash flows expected therefrom prepared by different engineers or by the same engineers at different times may vary substantially.

Actual coal tonnage recovered from identified reserve areas or properties, and revenues and expenditures with respect to the Corporation's reserves, may vary materially from estimates. The estimates of reserves may not accurately reflect the Corporation's actual reserves and may need to be restated in the future. Any inaccuracy in the Corporation's estimates could result in decreased profitability from lower than expected revenues or higher than expected costs.

The Corporation's recoverable reserves decline as it produces coal. The Corporation may not be able to mine all of its reserves as profitably as it does at its current operations. The Corporation's future success depends on conducting successful exploration and development activities or acquiring properties containing economically recoverable reserves. There is no assurance that the Corporation will continue to

succeed in developing additional mines or will continue to receive the permits necessary to operate profitably in the future.

### **Mining Risks and Insurance**

Establishment of a coal reserve and development of a coal mine does not assure a profit on the investment or recovery of costs. In addition, mining hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Coal exploration, development and production operations are subject to all of the risks and hazards typically associated with such operations, including hazards such as environmental hazards and industrial accidents, each of which could result in substantial damage to mines, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, and not all such risks are insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice for a company of its size and stage of development, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Coal mining operations are also subject to all of the risks typically associated with such operations, including encountering unexpected mining conditions, pit wall slides and pit flooding. The occurrence of any of these risks or other significant event against which the Corporation is not fully insured, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's future results of operations or prospects, liquidity and financial condition.

### **Reliance on Counterparties**

The Corporation depends on a number of counterparties in the conduct of its business. There can be no assurance that any of these counterparties will be able to continue to perform their respective obligations and contracts.

In particular, the La Francia I mine relies on a single general contractor to conduct mining operations. An interruption in or the termination of any contract or business arrangement with this contractor, and the inability of the Corporation to make alternative arrangements in a timely manner, or at all, could have a material adverse effect on the Corporation's business, financial condition and operating results. There can be no assurance that the Corporation would be able to find alternate mining contractors or hire its own workforce in a timely manner.

### **Exploration and Development**

Certain of the resource properties in which the Corporation has an interest, or which it may have an interest in the future, are in the exploration stages only. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. The long term profitability of the Corporation's operations will be in part directly related to the cost and success of its exploration programs.

Substantial expenditures are required to establish reserves through drilling, to develop plans or processes to extract the resources and, in the case of new properties, to develop the infrastructure necessary for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

### **Permitting for Diversion of Calenturitas River**

In respect of the proposed development of Block D at La Francia II, the Corporation is currently in the process of obtaining the required permit allowing deviation of the Calenturitas River which presently runs partially over the area. There can be no assurance that this permit will be awarded to the Corporation in time to meet the timelines contemplated by the Strategic Plan or at all. In the event that the permit is denied by the relevant authorities, any coal reserves attributed to Block D at La Francia II could be adversely affected through the exclusion of reserve tonnage below design limitations or the reduction of reserve classification (confidence) levels from proven to probable or otherwise. In the event that the Calenturitas River cannot be diverted, a re-evaluation of the reserves may be necessary.

### **Reliance on Key Personnel**

The Corporation's development to date has largely depended and in the future will continue to depend on the efforts of key management. Loss of any of these people could have a material adverse effect on the Corporation and its business. The Corporation has not taken out and does not intend to take out key man insurance in respect of any directors, officers or other employees. In addition, the competition for qualified personnel in the coal mining industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

### **Foreign Currency Exchange**

Currency exchange rate fluctuations may adversely affect the Corporation's financial position and results. The Corporation does not currently have in place a policy for managing or controlling foreign currency risks since, to date, its activities have not resulted in material exposure to foreign currency risk.

### **Enforcement of Civil Liabilities**

Substantially all of the assets of the Corporation are located outside of Canada and certain of the directors and officers of the Corporation 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 Corporation or the directors and officers of the Corporation residing outside of Canada.

### **Competition**

The coal mining industry is competitive in all its phases. The Corporation competes with many companies and individuals that have substantially greater financial and technical resources than the Corporation in the search for, and the acquisition of, mineral concessions as well as for the recruitment and retention of qualified employees. The Corporation's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects.

Further, the gross disparity in size between large and small coal producers in Colombia restricts small producers in that they have limited influence to secure access to Colombia's transportation infrastructure,

including rail and port facilities. This access is necessary for small producers to access international export markets for their coal production and to competitively sell superior quality Colombian coal in international markets. The Corporation may have difficulties successfully accessing transportation infrastructure necessary to export the coal it produces.

### **LEGAL PROCEEDINGS**

There are no legal proceedings material to the Corporation to which the Corporation is a party or of which any of its property is the subject matter, and there are no such proceedings known to the Corporation to be contemplated. The Corporation is, however, from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Corporation does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Corporation.

### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

The Corporation purchased certain assets from Blue Pacific (as described in detail under the heading “Business of the Corporation – Initial Acquisition of Coal Assets in Colombia”), which is a corporation existing under the laws of the British Virgin Islands that is beneficially owned by a group of shareholders resident in the British Virgin Islands and Liechtenstein, none of whom holds a controlling interest in Blue Pacific and all of whom are at arm’s length to the Corporation, except for The BP Trust, Andes Investments A.V.V., the KFK Trust, Torino Consultants Limited and Orinoquia Belt C.A. The BP Trust owns a direct or indirect 25% interest in Blue Pacific, and Serafino Iacono, a director of the Corporation, provides investment advice to The BP Trust. Andes Investments A.V.V. owns a 10% interest in Blue Pacific and is a family trust established by Juan Manuel Pelaez, the Vice President, Business Development of the Corporation. The KFK Trust owns a 20% interest in Blue Pacific and is a family trust established by Jose Francisco Arata, the Executive Vice President, Exploration and a director of the Corporation. Torino Consultants Limited owns a 20% interest in Blue Pacific and is a family trust established by Miguel de la Campa, a director of the Corporation. Orinoquia Belt C.A. owns a 10% interest in Blue Pacific, and is indirectly owned 50% by Miguel de la Campa and 50% by a subsidiary of BP Trust, a company to which Serafino Iacono provides investment advice.

Neil Woodyer and Michael Beckett, directors of the Corporation, are also directors and/or executive officers of Endeavour Financial Corporation (or predecessor companies to, or affiliates of, Endeavour Financial Corporation, a company that has been paid certain advisory fees by the Corporation during the Corporation’s three most recently completed financial years. These fees included fees paid for advisory services in connection with the 2006 Acquisitions (US\$895,225, US\$100,000 of which was prepaid in October of 2005), the August 2006 Offering (US\$600,000), the acquisition of La Francia II (US\$500,000) and the Strategic Review Process (US\$1,000,000), as well as financial advisory fees of US\$5,000 per month during three most recently completed financial years.

## **MATERIAL CONTRACTS**

The Corporation has not entered into any material contracts since June 30, 2007, other than contracts in the ordinary course of business, except as follows:

1. the underwriting agreement dated as of May 30, 2008 between the Corporation and GMP Securities L.P., Canaccord Capital Corporation, Loewen, Ondaatje, McCutcheon Limited and Macquarie Capital Markets Canada Ltd. relating to the June 2008 Offering (see “Business of the Corporation – Financings – June 2008 Offering”);
2. the CCJ.WT.B Warrant Indenture (see “Business of the Corporation – Financings – June 2008 Offering”);
3. the Cartagena Port Sale Agreement (see “Business of the Corporation – Initial Acquisition of Coal Assets in Colombia – Coalcorp BVI Acquisition – Cartagena Coal Port Assets”);
4. the Caypa Sale Agreement (see “Business of the Corporation – Initial Acquisition of Coal Assets in Colombia – Andean Acquisition – Caypa Mine”);
5. the Masering Agreement (see “Business of the Corporation – Masering Agreement”); and
6. the GC Coal Agreement (see “Business of the Corporation – GC Coal Acquisition”).

Other than the foregoing, material contracts entered into by the Corporation in prior years that are still in effect are as follows:

1. the Blue Pacific Agreement (see “Business of the Corporation – Initial Acquisition of Coal Assets in Colombia”);
2. the CCJ.WT Warrant Indenture (see “Business of the Corporation – Financings – February 2006 Offering”)
3. the CCJ.WT.A Warrant Indenture (see “Business of the Corporation – Financings – August 2006 Offering”); and
4. the Trust Indenture (see “Business of the Corporation – Financings – August 2006 Offering”).

## **INTERESTS OF EXPERTS**

### **Deloitte & Touche LLP**

Deloitte & Touche LLP, Chartered Accountants, Licensed Public Accountants, is the external auditor of the Corporation who prepared the Auditors’ Report to Shareholders with respect to the consolidated balance sheets of Coalcorp as at June 30, 2008 and June 30, 2007 and the consolidated statements of operation and comprehensive loss, changes in shareholders’ equity and cash flows for the financial year ended June 30, 2008 and the thirteen-month period ended June 30, 2007. Deloitte & Touche LLP is independent with respect to Coalcorp within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

### **SRK Consulting (UK) Ltd.**

Certain technical information relating to the Corporation's La Francia Property contained in this AIF has been derived from the La Francia Technical Report. The La Francia Technical Report is incorporated by reference in this AIF.

Each of the persons responsible for the preparation of the La Francia Technical Report, namely Paul Bright, Keith Philpott, Jon Woolliscroft, Stephen Rhodes, Alan McCracken and Richard Oldcorn, is a "qualified person" as defined under NI 43-101 and is "independent" of the Corporation within the meaning of NI 43-101. Neither SRK Consulting nor any of Messrs. Bright, Philpott, Woolliscroft, Rhodes, McCracken or Oldcorn held any securities of the Corporation or of any associate or affiliate of the Corporation when they prepared the technical report referred to above or following the preparation of such reports and they did not receive any direct or indirect interest in any securities of the Corporation or of any associate or affiliate of the Corporation in connection with the preparation of such reports.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Corporation are Deloitte & Touche LLP, Chartered Accountants, Toronto, Ontario.

Equity Transfer & Trust Company in Toronto, Ontario is the transfer agent and registrar for the Common Shares, the warrant agent for the CCJ.WT Warrants, CCJ.WT.A Warrants and CCJ.WT.B Warrants and trustee for the Series A Notes.

### **AUDIT COMMITTEE INFORMATION**

#### **Audit Committee Charter**

The charter of the Corporation's Audit Committee is attached to this AIF as Appendix B.

#### **Composition of the Audit Committee**

The Audit Committee is composed of Michael Beckett, Robert Metcalfe and Miguel A. Rodriguez, each of whom is financially literate. Messrs. Metcalfe and Rodriguez are considered to be independent of the Corporation as of the date of this AIF.

Upon acceptance by the TSX of the appointment of Messrs. Wilkinson and Wakefield to the Board of Directors, it is anticipated that one of them will be appointed to the Audit Committee in place of Mr. Beckett. Both Mr. Wilkinson and Mr. Wakefield are independent as of the date of this AIF.

#### **Relevant Education and Experience**

The relevant education and experience of each Audit Committee member is disclosed above at "Directors and Officers – Biographies of Directors".

#### **Reliance on Exemptions**

None.

## Pre-approval Policies and Procedures

The Audit Committee requires the Corporation to obtain Audit Committee approval for any non-audit services exceeding immaterial amounts. The Audit Committee has pre-approved certain non-audit services under prescribed limits; for all services above these limits, specific committee consideration and approval is required.

## External Auditor Service Fees (By Category)

The following are the aggregate fees incurred by the Corporation for services provided by its external auditors during the financial year ended June 30, 2008:

	2008	2007
<b>Audit Fees</b>		
Audit fees for:		
The Corporation's annual audit		
- Toronto (Vancouver)	US\$207,000	US\$220,000
- Bogotá	US\$100,000	US\$80,000
Reviews of interim quarterly consolidated financial statements	US\$60,000	US\$78,900
Total Audit Fees	US\$367,000	US\$378,900
<b>Other Audit-Related Fees</b>		
Short form prospectus and business acquisition report including issue of consent letters to regulators and comfort letter to underwriters.	US\$79,200	US\$116,000
Total Other Audit-Related Fees	US\$79,200	US\$116,000
<b>Tax Fees</b>		
Tax compliance	US\$31,500	US\$11,500
Total Tax Fees	US\$31,500	US\$11,500
<b>TOTAL FEES</b>	<b>US\$477,700</b>	<b>US\$507,000</b>

### **ADDITIONAL INFORMATION**

Additional information about the Corporation, including, but not limited to, directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under the Corporation's stock option plan is contained in the management information circular of the Corporation dated October 2, 2007 filed in connection with its annual and special meeting of shareholders of the Corporation held on November 1, 2007. Additional financial information is provided in the audited financial statements and management's discussion and analysis for the year ended June 30, 2008. This information and other pertinent information regarding the Corporation can be found under the Corporation's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## APPENDIX “A” – CHARTER OF THE COMPENSATION COMMITTEE

### COALCORP MINING INC. (the “Corporation”)

#### I. Purpose

The Compensation Committee is a committee of the Board of Directors which assists the Board in discharging its responsibilities relating to executive and other human resources hiring, assessment, compensation and succession planning. For the purposes of its mandate, the Compensation Committee will review all aspects of compensation paid to the directors, committee members, management and other employees to ensure that the Corporation’s compensation programs are competitive and that the Corporation is in a position to attract, motivate and retain the quality of personnel required to meet its business objectives.

#### II. Composition

The Compensation Committee will be comprised of at least three directors, at least two of whom qualify as independent directors, as determined by the Board<sup>1</sup>.

Members of the Compensation Committee shall be appointed by the Board of Directors on an annual basis and shall serve at the pleasure of the Board, or until the earlier of (a) the close of the next annual meeting of shareholders of the Corporation at which the member's term of office expires, (b) the death of the member or (c) the resignation, disqualification or removal of the member from the Compensation Committee or from the Board. The Board may fill a vacancy in the membership of the Compensation Committee.

All members should have skills and/or experience which are relevant to the mandate of the Committee, as determined by the Board.

At the time of the annual appointment of the members of the Compensation Committee, the Board shall appoint a Chairman of the Compensation Committee. The Chairman shall be a member of the Compensation Committee, preside over all Compensation Committee meetings, coordinate the Compensation Committee's compliance with this charter, and provide reports of the Compensation Committee to the Board. The Chair may vote on any matter requiring a vote and shall provide a second vote in the case of a tie vote.

#### III. Responsibilities

The responsibilities of the Compensation Committee shall generally include, but not be restricted to, undertaking the following:

- Recommending to the Board senior management appointments and the terms and conditions of their appointment and retirement or termination.

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<sup>1</sup> Determined in accordance with National Instrument 58-101 – *Disclosure of Corporate Governance Practices* and Multilateral Instrument 52-110 – *Audit Committees*.

- Monitoring and evaluating the performance of members of senior management, including reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the Board with respect to) the CEO's compensation level based on this evaluation.
- Reviewing and making recommendations to the Board of Directors with respect to the Corporation's compensation and benefit programs for directors, senior management and employees, including director fees, base salaries, bonuses and incentive plans, deferred compensation and retirement plans and share purchase or issuance plans including stock options and/or restricted share rights. As part of its review process, the Compensation Committee will review peer group and industry compensation data reported through surveys and other sources.
- Reviewing and making recommendations to the Board of Directors with respect to the implementation or variation of stock option or restricted share rights plans, share purchase plans, compensation and incentive plans and retirement plans. Further, the Compensation Committee will ensure proper administration of the Corporation's existing share incentive plan, including the granting, or making recommendations with respect to the granting, of options or restricted share rights. In determining the number of options granted or restricted share rights issued, the Committee will give consideration to the potential contribution an individual may make to the success of the Corporation.
- Reviewing the annual report on executive compensation for inclusion in the Corporation's management information circular in accordance with applicable laws, rules and regulations.
- Taking all reasonable measures to ensure that appropriate human resources systems, such as hiring policies, competency profiles, training policies and compensation structures, are in place so that the Corporation can attract, motivate and retain the quality of personnel required to meet its business objectives.
- Maintaining an assessment and compensation philosophy that rewards the creation of shareholder value.
- Monitoring any strategic labour issues that need to be addressed.

#### **IV. Meetings and Advisors**

The Committee will meet as often as it deems necessary or appropriate to perform its duties and to carry out its responsibilities described above in a timely manner, but not less than two times a year. The quorum at any meeting of the Committee shall be a majority of its members. All such meetings shall be held pursuant to the By-Laws of the Corporation with regard to notice and waiver thereof. Meetings of the Committee may be with appropriate representatives of management, either individually or collectively as may be required by the Chairman of the Committee. Written minutes of each meeting of the Committee shall be filed in the Corporation's records. The Chairman of the Committee will report periodically to the Board of Directors.

The Compensation Committee shall, in appropriate circumstances and subject to advising the Chairman of the Board, have the authority to engage and obtain advice and assistance from advisors, including independent or outside legal counsel and shall have sole authority to retain and/or terminate a

compensation consulting firm. The Compensation Committee shall have the sole authority to approve the fees and other retention terms of any such engagement, as it determines is necessary or appropriate to carry out its duties. All related fees and costs of such advisors shall be paid promptly by the Corporation in accordance with its normal business practices.

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Nothing contained in this charter is intended to expand applicable standards of conduct under statutory or regulatory requirements for the directors of the Corporation or the members of the Compensation Committee.

## APPENDIX “B” – CHARTER OF THE AUDIT COMMITTEE

### COALCORP MINING INC. (the “Corporation”)

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#### **I. Purpose**

The Audit Committee is a committee of the Board of Directors which assists the Board in overseeing the Corporation’s financial controls and reporting and in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Corporation. The Audit Committee’s primary duties and responsibilities are to:

- Oversee: (i) the integrity of the Corporation’s financial statements; (ii) the Corporation’s compliance with legal and regulatory requirements with respect to financial controls and reporting; and (iii) the auditors’ qualifications and independence.
- Serve as an independent and objective party to monitor the Corporation’s financial reporting processes and internal control systems.
- Review and appraise the audit activities of the Corporation’s independent auditors and its internal auditing functions.
- Provide open lines of communication among the independent auditors, financial and senior management and the Board of Directors for financial reporting and control matters.

#### **II. Composition**

The Committee will be comprised of at least three directors, all of whom qualify as independent directors, as determined by the Board<sup>2</sup>.

Members of the Audit Committee shall be appointed by the Board of Directors on an annual basis and shall serve at the pleasure of the Board, or until the earlier of (a) the close of the next annual meeting of shareholders of the Corporation at which the member's term of office expires, (b) the death of the member or (c) the resignation, disqualification or removal of the member from the Audit Committee or from the Board. The Board may fill a vacancy in the membership of the Audit Committee.

All members should have skills and/or experience which are relevant to the mandate of the Committee, as determined by the Board. All members of the Committee shall be financially literate at the time of their election to the Committee. “Financial literacy” shall be determined by the Board of Directors in the exercise of its business judgment, and shall include a working familiarity with basic finance and accounting practices and an ability to read and understand financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements. Committee members, if they or the Board of Directors deem it appropriate, may

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<sup>2</sup> Determined in accordance with Multilateral Instrument 52-110 – *Audit Committees*.

enhance their understanding of finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant or firm.

At the time of the annual appointment of the members of the Audit Committee, the Board shall appoint a Chairman of the Audit Committee. The Chairman shall be a member of the Audit Committee, preside over all Audit Committee meetings, coordinate the Audit Committee's compliance with this charter, and provide reports of the Audit Committee to the Board. The Chair may vote on any matter requiring a vote and shall provide a second vote in the case of a tie vote.

### **III. Responsibilities**

The responsibilities of the Audit Committee shall generally include, but not be restricted to, undertaking the following:

#### *Selection and Evaluation of Auditors*

- (a) Recommending to the Board of Directors the external auditors (subject to shareholder approval) to be engaged to prepare or issue an auditor's report or performing other audit, review or attest services for the Corporation and the compensation of such external auditors.
- (b) Overseeing the independence of the Corporation's auditors and taking such actions as it may deem necessary to satisfy it that the Corporation's auditors are independent within the meaning of applicable securities laws by, among other things: (i) requiring the independent auditors to deliver to the Committee on a periodic basis a formal written statement delineating all relationships between the independent auditors and the Corporation; and (ii) actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and taking appropriate action to satisfy itself of the auditors' independence.
- (c) Instructing the Corporation's independent auditors that: (i) they are ultimately accountable to the Committee (as representatives of the shareholders of the Corporation); (ii) they must report directly to the Committee; and (iii) the Committee is responsible for the appointment (subject to shareholder approval), compensation, retention, evaluation and oversight of the Corporation's independent auditors.
- (d) Ensuring the respect of legal requirements regarding the rotation of applicable partners of the external auditors, on a regular basis, as required.
- (e) Reviewing and pre-approving all audit and permitted non-audit services or mandates to be provided by the independent auditors to the Corporation or any of its subsidiaries, including tax services, and the proposed basis and amount of the external auditors' fees for such services, and determining which non-audit services the auditors are prohibited from providing (and adopting specific policies and procedures related thereto).
- (f) Reviewing the performance of the Corporation's independent auditors and replacing or terminating the independent auditors (subject to required shareholder approvals) when circumstances warrant.

***Oversight of Annual Audit***

- (a) Reviewing and accepting, if appropriate, the annual audit plan of the Corporation's independent auditors, including the scope, extent and schedule of audit activities, and monitoring such plan's progress and results during the year.
- (b) Confirming through private discussions with the Corporation's independent auditors and the Corporation's management that no management restrictions are being placed on the scope of the independent auditors' work.
- (c) Reviewing with the external auditors any audit problems or difficulties and management's response thereto and resolving any disagreement between management and the external auditors regarding accounting and financial reporting.
- (d) Reviewing with management and the external auditors the results of the year-end audit of the Corporation, including: (i) the annual financial statements and the audit report, the related management representation letter, the related "Memorandum Regarding Accounting Procedures and Internal Control" or similar memorandum prepared by the Corporation's independent auditors, any other pertinent reports and management's responses concerning such memorandum; and (ii) the qualitative judgments of the independent auditors about the appropriateness and not just the acceptability of accounting principles and financial disclosure practices used or proposed to be adopted by the Corporation including any alternative treatments of financial information that have been discussed with management, the ramification of their use and the independent auditor's preferred treatment as well as any other material communications with management and, particularly, about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates.

***Oversight of Financial Reporting Process and Internal Controls***

- (a) Reviewing with management and the external auditors the annual financial statements and accompanying notes, the external auditors' report thereon, the related management's discussion and analysis and the related press release, and obtaining explanations from management on all significant variances with comparative periods, before recommending approval by the Board and the release thereof.
- (b) Reviewing with management the quarterly financial statements, any auditors' review thereof, the related management's discussion and analysis and the related press release before approval.
- (c) Reviewing and periodically assessing the adequacy of the Corporation's procedures for the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, including reviewing the financial information contained in the annual information form, management proxy circular, management's discussion and analysis, prospectuses and other documents containing similar financial information before their public disclosure or filing with regulatory authorities, including the audit committee's report for inclusion in the Corporation's management information circular in accordance with applicable rules and regulations.
- (d) Periodically reviewing the Corporation's disclosure policy to ensure that it conforms with applicable legal and regulatory requirements.

- (e) Reviewing the adequacy and effectiveness of the Corporation's accounting and internal control policies and procedures through inquiry and discussions with the Corporation's independent auditors and management of the Corporation.
- (f) Monitoring the quality and integrity of the Corporation's disclosure controls and procedures and management information systems through discussions with management and the external auditors.
- (g) Overseeing management's reporting on internal controls and disclosure controls and procedures.
- (h) Reviewing on a regular basis and monitoring the Corporation's policies and guidelines which govern the Corporation's risk assessment and risk management, including the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including hedging policies through the use of financial derivatives.
- (i) Establishing and maintaining free and open means of communication between and among the Board of Directors, the Committee, the Corporation's independent auditors and management.

***Other Matters***

- (a) Assisting the Board with oversight of the Corporation's compliance with applicable legal and regulatory requirements, including meeting with general counsel and outside counsel when appropriate to review legal and regulatory matters, including any matters that may have a material impact on the financial statements of the Corporation.
- (b) Reviewing and approving any transactions between the Corporation and members of management and/or the Board as well as policies and procedures with respect to officers' expense accounts and perquisites, including the use of corporate assets. The Committee shall consider the results of any review of these policies and procedures by the Corporation's independent auditors.
- (c) Conducting or authorizing investigations into any matters within the Committee's scope of responsibilities, including retaining outside counsel or other consultants or experts as the Committee determines necessary to carry out its duties and to set and pay the compensation for these advisors.
- (d) Establishing procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
- (e) Establishing procedures for the review and approval of financial and related information of the Corporation.
- (f) Reviewing and approving the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

- (g) Performing such additional activities, and considering such other matters, within the scope of its responsibilities, as the Committee or the Board of Directors deems necessary or appropriate.

#### **IV. Meetings and Advisors**

The Committee will meet as often as it deems necessary or appropriate to perform its duties and carry out its responsibilities described above in a timely manner, but not less than quarterly. The quorum at any meeting of the Committee shall be a majority of its members. All such meetings shall be held pursuant to the By-Laws of the Corporation with regard to notice and waiver thereof.

The Audit Committee shall meet on a regular basis without management or the external auditors. The Committee, in its discretion, may ask members of management or others to attend its meetings (or portions thereof) and to provide pertinent information as necessary. As part of its mandate to foster open communications, the Committee shall meet at least annually, and more frequently as required, with management and the Corporation's independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups or persons believe should be discussed privately. The independent auditors will have direct access to the Committee at their own initiative. The Chairman should work with the Chief Financial Officer and management to establish the agenda for Committee meetings.

Written minutes of each meeting of the Committee shall be filed in the Corporation's records. The Chairman of the Committee will report periodically to the Board of Directors.

The Committee shall, in appropriate circumstances and subject to advising the Chairman of the Board, have the authority to engage and obtain advice and assistance from advisors, including independent or outside legal counsel and accountants, as it determines is necessary or appropriate to carry out its duties. The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of any compensation (i) to any independent auditors engaged for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Corporation, and (ii) to any independent advisors employed by the Committee.

#### **V. Disclosure of Charter**

The charter shall be published in the Corporation's annual information form or information circular as required by applicable securities laws.

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While the Committee has the duties and responsibilities set forth in this charter, the Committee is not responsible for planning or conducting the audit or for determining whether the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Similarly, it is not the responsibility of the Committee to ensure that the Corporation complies with all laws and regulations.

Nothing contained in this charter is intended to expand applicable standards of conduct under statutory or regulatory requirements for the directors of the Corporation or the members of the Audit Committee.