



SouthGobi
RESOURCES



SouthGobi
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Guidelines for investigations into allegations of serious wrongdoing

Contents

Introduction	3
Definitions	5
Guidelines	6
1.0 Reporting allegations of serious wrongdoing	6
2.0 Investigation Management	7
3.0 Investigation Reporting	9

Introduction

SouthGobi's commitment to compliance is established by its code of business conduct, ***The way we work***. A key aspect of our compliance program is that allegations or suspicions of wrongdoing are investigated effectively.

These *Guidelines for Investigation into Allegations of Serious Wrongdoing* ("**Investigation Guidelines**") set out and explain the actions and approach that should be taken in response to allegations of *serious wrongdoing* by SouthGobi or its employees.

The desired outcome of these Investigation Guidelines is to ensure that allegations of *serious wrongdoing* are handled in a consistent and appropriate manner by SouthGobi.

The objectives of these Investigation Guidelines are to:

- define those actions / events that constitute *serious wrongdoing*;
- provide instruction and guidance to management and employees on their role in the investigation relating to allegations of *serious wrongdoing*;
- provide instruction and guidance to management in relation to the escalation of allegations of *serious wrongdoing*;
- provide instruction and guidance to management in relation to the oversight and reporting of the investigation of allegations of *serious wrongdoing*; and
- ensure consistency in the approach to investigations of allegations of *serious wrongdoing*.

These Investigation Guidelines form part of SouthGobi's overarching compliance program, which comprises of the following additional policies and guidelines:

- *The way we work*, SouthGobi's code of business conduct;
- *Business Integrity (Anti-Corruption) Standard*;
- *Business Integrity (Conflicts of Interest) Standard*;
- the *Anti-trust Guidelines*;
- the *Anti-bribery Due Diligence Guidelines*;
- SouthGobi's internal controls; and
- EthicsPoint, through Navex Global, SouthGobi's whistle-blower system.

The Guidelines

These Investigation Guidelines provide guidance and recommend practices to assist SouthGobi in achieving the principles and standards of conduct set out in *The way we work*.

Application

These Investigation Guidelines apply to SouthGobi and its employees. Failure to comply with certain provisions of these Investigation Guidelines could result in disciplinary action up to and including termination.

If there is a conflict between these Investigation Guidelines and local law, SouthGobi will comply with the standard that is more stringent in the particular context.

Management

SouthGobi's Corporate Secretary is the custodian of these Investigation Guidelines. SouthGobi's Corporate Secretary and Board of Directors will formally review these Investigation Guidelines periodically.

Commencement

These Investigation Guidelines come into effect as of August 7, 2013 unless otherwise advised by SouthGobi's Corporate Secretary.

Questions and Additional Information

These Investigation Guidelines cannot cover all possible scenarios. If you have any questions or are in any doubt as to whether conduct would fall within the scope of these Investigation Guidelines, you should contact SouthGobi's Corporate Secretary.

References

The following documents are referred to in these Investigation Guidelines and are available from SouthGobi Compliance:

- *The way we work*
- *Business Integrity (Anti-Corruption) Standard*

Definitions

Defined terms in these Investigation Guidelines are italicized. In these Investigation Guidelines:

“**employee**” includes directors, officers and staff (whether permanent or casual, full time or part time) and temporary hires through an agency or firm.

“**fraud**” means dishonest and/or deceptive activity causing actual or potential loss, either financial or non-financial, to SouthGobi, a SouthGobi subsidiary or shareholder, or an employee, contractor or other individual or third party with whom SouthGobi transacts.

NOTE: Where a *fraud* amounts to a *serious wrongdoing* under this Standard, SouthGobi’s Corporate Secretary must commence the procedures set out in this Standard.

“**serious wrongdoing**” means any of the following:

1. Any allegation that a member of SouthGobi senior management or the most senior executive or the chief financial officer of a *subsidiary* has breached the law, an internal policy or standard (including *The way we work*), or a voluntary commitment entered into by SouthGobi on a global basis, regardless of the amount or severity of the alleged breach involved.
2. Any allegation that SouthGobi has been involved in a breach of applicable antitrust laws, regardless of the amount involved.
3. Any allegation that there has been a breach of the *Business Integrity (Anti-Corruption) Standard* in relation to a direct or indirect corrupt payment regardless of the amount involved.
4. Any allegation that is determined by a SouthGobi director, the Chief Executive Officer, Chief Financial Officer or Corporate Secretary as potentially having a major impact on SouthGobi’s reputation.
5. Any allegation of *material corporate irregularities*.

For this purpose:

- “**material**” means any matter where the sum(s) involved is, or the consequence if true would be, greater than US\$100,000; and
- “**corporate irregularities**” include breach of law, an internal policy or standard (including *The way we work*) or a voluntary commitment entered into by SouthGobi.

“**subsidiary**” includes all subsidiary companies and corporate offices of SouthGobi.

“**SouthGobi**” means SouthGobi Resources Ltd., and any subsidiary which is directly or indirectly wholly or majority owned, or managed, by SouthGobi Resources Ltd.

“**SouthGobi personnel**” means SouthGobi’s employees and contractors.

1.0 Reporting allegations of serious wrongdoing

- 1.1.1 Allegations or suspicions of an occurrence of *serious wrongdoing* must be immediately notified to SouthGobi's Corporate Secretary, Allison Snetsinger (Allison.Snetsinger@southgobi.com)
- 1.1.2 If the allegation of *serious wrongdoing* arises from the whistle-blower program, the whistle-blower administrator provider must immediately inform SouthGobi's Corporate Secretary. If the designated manager responding to a whistle-blower report determines that a call report may be an allegation of *serious wrongdoing*, the designated manager must immediately advise SouthGobi's Corporate Secretary and these Investigation Guidelines will then apply and SouthGobi's Corporate Secretary will proceed as set out in these Investigation Guidelines.
- 1.1.3 Upon receipt of a report, SouthGobi's Corporate Secretary will review and immediately forward the report to the Audit Committee for their further handling.
- 1.1.4 The Audit Committee will review the report and determine: (i) its level of importance and risk; (ii) whether an investigation is warranted and, if so, whether it should be undertaken at the corporate level or referred to the subsidiary; and (iii) the scope of investigation required. The Audit Committee will designate an appropriate person to oversee any such investigation.
- 1.1.5 Some allegations may be very serious but may be appropriately investigated by senior management within a subsidiary.
- 1.1.6 Health, Safety & Environment will continue to manage investigations of health, safety and environmental incidents unless it becomes apparent that it is likely that such incidents involve *serious wrongdoing* in which case the procedure in these Investigations Guidelines will be used.

2.0 Investigation Management

- 2.1.1 An investigation overseen by the Audit Committee will be conducted having regard to these Investigation Guidelines.
- 2.1.2 Individuals implicated in an allegation of *serious wrongdoing* must not conduct, or be involved in the direction of, an investigation that relates to them.
- 2.1.3 A *subsidiary* with direct control of evidence, electronic records, documents, property or assets relevant to the allegation of *serious wrongdoing* should, as soon as it becomes aware of the allegation of *serious wrongdoing*, implement measures to secure them and prevent their destruction. In addition, where the situation is urgent and cannot await the involvement of the Audit Committee, a *subsidiary* should take appropriate action to stop any activity that would lead to further loss or other injury, even though an investigation has not commenced.
- 2.1.4 Where there are dealings with the police or similar law enforcement agencies, the Audit Committee or the subsidiary's legal department, if any, must be involved in such dealings.
- 2.1.5 The cost of any investigation conducted under these Investigation Guidelines will be borne by the profit/cost centre in respect of which the allegation or the suspicion has arisen, unless decided otherwise by the Audit Committee.
- 2.1.6 Investigations under these Investigation Guidelines must be fair, objective and thorough, should analyze the root cause of incidents, and should document the investigation process, investigation results and any required follow-up actions. Follow-up actions must be tracked and reported.
- 2.1.7 The Audit Committee may from time to time delegate its responsibilities under these Investigation Guidelines, including investigation oversight, to a qualified nominee.
- 2.1.8 In circumstances where preservation of privilege (and/or confidentiality of legal advice in civil law jurisdictions) is critical, the Audit Committee will consider engaging external counsel to advise on the matter.
- 2.1.9 The Audit Committee will advise all relevant parties regarding appropriate measures to secure and to prevent the destruction of any evidence, electronic records or documents relevant to the investigation, or to prevent loss of property or assets. The SouthGobi Information Technology department or its information technology service provider, as the case may be, is able to provide advice on measures to secure information technology.
- 2.1.10 In extraordinary circumstances where the absence of any perception of conflict is critical, the Audit Committee may decide that the investigation needs to be conducted by a party independent of SouthGobi.

- 2.1.11 The team involved in an investigation at the corporate level could typically include members of SouthGobi's senior management and/or Human Resources.

3.0 Investigation Management continued

- 3.1.1 SouthGobi's Corporate Secretary and Investor Relations should immediately be informed and consulted when investigations involve contact with external police agencies, trigger exchange reporting requirements, may be subject to media coverage, or indicate facts which may have high reputational damage for SouthGobi.
- 3.1.2 The investigation plan should establish a timeframe for the investigation. Ordinarily, the investigation should start immediately and proceed expeditiously. Delay risks the loss of evidence and the appearance of corporate inaction.
- 3.1.3 It is recognized that at times the investigation process may need to work in tandem with other corporate processes.
- 3.1.4 For investigations conducted at the *subsidiary* level, the *subsidiary* is required to apply the principles set out in these Investigation Guidelines. Local laws and circumstances will have to be taken into account in the planning and conduct of an investigation.

4.0 Investigation Reporting

- 4.1.1 The Chairperson of the Audit Committee must immediately inform the Chief Executive Officer of any decision to undertake an investigation at the corporate level into an allegation of *serious wrongdoing*. In addition, other senior management and directors must be informed as well.
- 4.1.2 SouthGobi's Corporate Secretary will maintain a record of all allegations of *serious wrongdoing* referred to the Audit Committee in accordance with these Investigation Guidelines, including the investigation process and the outcome. The record will clearly indicate when its contents include legal advice and conclusions.

Progress Reports

- 4.1.3 The internal and external investigators must provide regular reports to the Audit Committee detailing progress at a frequency to be determined in light of the nature of the allegations.
- 4.1.4 The Audit Committee will in turn report to the Board of Directors at appropriate intervals.
- 4.1.5 The Audit Committee will consult with senior management in the relevant *subsidiary* to determine appropriate reporting to its management.

Final Reports

- 4.1.6 The Audit Committee will review all Investigation Reports before they are

released in final form.

- 4.1.7 The Audit Committee will provide the final investigation report and obtain and report on any legal advice required by the report's findings, as well as determine the appropriate release for the report, its recommendations and the consequent actions.
- 4.1.8 The final outcome of an investigation into *serious wrongdoing* and recommendations should be reported as set out in Section 4.1.4 by the Chairperson of the Audit Committee to the Board of Directors in quarterly meetings or earlier if deemed appropriate.
- 4.1.9 Subject to the determination referred to in Section 4.1.7, the Chairperson of the Audit Committee will inform the relevant *subsidiary* of the investigation report's findings and recommendations as appropriate.
- 4.1.10 The record of allegations of *serious wrongdoing* maintained by SouthGobi's Corporate Secretary could include the following:
- a) date the allegation was reported to SouthGobi's Corporate Secretary (and other significant dates in the chain of reporting, where applicable);
 - b) how the allegation was made or suspicion arose (e.g. through a subsidiary, through EthicsPoint, the SouthGobi's whistle-blower program);
 - c) the *subsidiary* to which the matter relates;
 - d) details of the allegation / suspicion;
 - e) whether the matter was investigated;
 - f) details of any investigation that took place (including the investigation process);
 - g) details of legal advice that was received / conclusion reached; and
 - h) investigation outcome, including follow-up actions.

SouthGobi's Corporate Secretary will keep the record with a view to maintaining any legal privilege and confidentiality of legal advices relating to the entries.

- 4.1.11 Progress reports will take into account the requirements of stock exchange reporting requirements and the need to preserve confidentiality and privilege, where applicable. It is recognized that some very serious matters may have to be reported more frequently. Such reports will clearly indicate when their contents include legal advice and conclusions.
- 4.1.12 When evaluating a final report (or progress reports, as applicable), the Audit Committee will consider:
- a) if information from the report should be publicly disclosed under SouthGobi's

continuous disclosure obligations under applicable securities laws or stock exchange rules or otherwise and advise the Disclosure Committee accordingly;

- b) whether any external or regulatory authorities need to be informed of any matters associated with the investigation;
- c) the response provided to the initial source of the allegations, including following appropriate whistle-blower protocols where applicable;
- d) in conjunction with Human Resources, whether additional legal advice is required on employment disciplinary action or other legal issues arising from the investigations;
- e) whether there are to be changes to procedures and systems, training, standards and policies;
- f) what information should be disseminated generally throughout SouthGobi; and
- g) individual responsibility for implementing and tracking any recommendations.

4.1.13 SouthGobi's Corporate Secretary will consult periodically with Human Resources and other functions as appropriate in the design and implementation of policies, standards, and training to address risks which may be revealed in the course of investigations.

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