

**SOUTHGOBI RESOURCES LTD.**

**Annual Information Form**

For the year ended  
December 31, 2015

Dated March 29, 2016

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## DEFINITIONS AND OTHER INFORMATION

### Currency and Exchange Rates

In this Annual Information Form, all funds are quoted in United States dollars unless otherwise indicated. References to "\$" and "US\$" are to United States dollars, references to "Cdn\$" are to Canadian dollars and references to "HK\$" are to Hong Kong dollars.

The Bank of Canada noon buying rates for the purchase of one United States dollar using Canadian dollars were as follows during the indicated periods:

(Stated in Canadian dollars)

|                        | Year Ended December 31 |        |        |
|------------------------|------------------------|--------|--------|
|                        | 2015                   | 2014   | 2013   |
| End of period          | 1.3840                 | 1.1601 | 1.0636 |
| High for the period    | 1.3990                 | 1.1643 | 1.0697 |
| Low for the period     | 1.1728                 | 1.0614 | 0.9839 |
| Average for the period | 1.2787                 | 1.1045 | 1.0299 |

The Bank of Canada noon buying rate as of March 24, 2016 for the purchase of one United States dollar using Canadian dollars was Cdn\$1.318 (one Canadian dollar on that date equalled US\$0.76).

The Bank of Canada noon buying rates for the purchase of one Hong Kong dollar using Canadian dollars were as follows during the indicated periods:

(Stated in Canadian dollars)

|                        | Year Ended December 31 |        |        |
|------------------------|------------------------|--------|--------|
|                        | 2015                   | 2014   | 2013   |
| End of period          | 0.1786                 | 0.1496 | 0.1372 |
| High for the period    | 0.1805                 | 0.1501 | 0.1380 |
| Low for the period     | 0.1512                 | 0.1369 | 0.1269 |
| Average for the period | 0.1649                 | 0.1424 | 0.1328 |

The Bank of Canada noon buying rate as of March 28, 2016 for the purchase of one Hong Kong dollar using Canadian dollars was Cdn\$0.17 (one Canadian dollar on that date equalled HK\$5.88).

### Defined Terms and Abbreviations

Throughout this Annual Information Form there are terms that are defined and used only in the relevant section in which they are defined. There are also a number of defined terms and abbreviations that are used consistently throughout the document as follows:

"**2006 Minerals Law**" means the Minerals Law of Mongolia, enacted on July 8, 2006, and effective from August 26, 2006, as the same may be amended and supplemented from time to time.

"**Addendum**" means the March 2007 addendum to the EIA for the Ovoot Tolgoi Deposit.

"**Anti-Corruption Case**" means the investigations by IAAC regarding allegations of breaches of Mongolia's anti-corruption laws by the Former Employees and SGS.

"**Articles**" means the Articles of Continuation of the Company dated May 29, 2007.

"**ASTM**" means American Society for Testing Materials.

"**Audit Committee**" means a committee of the Board formed for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company.

"**BCBCA**" means the *Business Corporations Act* (British Columbia), as amended and supplemented from time to time.

"**Biluut**" means the area delineated and identified as the Biluut coal field in the Soumber Deposit.

"**Board**" means the board of directors of the Company.

"**Canadian Securities Administrators**" means the securities regulators of each province and territory of Canada.

"**CDIA**" means the Court Decision Implementing Agency of Mongolia.

"**Ceke**" means the PRC coal distribution terminal at the Shivee Khuren Border Crossing.

"**Central Soumber**" means the area delineated and identified as the Central Soumber coal field in the Soumber Deposit.

"**CIC**" means China Investment Corporation or any wholly-owned subsidiary thereof.

"**CIC Subco**" means Land Breeze II S.à.r.l., a wholly-owned subsidiary of CIC.

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

"**Class Action**" means the class action lawsuit in Canada against the Company, certain of its former senior officers and current directors, and the Company's former auditor relating to the Restatement.

"**CNAS**" means China National Accreditation Service for Conformity Assessment.

"**Common Shares**" means common shares without par value in the capital of the Company.

"**Company**" or "**SouthGobi**" means SouthGobi Resources Ltd. and includes, as the context requires, one or more of its subsidiaries.

"**Compensation and Benefits Committee**" means a committee of the Board formed to discharge the Board's responsibilities relating to compensation and benefits of directors and executive officers of the Company.

"**Convertible Debenture**" means the convertible debenture issued by the Company to CIC on October 26, 2009 and assigned by CIC to CIC Subco on November 19, 2009.

"**CSR**" means corporate social responsibility.

"**DCHF**" means the dry coal handling facility located at the Ovoot Tolgoi Mine.

"**December 2014 Private Placement**" means the private placement of Common Shares completed on December 3, 2014 raising gross proceeds of approximately US\$9.0 million.

"**District Court**" means the First Instance Second District Criminal Court of Justice of Mongolia.

"**East Soumber**" means the area delineated and identified as the East Soumber coal field in the Soumber Deposit.

"**Ejin Jinda**" means Ejinaqi Jinda Coal Industry Co. Ltd.

"**EIA**" means Environmental Impact Assessment.

"**EMP**" means Environmental Management Plan.

"**EPP**" means Environmental Protection Plan.

"**FIL**" means Foreign Investment Law of Mongolia.

"**Forest Law of Mongolia**" means the Law on Forests of Mongolia of May 17, 2012, as amended.

"**Former Employees**" means the three former employees of SGS named as defendants in the Tax Evasion Case.

"**GMCD**" means Geology and Mining Cadastre Division.

"**Government of Mongolia**" or "**Mongolian Government**" means the executive branch of the government of Mongolia, whether state, regional or local, and any agency, authority, branch, department, regulatory body or other entity exercising executive, taxing, regulatory or administrative powers of or pertaining to the government of Mongolia, and all officials, agents and representatives of each of the foregoing.

"**GSC**" means Geological Survey of Canada.

"**GSC Paper 88-21**" means Paper 88-21 of the GSC titled "A Standardized Coal Resource/Reserve Reporting System for Canada", dated 1989, as amended.

"**HKSFCC**" means the Hong Kong Securities and Futures Commission.

"**IAAC**" means the Mongolian Independent Authority Against Corruption.

"**IFRS**" means International Financial Reporting Standards.

"**ISO**" means the International Organization for Standardization.

"**Jargalant**" means the area delineated and identified as the Jargalant coal field in the Soumber Deposit.

"**Land Law of Mongolia**" means Law on Land of Mongolia enacted on June 7, 2002, as amended.

"**LIBOR**" means the London Interbank Offered Rate, the rate charged by one bank to another for lending money.

"**MAK**" means Mongolyn Alt MAK LLC.

"**MAK-Qinghua**" means the joint venture between MAK and Qinghua.

"**MBGS**" or "**McElroy Bryan**" means McElroy Bryan Geological Services.

"**MD&A**" means the Company's Management's Discussion and Analysis of Financial Condition and Results of Operation for the 12 month period ended December 31, 2015.

"**MEL**" means a Mongolian mineral exploration licence.

"**Mineral Deposit of Strategic Importance**" means, under the 2006 Minerals Law, a deposit that may have the potential to impact national security, or the economic and social development of Mongolia at the national and regional levels, or that is generating, or has the potential to generate, more than 5% of Mongolia's gross domestic product in any given year.

"**Mining Prohibition in Specified Areas Law**" means the Law on Prohibition against Exploration and Mining in Headwater Areas, Protected Zones for Water Reserves and Forest Lands of July 16, 2009, as amended.

"**MNT**" means togrog or tugrik, the legal currency of Mongolia.

"**MRAM**" means the Mineral Resources Authority of Mongolia.

"**Nariin Sukhait Mine**" means the coal mine operated by Mak-Qinghua located immediately north of the Sunrise Field of the Ovoot Tolgoi Mine.

"**NI 43-101**" means National Instrument 43-101 *Standards of Disclosure for Mineral Projects* of the Canadian Securities Administrators.

"**NI 51-102**" means National Instrument 51-102 *Continuous Disclosure of Obligations* of the Canadian Securities Administrators.

"**Nominating and Corporate Governance Committee**" means a committee of the Board formed to assist the Board in fulfilling its oversight responsibilities with respect to appointment and election of individuals to the Board and developing corporate governance guidelines for the Company.

"**Norwest**" means Norwest Corporation of Salt Lake City, Utah.

"**Novel Funding Plan**" means the funding plan developed by the Company and Novel Sunrise as part of the Novel Private Placement, with the intention of improving cash flow for the Company and support its business strategy and operations.

"**Novel Private Placement**" means the two tranche private placement with Novel Sunrise pursuant to the terms of a private placement agreement entered into between the Company and Novel Sunrise on February 24, 2015.

"**Novel SPA**" means the agreement between Turquoise Hill and Novel Sunrise for the sale of 48,705,155 Common Shares, representing 22.26% of the Company's issued and outstanding Common Shares at the time, owned by Turquoise Hill to Novel Sunrise.

"**Novel Sunrise**" means Novel Sunrise Investments Limited, an investment holding company registered in the British Virgin Islands.

"**NUR**" means National United Resources Holdings Limited.

"**NUR SPA**" means the agreement between Turquoise Hill and NUR for the sale of 56,102,000 Common Shares, representing 29.95% of the Company's total issued and outstanding Common Shares at the time, owned by Turquoise Hill to NUR.

"**Ontario Court**" means the Ontario Superior Court of Justice in Canada.

"**OT LLC**" means Oyu Tolgoi LLC (formerly Ivanhoe Mines Mongolia Inc. LLC), a company incorporated under the laws of Mongolia and a subsidiary of Turquoise Hill.

"**Ovoot Tolgoi Deposit**" means the Company's coal exploration, development and production projects at Ovoot Tolgoi, including the Ovoot Tolgoi Mine and the Ovoot Tolgoi Underground Deposit.

"**Ovoot Tolgoi Mine**" means the Company's operating pit coal mine at Ovoot Tolgoi which is comprised of the Sunrise and Sunset open pit coal mines.

"**Ovoot Tolgoi Technical Report 2012**" means the preliminary feasibility study and technical report on the Ovoot Tolgoi Deposit dated March 19, 2012, prepared by RungePincockMinarco.

"**Ovoot Tolgoi Underground Deposit**" means the Company's underground development project at Ovoot Tolgoi.

"**Parliament of Mongolia**" means the State Great Khural of Mongolia.

"**PMA**" means pre-mining agreement.

"**PRC**" means the People's Republic of China, and references in this Annual Information Form to the PRC or China exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan.

"**Preferred Shares**" means preferred shares without par value in the capital of the Company.

"**PwC**" means PricewaterhouseCoopers, LLP.

"**Qinghua**" means Inner Mongolia Qinghua Group, a company incorporated under the laws of the PRC.

"**qualified person**" or "**QP**" means an individual who: (i) is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation, or mineral project assessment, or any combination of these; (ii) has experience relevant to the subject matter of the mineral project; and (iii) is a member or licensee in good standing of a professional association as defined by NI 43-101.

"**Renminbi**" means the lawful currency of the PRC.

"**Restatement**" means the decision by the Board in November 2013 to restate the Company's 2011 and 2012 financial statements.

"**Rio Tinto**" means Rio Tinto plc together with its direct and indirect subsidiaries.

"**RungePincockMinarco**" means RungePincockMinarco, a company listed on the Australian Stock Exchange under the symbol "RUL", and formerly known under the trade name "Minarco-MineConsult" including the times during which it published the Ovoot Tolgoi Technical Report 2012, the Soumber Technical Report and the Zag Suuj Technical Report.

"**Sapphire**" means Sapphire Geo Ltd., a company established under the laws of Mongolia.



"**SEHK**" means The Stock Exchange of Hong Kong Limited.

"**SGS**" means SouthGobi Sands LLC, a wholly-owned subsidiary of the Company.

"**SIA**" means the Mongolian State Investigation Office.

"**Shareholders**" means holders of the Common Shares, and "**Shareholder**" means any one holder of the Common Shares.

"**Shivee Khuren Border Crossing**" means the Shivee Khuren-Ceke crossing at the Mongolia-PRC border.

"**SGQ Coal**" means SGQ Coal Investment Pte. Ltd., a wholly-owned subsidiary of the Company.

"**Strategic Deposits List**" means a list of 15 deposits designated by the Parliament of Mongolia to be Mineral Deposits of Strategic Importance.

"**Soumber**" means, together, the areas delineated and identified as the Central Soumber and East Soumber coal fields in the Soumber Deposit.

"**Soumber Deposit**" means the Company's coal exploration project located approximately 20km east of the Sunrise Pit comprised of the Central Soumber, East Soumber, South Biluut, Biluut and Jargalant fields.

"**Soumber Technical Report**" means the technical report on Soumber dated March 25, 2013, prepared by RungePincockMinarco (known as Minarco-MineConsult as of the date of such report).

"**South Biluut**" means the area delineated and identified as the South Biluut coal field in the Soumber Deposit.

"**Sunrise Field**" means the area of the coal deposit that comprises both the surface and underground resources in the area delineated and identified as the Sunrise Field in the Ovoot Tolgoi Technical Report 2012.

"**Sunrise Pit**" means the area of the coal deposit delineated and identified as the Sunrise Pit in the Ovoot Tolgoi Deposit.

"**Sunset Field**" means the area of the coal deposit that comprises both the surface and underground resources in the area delineated and identified as the Sunset Field in the Ovoot Tolgoi Technical Report 2012.

"**Sunset Pit**" means the area of the coal deposit delineated and identified as the Sunset Pit in the Ovoot Tolgoi Deposit.

"**TAG**" means The Americas Group.

"**Takeovers Code**" means the Codes of Takeovers and Mergers and Share Buy-back, which are issued by the Hong Kong Securities and Futures Commission.

"**Tanan Impex**" means Tanan Impex Co. Ltd.

"**Tax Evasion Case**" means the investigations by IAAC regarding allegations of tax evasion and money laundering by the Former Employees and SGS.

"**Tax Verdict**" means the January 30, 2015 verdict of the District Court finding (i) the Former Employees guilty of tax evasion and imposed sentences on the Former Employees ranging from 5 years and 6 months to 5 years

and 10 months of imprisonment in the correctional facilities of strict regimen in Mongolia, and (ii) the Company liable as a civil defendant for a monetary penalty of approximately US\$18 million.

"**Tier 2 Deposits List**" means the list of 39 deposits designated by the Parliament of Mongolia as subject to further investigation by the Government of Mongolia in order to determine if one or more of such deposits should be designated as a Mineral Deposit of Strategic Importance.

"**TRQ**" or "**Turquoise Hill**" means Turquoise Hill Resources Ltd., a corporation incorporated under the laws of the Yukon.

"**TRQ Singapore**" means Turquoise Hill Resources Singapore Pte. Ltd., a wholly-owned subsidiary of TRQ.

"**TSX**" means the Toronto Stock Exchange.

"**Turquoise Hill Facility**" means the shareholder loan provided by TRQ to SGS and SGQ Coal as borrowers in the principal amount of \$10 million.

"**United States**" means the United States of America, its territories, its possessions and all areas subject to its jurisdiction.

"**VAT**" means value added tax.

"**Water Law of Mongolia**" means the Law of Mongolia on Water enacted on May 17, 2012, as amended.

"**Zag Suuj Deposit**" means the Company's coal exploration project located approximately 150km east of the Ovoot Tolgoi Deposit.

"**Zag Suuj Technical Report**" means the technical report on the Zag Suuj Deposit dated March 25, 2013, prepared by RungePincockMinarco (known as Minarco-MineConsult as of the date of such report).

## Conversion Factors

For ease of reference, the following conversion factors are provided:

| Imperial Measure =      | Metric Unit  | Metric Unit =     | Imperial Measure   |
|-------------------------|--------------|-------------------|--------------------|
| 2.47 acres              | 1 hectare    | 0.4047 hectares   | 1 acre             |
| 3.28 feet               | 1 m          | 0.3048 m          | 1 foot             |
| 0.62 miles              | 1 km         | 1.609 km          | 1 mile             |
| 0.032 ounces (troy)     | 1 gram       | 31.1 grams        | 1 ounce (troy)     |
| 2.205 pounds            | 1 kilogram   | 0.454 kilograms   | 1 pound            |
| 1.102 tons (short)      | 1 tonne      | 0.907 tonnes      | 1 ton              |
| 0.029 ounces (troy)/ton | 1 gram/tonne | 34.28 grams/tonne | 1 ounce (troy)/ton |

## Glossary of Geological and Mining Terms

**ad:** air dried basis (in reference to the moisture content of coal samples).

**ar:** as received basis (in reference to the moisture content of coal samples).

**cv:** means calorific value.

**fault:** a fracture in rock along which the adjacent rock surfaces are differentially displaced.

**FSI:** free swelling index (as a measure of coking properties of coal).

**ha:** hectares.

**indicated mineral resource:** 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 test 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.

**inferred mineral resource:** that part of a mineral resource for which the 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.

**kcal:** kilocalorie.

**km:** kilometres.

**km<sup>2</sup>:** square kilometres.

**lb:** pound.

**logged:** measured and described.

**m:** metres.

**measured mineral resource:** that part of a mineral resource for which quantity, grade or quality, densities, shape and 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.

**metallurgic coal:** various grades of coal suitable for making steel, such as coking coal.

**mineral reserve:** 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, and 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.

**mineral resource:** a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such form and quantity and of such a 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.

**mm:** millimetres.

**Mt:** million tonnes.

**PCD:** polycrystalline.

**preliminary feasibility study, pre-feasibility study or PFS:** a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established and an effective method of mineral processing has been determined, and includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the mineral resource may be classified as a mineral reserve.

**probable reserve:** the economically mineable part of an indicated 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.

**proven reserve:** 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 can be justified.

**RC:** reverse circulation.

**ROM:** run-of-mine.

**seam:** a stratum or bed of coal or other mineral; generally applied to large deposits of coal.

**splits:** the division of a bed of coal into two or more horizontal sections by intervening rock strata.

**strike:** the direction, or course or bearing, of a vein or rock formation measured on a level surface.

**thermal coal:** coal that is used primarily for its heating value and that tends not to have the carbonization properties possessed by metallurgic coal.

## FORWARD LOOKING STATEMENTS

Certain statements made herein, including statements relating to matters that are not historical facts and statements of the Company beliefs, intentions and expectations about developments, results and events which will or may occur in the future constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information and statements are typically identified by words such as "anticipate," "could", "should", "expect", "seek", "may", "intend", "likely", "plan", "estimate", "will", "believe" and similar expressions suggesting future outcomes or statements regarding an outlook. Forward-looking statements are based on the opinions and estimates of management at the times the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These statements include, but are not limited to, statements regarding:

- anticipated stock market conditions, the future prices of the Common Shares and ownership thereof;
- the Company's anticipated business activities, planned expenditures and corporate strategies;
- the Company's intention to develop markets for its semi-soft coking coal brands and to pursue long-term supply offtake agreements with end users in the PRC;
- costs relating to anticipated capital expenditures and the 2016 exploration program;
- the Company's anticipated financing needs, development plans and future production levels;
- expected impacts of the remaining administrative restrictions on certain of the Company's Mongolian assets and the anticipated impact on the Company's activities;
- the results and impact of the Class Action;
- the ability of the Company to satisfy the Tax Penalty (as defined under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS – Investigations by the Mongolian Government" in this Annual Information Form);
- the potential effect of the list of licenses published by the Government of Mongolia covering areas in which exploration and mining is purportedly prohibited on the Company's mining licenses;
- the Company's expectations of sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments, including the Company's ability to secure additional funding and to meet its obligations under the Convertible Debenture and the Turquoise Hill Facility, as the same become due;
- the possible impact of changes to the inputs to valuation model used to value the embedded derivatives in the Convertible Debenture;
- the estimates and assumptions included in the Company's impairment analysis and the possible impact of changes thereof;
- the possible impacts of changes in useful life or depreciation rates on depreciation expenses;

- the potential effects of a difference between future cash flows and profits from estimates;
- the Company's plans to file a technical report for the new mineral resource estimate described herein for the Ovoot Tolgoi Mine and the timing thereof;
- the results of the Company's mine plan optimization efforts in respect of the Ovoot Tolgoi Mine and corresponding mineral reserve evaluation process;
- the ability for higher-ash product to be sold as a thermal coal product and the type of coal products being produced;
- the ability of the Company to successfully review the utilization of the wet washing facility and enhance the quality of its coal products through a beneficiation process based on wet washing;
- the agreement with Ejin Jinda and payments thereunder;
- the future mining operations at the Soumber Deposit being allowed to share the existing infrastructure with the Ovoot Tolgoi Mine;
- plans for the progress of mining license application processes;
- future coal market conditions in PRC and the related impact on the Company's margins and liquidity;
- the outcome of the issues described under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS" in this Annual Information Form;
- business outlook, including the outlook for the remainder of 2016 and beyond;
- the implementation and impact of the Novel Funding Plan and actions to be taking under the Novel Funding Plan;
- the Company continuing as a going concern and its ability to realize its assets and discharge its liabilities in the normal course of operations as they become due; adjustments to the amounts and classifications of assets and liabilities in the Company's financial statements and the impact thereof; the Company's objectives for the remainder of 2016 and beyond;
- the capacity and future toll rate of the paved highway;
- the impact of amendments to, or the application of the laws of Mongolia and other countries in which the Company carries on business;
- the impact of the Company's activities on the environment and actions taken for the purpose of mitigation of potential environmental impacts and planned focus on health, safety and environmental performance;
- the outcome of legal proceedings involving the Company and its former Chief Executive Officer, Mr. Alexander Molyneux;
- the outcome of arbitration proceedings involving the Company and First Concept Logistics Limited with respect to a coal supply agreement and payments thereunder;

- greenfield development options with the Soumber Deposit and Zag Suuj Deposit; and
- other statements that are not historical facts.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. All such forward-looking information and statements are based on certain assumptions and analyses made by the Company's management at the time the statements are made in light of their experience and perception of historical trends, current conditions (which include, but are not limited to, scientific and technical information used in the Ovoot Tolgoi Technical Report 2012, the Soumber Technical Report and the Zag Suuj Technical Report) and expected future developments, as well as other factors management believes are appropriate in the circumstances. These statements, however, are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information or statements. Assumptions on which these forward-looking statements are based include, but are not limited to, assumptions regarding: the global economic environment; the timing and receipt of regulatory approvals; the coverage of mining leases; the availability of financing for activities when required and on acceptable terms; current and projected coal prices; coal markets; costs and availability of drilling services and heavy equipment, supplies and personnel; the accuracy of component costs of capital and operating cost estimates; the accuracy of the interpretation of drill results and the estimation of mineral resources and reserves; the consistency of future exploration, development of mining results with the Company's expectations; taxes, royalties and other government levies on mining operations; and the economic, political and legal climate in the PRC and Mongolia. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. A discussion of these and other factors that could cause actual results to differ from these forward-looking statements include those described under the heading "Risk Factors" elsewhere in this Annual Information Form. The reader is cautioned not to place undue reliance on forward-looking information or statements.

The Company does not assume the obligation to revise or update any forward-looking information or statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events, except as may be required by law.



## CORPORATE STRUCTURE

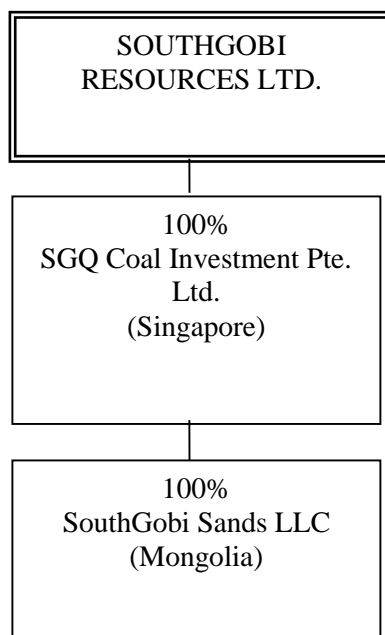
### Name, Address and Incorporation

The Company was incorporated on February 14, 2002, pursuant to the *Company Act* (British Columbia) under the name 5119 Investments Ltd. The Company changed its name to MX Capital Corp. on March 28, 2002, and then continued under the *Canada Business Corporations Act* on November 4, 2002. On August 26, 2003, the Company changed its name to Asia Gold Corp. On September 22, 2003, the Company consolidated its Common Shares on a six for one basis. On May 29, 2007, the Company was continued under the BCBCA, changed its name to SouthGobi Energy Resources Ltd. and reorganized its authorized capital to create a class of shares separate from the Common Shares, consisting of an unlimited number of Preferred Shares. On May 11, 2010 the Company changed its name to SouthGobi Resources Ltd.

The Company's head office and registered office are located at 1100 – 355 Burrard Street, Vancouver, British Columbia, Canada, V6C 2G8.

### Intercorporate Relationships

The following sets forth the name and jurisdiction of incorporation of the Company and its principal subsidiaries:



## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

The Company is an integrated coal mining, development and exploration company. Since acquiring significant coal assets in Mongolia in a series of transactions with Turquoise Hill, the Company's strategic focus has been developing and operating its coal mining projects.

The Company is an integrated coal mining, development and exploration company with 354 employees as at December 31, 2015. The Company's Common Shares trade on the Toronto Stock Exchange ("TSX") under the symbol SGQ and on the Hong Kong Stock Exchange ("HKEX") under the stock code symbol 1878.

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at March 29, 2016, 257.7 million common shares were issued and outstanding. There are also incentive share options outstanding to acquire 2.1 million unissued common shares with exercise prices ranging from CAD\$0.29 to CAD\$9.43. There are no preferred shares outstanding.

As at March 29, 2016, Novel Sunrise holds a total of approximately 72.1 million Common Shares representing approximately 28.0% of the issued and outstanding Common Shares.

As at March 29, 2016, CIC holds a total of 49.9 million Common Shares representing approximately 19.4% of the issued and outstanding Common Shares.

As at March 29, 2016, Turquoise Hill directly owned approximately 46 million Common Shares representing approximately 17.9% of the issued and outstanding Common Shares.

The Company owns the following significant coal projects in Mongolia: the Ovoot Tolgoi Mine and two development projects, the Soumber Deposit and the Zag Suuj Deposit. These projects are located in the Umnugobi Aimag (South Gobi Province) of Mongolia, within 150km of each other and in close proximity to the Mongolia-PRC border. The Company owns a 100% interest in the Ovoot Tolgoi Mine.

### Context

The Ovoot Tolgoi Mine, strategically located approximately 40km from the Shivee Khuren Border Crossing, is the Company's flagship asset.

The Ovoot Tolgoi Mine, together with the Ovoot Tolgoi Underground Deposit, forms the Ovoot Tolgoi Deposit. The Ovoot Tolgoi Deposit is separated into two distinct areas, the Sunrise and Sunset Pits. The Company commenced open pit mining at Ovoot Tolgoi's Sunset Pit in April 2008 and commenced coal sales in September 2008. In August 2011, the Company commenced open pit mining and sales at the Sunrise Pit. Products from the Ovoot Tolgoi Mine include coals with coking (or metallurgical) applications, primarily the Company's premium coal (that is coal containing less than 10% ash) ("Premium Coal"), standard semi-soft coking coal (that is coal containing 10-15% ash) ("Standard Coal") and high ash coal, which is sold as a thermal coal (that is coal containing more than 15% ash) ("Thermal Coal") product as and when the markets allow. The primary market for sale of coal produced from the Ovoot Tolgoi Mine by the Company is the PRC. The Ovoot Tolgoi Mine is covered by the Ovoot Tolgoi Mining Licence (as defined herein), a single 9,312.27ha mining licence, and a corresponding permit to mine.

The Soumber Deposit, comprising the Central Soumber, East Soumber, Biluut, South Biluut and Jargalant Fields, is located approximately 20km east of the Ovoot Tolgoi Mine, which will allow any future mining operation at the Soumber Deposit to share existing infrastructure with the Ovoot Tolgoi Mine. A NI 43-101 compliant resource has been established and exploration results indicate potential for thick coking coal seams.

The Zag Suuj Deposit is located approximately 150km east of the Ovoot Tolgoi Mine and approximately 80km north of the Mongolia-PRC border. A NI 43-101 compliant resource has been established for the Zag Suuj

Deposit. Exploration results indicate potential for thick coal seams and it is anticipated that the coals from the Zag Suuj Deposit can be washed to produce a coking coal or coking coal blend product.

The Ovoot Tolgoi Underground Deposit is contiguous to, and located directly below, the Ovoot Tolgoi Mine. In the context of current coal market conditions, and in particular, a significant decline in coal prices in China, the Company's principal market, underground mineralization is now assessed by the Company as not having reasonable prospects for eventual economic extraction.

For a description of the Ovoot Tolgoi Mining Licence refer to "DESCRIPTION OF MATERIAL PROPERTIES – Qualified Persons – *Property Description and Location*" in this Annual Information Form.

### **Three Year History**

#### *2013*

In March 2013, the Company announced the recommencement of mining activities at the Ovoot Tolgoi Mine.

In March 2013, SouthGobi announced updated NI 43-101 compliant resource estimates for the Soumber and Zag Suuj Deposits.

In April 2013, Mr. Bertrand Troiano, a seconded employee of Rio Tinto, was appointed Chief Financial Officer of the Company.

In July 2013, SouthGobi announced the appointment of Mr. Enkh-Amgalan Sengee as President and Executive Director of SGS and the appointment of Mr. Brett Salt to the position of Chief Commercial Officer of the Company. Mr. Salt resigned from the Board effective August 1, 2013.

In August 2013, the Company announced the receipt of three PMAs from MRAM relating to the Zag Suuj Deposit and certain areas of the Soumber Deposit.

In September 2013, Mr. Bold Baatar was appointed as a non-executive director of the Company.

In November, 2013, the Company announced that it was conducting a review of the DCHF project and its contribution to the Company's product strategy, and that an impairment loss on the DCHF may be required depending on the outcome of the review.

In November 2013, the Company announced the need to undertake the Restatement.

In December 2013, the Company completed the Restatement by filing restated consolidated financial statements for the years ended December 31, 2011 and December 31, 2012 with the relevant securities authorities.

#### *2014*

In January 2014, the Company announced the Class Action. For more information on the risks associated with the Class Action, refer to the Risk Factor entitled "*Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of any potential losses, if any*" in this Annual Information Form.

In May 2014, Messrs. Lindsay Dove and Sean Hinton did not stand for re-election at the annual general meeting held May 6, 2014 and ceased to be directors at that date.

In May 2014, the Company announced that Turquoise Hill had agreed to provide the Turquoise Hill Facility.

In June 2014, the Company announced that the exemption granted to the Company by the HKSFSC pursuant to the Takeover Codes in 2010, with respect to the Company's secondary listing status on the SEHK, had been withdrawn and that the Company would be considered a public company in Hong Kong for matters relating to the Takeovers Code.

On June 24, 2014, it was announced that the District Court had set June 30, 2014 as the trial date for the Tax Evasion Case.

In July 2014, SouthGobi reported that Turquoise Hill had entered into the NUR SPA.

On August 26, 2014, the District Court returned Tax Evasion Case to the Prosecutor General for further investigations.

In August 2014, SouthGobi announced that Turquoise Hill had agreed to a limited deferral of repayment of all funds owing by the Company under the Turquoise Hill Facility.

In September 2014, the Company announced the completion of a paved coal highway to the Shivee Khuren Border Crossing.

On November 12, 2014, the Company announced the December 1, 2014, retirement of Ms. Kay Priestly as Chair, the appointment of current independent director Mr. Gordon Lancaster to the position of interim Chair and the appointment of Mr. Jeffery Tygesen as a non-executive director.

On November 20, 2014, the Company announced that it was delaying the payment of the November 2014 installment of cash interest due to CIC under the terms of the Convertible Debenture (the "November CIC Payment").

In December, 2014, SouthGobi announced that it had entered into the December 2014 Private Placement and that CIC had agreed to extend the cure period agreed for the November CIC Payment to December 4, 2014.

In December, 2014, Turquoise Hill announced that the closing date for the NUR SPA had been extended to April 30, 2015.

In December, 2014, the Company announced the successful completion of the December 2014 Private Placement and payment of the November CIC Payment.

In December, 2014, the Company announced the extension of the payment date for principal and interest amounts owing under the Turquoise Hill Facility.

In December, 2014, the Company announced the resignation of Mr. Ross Tromans as President and Chief Executive Officer of the Company, and the appointment of Mr. Enkh-Amgalan Sengee as President and Chief Executive Officer of the Company.

In December, 2014, Mr. Tromans resigned as a Director of the Company.

## *2015*

In January 2015, the Company announced the dismissal of the money laundering accusations with respect to the Tax Evasion Case, and the transfer of the tax investigation case back to the District Court.

In February, 2015, the Company announced that the District Court had rendered the Tax Verdict whereby the Former Employees were found guilty of tax evasion and SGS liable as a civil defendant.

In February, 2015, SGS lodged its appeal against the Tax Verdict. The Former Employees declined the option of lodging an appeal and instead requested a pardon from the President of Mongolia which was subsequently granted.

In February, 2015, the Company announced that it had entered into the Novel Private Placement for proceeds of up to approximately US\$7.5 million. The Company was also advised that Turquoise Hill had entered into the Novel SPA.

In March, 2015, the TSX conditionally approved the Novel Private Placement and the Company's reliance on the financial hardship exemption from receiving shareholder approval of such transaction. As a consequence of relying on this exemption, the Company was placed on remedial delisting review by the TSX.

In March, 2015, the Company announced the successful completion of the Initial Tranche of the Novel Private Placement raising proceeds of US\$3.5 million. In accordance with the terms of the Novel Private Placement, Mr. Ted Chan was concurrently appointed to the Company's management team as Executive Director and the Board.

In March, 2015, Mr. Enkh-Amgalan Sengee resigned as President and Chief Executive Officer of the Company, and Mr. Ted Chan assumed Mr. Sengee's executive duties.

In March, 2015, Mr. Jeffery Tygesen, a non-executive Director, resigned from the Board.

In March, 2015, the Company's appeal of the Tax Verdict was dismissed by the 10<sup>th</sup> Appeal Court of Criminal Case of Mongolia.

In April, 2015, the Company announced the successful closing of the Subsequent Tranche of the Novel Private Placement raising proceeds of US\$4.0 million. At the closing of the Novel SPA and the Novel Private Placement, Novel Sunrise had a shareholding of approximately 70.5 million Common Shares, representing 29.3% of the issued and outstanding Common Shares, and Turquoise Hill's shareholding had been reduced to approximately 23.3% of the issued and outstanding Common Shares. In accordance with the terms of the Novel Private Placement, Novel Sunrise was also granted certain director nomination rights.

In April, 2015, the Company announced that the District Court refused SouthGobi's appeal of the Tax Verdict. With this refusal, the Tax Verdict entered into force, but was not immediately payable and enforceable against SouthGobi absent further actions prescribed by the laws of Mongolia.

In May, 2015, the Company was advised that the NUR SPA had expired without Turquoise Hill and NUR completing the sale of Common Shares contemplated thereby.

In May, 2015, Messrs. Ningqiao Li and Yulan (Allen) Guo were appointed to the Board as non-executive Directors and Mr. Bold Baatar resigned from the Board.

In May, 2015, CIC confirmed to the Company that subject to certain conditions and limitations, it would grant a deferral of payment of approximately \$7.9 million in cash interest due by the Company to CIC under the terms of the Convertible Debenture on May 19, 2015 until July 22, 2015.

In May, 2015, the Company received confirmation from Turquoise Hill of an extension to the limited deferral of amounts owing under the Turquoise Hill Facility, subject to certain conditions and limitations.

In June, 2015, the Company announced that First Concept Logistics, a subsidiary of NUR, had served a notice of arbitration on SGS with respect to a coal supply agreement.

In July, 2015, SouthGobi announced it had obtained all the necessary regulatory approvals for and subsequently successfully closed the private placement with Swiss Life Gestion Privee, raising \$2.9 million for the issuance of five million Common Shares.

In July, 2015, SouthGobi announced that it had been served with notice of claim by Mr. Alexander Molyneux, the Company's former Chief Executive Officer, wherein Mr. Molyneux alleged breaches of his employment agreement and seeking damages for same. The Company subsequently filed a response to the claim and initiated its own counter-claim against Mr. Molyneux.

In July, 2015, the Company became aware that there had been a change of control of its largest shareholder, Novel Sunrise, whereby China Cinda (HK) Investments Management Company Limited ("Cinda"), a wholly-owned subsidiary of China Cinda Asset Management Corporation Limited, had indirectly acquired ownership and control of all of the outstanding voting shares of Novel Sunrise.

In July, 2015, Mr. Yulan (Allen) Guo was appointed as Executive Director and Interim Chief Executive Officer of the Company, replacing Mr. Ted Chan as acting CEO.

In July, 2015, CIC confirmed to the Company that, subject to certain conditions and limitations, it agreed to grant a further deferral of payment of the May 2015 cash interest installment until November 19, 2015.

In August, 2015, the Company announced the resignation of Mr. Bertrand Troiano as Chief Financial Officer of the Company following the conclusion of his secondment to the Company by Rio Tinto.

In August, 2015, following the conclusion of the Company's 2015 annual general meeting, the following individuals were elected to the Board: Messrs. Aminbuhe, André Deepwell, Yulan (Allen) Guo, Gordon Lancaster, Pierre Lebel, Ningqiao Li, Zhu Liu and Ms. Jin Lan (Jacqueline) Quan. Messrs. Ted Chan and Kelly Sanders did not stand for re-election at the 2015 annual general meeting.

In August, 2015, Mr. André Deepwell, an independent non-executive director, resigned from the Board.

In September, 2015, Mr. Aminbuhe was appointed as Executive Director and Chief Executive Officer of the Company and Mr. Yulan (Allen) Guo was appointed as Chief Financial Officer of the Company.

In September, 2015, Mr. Ningqiao Li was appointed to the position of Executive Director and Chair of the Board, replacing Mr. Gordon Lancaster as interim Chair.

In October, 2015, the CDIA instructed certain banks to transfer approximately \$1.2 million from the Company's frozen bank accounts to the CDIA, reducing amounts owing on the Tax Penalty to approximately \$16.5 million.

In October, 2015, the Company executed a \$10 million bridge loan agreement with an independent Asian based private equity fund. The Company drew down \$6.3 million on October 30, 2015. As at December 31, 2015, the outstanding balance for the bridge loan was \$4.9 million.

In October, 2015, the Company and Turquoise Hill agreed to and signed a Deferral Letter Agreement, in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment of all remaining amounts and obligations now and hereafter owing under the Turquoise Hill Facility to April 22, 2016.

In October and November, 2015, \$1.2 million was transferred to CDIA from the Company's frozen bank accounts.

In November, 2015, Mr. Mao Sun was appointed to the Board as an independent, non-executive Director.

In November, 2015, the Ontario Court dismissed the plaintiff's preliminary leave motion against each of the former senior officers and former and current directors of the Company named in the Class Action, but granted leave as against the Company and thereby allowing the Class Action to proceed against the Company. The plaintiff has appealed this decision. The Ontario Court has granted the preliminary leave motion against the Company and the Company is seeking leave to appeal the decision. The appeal by the plaintiff and, if leave to appeal is granted, the appeal by the Company, are scheduled to be heard in June 2016. Rulings are expected on the appeals by the end of September 2016.

In November, 2015, the Company announced an agreement with CIC for the deferral of cash interest payments, pursuant to which a cash interest payment originally due in May 2015 and deferred to November 2015 would be payable in seven cash payments between November 2015 to May 2016.

In November, 2015, the Company reported that, after a series of extensions aimed at allowing the Company's funding plan to develop, the TSX had completed its review of the Company and determined that the Company met the TSX's continued listing requirements.

In December, 2015, Mr. Gordon Lancaster retired as an independent, non-executive Director.

#### *2016 to date*

In February, 2016, Mr. Huiyi (Dean) Wang was appointed to the Board as a non-executive Director.

In February, 2016, CIC confirmed to the Company that, subject to certain conditions and limitations, it had agreed to grant further deferral of a payment due on February 19, 2016 of \$1 million to be due and repayable on February 29, 2016. It was subsequently repaid on February 29, 2016.

In March 2016, the Company updated its mineral resource estimate for the Ovoot Tolgoi Deposit.

#### **Outlook**

The relationship between Mongolia and China is strong at the present time in light of the recent presidential visits between the two countries. Furthermore, with the implementation of the "Prairie Road" program in Mongolia and the "One Belt, One Road" strategy in China, which both symbolize more cooperative opportunities in the energy, infrastructure and agriculture sectors. The Company is well positioned to capture the resulting business opportunities between the two countries given i) strong strategic support from its largest shareholders (Cinda and CIC), which are both state-owned-enterprises in China; and ii) the Company has a strong operation record for the past ten years in Mongolia and being one of the largest enterprise in Mongolia.

2015 was a challenging year for commodity markets, including the coal market. The coal market in China, the main market for Mongolian coal producers, suffered from overcapacity coupled with decreasing demand. China's coal consumption fell by 3.7% in 2015 year-on-year while coal prices continued to decline before stabilizing in the fourth quarter of 2015. In response to the difficult market conditions, the Government of Mongolia introduced a more favorable royalty regime in February 2016 to ease the tax burden of Mongolian mining companies.

In February 2016, China announced plans to reduce its coal production by approximately 500 million tonnes in 3 to 5 years to accelerate supply-side reform. This is anticipated to resolve the overcapacity issue in the medium term. Further, it is expected that China will implement more restrictive coal import policies, especially on lower grade coal, as a result of the government's initiatives to curb carbon emissions. To cope with the challenging

market conditions, the Company will improve its product mix by commencing coal washing operation in 2016 to beneficiate a portion of its coal into washed coal products in order to meet increasing market demand for higher quality coal. Despite the growing importance of sourcing alternative energy sources in China, the Company continues to believe that coal will remain as the main source of energy in China for the foreseeable future.

Despite the expected improvement in the coal market in the medium term following the implementation of supply-side reform policies of the Chinese government, the Company anticipates market conditions in 2016 will remain challenging. With the execution of the Company's sales strategy to reach out to the end customers, coal sales have been steadily increasing since the beginning of 2016. The Company will continue to strive for revenue growth by expanding its customer base particularly in the north-western China region where the demand for higher quality coal is greater than that in the rest of China.

In addition to the revenue growth, the Company will continue to improve operation efficiency and productivity to reduce costs. The Company is also evaluating various other business opportunities in addition to coal mining and trading in Mongolia to diversify the risk profile.

The Company remains well positioned in the market, with a number of key competitive strengths, including:

- **Capture the business opportunities between Mongolia and China** – The Company is well positioned to capture the resulting business opportunities between the two countries given i) strong strategic support from its largest shareholders (Cinda and CIC), which are both state-owned-enterprises in China; and ii) the Company has a strong operation record for ten years in Mongolia and being one of the largest enterprise in Mongolia.
- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.
- **Large resource base** – Following the updated mineral resource estimate for the Ovoot Tolgoi Deposit, the Company's aggregate coal resources include measured and indicated resources of 365 million tonnes and inferred resources of 285 million tonnes. In addition, most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coal and hard coking coal.
- **Several growth options** – The Company has several growth options including the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

## Objectives

The Company's objectives for 2016 and the medium term are as follows:

- **Expand customer base with enhanced product mix** – The Company aims to strengthen the sales and logistics capabilities to expand the customer base further inland in China and to beneficiate the coal by washing.
- **Drive operational excellence** – The Company is focused on further improving productivity and operational efficiency in delivering production to meet market requirements.
- **Progress growth options** – Subject to available financial resources, the Company plans to further the development of the Soumber Deposit, while staying compliant with all government requirements in relation to its licences and agreements.



- **Diversify the risk profile of the Company** – The Company is evaluating various business opportunities, other than coal mining and trading, in Mongolia. The Company is committed to contribute to the long term development and prosperity of Mongolia and its local communities.
- **Operate in a socially responsible manner** – The Company is focused on maintaining the highest standards in health, safety and environmental performance.

## GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS

### Investigations by the Mongolian Government

Under the Anti-Corruption Case and Tax Evasion Case, the Company was subject to investigations by IAAC regarding allegations of breaches of Mongolia's anti-corruption laws and tax evasion and money laundering. In March, 2013, the Prosecutor's Office decided to split the Tax Evasion Case from the Anti-Corruption Case and in April, 2013, the Mongolian Public Prosecutor issued a resolution that the jurisdiction to conduct the investigation on Tax Evasion Case was with the SIA and not the IAAC, and the Tax Evasion Case was transferred to SIA.

While the IAAC has not made any formal accusations against any current or former employee of the Company or the Company under the Anti-Corruption Case, administrative penalties were imposed on certain of the Company's Mongolian assets in connection with the investigation, including a restriction of the use of US\$1.2 million (the "Restricted Funds") held in bank accounts in Mongolia to spending in Mongolia. The Company has been informed that the Anti-Corruption Case has been suspended; however, it has not received formal notice that the investigation has been completed. Although the Restricted Funds were held in connection with the Anti-Corruption Case, the CDIA have caused the Restricted Funds to be transferred to CDIA by the banks and applied to amounts owing pursuant to the Tax Penalty.

Investigations under the Tax Evasion Case included investigations of the Former Employees. On December 30, 2014, the Capital City Prosecutor's Office (Ulaanbaatar, Mongolia) dismissed the allegations of money laundering as not having been proven during the investigation. The Former Employees were indicted for tax evasion by the Prosecutor General in March, 2014. The case was sent to the District Court. The Company was advised in May, 2014 that the District Court concluded that the investigation of the Tax Evasion Case initiated by IAAC and continued by the SIA was incomplete and ordered the case to be returned to the Prosecutor General for additional investigation. The additional investigation was subsequently completed and the case was sent to the District Court again in June, 2014. The trial took place in August, 2014. A panel of three judges appointed to the case returned the case to the Prosecutor General once again for further investigation due to insufficient evidence presented by the prosecutor.

In October, 2014, based on the District Court verdict, the SIA ordered a re-investigation (the "Fourth Investigation") into allegations of violations of Mongolian tax laws by the Former Employees. Following the completion of the Fourth Investigation, the Former Employees were indicted again and on December 31, 2014 the Former Employees were tried in the District Court. On January 30, 2015, the panel of appointed judges from the District Court found the Former Employees guilty of tax evasion and imposed sentences on the Former Employees ranging from 5 years and 6 months to 5 years and 10 months of imprisonment in the correctional facilities of strict regimen in Mongolia. The Former Employees were immediately imprisoned. The Company was informed that, following the receipt of the written verdict (the "Tax Verdict"), the Former Employees requested pardons from the President of Mongolia and waived their right of appeal. On February 26, 2015 the President of Mongolia issued a decree to pardon the Former Employees. The Former Employees were released from imprisonment following the decree and departed Mongolia.

The Tax Verdict declared SGS to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT35.3 billion (approximately US\$17.6 million on February 1, 2016). This conclusion was firmly rejected by the Company throughout the proceedings. In February, 2015, the Company appealed the Tax Verdict (the "Tax Verdict Appeal") on the grounds that it has prepared its financial statements, including those of SGS, in compliance with IFRS, and lodged all its tax returns in the required format under Mongolian tax law. However, the District Court and the Supreme Court of Mongolia have notified SGS that the Company does not have the right to appeal, and has dismissed the appeal.

In May, 2015, SGS sent an official letter of protest to the Presiding Justice of the Criminal Chamber of the Supreme Court (the "Presiding Justice"), challenging the decision to refuse to hear the tax case on appeal. In June, 2015, SGS received a formal response from the Presiding Justice, confirming the Supreme Court's refusal to hear the appeal.

With the refusal by the Supreme Court to hear the case on appeal, the Tax Verdict has entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. In particular, SGS has not received a copy of the bailiff's resolution on execution of the Tax Verdict, as required under the Law of Mongolia on Execution of Court Decisions in order for any judgment execution process to happen. However, the Company made a corresponding provision for the court case penalty of \$16.5 million as at December 31, 2015 given the Tax Verdict has entered into force.

The Company continues to believe that there is a lack of evidence to support the Tax Verdict and that the Tax Verdict and the subsequent decisions of the higher courts on appeal were substantively and procedurally in error under the laws of Mongolia.

In October, 2015, the Company was informed by the banks (where the Restricted Funds were placed) that they have received an official request from the CDIA to transfer the Restricted Funds to the CDIA according to the court decision. \$1.2 million was transferred to the CDIA from the frozen bank accounts subsequently in October and November 2015.

While the Company had various additional legal avenues available to it to continue defending itself, it has decided to and is currently seeking to resolve amicably the dispute giving rise to the Tax Verdict in a manner that is both appropriate having regard to the Company's limited financial resources and supportive of a positive environment for foreign investment in Mongolia. There can be no assurance, however, that any such resolution can be successfully negotiated by the Company either at all or on favourable terms, or that the terms of any resolution to which the Government would be prepared to agree would not be materially adverse to the Company. In such case, this may result in an event of default under the Convertible Debenture and CIC would have the right to declare the full principal and accrued interest owing thereunder immediately due and payable. Such an event of default under the Convertible Debenture or the Company's inability to pay the penalty could result in voluntary or involuntary proceedings involving the Company (including bankruptcy) as discussed under the Risk Factor entitled "*If the Tax Verdict shall become immediately payable and enforceable, the Company will likely not have sufficient cash resources to satisfy the penalty imposed under the Tax Verdict*" in this Annual Information Form.

### **Internal Investigations**

Through its Audit Committee (comprised solely of independent directors), the Company has conducted an internal investigation into possible breaches of law and internal corporate policies and codes of conduct arising from allegations raised in the context of investigations by Mongolian authorities. The Audit Committee had the assistance of independent legal counsel in connection with its investigation.

The former Chair of the Audit Committee also participated in a tripartite committee, comprised of the Audit Committee Chairs of the Company and Turquoise Hill and a representative of Rio Tinto. This tripartite committee focused on the investigation of a number of those allegations, including possible violations of anti-corruption laws. Independent legal counsel and forensic accountants assisted this committee with its investigation. The tripartite committee substantially completed the investigative phase of its activities during the third quarter of 2013. The Company continued to cooperate with the IAAC, SIA and with Canadian and American government and regulatory authorities that were monitoring the Mongolian investigations. It is possible that these authorities may subsequently conduct their own review or investigation or seek further information from the Company. Pending further reviews or questions from any of such government or regulatory

authorities, the tripartite committee was stood down and investigations were paused. There have been no significant developments in respect of the internal investigation since the completion of the investigative stage during the third quarter of 2013.

The Company, through the Board and management, has taken a number of steps to address issues noted during the investigations and to focus ongoing compliance by all employees with all applicable laws, internal corporate policies and codes of conduct, and with the Company's disclosure controls and procedures and internal controls over financial reporting.

## **LEGAL MATTERS**

### **Mining Prohibition in Specified Areas**

Pursuant to the Mining Prohibition in Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licences has been prepared for submission to the Government of Mongolia that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities.

Portions of all of the Company's licences, (the Ovoot Tolgoi and Soumber Mining Licences and MELs pertaining to the Zag Suuj Deposit and the South Biluut and Jargalant Fields within the Soumber Deposit), are included on the list of licences published by the Government of Mongolia, potentially affecting the status of those licences under the Mining Prohibition in Specified Areas Law.

With respect to the Ovoot Tolgoi Mining Licence, the potential area which may be affected is a relatively small area which represents approximately 3% of the entire area of the mining licence and does not contain any of the Company's NI 43-101 reserves or resources or immovable assets. Accordingly, the loss of the potentially affected area would not materially and adversely affect the existing operations.

Activities historically carried out on the Company's MELs affected by the Mining Prohibition in Specified Areas Law include drilling, trenching and geological reconnaissance. The Company has no immovable assets located in any of the potentially affected areas of these licences and the loss of any or all of these potentially affected properties would not materially and adversely affect the existing operations.

In September of 2015, the Company returned 3% of the Ovoot Tolgoi mining license area to the MRAM, pursuant to the Mining Prohibition in Specified Areas Law. This will not affect the existing operations of the Company, as well as the resources and reserves of the deposit. Amendments were made to the Mining Prohibition in Specified Areas Law through Resolution No.289 of the Government of Mongolia issued on July 7, 2015. These amendments can lift the prohibition and allow developments to be carried out on the South Biluut and Jargalant fields, and the Soumber Deposit.

### **Legislative Update to 2006 Minerals Law**

On January 16, 2014, the Parliament of Mongolia adopted a State minerals policy (the "State Minerals Policy") which is intended to form the basis for the amendments to the 2006 Minerals Law. The State Minerals Policy promotes four key principles: (i) to establish a stable investment environment; (ii) to improve the quality of mineral exploration, mining and processing in Mongolia; (iii) to encourage the use of environmentally friendly and modern technology; and (iv) to strengthen the competitiveness of the Mongolian mining sector on the international market. The 2006 Minerals Law is periodically amended by the Parliament of Mongolia, and the following changes occurred in 2015:

- January 23, 2015: Exploration license fees were changed from US dollar to Mongolian tug rug (MNT).

- February 13, 2015: The 2006 Minerals Law has become more open with respect to the right to prospect, explore, and exploit radioactive minerals, and the relevant approvals can be obtained from governmental administrative organizations in charge of mining related issues. This change was made in relation to the amendments made to the Law on Nuclear Energy.
- February 18, 2015: The following was added to the justification for termination of a special license.
  - 56.1.8. "Violated the rules and regulations stipulated in the Law on Prohibition of Mineral Exploration and Mining Activities in areas in the Headwaters of Rivers, Protected Water Reservoir Zones and Forested Areas, as well as rules and regulations of other agreements signed in compliance with the law."
  - 47.1. "In the event the shares owned by the state in a mineral deposit of strategic importance is transferred to the license holder, special royalty shall be paid to the government in the amount specified in Article 47.2".
  - 47.2. "percentage of special royalty stated in Article 47.1 shall be approved by the Government,"
  - 47.3. "special royalty on minerals deposit of strategic importance shall depend on the type of deposit, and shall not exceed 5%."
  - Added a special royalty on minerals deposit of strategic importance clause.
- June 04, 2015: The following revision was made to Article 47.10 pertaining to royalty fee:
  - 47.10. "A royalty fee payer shall pay the government a royalty fee for a specific quarter for products already sold, products loaded for sale, and for products already extracted before the 20th of the first month of the next quarter."

### **Other Legislation**

In 2015, the Parliament of Mongolia adopted amendments of the Law on Value-Added Tax, Accounting Law, and Auditing Law, all of which came into effect on January 1, 2016.

The latest set of amendments to the 2006 Minerals Law provides for the possibility for the government of Mongolia to collect a special royalty on minerals deposit of strategic importance in lieu of holding an equity stake in such deposit. It stipulates that the parties may agree to transfer to the licence holder of the state shares in the minerals deposit of strategic importance upon the approval of an authorized body. The party receiving the state share (the licence holder) has to pay a special royalty at a percentage (not to exceed 5%) to be approved by the Government of Mongolia.

### **RISK FACTORS**

There are certain risks involved in the Company's operations, some of which are beyond its control. These risks can be broadly categorized into: (i) risks relating to the Company's ability to continue as a going concern; (ii) risks relating to the economic operation of the Company's Ovoot Tolgoi Mine; (iii) risks relating to the Company's other projects in Mongolia; and (iv) risks relating to its business and industry. Additional risks and uncertainties not presently known, or not expressed or implied below, or that are presently deemed immaterial, could also harm the Company's business, financial condition and operating results. Some of the following statements are forward-looking and actual results may differ materially from the results anticipated in these forward-looking statements.

## **Risks Relating to the Company's Ability to Continue as a Going Concern**

***Unless the Company acquires additional sources of financing and/or funding in the short term, the ability of the Company to continue as a going concern is threatened.***

Several adverse conditions and material uncertainties cast significant doubt upon the going concern assumption contained in the Company's financial statements. The Company had limited cash of \$0.4 million at December 31, 2015 and anticipates that coal prices in China will remain under pressure in 2016, which will continue to impact the Company's margins and liquidity. The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2016 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing options will be available on terms acceptable to the Company. Moreover, the Company's ability to successfully implement, and the cost of, any such transaction will depend on numerous factors, including the demand and prices for its coal products, general economic conditions, the strength of the credit and capital markets, its ability to successfully execute its funding plan and meet its operating and financial targets, its ability to remain in compliance with the Convertible Debenture, the operational synergies created by its association with Novel Sunrise and advancement of the Novel Funding Plan, its ability to maintain relationships with its suppliers, customers, employees, stockholders and other third parties, and market and investor confidence as to its ability to continue as a going concern.

The Company continues to experience negative impacts on its margins and liquidity. Therefore, there can be no assurance that the Company will have sufficient funding to be able to continue as a going concern, including the interest payment on the Convertible Debenture, which is approximately \$1 million on April 19, 2016, \$18 million on May 18, 2016 and \$8 million on November 19, 2016.

In addition to advancing the Novel Funding Plan, the Company has in place planning, budgeting and forecasting processes to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. Assuming successful advancement of the Novel Funding Plan (see risk factor described in "RISK FACTORS – Risk Relating to the Company's Ability to Continue As A Going Concern – The Novel Funding Plan may not be successfully implemented" in this Annual Information Form) and based on the projections from these processes for the year ended December 31, 2016, the Company is still unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations, future contractual commitments, including cash interest payments due on the Convertible Debenture and the monetary penalty imposed in respect of the Tax Penalty.

Further, the Company must continue to actively seek additional sources of financing and/or coal prepayments to continue operating and meet its objectives.

If for any reason, the Company is unable to secure the additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements and such adjustments could be material. If the Company is unable to continue as a going concern, it would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

***The Novel Funding Plan may not be successfully implemented.***

While it is the Company's intention to continue to advance the Novel Funding Plan, the success of such plan is dependent on a number of factors beyond its control, including but not limited to, the China's economic growth and coal demand growth, market prices of coal, the availability of credit and market interest rates, and exchange

rates of currencies of countries where the Company operates. In particular, the Company anticipates that coal prices in China will remain under pressure in 2016, which will continue to impact the Company's margins and liquidity. If the Novel Funding Plan is unsuccessful, the Company would not likely be able to continue as a going concern and would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. For more information on the Novel Funding Plan, refer to "MATERIAL CONTRACTS – Novel Private Placement" in this Annual Information Form.

***If the Tax Verdict shall become immediately payable and enforceable, the Company will likely not have sufficient cash resources to satisfy the penalty imposed under the Tax Verdict.***

With the refusal by the Supreme Court to hear the case on appeal, the Tax Verdict has entered into force. The Tax Verdict is, however, not immediately payable and enforceable against SGS absent further actions prescribed by the laws of Mongolia. In particular, SGS has not received a copy of the bailiff's resolution on execution of the Tax Verdict, as required under the Law of Mongolia on Execution of Court Decisions in order for any judgment execution process to happen. However, the Company made a corresponding provision for the court case penalty of \$18.0 million in the second quarter of 2015 given the Tax Verdict has entered into force. In addition, in October 2015, the Restricted Funds were transferred to the CDIA in partial satisfaction of the Tax Penalty.

If the Tax Verdict is enforceable against SGS and the remaining amounts owing under the Tax Penalty become immediately payable, neither SGS nor the Company on its behalf is likely to have sufficient cash resources to satisfy such penalty. In such circumstances, all of the assets of SGS may become subject of seizure by Mongolian authorities in the enforcement of the Tax Penalty. Any enforcement of the Tax Penalty would likely impair the Company's ability to continue as a going concern and the Company would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

For a description of the Tax Verdict and Former Employees, and matters relating thereto, refer to "GOVERNMENT, REGULATORY AND INTERNAL INVESTIGATIONS – Investigations by the Mongolian Government" in this Annual Information Form.

***Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of any potential losses, if any.***

On November 5, 2015, the Ontario Court rendered its decision on preliminary motions to seek leave to bring a claim under applicable Canadian securities legislation and certification of the Class Action. The Ontario Court dismissed the plaintiff's motions as against each of the former senior officers and former and current directors of the Company named in the Class Action. The plaintiff has appealed this decision. The Ontario Court granted the preliminary leave motion against the Company and the Company is seeking leave to appeal the decision. The appeal by the plaintiff and, if leave to appeal is granted, the appeal by the Company are scheduled to be heard in June 2016. Rulings are expected by the end of September 2016.

The Company disputes and will vigorously defend itself against these claims through independent Canadian litigation counsel retained by the Company and the other defendants for this purpose. Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Class Action or determine the amount of any potential losses, if any.

In the event the Company incurs any liability in connection with the Class Action, it maintains insurance with respect thereto. While the Company believes that such insurance coverage is in an amount that would be sufficient to cover any amounts the Company may be required or determines to pay with respect thereto, there can be no assurance that such coverage will be adequate to do so, and, if so, any amounts not so covered would

be required to be paid by the Company. The Company's ability to continue as a going concern will be impacted to the extent it is required to pay any amounts in connection with the Class Action.

***If an event of default occurs under the Convertible Debenture, CIC has the right to accelerate amounts owing thereunder.***

With the exception of an insolvency event, if an event of default occurs under the Convertible Debenture, and such event of default has not been cured or waived, the principal amount owing and all accrued and unpaid interest will become immediately due and payable upon notice to the Company by CIC which would have a material adverse effect on the business and operations of the Company.

If an insolvency event occurs under the Convertible Debenture, the principal amount owing and all accrued and unpaid interest will become immediately due and payable without the necessity for notice to the Company by CIC, which would have a material adverse effect on the business and operations of the Company.

***If the Company is unable to continue as a going concern it may be forced to seek relief under applicable bankruptcy and insolvency legislation.***

If the Company seeks relief under applicable bankruptcy and insolvency legislation, its business and operations will be subject to certain risks, including but not limited to, the following:

- An insolvency filing by or against the Company will cause an event of default under the Convertible Debenture (see Risk Factor below entitled "If an event of default occurs under the Convertible Debenture, CIC has the right to accelerate amounts owing thereunder");
- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;
- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;
- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and
- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

### **Risks Relating to the Economic Operation of the Company's Ovoot Tolgoi Project**

***There can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves***

The Company previously reported 175.7 million tonnes of proven and probable reserves in respect of the Ovoot Tolgoi deposit based on the Ovoot Tolgoi Technical Report 2012. Since the previously reported estimate of reserves was derived from the 2012 resource estimate that has now been updated and revised as noted above, and a number of key assumptions upon which the 2012 reserve estimate was based have now materially changed, it is expected that, once all relevant factors have been fully analyzed such that an updated reserve estimate can be prepared, the reserves previously reported in respect of the Ovoot Tolgoi deposit will also be quantitatively



reduced and qualitatively downgraded. Additional drilling will likely be required to establish the degree of confidence required to produce an updated estimate of reserves.

The Company is engaged in a comprehensive review of the mine plan's design parameters, mine design and project development schedule in order to reflect an updated production plan and current market conditions. The objective of this exercise is to optimize the Company's mine plan having regard to the change in circumstances since the Ovoot Tolgoi Technical Report 2012 was completed. Factors such as the decline in coal prices in China, decreased mining quantities resulting from smaller pit dimensions as a result of changed mining parameters and coal prices and the exclusion of coal identified in the previous studies as marginally economic due to coal price reductions can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the indicated category in the Sunset Pit area, a change to mine design with steeper pit walls resulting in less waste and a lower strip ratio and improved mining cash costs, simplified and lower cost coal processing and product marketing, and general cost reductions. However, there can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves.

Any downward adjustments to the Company's mineral reserve estimates could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations.

### **Risks Relating to the Company's Projects in Mongolia**

*In addition to the Tax Verdict, the Company is subject to continuing governmental, regulatory and internal investigations, the outcome of which is unclear at this time but could have a material adverse effect on the Company.*

In addition to the Tax Verdict, the Company is subject to certain investigations referred to under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS – Internal Investigations" in this Annual Information Form, which could result in one or more of the Mongolian, Canadian, United States or other governmental or regulatory agencies taking civil or criminal action against the Company, its affiliates or its current or former employees. The likelihood or consequences of such investigative actions are unclear at this time but could include financial or other penalties, which could be material, and which could have a material adverse effect on the Company and the value of the Common Shares.

For a description of the Tax Verdict refer to "GOVERNMENT, REGULATORY AND INTERNAL INVESTIGATIONS – Investigations by the Mongolian Government" in this Annual Information Form.

*Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business.*

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country and many of its laws, particularly with respect to matters of taxation, are still evolving. A transaction or business structure that would likely be regarded under a more established legal system as appropriate and relatively straightforward might be regarded in Mongolia as outside the scope of existing Mongolian law or regulation. As a result, certain business arrangements or structures and certain tax planning mechanisms may carry significant risks. In particular, when business objectives and practicalities dictate the use of arrangements and structures that, while not necessarily contrary to settled Mongolian law, are sufficiently novel within a Mongolian legal context, it is possible that such arrangements may be challenged resulting in their invalidation.

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of

implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation; it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

In addition, while legislation has been enacted to protect private property against expropriation and nationalization, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalization. Expropriation or nationalization of any of the Company's assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect its business and results of operations.

***Application of and amendments to legislation could adversely affect the Company's mining rights in its projects or make it more difficult or expensive to develop its projects and carry out mining.***

The 2006 Minerals Law, which preserves to a limited extent some of the substance of the former 1997 minerals legislation, was drafted with the assistance of legal experts in the area of mining legislation and was widely regarded as progressive, internally consistent and effective legislation. However, the 2006 Minerals Law has been subsequently amended and the potential for political interference has increased and the rights and security of title holders of mineral tenures in Mongolia has been weakened. Certain provisions of the 2006 Minerals Law are ambiguous and it is unclear how they will be interpreted and applied in practice. Examples of such provisions include those relating to the designation of a mineral deposit as a Mineral Deposit of Strategic Importance. Refer to Risk Factor entitled "The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance".

In addition, the introduction of new Mongolian laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. For example, on July 16, 2009, the Parliament of Mongolia enacted the Mining Prohibition in Specified Areas Law (the "Specified Areas Law") that prohibits minerals exploration and mining in areas such as headwaters of rivers and lakes, forest areas as defined in the Forest Law of Mongolia and areas adjacent to rivers and lakes as defined in the Water Law of Mongolia.

Pursuant to the Specified Areas Law, the Government of Mongolia has defined the boundaries of certain areas in which exploration and mining is purportedly prohibited. A list of licences has been prepared that overlap with the prohibited areas described in the law based on information submitted by water authority agencies, forest authority agencies and local authorities for submission to the Government of Mongolia.

Portions of the mining licence in respect of the Ovoot Tolgoi Deposit and the exploration licences pertaining to the Zag Suuj Deposit and the South Biluut and Jargalant Fields within the Soumber Deposit are included on the list of specified areas described in the Specified Areas Law.

In regard to the Ovoot Tolgoi Mining Licence, the potential area which may be affected is a relatively small area which represents approximately 3% of the entire area of the mining licence and does not contain any reserves or resources or immovable assets. Accordingly, the loss of the potentially affected area would not materially and adversely affect the existing operations.

Activities historically carried out on the other licences referred to above include drilling, trenching and geological reconnaissance. The Company has no immovable assets located in any of the potentially affected areas of these licences and the loss of any or all of these potentially affected properties would not materially and adversely affect the existing operations.

The Mining Prohibition in Specified Areas Law has not been adequately enforced to date mainly due to compensation issues due to the licence holders.

In order to address the issues facing its implementation, in February, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Mining Prohibition in Specified Areas Law (the “Amended Law on Implementation”). The Amended Law on Implementation provides an opportunity for license holders covered within the scope of application of the Mining Prohibition in Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement will be adopted by the Government. The license holders must also apply within 3 months after the amendment to the Law on Implementation comes into effect for permission to MRAM to resume activities. The Company submitted its application with respect to its mining licenses before the deadline set on June 16, 2015 and hasn’t yet received any communication from MRAM on the status of its application.

Pursuant to the Mongolian Law “To prohibit mineral exploration and mining operations at headwaters of rivers, water protection zones and forested areas”, the government administrative agency has notified the Company that special license area 12726A is partly overlapping with a water reservoir. The Company has inspected the area together with the Cadastral Division of the Mineral Resource Authority as well as through the cadastral registration system of the Ministry of Environment, it is determined that 29 hectares of Sukhait Bulag is partly overlapping with a water reservoir, of which has been partly handed over. (Resolution No.6/7522 issued on September 29, 2015 by the Head of Cadastral Division of the Mineral Resource Authority)

In accordance with Article 22.3 of Law of Mongolia on Water, 5,602.96 hectares of land, including Sukhaityn Bulag, Uvur Zadgai, and Zuun Shand pertaining to exploration license 9443X, is overlapping with protected area boundary. It has been officially handed over to the local administration. (Resolution No.688 issued on September 24, 2015 by the Head of Cadastral Division of the Mineral Resource Authority)

In connection with the nullification of Annex 2 of the government order No.194 “On determining boundary” issued on June 5, 2012, area around the water reservoir located at MV-016869 license area and Soumber mining license 9449X has been annulled from the Specified Area Law.

Therefore, mining license 12726A, MV-016869 and exploration licenses 9443X, 9449X were removed from the list of licenses that is overlapping with the prohibited areas described in the law.

The potential impact of the Mining Prohibition in Specified Areas Law on the mineral exploration licenses 13779X and 5267X is unclear pending the adoption by the Government of the relevant regulations pursuant to the Amended Law on implementation. The Company will continue to monitor the developments and ensure that it follows the necessary steps in the Amended Law on Implementation to secure its operations and licenses and is fully compliant with Mongolian law.

There can be no assurance that future political and economic conditions in Mongolia will not result in the Government of Mongolia adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect the Company’s ability to undertake exploration and development activities in the manner currently contemplated. Any restrictions imposed or charges levied or raised (including royalty fees) under Mongolian law for the export of coal could harm the Company’s competitiveness.

***The Company’s ability to carry on business in Mongolia is subject to political risk.***

The Company’s ability to efficiently conduct its exploration and development activities is subject to changes in government policy or shifts in political attitudes within Mongolia that are beyond the Company’s control.

Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There is no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body. The provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances may not be effective to restore the value of the Company's original investment.

In addition, Mongolia may experience political instability. Such instability could have a material adverse effect on economic or social conditions in Mongolia and may result in outbreaks of civil unrest, which could materially and adversely affect the Company's business and results of operations.

***The Government of Mongolia could determine that any one or more of the Company's projects in Mongolia is a Mineral Deposit of Strategic Importance.***

Under the 2006 Minerals Law, the Parliament of Mongolia has wide discretion to designate mineral deposits to be Mineral Deposits of Strategic Importance. The Government of Mongolia is empowered to participate on an equity basis with the licence holder in the exploitation and/or mining of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such licence holder. Details of any minerals reserves must be filed by the relevant licence holder with the Government of Mongolia, and those deposits on the Strategic Deposits List represent most of the largest and highest profile deposits in Mongolia. In addition to deposits currently on the Strategic Deposits List and the additional Tier 2 Deposits List, the Parliament of Mongolia may at any time designate other deposits not yet currently on such Lists to be Mineral Deposits of Strategic Importance, add such deposits to either the Strategic Deposits List or the Tier 2 Deposits List and, in the former case, commence negotiations with the relevant licence holder with respect to the terms under which the Government of Mongolia will take an interest in such deposit. While the Government of Mongolia is in the process of adding the exact location and coordinates for each Mineral Deposit of Strategic Importance, a number of deposits on the Strategic Deposits List are identified by name only with no indication of the latitude and longitude coordinates for the deposit, and it is therefore not always possible to precisely determine the intended geographic area covered by each designated Mineral Deposit of Strategic Importance or to accurately determine whether or not any given licence area is within, or overlaps, a Mineral Deposit of Strategic Importance.

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However, the 2006 Minerals Law is very vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the licence holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the licence holder. In 2015, the Parliament of Mongolia adopted an amendment to the 2006 Minerals Law providing for the possibility for the Government to collect a special royalty on Mineral Deposits of Strategic Importance in lieu of holding an equity stake in such deposit. It stipulates that the parties can agree to transfer to the licence holder the state's share in the Mineral Deposit of Strategic Importance upon the approval of an authorized Government body, with the licence holder agreeing to pay a special royalty at a percentage (not to exceed 5%) to be approved by the Government of Mongolia.

The 2006 Minerals Law also contains provisions requiring any company which holds a Mineral Deposit of Strategic Importance to list no less than 10% of its shares on the Mongolian Stock Exchange. This particular provision of the 2006 Minerals Law has not yet been enforced and it is not clear how it will work in practice.

In recent years there have been a number of proposed amendments to the 2006 Minerals Law suggested by various parties, many of which have centered on amending the 2006 Minerals Law to increase the Government of Mongolia's participating interest in excess of 50%. While the 2006 Minerals Law provides that the interest of the Government of Mongolia should take the form of an equity interest, based on past practice, and depending on the results of individual negotiations, the interest may be in the form of production or profit sharing or some other arrangement negotiated between the licence holder and the Government of Mongolia. There can be no assurance that legislation will not be enacted which further strengthens the Government of Mongolia's right to participate in privately held mineral resources in Mongolia.

None of the deposits covered by the Company's existing mining licences or exploration licences are currently designated as Mineral Deposits of Strategic Importance. However, there can be no assurance that any one or more of these deposits will not be so designated in the future, in which case the Company's business and results of operations may be materially and adversely affected.

***The Application of the new FIL approved by the Parliament of Mongolia is uncertain.***

Prior to October 3, 2013, the Company was subject to the FIL described in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operation for the period ended December 31, 2012. The Company considers that this Risk Factor has been substantially mitigated following the repeal of the FIL and introduction of the Investment Law on October 3, 2013, which appears to provide greater certainty for foreign investment in Mongolia. However, that certainty remains subject to the inherent uncertainties of the legal system in Mongolia as described in the Risk Factor entitled the "*Legislation in Mongolia may be subject to conflicting interpretations, which may have adverse consequences on the Company's business*".

**Risks relating to the Company's business and industry**

***Even if the Company establishes the economic viability of a project, original estimates may prove inaccurate and/or costs may exceed original budgets and may not achieve the intended economic results.***

The Company's business strategy has historically depended largely on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. However, the economic viability of the Ovoot Tolgoi Mine is subject to reassessment in connection with the mine plan optimization review currently underway. The Company's long term intention to re-establish reserves at the Ovoot Tolgoi Mine and to develop mines at the Soumber Deposit and the Zag Suuj Deposit in the future is based on geological, engineering, environmental and mine planning evaluations. The feasibility of mining at these projects may not be established. If the Company is unable to establish the economic viability of any of these projects, its business, financial condition and results of operations will be materially and adversely affected.

Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources and environmental protection.

The Company's projects are subject to both (i) technical risk in that they may not perform as designed, or (ii) operational redesign or modification as a result of the current evaluation of the projects (such as the current mine plan review in respect of the Ovoot Tolgoi Deposit). Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification.

As with all exploration properties or projects taken on by mining companies, there is a risk that exploration projects will not be converted to commercially viable mines, in part because actual costs from capital projects may exceed the original budgets. As a result of project delays, cost overruns, changes in project scientific or technical information, changes in market circumstances or other reasons, the Company may not be able to achieve the intended economic benefits or demonstrate the commercial feasibility of these projects, which in turn may materially and adversely affect the Company's business, results of operations and growth projects.

***The Company's results of operations are subject, to a significant extent, to economic, political and legal developments in China.***

The Company expects that a majority if not all of the coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations.

In addition, the Chinese government indirectly influences coal prices through its regulation of power tariffs and its control over allocation of the transportation capacity of the national rail system. Any significant downturn in the prices in China could materially and adversely affect the Company's business and results of operations. Additionally, the Chinese government could adopt new policies that could shift demand away from coal to other energy sources. Any significant decline in demand for, or over-supply of, coal could materially and adversely affect the Company's revenues from coal export sales.

***The interests of the Company's principal stakeholders, Novel Sunrise, CIC and TRQ may differ from those of the other stakeholders.***

As at March 29, 2016, Novel Sunrise holds a total of approximately 72.1 million Common Shares representing approximately 28.0% of the issued and outstanding Common Shares.

As at March 29, 2016, CIC holds a total of 49.9 million Common Shares representing approximately 19.4% of the issued and outstanding Common Shares.

As at March 29, 2016, Turquoise Hill directly owned approximately 46 million Common Shares representing approximately 17.9% of the issued and outstanding Common Shares.

As of March 29, 2016, Novel Sunrise, CIC (also the Company's largest creditor by virtue of the CIC Convertible Debenture) and Turquoise Hills hold approximately 28.0%, 19.4% and 17.9% of the Common Shares, respectively. The interests of each of these stakeholders may conflict with the interests of other Shareholders and there is no assurance that any of these stakeholders will vote its Common Shares in a way that benefits minority Shareholders. While no Shareholder has the ability to elect a majority of the Board unilaterally, both Novel Sunrise and CIC have been granted contractual director appointment rights. In addition, the Company believes that third parties may be discouraged from making a tender offer or bid to acquire the Company because of this concentration of ownership of Common Shares among these parties.

For a description of the Novel SPA and the Novel Private Placement, respectively, refer to "GENERAL DEVELOPMENTS OF THE BUSINESS – 2015" and "MATERIAL CONTRACTS – Novel Private Placement" in this Annual Information Form.

***Tax legislation in Mongolia is subject to varying interpretations and changes which may have a significant impact on the Company's financial position.***

Mongolian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The interpretation by the Company's management of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities.

The Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as VAT, withholding tax, corporate income tax, personal income tax, transfer pricing and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity in question.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's positions related to tax and other legislation will be sustained. Management believes that tax and legal risks are remote at present. Management performs regular re-assessment of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

As of 31 December 2015, 2014 and 2013, management has assessed that recognition of a provision for uncertain tax position is not necessary.

***The Company does not insure against all risks to which it may be subject in planned operations and insurance coverage could prove inadequate to satisfy potential claims.***

For certain aspects of the Company's business operations, insurance coverage, in particular business interruption insurance, is restricted or prohibitively expensive. The Company currently holds its primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on its office premises and liability insurance for its directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

Exploration, development and production operations on mineral properties involve numerous risks, including environmental risks, such as unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. The Company does not maintain insurance against any environmental or political risks. Should any liabilities arise for which it is not insured or insurance coverage is inadequate to cover the entire liability, they could reduce or eliminate the Company's actual or prospective profitability, result in increasing costs and a decline in the value of the Common Shares and could materially and adversely affect the Company's business and results of operations.

***Licences and permits are subject to renewal and various uncertainties and the Company may only renew its exploration licences a limited number of times for a limited period of time.***

In Mongolia, the Company's MELs are subject to periodic renewal and may only be renewed a limited number of times for a limited period of time. There is no assurance that such renewals will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection therewith. Although the Mongolian Government may have renewed the Company's licences and permits in the past, the Mongolian Government may retroactively revoke such renewals which could potentially result in the loss of the Company's MELs, PMA's or mining licences. The Company's business objectives may also be impeded by the costs of holding and/or renewing the MELs in Mongolia. Licence fees for MELs increase substantially upon the passage of time from the original issuance of each individual MEL. The Company needs to continually assess the mineral potential of each MEL, particularly at the time of renewal, to determine if the costs of maintaining the MELs are justified by the exploration results to date, and may elect to let some of its MELs lapse. A moratorium on transfers of MELs has been imposed on two separate occasions and there is a risk that a similar moratorium could be imposed such that letting the MELs lapse may be the only practical option in some circumstances. Furthermore, the Company will require mining licences and permits to mine in order to conduct mining operations in Mongolia. There can be no assurance; however, that such licences and permits will be obtained on terms favourable to it or at all for the Company's future intended mining and/or exploration targets in Mongolia.

In April 2012, MRAM announced the suspension of exploration and mining activity on certain of the Company's licences including the licence pertaining to the Ovoot Tolgoi Mine. Although the Company did not receive official notification of a suspension of licences and had no reason to believe its licences were not in good standing, this announcement caused a significant disruption in the Company's business which ultimately led to the curtailment of operations at the Ovoot Tolgoi Mine. Although the Company received a letter from MRAM on September 6, 2012 confirming that all MELs and mining licences were in good standing there is still a risk that its licences could be revoked.

In addition, certain provisions of the Land Law of Mongolia and the 2006 Minerals Law provide for the revocation of previously granted land use rights, MELs or mining licences on the grounds that the affected area of land has been designated as "special needs" territory ("SNT"). The Land Law of Mongolia grants the discretion to declare an area of land for special needs purposes to local governing authorities and identifies various broad categories which qualify as special needs. The 2006 Minerals Law requires the local governing authority that designates an area of land as a special needs territory to compensate within one year the licence holder whose rights or licence status are affected. The failure to pay the compensation within the one-year period would allow the licence holder to resume its operations. If any of the Company's land use rights, MELs or mining licences in Mongolia are revoked because the underlying land is declared as special needs territory, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

On February 13, 2015 a special meeting of the Citizens' Representatives Khural ("CRK") of Umnugobi Province was held. The CRK resolved to establish an SNT over an area covering approximately 233,600ha in Gurvantes and Noyon Souns of Umnugobi Province. The resolution closely follows the resolutions adopted previously by the provincial CRK on the same issue, albeit the land area of the SNT has been reduced compared to previous resolutions.

In March 2015, SGS filed a complaint with the 12th Court for Administrative Cases of First Instance (the "Administrative Court") seeking the annulment of CRKh's decision to the extent it impacted the License Areas. In parallel, SGS initiated negotiations with the CRKh in order to reach an acceptable solution.

On July 8, 2015, SGS and the Chairman of the CRKh, in his capacity as the respondent's representative, reached an agreement (the "Amicable Resolution Agreement") to exclude the License Areas from the territory of the



SNT in full, subject to confirmation of the Amicable Resolution Agreement by the session of the CRKh. The parties formally submitted the Amicable Resolution Agreement to the appointed judge of the Administrative Court for her approval and requested a dismissal of the case in accordance with the Law of Mongolia on Administrative Court Procedure. On July 10, 2015, the judge issued her order approving the Amicable Resolution Agreement and dismissing the case, while reaffirming the obligation of CRKh to take necessary actions at its next session to exclude the License Areas from the SNT and register the new map of the SNT with the relevant authorities. The Company has not yet received any indication on the timing of the next session of the CRKh.

The Company is confident of a positive outcome in its challenge of this new CRKh resolution; however, there is no assurance that the Company will receive adequate compensation and its business and results of operation might be adversely and materially affected.

***Prolonged periods of severe weather conditions could materially and adversely affect the Company's business and results of operations.***

Severe weather conditions may require the Company to evacuate personnel or curtail operations and may cause damages to the project site, equipment or facilities, which could result in the temporary suspension of operations or generally reduce the Company's productivity. Severe weather conditions have not caused any delay or damages to the Company's operations to date. However, there can be no assurance that severe weather will not occur. Any damages to the Company's projects or delays in its operations caused by prolonged periods of severe weather could materially and adversely affect its business and results of operations.

***The Company's business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal.***

The Company expects to derive substantially all of its revenue and cash flow from the sale of coal. Therefore, the market price of the Common Shares, the Company's ability to raise additional financing and maintain ongoing operations and its financial condition and results of operations will be directly related to the demand for, and price of, coal and coal-related products. Coal demand and price are determined by numerous factors beyond the Company's control, including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates, political and economic conditions in Mongolia, China and elsewhere in the world, milder or more severe than normal weather conditions, and production costs in major coal producing regions. The Chinese and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. There has been significant price volatility on the coal spot market. An oversupply of coal in China or a general downturn in the economies of any significant markets for the Company's coal and coal-related products could materially and adversely affect its business and results of operations. In addition, the Company's dependence on Asian markets may result in instability in its operations due to political and economic factors in those Asian jurisdictions which are beyond the Company's control. The combined effects of any or all of these factors on coal prices or volumes are impossible for the Company to predict.

If realized coal prices are below the full cost of production of any of the Company's future mining operations and remain at such a level for any sustained period, the Company could experience increased losses and may decide to discontinue operations, which could require the Company to incur closure costs and result in further reduced revenues.

***The Company's coal mining activities are subject to operational risks, including equipment breakdown.***

The Company's coal mining operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of coal. These risks include unexpected maintenance or technical problems, periodic interruptions to its mining operations due to inclement or hazardous weather

conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of its shovels, upon which its coal mining operations are heavily reliant and which would require considerable time to replace. These risks and hazards may result in personal injury, damage to, or destruction of, properties or production facilities, environmental damage, business interruption and damage to its business reputation. In addition, breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt the Company's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

***The unavailability or shortage of reliable and sufficient coal transportation capacity that meets Mongolian authority regulations will reduce the Company's coal revenue by causing it to reduce its production volume or impairing its ability to supply coal to its customers.***

The Company anticipates that the majority of its coal production from the projects in Mongolia will be exported to China. Inadequate transportation infrastructure is likely to affect the pricing terms on which it can sell the coal to customers and the willingness and ability of such customers to purchase coal from it. Customers are likely to factor in any delays and the costs and availability of transportation in determining the price they are prepared to pay to purchase the Company's coal. Therefore, its mining operations are anticipated to be highly dependent on road and rail services in Mongolia and China.

In Mongolia, a bottleneck in the transportation of coal from the Ovoot Tolgoi Mine to customers in China may arise if the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing does not have sufficient capacity to support the increased amount of cargo traffic, is affected by external factors such as disruptions caused by bad weather or is closed for repair, such as was the case during 2012, when the road connecting the Ovoot Tolgoi Mine to the Shivee Khuren Border Crossing was closed for over four weeks for repair.

On May 8, 2015, the commercial operation of the paved highway commenced and subsequently the unpaved highway which was previously used to transport coal through the Shivee Khuren Border Crossing was closed. The Paved Highway is expected to significantly increase the safety of coal transportation, reduce environmental impacts and improve efficiency and capacity of coal transportation. The paved highway is expected to have a carrying capacity in excess of 20 million tonnes of coal per year.

The opening hours of the Shivee Khuren Border Crossing also affect the Company's ability to expedite the movement of its coal shipments. There can be no assurance that there would be any other cost effective means of transporting the coal to the Company's primary market in China. As a result, the Company may experience difficulty expediting the movement of its coal shipments and/or significant cost escalation for the transportation services, which could affect its production and reduce its profitability.

In China, rail and road infrastructure and capacity has in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. In any of these circumstances, the customers may not be able to take delivery of the Company's coal, which may lead to delays in payment, or refusal to pay, for the Company's coal and, as a result, the Company's business and results of operations could be materially and adversely affected.

***The Company's prospects depend on its ability to attract, retain and train key personnel.***

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large

number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. The reputation and capability to operate continuously over the longer term are key factors in also attracting key personnel to its business. The Company is reinforcing its core values of ethical behavior in dealing with all its stakeholders from senior management down in order to ensure the Company attracts the right people to its business. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff. If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

In addition, the Company's ability to train operating and maintenance personnel is a key factor for the success of its business activities. If the Company is not successful in recruiting, training and retaining such personnel, its business and results of operations could be materially and adversely affected.

***Competition in the coal industry may hinder development plans and adversely affect the Company's coal sales if it is not able to compete effectively.***

Continued growth in mining and mineral exploration activities in Mongolia could create an increasing demand for mining equipment and related services. Shortages of, or higher costs for, equipment and services could restrict the Company's ability to carry out the exploration, development and production activities, increase its costs of operations and adversely affect its future plans.

The Company intends to sell a majority of the coal it produces in China. Competition in the Chinese coal industry is based on many factors, including, among others, price, production capacity, coal quality and characteristics, transportation capability and costs, blending capability and brand name. The Company's coal business will most likely compete in China with other large Chinese and international coal mining companies. Due to location, some of the Company's Chinese competitors may have lower transportation costs than the Company does. The Chinese coal market is highly fragmented and the Company faces price competition from some small local coal producers that produce coal for significantly lower costs than the Company due to various factors, including their lower expenditure on safety and regulatory compliance. Some of the Company's international competitors, including the Mongolian coal producers, may have greater coal production capacity as well as greater financial, marketing, distribution and other resources than the Company does, and may benefit from more established brand names in international markets. The Company's future success will depend on its ability to respond in an effective and timely manner to competitive pressure.

***There are a number of risks associated with dependence on a limited number of customers and inability to attract additional customers.***

Depending on the ultimate success of the Novel Funding Plan (of which there can be no assurance), the Company will continue to depend on a relatively small number of customers. The incremental cost of transporting coal products from the Ovoot Tolgoi Mine and its other coal projects over long distances effectively limits the Company's potential customer base to a relatively proximate geographical area. This market has also been price sensitive and significant price volatility impacts contract performance.

Additionally, the Company has been selling its coal products since 2008. The Company had five active customers with the largest customer representing approximately 56%, the second largest customer representing approximately 37%, the third largest customer representing approximately 4% and the remaining customers accounting for 3% of the Company's total sales for the year ended December 31, 2015. In order to mitigate this risk, the Company developed the Novel Funding Plan collaboratively with Novel Sunrise in order to expand its existing customer base.

The Company still expects to sell the majority of the coal from its Mongolian mining operations to customers in China. Chinese law requires specific authorization to be obtained by entities responsible for the import of coal

into China. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into China on their behalf, fail to obtain and retain the necessary authorizations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

***The Company's operations are exposed to risks in relation to environmental protection and rehabilitation.***

The operations of coal mines involve substantial environmental risks and hazards and the Company's operations are subject to laws and regulations relating to the environment, health and safety and other regulatory matters in Mongolia.

The risk of environmental liability is inherent in the operation of the Company's business. Environmental hazards may occur in connection with the Company's operations as a result of human negligence, force majeure, or otherwise. Claims may be asserted against the Company arising out of its operations in the normal course of business, including claims relating to land use, safety, health and environmental matters. The Company is not insured against environmental liabilities and there can be no assurance that environmental liabilities would not materially and adversely affect its business and results of operations.

In addition, the Company is subject to reclamation requirements. The Company's mine will eventually close. The key tasks in relation to the closure of the mines involves (i) long-term management of permanent engineered structures (for example, spillways, roads, waste dumps); (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on the Company's ability to successfully implement negotiated agreements with the relevant government, community and employees. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved, which could materially and adversely affect the Company's business and results of operations.

Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company may experience increased costs of production arising from compliance with environmental laws and regulations. Should the Company fail to comply with current or future environmental laws and regulations, the Company may be required to pay penalties or take corrective actions, any of which may have a material adverse effect on its results of operations and financial condition.

***Foreign currency fluctuations could affect expenses and any future earnings.***

The Company is exposed to foreign exchange fluctuations with respect to the MNT, Chinese Renminbi, Hong Kong, and Canadian dollars. The Company's financial results are reported in United States dollars. The salaries for local laborers in Mongolia are paid in local currency. Sales of coal into China have been and may continue to be settled in United States dollars and Renminbi. The Company has a subsidiary in Hong Kong where some expenses are incurred in Hong Kong dollars. Since the Company's headquarters is in Canada, a minor portion of its expenses are in Canadian dollars and the Company holds a portion of its cash in Canadian dollars. As a result, its financial position and results are impacted by the exchange rate fluctuations between the aforementioned currencies and the United States dollar.

***Future issuances or sales, or perceived possible issuances or sales, of substantial amounts of Common Shares in the public market could materially and adversely affect the prevailing market price of the Common Shares and the Company's ability to raise capital in the future.***

The market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares or other securities relating to the Common Shares in the public market, including sales by its substantial Shareholders, or the issuance of new Common Shares, or the perception that such sales or issuances may occur. Future sales, or perceived possible sales, of substantial amounts of the Common Shares could also materially and adversely affect the Company's ability to raise capital in the future at a time and at a price favourable to it, and Shareholders may experience dilution in their holdings upon issuance or sale of additional Common Shares or other securities in the future.

***Future stock market conditions may change.***

There are risks involved with any equity investment. The market price of Common Shares may rise or fall depending upon a range of factors and stock market conditions, which are unrelated to the Company's future financial performance. Movements on international stock markets, local interest rates and exchange rates, domestic and international economic and political conditions, as well as government, taxation and other policy changes may affect the stock market. As the Company is a listed company on the TSX and the SEHK, its Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

***Information in this document regarding future plans reflects current intentions and is subject to change.***

Whether the Company ultimately implements the business strategies described in this document will depend on a number of factors including, but not limited to: the political situation in Mongolia and China; the availability and cost of capital; current and projected coal prices; coal markets; costs and availability of drilling services, costs and availability of heavy equipment, supplies and personnel; success or failure of activities in similar areas to those in which the Company's projects are situated; and changes in estimates of project completion costs. The Company will continue to gather information about its projects, and it is possible that additional information will cause it to alter its schedule or determine that a project should not be pursued at all. Accordingly, the Company's plans and objectives may change from those described in this document.

## **DESCRIPTION OF MATERIAL PROPERTIES**

### **Qualified Persons**

Disclosure of a scientific or technical nature in this Annual Information Form in respect of the Company's material mineral projects was prepared by or under the supervision of the Qualified Persons (as that term is defined in NI 43 – 101) listed below and, other than the estimate of mineral resources in respect of the Ovoot Tolgoi deposit, is derived from the Ovoot Tolgoi Technical Report 2012, the Soumber Technical Report, the Zag Suuj Technical Report, was prepared by or under the supervision of the Qualified Persons listed below. Copies of the Ovoot Tolgoi Technical Report 2012, the Soumber Technical Report and the Zag Suuj Technical Report are available on SEDAR at [www.sedar.com](http://www.sedar.com). A technical report supporting the estimate of mineral resources in respect of the Ovoot Tolgoi deposit disclosed in this Annual Information Form is being prepared and is expected to be filed on SEDAR within 45 days of the filing of this Annual Information Form

| <b>Property</b> | <b>Qualified Persons</b> | <b>Field of Expertise</b> | <b>Relationship to Company</b> |
|-----------------|--------------------------|---------------------------|--------------------------------|
| Ovoot Tolgoi    | Brendan Stats            | Resources                 | Independent Consultant         |
| Soumber         | Merryl Peterson          | Resources                 | Independent Consultant         |

| <b>Property</b> | <b>Qualified Persons</b> | <b>Field of Expertise</b> | <b>Relationship to Company</b> |
|-----------------|--------------------------|---------------------------|--------------------------------|
| Zag Suuj        | Merryl Peterson          | Resources                 | Independent Consultant         |

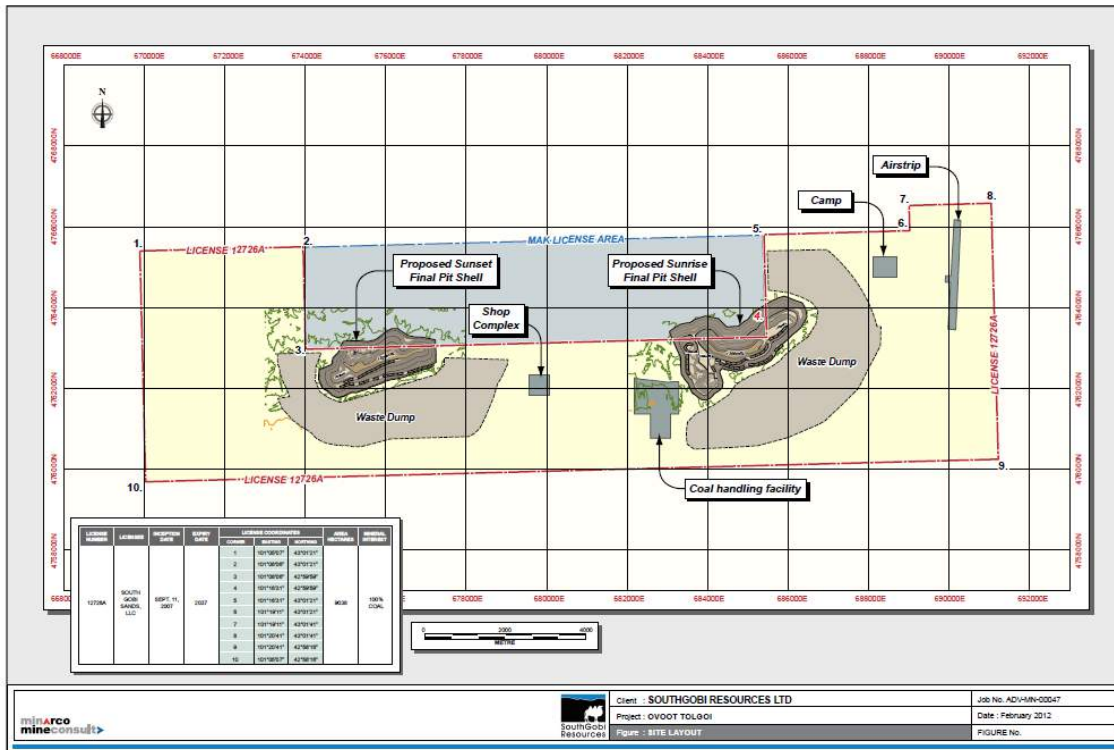
Other disclosures of a scientific or technical nature in this Annual Information Form in respect of the Ovoot Tolgoi Mine and the Soumber and Zag Suuj projects were prepared by employees of the Company and reviewed by Robert Mackenzie, an employee of RungePincockMinarco, a registered Fellow and Chartered Professional (Mining) of the Australasian Institute of Mining and Metallurgy (Member No. 103878) and a Qualified Person, as that term is defined in NI 43-101.

## **Ovoot Tolgoi Deposit**

### ***Property Description and Location***

The Ovoot Tolgoi Deposit is located in the southwest corner of the Umnugobi Aimag (South Gobi Province) of Mongolia within the administrative unit of Gurvantes Soum, 320km southwest of the provincial capital of Dalanzadgad and 950km south of the nation's capital Ulaanbaatar. The Ovoot Tolgoi Deposit is approximately 40km north of the Mongolia-PRC border at the Shivee Khuren Border Crossing.

The property controlled by the Company surrounds and is adjacent to the existing MAK-Qinghua Mines (including the Nariin Sukhait Mine) operations. The Ovoot Tolgoi Deposit resources are found in two different resource areas, referred to as the Sunrise and Sunset Fields respectively, and each are within the Ovoot Tolgoi Mining Licence, which covers a total of 9,282ha and expires in 2037, with two possible 20 year extensions. The waste dumps for the Sunrise and Sunset Fields are located to the south of either field within the Ovoot Tolgoi Mining Licence area. The map below sets out the licence area and location of key infrastructure at the Ovoot Tolgoi Deposit. The Company is currently reviewing all aspects of the Ovoot Tolgoi Deposit's mine with a view to achieving optimization. This review and optimization may affect the pit sizes shown on the map.



The 2006 Minerals Law and the Land Law of Mongolia govern the Company’s exploration, mining and land use rights for the Ovoot Tolgoi Deposit, the Soumber Deposit and the Zag Suuj Deposit, as well as the Company's development projects. Water rights are governed by the Water Law of Mongolia and the 2006 Minerals Law. These laws allow licence holders to use the land and water in connection with exploration and mining operations, subject to the discretionary authority of Mongolian national, provincial and regional governmental authorities as granted under Mongolian law.

The Government of Mongolia grants MELs for a period of three years with the right to extend the period three times for three additional years each. MEL holders are subject to various environmental protection obligations including preparation and acceptance by the Mongolian government of detailed EIA and preparation of an EMP which must be approved by the Soum Governor, as well as the annual posting of a bond equal to 50% of expected reclamation costs. MEL holders are also required to pay a land rent fee and commit to a minimum expenditure per hectare of licence area as set out in the table below.

### **Mongolian Mineral Exploration Licence Fees**

| <b>Year</b> | <b>Licence Fee<br/>(MNT/ha)</b> | <b>Minimum Expenditure<br/>(US\$/ha)</b> |
|-------------|---------------------------------|------------------------------------------|
| <b>1</b>    | 145                             | 0.00                                     |
| <b>2</b>    | 290                             | 0.50                                     |
| <b>3</b>    | 435                             | 0.50                                     |
| <b>4-6</b>  | 1450                            | 1.00                                     |
| <b>7-9</b>  | 2175                            | 1.50                                     |
| <b>9-12</b> | 7250                            | 10.00                                    |

Following successful exploration, the holder of a MEL can apply for a mining licence over any portion of the MEL.

A mining licence is granted for a period of 30 years, with the right to extend the period for two additional 20 year periods. The mining licence covers both mineral and surface lease rights. The primary requirements to maintain mining licences in Mongolia are: (i) pay annual renewal fee of US\$5.00/ha; (ii) submit and have approved an annual mine plan; (iii) report mining quantities and pay appropriate royalties; (iv) submit and have approved annual EPP for mining activities; and (v) submit an annual report for the year most recently completed on mining activities by February 15 of the following year.

In September 2007 portions of existing MELs covering the Ovoot Tolgoi Deposit area held by the Company were converted to licence no. 12726A covering an area of approximately 9,282ha encompassing the areas of the Sunset Pit and the Sunrise Pit for the development of an open-pit coal mine (the "Ovoot Tolgoi Mining Licence"). The Ovoot Tolgoi Mining Licence is held by SGS and expires in 2037. RungePincockMinarco has inspected a copy of the Ovoot Tolgoi Mining Licence.

The area covered by the Ovoot Tolgoi Mining Licence is adjacent to a mine licence held by MAK where coal is being produced from the Nariin Sukhait Mine. The Sunrise and Sunset coal deposits extend across the Ovoot Tolgoi Mining Licence boundary. Resource and reserve estimates previously disclosed by the Company for Sunrise and Sunset are limited to the area covered by the Ovoot Tolgoi Mining Licence, even though the open pits extend across the lease boundaries in order to effectively access all economic coal within the licence area. SGS and MAK signed a cooperation agreement in February 2014 (and amended it in May 2015) in order to achieve full extraction of coal to the boundaries of their mining leases. The cooperation agreement stipulates that SGS is responsible for removal of MAK waste but MAK is responsible for the cost of mining of MAK coal. SGS and MAK have also signed another cooperation agreement related to the dumping of overburden removed by MAK from the MAK lease on an area of the SGS lease that has been shown not to contain potentially economic coal.

Waste disposal areas have been identified and approved in the Ovoot Tolgoi Mining Licence.

#### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The area around the Ovoot Tolgoi Deposit currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Umnugobi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km<sup>2</sup>. There are two primary sources of mining labour – Ulaanbaatar and the local soum. As at December 31, 2015, approximately 50% of the 339 SGS employees working at the Ovoot Tolgoi



Deposit are local residents. The remaining employees are employed on a long distance commute roster from Ulaanbaatar on a two-week on, one-week off rotation.

The surface expression of the deposit ranges from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1,515 to 1,555m above sea level. The region experiences a continental desert climate. Temperature typically ranges from 0° to -30°C in the winter, increasing to 30° to 35°C in the summer months. High winds occur frequently, particularly throughout the spring. Average annual rainfall is approximately 130mm with most precipitation occurring during the summer months. Vegetation is sparse, consisting primarily of small shrubs and grasses.

The local weather is acceptable for exploration activities from April through October. While exploration activities are not recommended during the harsh winters, the climate allows year round mining operations.

The Ovoot Tolgoi Deposit has an onsite airport that is accessed via chartered aircraft from Ulaanbaatar, providing transport for the commute roster workforce. A regular air service is also available from Ulaanbaatar to Dalanzadgad, the administrative centre of Umnugobi Aimag. Travel from Dalanzadgad to the site takes approximately seven hours over unpaved roads. All parts of the Ovoot Tolgoi Deposit can be reached with four-wheel-drive vehicles.

A rail line connects the Ovoot Tolgoi area with the industrial centres in the PRC. The railroad terminus is approximately 40km south of the Ovoot Tolgoi Deposit, at the Shivee Khuren Border Crossing. Coal trucks travel overland from both Ovoot Tolgoi and the neighbouring MAK-Qinghua Mine to the railroad terminus located at Ceke. Electrical power is available from a power line distributing power from Ceke to various points within the Ovoot Tolgoi Deposit. Additional electric power is currently supplied by on-site diesel generators, as required.

No surface water is currently available in the immediate area of the Ovoot Tolgoi Deposit. Water for the camp and shop complexes is supplied from water supply wells drilled during the hydrological investigations. The recently completed permanent accommodation camp has a water treatment facility. Water for dust suppression is available from the pit dewatering.

### ***History***

The first geological investigations at Nariin Sukhait took place in 1951 and 1952 and were led by V.S. Volkhonina. Results included geological mapping at a scale of 1:500,000. Coal was first identified in the Nariin Sukhait area in 1971 by a Mongolian geological survey expedition led by D. Dashtseren. A study of the Nariin Sukhait coal deposit was undertaken by Exploration Unit No. 15 of the Ulaanbaatar Geological Research Group in 1991 which delineated an inferred resource on the property. Since this estimate was reported, substantial exploration has been undertaken as set out under the heading "MATERIAL PROPERTIES – Ovoot Tolgoi Deposit - *Exploration*" in this Annual Information Form.

The Company acquired its interest in the Ovoot Tolgoi Deposit from Turquoise Hill in May 2007.

### ***Geological Setting***

The coal-bearing strata at Ovoot Tolgoi are Late Permian in age. Coal is interpreted to have been deposited along the margins of a tectonically active continental basin. The region is interpreted to have subsequently undergone basin and range style extensional tectonics followed by a period of compressional folding and faulting.

### Regional Geology

The regional geology of the South Gobi region of Mongolia is considered to reflect a complex history of continental accretion and basin and range style crustal extension. The region is dominated by elongate, east-west trending mountain ranges and intervening basins. The intervening basins contain Late Cretaceous to Permian age sediments, overlain by a relatively thin Quaternary gravel horizon or thin, Holocene aeolian sand deposit. The mountain ranges separating these basins comprise mostly crystalline basement rocks, dissected by intermediate to high angle faults that show evidence of both compressional and extensional movement.

### Coal Occurrences

The most prominent structural feature relating to the coal deposit at Ovoot Tolgoi is the arcuate, east-west trending Nariin Sukhait fault. The coal bearing section, interpreted to be of Late Permian age, is exposed primarily in a window adjacent to the Nariin Sukhait fault. The only place where the fault is exposed is in the Nariin Sukhait Mine, where it appears as an intermediate angle structure (40 - 50 degrees) in their West pit. The Company's holdings at Ovoot Tolgoi contain two distinct resource areas within Late Permian strata, which are the Sunrise and the Sunset Fields.

Exploration activities undertaken by SGS within the Ovoot Tolgoi Deposit area have focused on the thick coal forming the No. 5 Seam, but additionally have delineated further resources in packages of "upper seams" located above this horizon. This work has shown that what was previously mapped as a single seam often contains a number of discrete coal plies separated by rock partings of highly variable thickness and extent. As such, geological modeling work has required the organization of these coal packages into a number of coal series. The thick seam originally identified as the No. 5 Seam in outcrop has retained that designation, but the discovery of splits above and below this has required a number of additional correlatable seams to be designated within what is now the No. 5 Series.

The remainder of the resource occurs in the 6, 7, 8, 9, and 10 Series, which each contain a number of discrete coal seams. The No. 4 Seams is recognized in a number of drill holes, but does not appear to be continuous and do not represent significant resources. Coal seams 1 through 3, described in the early work at Nariin Sukhait have not been identified in the Ovoot Tolgoi Deposit.

Interburden both within and between coal series is highly variable at Ovoot Tolgoi. Interburden between the series is generally dominated by sandstones and conglomerates, while the partings within the coals are most commonly mudstones and carbonaceous mudstones.

### Structural Geology

The Sunrise Field is located on SGS controlled land surrounding the southeast corner of the MAK mining licence. The No. 5 Seam is currently being mined by MAK and MAK-Qinghua and is in this area along the axis of a regional-scale antiform. This structure trends to the southwest from the MAK East Pit east pit, and forms the basis for the Company's resources at the Sunrise Field. The coal-bearing section is found primarily as a southeast dipping monocline. Coal resources estimated for the Sunrise Field occur almost entirely within the No. 5 Series.

The Sunset Field is located on SGS land near the southwest corner of the MAK mining licence. Coal resources are found along a southeast dipping monocline, which could represent a preserved limb of a southwest plunging antiform. The majority of resources are found in the 5 Series coal within a southeast dipping coal-bearing sequence. Additionally, a considerable proportion of resources occur in the upper coals forming Series 8, 9, and 10.

## ***Exploration***

OT LLC commenced exploration in late 2004 with the completion of five boreholes in the Sunrise Field. This program was continued in early 2005 and expanded to include general exploration activities along the entire regional trend as well as resource delineation drilling in the Sunrise and Sunset Fields. The exploration programs undertaken from 2006 through 2008 by OT LLC and by the Company from 2007, concentrated on the Sunrise and Sunset Fields, but work also continued elsewhere on the trend. The 2010 exploration program included in-fill drilling and extended drill hole coverage in the west of the Sunrise Field. Exploration activities used to date at the Ovoot Tolgoi Deposit include geological mapping including interpretation of satellite imagery, geophysical surveys, trenching, and drilling.

Geologic mapping was initiated by OT LLC in early 2005 and continued during 2006 to define the trend of outcrops and locate coal occurrences in the hanging wall of the Nariin Sukhait fault. Reconnaissance exploration work was contracted primarily to Sapphire and supervised initially by OT LLC and then by the Company. Norwest geologists provided assistance in the review of activities and interpretation of results in 2005 and 2006, while SGS directly supervised and provided assistance to Sapphire in the review of activities and interpretation of results in 2007, 2008 and 2011. McElroy Bryan supervised the 2010 exploration program. The majority of the reconnaissance work was conducted prior to transfer of the MELs from OT LLC to the Company in 2007. Satellite imagery was used in conjunction with the geological mapping to locate surface exposures of coal and identify major faults and folds affecting coal occurrences.

Additionally, 3-D and 2-D surface resistivity surveys were used to help locate coal (mineralization) in areas with thin Quaternary and younger surficial cover. Potential targets identified with the above mentioned techniques were then tested with trenches cut perpendicular to their interpreted strike, to expose coal seams close to surface.

Trenching has been useful in identifying the near surface expression of coal seams, primarily for locating exploration drill holes. Coal seam thickness and structure as observed in the trenches are greatly affected by weathering and erosion, alteration, and deformation. Trenching intercepts have been found to be unreliable sources of seam characteristics and structure information, and consequently are not used in resource estimation but may be used to help inform geological models of the deposits.

## ***Drilling***

Drilling completed as of December 31, 2014 at Ovoot Tolgoi holdings includes a total of 558 exploration holes completed and 128,318m drilled. This does not include limited drilling that took place under the Soviet-Government of Mongolia sponsored exploration programs. The drilling has not been carried out throughout 2015.

All holes have been geophysically logged except where holes have caved. Depending on the equipment used, logs were either examined visually, or interpreted using the geophysical logging software. The depths for drilled seam intersections were then incorporated into the geologic model. A drilling summary by method and area is presented in the table below.

### **Historic Coal Exploration Drilling Activity**

| Field   | Year | Core      |                | Open      |                | Total     |                | Management Company |
|---------|------|-----------|----------------|-----------|----------------|-----------|----------------|--------------------|
|         |      | No. Holes | Metres drilled | No. Holes | Metres drilled | No. Holes | Metres drilled |                    |
| Sunrise | 2004 | 5         | 687            |           |                | 5         | 687            | IVN                |
|         | 2005 | 38        | 6,248          | 93        | 16,700         | 131       | 22,948         | IVN                |

|                    |           |     |        |     |        |     |         |                           |
|--------------------|-----------|-----|--------|-----|--------|-----|---------|---------------------------|
| Sunrise<br>(cont.) | 2006      | 3   | 1,273  | 27  | 6,089  | 30  | 7,362   | SouthGobi Sands/Sapphire  |
|                    | 2007      | 1   | 254    | 17  | 3,438  | 18  | 3,692   | SouthGobi Sands/Sapphire  |
|                    | 2010      | 6   | 993    | 53  | 10,459 | 59  | 11,453  | McElroy Bryan/Tanan Impex |
|                    | 2014      | 17  | 2,446  |     |        | 17  | 2,446   | SouthGobi Sands           |
|                    | Sub-total | 70  | 11,900 | 190 | 36,687 | 260 | 48,587  |                           |
|                    |           |     |        |     |        |     |         |                           |
| Sunset             | 2005      | 13  | 2,034  | 87  | 15,080 | 100 | 17,114  | Norwest/Sapphire          |
|                    | 2006      | 24  | 5,187  | 47  | 10,738 | 71  | 15,925  | Norwest/Sapphire          |
|                    | 2007      | 7   | 2,797  | 23  | 5,333  | 30  | 8,130   | SouthGobi Sands/Sapphire  |
|                    | 2008      | 40  | 22,792 |     |        | 40  | 22,792  | SouthGobi Sands/Sapphire  |
|                    | 2011      | 37  | 9,110  | 20  | 6,660  | 57  | 15,770  | SouthGobi Sands/Sapphire  |
|                    | Sub-total | 121 | 41,920 | 177 | 37,812 | 298 | 79,731  |                           |
|                    |           |     |        |     |        |     |         |                           |
| Grand Total        |           | 191 | 53,820 | 367 | 74,498 | 558 | 128,318 |                           |

Note: 7 water bores drilled in the Sunrise Field and 13 drill-holes located on the adjacent MAK license are incorporated into the geological database for modelling purposes, but are not included in the table above.

Drill hole core and drill cuttings descriptions, geophysical logs and coal analyses data were used to characterize and interpret the stratigraphy of the Sunrise and Sunset Fields, particularly with respect to the coal seams. All holes were drilled vertically.

Drill hole collars were initially located using a handheld GPS unit. After completion of drilling and logging, surveys were conducted to accurately locate the drill hole position and elevations.

### ***Mineralization***

Early work adopted the seam nomenclature presented by Dashkhoral (a geologist), thereby calling the very thick coal in the middle of the sequence the No. 5 Seam, and naming the upper seams in ascending order. As exploration work progressed, numerous additional seams and splits were discovered within the overall packages of coal previously described. As correlation and modelling has gone forward, coal seams were named and organized into a series basis as shown in the table below. Thicknesses reported are based on drill intercepts and represent apparent thickness. The following tables present the coal seam characteristics on a seam by seam basis:

## Ovoot Tolgoi Deposit Coal Seam Characteristics

### Sunset Field Coal Seam Thickness

| Seam Group | Average Cumulative Coal Apparent Thickness (m) | Maximum Cumulative Coal Apparent Thickness (m) |
|------------|------------------------------------------------|------------------------------------------------|
| 10         | 11.5                                           | 34.2                                           |
| 9          | 25.3                                           | 56.8                                           |
| 8          | 6.5                                            | 29.9                                           |
| 5U         | 45.1                                           | 204.3                                          |
| 5L         | 36.7                                           | 140.4                                          |

### Sunrise Field Coal Seam Thickness

| Seam Group | Average Cumulative Coal Apparent Thickness (m) | Maximum Cumulative Coal Apparent Thickness (m) |
|------------|------------------------------------------------|------------------------------------------------|
| 7          | 8.1                                            | 20.3                                           |
| 6U         | 11.6                                           | 31.5                                           |
| 6L         | 8.2                                            | 25.8                                           |
| 5U         | 29.3                                           | 100.0                                          |
| 5L         | 54.3                                           | 144.3                                          |

### Deposit Type

The definition of Deposit and Geology Types for coal properties is different from that applied to other types of mineral deposits and is outlined by the GSC Paper 88-21. There are two general criteria Geology Type (the degree of geological complexity) and Deposit Type (probable extraction method). These determine the approach to be used for the Resource estimation procedures and define the confidence that can be placed in the extrapolation of data values.

There are four categories for Geology Type – Low (with further subdivision into A, B and C types), Moderate, Complex and Severe. Deposits in the Complex category have been subjected to relatively high levels of tectonic deformation. Tight folds, some with steeply inclined or overturned limbs, may be present, and offsets by faults are common. Individual fault-bounded plates do, however, generally retain normal stratigraphic sequences, and seam thicknesses have only rarely been substantially modified from their pre-deformational thickness.

Deposits in the Severe category have been subjected to extreme levels of tectonic deformation. Tight folds, steeply inclined and overturned beds and large displacement faults are common. The stratigraphic succession between faults may be difficult to ascertain owing to the level of deformation, and coal seams are commonly structurally thickened and thinned from their pre-deformational thicknesses.

The Ovoot Tolgoi Deposit has been subjected to a significant amount of tectonic deformation comprising an east-west-trending regional thrust fault with hanging wall strata modified by secondary folding, as well as normal and reverse faulting. Coal seams are typically steeply dipping in excess of 35°. Rapid changes in seam and ply thickness are attributed to a complex series of thrusts within the Seam Groups resulting in ‘stacking’ of coal seam packages and thinning or the absence of coal in other areas.

The Sunrise Main, Sunrise Extended and Sunset Extended areas (formerly categorized as Complex) are now categorized as Severe and the Sunset Main area, which appears to be a fault-bounded block with normal stratigraphic thicknesses and continuity generally retained its categorization as Complex.

In early 2012, the only significant pit exposure was in the Sunset Main area and it was categorized as Complex and this category was assumed to apply to all other areas of Ovoot Tolgoi. However, since 2012, there have been significant exposures in the Sunrise Main, Sunrise Extended and Sunset Extended area which has led to the revised Geology Type classification in those areas.

The drill hole data supports the categorisation of the Geology Type as Complex and Severe, as seam interpretations and seam correlations are very difficult. Where the coal seams are within approximately a depth of 350m from the original surface, these are considered to be “Surface” mineable deposits. In the Ovoot Tolgoi Technical Report 2012, the depth limit for Surface mining was assumed to be 300m below the original ground surface and initial surface mine planning was limited to this depth. However, review of the pit shells showed that significant coal was exposed in the pit floor at 300m depth and hence the pits were deepened to approximately 320m. The 350m depth limit for Surface mining is consistent with the pit shells designed in the Ovoot Tolgoi Technical Report 2012.

In the Ovoot Tolgoi Technical Report 2012, the coal in Seam 5 between 300m and 600m of the surface was considered as an “Underground” Resource. However, the current view is that there are no reasonable prospects for eventual economic extraction of this coal by underground mining and hence the mineral resource estimate in this Annual Information Form does not include any Underground Resources. This is due to revisions to the geological understanding of the deposit based on the review of drill hole data and the current mining operations observed during a site visit. Due to the geological complexity and associated geotechnical conditions, further work is required to assess the reasonable prospects of eventual economic extraction utilizing underground mining methods.

#### Coal Quality

Coal quality has been shown to be similar in both the Sunrise and Sunset Fields. A summary of coal quality data for each of the resource areas organized by coal series is presented in the table below.

| Field   | Seam Group      | Resources Mt | Raw Coal Quality |              |                  |             |             |            |            |             |            |
|---------|-----------------|--------------|------------------|--------------|------------------|-------------|-------------|------------|------------|-------------|------------|
|         |                 |              | Ash % (ad)       | RD (in-situ) | GCV kcal/kg (ad) | VM % (ad)   | FC % (ad)   | IM %       | TM %       | TS % (ad)   | FSI        |
| Sunrise | 7*              | 3.0          | 31.1             | 1.58         | 5,200            | 42.8        | 25.1        | 1.1        | 11.4       | 0.85        | -          |
|         | 6U*             | 10.2         | 30.6             | 1.55         | 5,250            | 43.8        | 24.2        | 1.4        | 10.0       | 0.86        | -          |
|         | 6L*             | 4.1          | 19.0             | 1.30         | 5,975            | 36.3        | 42.9        | 1.8        | 5.1        | 0.79        | -          |
|         | 5U              | 41.5         | 16.4             | 1.41         | 6,553            | 32.6        | 49.9        | 1.2        | 7.6        | 1.17        | 2.5        |
|         | 5L              | 65.7         | 15.1             | 1.40         | 6,801            | 31.6        | 52.1        | 1.0        | 5.8        | 0.88        | 3.0        |
|         | <b>Subtotal</b> | <b>124.5</b> | <b>17.5</b>      | <b>1.42</b>  | <b>6,510</b>     | <b>33.5</b> | <b>47.7</b> | <b>1.1</b> | <b>6.8</b> | <b>0.95</b> | <b>3.0</b> |
|         |                 |              |                  |              |                  |             |             |            |            |             |            |
| Sunset  | 10              | 13.0         | 20.8             | 1.42         | 6,112            | 31.2        | 46.2        | 1.7        | 5.4        | 1.20        | 2.5        |
|         | 09              | 32.5         | 18.1             | 1.39         | 6,418            | 31.7        | 48.6        | 1.7        | 5.2        | 1.36        | 4.0        |

|  |                           |              |             |             |              |             |             |            |            |             |            |
|--|---------------------------|--------------|-------------|-------------|--------------|-------------|-------------|------------|------------|-------------|------------|
|  | 08                        | 8.3          | 22.9        | 1.44        | 6,049        | 29.9        | 45.5        | 1.7        | 5.7        | 1.15        | 3.0        |
|  | 5U                        | 40.4         | 16.5        | 1.39        | 6,666        | 30.9        | 51.2        | 1.4        | 4.0        | 0.92        | 3.5        |
|  | 5L                        | 29.6         | 18.2        | 1.40        | 6,533        | 31.1        | 49.3        | 1.3        | 3.2        | 0.84        | 5.0        |
|  | <b>Subtotal</b>           | <b>123.9</b> | <b>18.2</b> | <b>1.40</b> | <b>6,469</b> | <b>31.1</b> | <b>49.2</b> | <b>1.5</b> | <b>4.4</b> | <b>1.06</b> | <b>4.0</b> |
|  |                           |              |             |             |              |             |             |            |            |             |            |
|  | <b>Ovoot Tolgoi Total</b> | <b>248.4</b> | <b>17.9</b> | <b>1.41</b> | <b>6,488</b> | <b>32.2</b> | <b>48.5</b> | <b>1.3</b> | <b>5.5</b> | <b>1.01</b> | <b>3.5</b> |

Note: \* The coal quality data for Seam Groups 6L, 6U, and 7 are average values based on RC samples.

### ***Sample Preparation, Analysis and Security of Samples***

The majority of exploration holes at Ovoot Tolgoi have been drilled with rotary techniques, which means that only drill cuttings have been sampled. All quality analyses used for modelling were taken from core samples, which were obtained using triple-tube coring equipment. The procedures described below apply to holes used in the preparation of the Ovoot Tolgoi coal quality model.

Core drilling was used to collect complete representative samples of the coal seams, observe structural details, and to accurately measure the depths of lithologic contacts. Although some of the initial holes were drilled with single-tube Russian-made core equipment, the majority of core drilling was done with wireline drilling systems and triple-tube core barrels. Work was conducted by Sapphire from 2005 to 2011 and was supervised by Norwest during the 2005 and 2006 programs, by SGS in 2007, 2008 and 2011 and by McElroy Bryan Geological Services in 2010. In 2013 the work was conducted by RDD under SGS supervision.

Core was retrieved, logged, and sealed according to Norwest conventions established in 2005. Each core run was measured for total core cut versus core recovered. Photographs were taken at 0.5m intervals. Coal showing distinct lithologic variation was sampled separately, as were partings over 0.05m. Otherwise, coal intervals with a uniform appearance were bagged in 0.6m sample increments as per the core box length. When zones of core loss greater than 0.1m were encountered, separate samples were collected both above and below the zone.

A large number of RC and a minor amount of conventional air-rotary holes were drilled. Samples of cuttings were collected at 1m intervals and laid out in rows on the ground for examination and logging. A portion of the RC samples were used for basic proximate and thermal analysis as a comparison to the core samples. The remaining portion of the samples has been stored in Ulaanbaatar. Analytical results from these samples have not been included in the geological model.

### ***Core Drilling Samples***

For core drilling samples, recovered core is measured to determine an overall recovery (reported in percent) by comparing the recovered core length with the coring run length recorded by the driller. Recovered core is measured and compared to the coal interval thickness determined from the geophysical log suite.

Recovered coal intervals are sampled using the following criteria: (i) coal samples are broken out based on lithologic changes in zones of uniform coal appearance and samples are bagged about every 0.6m as per the capacity of the core boxes; (ii) in-seam partings, to a maximum thickness of 0.1m, are included in a coal sample where the thickness of the adjacent coal beds above and below the parting are both a minimum of twice the parting thickness; and (iii) a parting is sampled separately if it is greater than 0.05m thick, carbonaceous shale, bone or interbedded coal/mudstone, or deemed to be greater than 50% coal.

Collected samples are cleaned of any mud contamination and placed in individual, core-sleeve style plastic bags. The bags are labelled on the outside with both the core hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then placed in sequence into waxed-cardboard core boxes. Core boxes are sealed with tape. Core boxes from the 2005 program were transported to OT LLC in Ulaanbaatar, then shipped to SGS North America Inc.<sup>1</sup> mineral labs in Denver, Colorado (ISO-9000 certified, accredited by National Quality Assurance in the United States). Core from the 2006 program was similarly transported to offices affiliated with SGS North America Inc. laboratories offices in Ulaanbaatar, and then shipped to SGS-CSTS Ltd. laboratories in Tianjin, PRC (currently holds ISO-17025 certification, accredited by CNAS).

Core samples undergo a full suite of coal quality testing including short proximate, full proximate, thermal tests, ash analysis, and metallurgical testing. Some select samples undergo washability testing.

#### Reverse Circulation Samples

Drill hole cutting samples are collected at 1.0m intervals into plastic bags. The bags are labelled on the outside with both the drill hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then grouped by hole into larger bags, packaged and transported to Ulaanbaatar for storage at the Company facilities. It is believed that testing of RC samples was discontinued in 2007 due to the difficulty in distinguishing between coal cuttings and parting cuttings using RC samples.

#### Data Verification

Between 2005 and 2006, Norwest directly managed the exploration program from conceptual planning of exploration targets, through data collection, to interpretation and analysis. Norwest provided on-site management throughout the majority of the exploration project during those two years. All data collection was done under a defined set of protocols established in 2005 by QPs for Norwest and TAG at Ovoot Tolgoi during 2005 and 2006. Norwest site geologists were responsible for the training and administration of data collection procedures and were responsible for reviewing all data. Norwest maintained oversight of all data collection throughout the exploration program, and the QP visited these operations and reviewed these procedures.

During 2007, 2008, 2010, 2011, 2013 and 2014, although Norwest was no longer involved at Ovoot Tolgoi, those field protocols established by Norwest and implemented by Sapphire field geologists were continued, supervised by SGS and McElroy Bryan geological personnel. In 2011 RungePincockMinarco audited a subset of the data collection from previous years (excluding the 2013 and 2014 drilling that was done after the Ovoot Tolgoi Technical Report 2012). Scanned field lithology logs and geophysical logs were provided to RungePincockMinarco. A representative number were checked against the seam picks used to generate the geological model. Drill hole collars were also compared to elevations in a digital terrain model. No material errors were encountered.

#### Security of Samples

Security measures to specifically detect any tampering with samples while in transit were not employed. Coal is a bulk commodity and, consequently, not susceptible to modification or "salting" as this would require replacement or modification of a considerable proportion of the sample collected for analysis, which is difficult to achieve on full, solid core. All samples are, however, held securely at the project site and while being analysed by laboratories.

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<sup>1</sup> SGS North America Inc. (Denver) and SGS CSTS Ltd. (Tianjin) are independent international testing and certification service companies, not to be confused with SouthGobi Sands, LLC (referred to as "SGS" in this Annual Information Form).



### *Updated Mineral Resource Estimate*

The term "resource" is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface considered by the QP to have reasonable prospects for eventual economic extraction. For a complete description of a resource, refer to "mineral resource" under the heading "DEFINITIONS AND OTHER INFORMATION – Glossary of Geological and Mining Terms" in this Annual Information Form. The resource estimates presented are on an in-place basis, i.e., without adjustment for mining losses or coal recovery. Minimum seam thickness and maximum parting thickness are considered and coal intervals not meeting these criteria are not included in the reported resources.

In accordance with NI 43-101, RungePincockMinarco has used the referenced GSC Paper 88-21 during the classification, estimation and reporting of coal resources for the Ovoot Tolgoi Deposit. Resources are classified according to confidence of their existence into one of three categories: measured, indicated or inferred. The category to which a resource is assigned depends on the level of confidence in the geological information available. GSC Paper 88-21 provides guidance for categorizing various types of coal deposits in this manner. These were considered by the QP during the classification of the resources at the Ovoot Tolgoi Deposit.

As a consequence of material changes in some key assumptions underlying the analysis of its resources subsequent to the last detailed review of the project in 2012, particularly those relating to ongoing changes in coal market conditions and geologic analysis, the Company has updated its mineral resource estimate for the Ovoot Tolgoi Deposit, resulting in a decrease in estimated mineral resources from the previous estimate completed in 2012. The decrease is principally based on the exclusion of underground mineralization from the resources estimate and a reclassification of the geology type of certain zones in the mine based on detailed analysis of the results of additional drilling and mining activities since 2012.

In the context of current coal market conditions, and in particular, a significant decline in coal prices in China, the Company's principal market, mineralization in the 350m to 600m underground portion of the Ovoot Tolgoi Mine is now assessed by the Company as not having reasonable prospects for eventual economic extraction.

A reclassification of certain zones in the Ovoot Tolgoi Deposit by the Company's independent mining consultants, RungePincockMinarco, from a degree of geological complexity that was previously characterized as "Complex" to "Severe" (as defined in Geological Survey of Canada Paper 88-21) has necessitated downgrading quantities of the previously estimated resources from the measured category to the indicated and inferred categories. The "Severe" classification requires much tighter data point spacing of drilling results to support the degree of confidence necessary for a categorization of resources as measured.

Updated resources have been estimated as of 1 January 2015 (and confirmed as at 24 March 2016). The exclusion of underground mineralization and the re-classification of certain geological zones has resulted in indicated resources of 170 million tonnes (Mt) and inferred resources of 78 Mt, compared to 133.3 Mt of measured resources, 59.9 Mt of indicated resources, and 24 Mt of inferred resources estimated in 2012.

Resource categorization was completed on a Seam Group basis. In terms of defining the structure (i.e. volume of coal), the criteria presented in in the above tables were used as the basis for categorization but were not strictly employed. The Resource categorization also took into account the continuity and confidence in drill hole intersections along each section. No Measured Resource category was identified over the deposit, due to the perceived complexity of the geology and the amount, spatial distribution, and limitation of the geological data.

The spatial distribution of coal quality data was also used as a requirement for defining Resource categorizations. Indicated Resources were required to be within 300m of a drill hole intersection that included coal quality for the corresponding Seam Group and have a minimum of three coal quality data points. Inferred Resources were either required to be within 600m of drill holes intersection or be adequately supported with coal quality data from RC samples.

The method of Resource categorization used in the mineral resource estimate disclosed in this Annual Information Form is different to the method used to estimate mineral resources in the Ovoot Tolgoi Technical Report 2012; the key differences being that the Geology Type was identified as Complex in the Ovoot Tolgoi Technical Report 2012 and no requirement for coal quality was used.

In the Ovoot Tolgoi Technical Report 2012, a northeast/south-trending fault zone to the north of the current pit face in the Sunset open pit was identified and this zone was classified as Complex Geology with Inferred Resources. Following a site inspection that demonstrated that mining has been conducted in this zone, the zone has now been classified as Severe Geology and applying the corresponding Resources criteria has resulted in Resources in this zone being categorised as Indicated.

The updated estimate of resources at the Ovoot Tolgoi Deposit is summarized in the following table.

| Field                                | Seam Group         | Resources Mt |            |           |
|--------------------------------------|--------------------|--------------|------------|-----------|
|                                      |                    | Measured     | Indicated  | Inferred  |
| Sunrise (depth <350m)                | 7                  | -            | -          | 3         |
|                                      | 6U                 | -            | -          | 10        |
|                                      | 6L                 | -            | -          | 4         |
|                                      | 5U                 | -            | 21.0       | 20        |
|                                      | 5L                 | -            | 50.9       | 15        |
|                                      | <b>Subtotal</b>    | -            | <b>72</b>  | <b>53</b> |
| Sunset (depth <350m)                 | 10                 | -            | 10.8       | 2         |
|                                      | 09                 | -            | 29.7       | 3         |
|                                      | 08                 | -            | 7.7        | 1         |
|                                      | 5U                 | -            | 33.3       | 7         |
|                                      | 5L                 | -            | 16.4       | 13        |
|                                      | <b>Subtotal</b>    | -            | <b>98</b>  | <b>26</b> |
| <b>Ovoot Tolgoi (depth &lt;350m)</b> | <b>Grand Total</b> | -            | <b>170</b> | <b>78</b> |

Resources have been estimated as January 1, 2015 (and confirmed as at March 24, 2016) using the Minex™ models provided by SGS. The criteria used to limit the resources are:

- Minimum coal thickness = 0.3metres (m) (previous estimates used 0.3m).
- Minimum coal parting = 0.2m (previous estimates used 0.3m).
- Base of weathering = 4m (same as previous estimate).
- Surface Resources limited to a depth of 350m, based on the Ovoot Tolgoi Technical Report 2012 that included Reserves to a depth of 320m (previous estimate included Surface Resources to a depth of 300m and Underground Resources from 300m to 600m).
- Volumes are converted to tonnages using laboratory relative density analytical results converted to an estimated in-situ basis.
- Resources are limited to the mining license boundary.
- The Resource estimations contained within are on an in-situ basis (i.e. as an in-situ tonnage and not adjusted for mining losses or recovery).
- Resources depleted by mined out tonnage (as of 1 January 2015). Mined out surfaces are based on survey data from 27 January 2015 for the Sunrise Field and 19 November 2014 for the Sunset Field. No mining activity has taken place since the survey information was collected that would materially affect the resources estimate.
- Totals may not add up due to rounding.

The updated mineral resource estimate for the Ovoot Tolgoi Deposit was prepared on the Company's behalf by RungePincockMinarco. RungePincockMinarco has been engaged to prepare a technical report reflecting the updated mineral resource estimate, which the Company expects to file on SEDAR within 45 days.

### ***Mineral Reserve Estimate***

The Company previously reported 175.7 million tonnes of proven and probable reserves in respect of the Ovoot Tolgoi Deposit based on the Ovoot Tolgoi Technical Report 2012. As noted above, the total mineral resources estimated for the Ovoot Tolgoi Deposit as at January 1, 2015 have significantly decreased from the previous estimate completed in 2012, principally due to the exclusion of previously estimated underground resources, which are now assessed as not having reasonable prospects for eventual economic extraction. Also, a reclassification of certain zones in the Ovoot Tolgoi Deposit from Complex geology to Severe geology has necessitated downgrading quantities of the previously estimated resources from the measured category to the indicated and inferred categories. Since the previously reported estimate of reserves was derived from a previously reported resource estimate that has now been quantitatively reduced and qualitatively downgraded, it is expected that, once all relevant factors have been fully analyzed such that an updated reserve estimate can be prepared, the reserves previously reported in respect of the Ovoot Tolgoi Deposit will also be quantitatively reduced and qualitatively downgraded.

The extent to which the reserves previously reported in respect of the Ovoot Tolgoi Deposit will be reduced has yet to be assessed and, as such, the Company is not in a position to disclose any reserve quantities in respect of the Ovoot Tolgoi Deposit in this Annual Information Form. Since March 2012, when the Ovoot Tolgoi Technical Report 2012 was issued, a number of key assumptions upon which the reserve estimate was based have changed and the Company is currently engaged in a comprehensive review of all relevant information, including the Ovoot Tolgoi mine plan's design parameters, mine designs and project development schedule in order to reflect its production plan and the market conditions. The objective of this exercise is to update the Ovoot Tolgoi

Technical Report 2012 to take into account the change in circumstances since the Ovoot Tolgoi Technical Report 2012 was originally prepared.

Factors such as the decline in coal prices in China, decreased mining quantities resulting from smaller pit dimensions as a result of changed mining parameters and coal prices, and the exclusion of coal identified in the previous studies as marginally economic due to coal price reductions can be expected to exert downward pressure on reserve quantities. These may be offset to some degree by an upgrading of some resources from the inferred category to the indicated category in the Sunset Pit area, a change to mine design with steeper pit walls resulting in less waste and a lower strip ratio and improved mining cash costs, simplified and lower cost coal processing and product marketing, and general cost reductions.

Any downward adjustments to the Company's mineral reserve estimates could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations. For more information on the risks associated with the Company's review of its mine plan and the potential effect on a new reserve estimate, refer to the Risk Factor entitled "There can be no assurance that the continuing optimization of the mine plan at the Ovoot Tolgoi Mine will ultimately provide the basis for an updated preliminary feasibility study that will support a new estimate of mineral reserves" in this Annual Information Form.

### ***Mining Operations***

#### **Mining Method**

The mining method employed at the Ovoot Tolgoi Deposit could be described as open pit terrace mining utilizing large scale hydraulic excavators and shovels and trucks. Terrace mining is utilized where coal seams dip steeply and operating machinery on the coal seam roof and floor is not possible, due to the steep seam dips. Terraces, or benches, are excavated along fixed horizontal horizons and these benches intersect both coal and waste. Coal and waste are mined separately on each bench with dozers being used, as needed, to push coal or waste down to the excavator for loading onto trucks. This mining method allows large scale open pit mining to occur productively in steeply dipping coal seam environments. All waste is dumped ex-pit, as the steep dips preclude in-pit dumping. The Company has indefinitely delayed studies to determine the feasibility and economics of conducting an underground mining operation at the Ovoot Tolgoi Deposit.

The review of the DCHF project was completed in the fourth quarter of 2015 and the Company concluded that there is no plan to restart the project or utilize the facility.

The mine planning process consists of the following steps: determination of a potential economic mining pit shell using the Minex™ mine planning software "Pit Optimiser" module; designing a practical pit shell based on the Pit Optimiser results and addressing practical mining issues, such as access and geotechnical requirements; scheduling waste and coal mining within the practical pit to achieve the annual target quantities; designing suitable waste dumps and scheduling waste and coal quantities to estimate waste and coal haulage distances on an annual basis; estimating mining fleet equipment requirements to achieve the required annual waste and coal schedule quantities; estimating annual product coal quantities and qualities based on annual ROM coal quantities and qualities, and yield and product quality regression equations; estimating capital and operating costs for the mining equipment on an annual basis; and economic modelling by combining the mining costs and physical quantities with cost estimates for the other parts of the Ovoot Tolgoi Deposit and revenue assumptions to determine annual economic parameters (costs, margin etc.) and project net present value.

#### **Coal Markets, Marketing and Sales Contracts**

For information on sales and marketing refer to "SALES AND MARKETING" in this Annual Information Form.

## Environmental Matters

The principal Mongolian environmental agency is the Ministry of Environment, Green Development and Environment. This agency reviews and approves EIAs, EMPs, and Environmental Monitoring Plans required by the 2006 Minerals Laws and subsequent amendment in 2014. In addition, the Soum Government receives a copy of each EIA document and has environmental inspectors who monitor the development, operation, and reclamation of mines within their jurisdiction.

In addition to obtaining approval of an EIA, an operator is also required to determine costs for annual implementation of the EMP. Funds in an amount sufficient to cover an amount equal to 50% of the budget for each year must be deposited in a special account established by the Government Ministry in charge of the environment. Funds from this account are released during mine closure phase upon demonstration of full implementation of the EMP for life of mine.

If the mining damages the environment, causes pollution, or violates the terms of any permits, the operator must make payments for the damage as determined by the Government of Mongolia. In addition, if any cultural or historic resource is damaged as a result of the mining, the operator must also pay damages. Financial compensation is also required for damages to any structure owned by third parties. The mine operator is also required to pay all relocation costs for anyone required to be relocated as a result of the mining operation. These costs are in addition to, not included in, the costs set out in the EIA.

The Company completed an EMP for the Ovoot Tolgoi Deposit in August 2005 and Environmental Consulting Company (ENCO), Ltd., 2006 prepared an EIA in 2006 and it was updated in 2012. Subsequently, the MELs were transferred from OT LLC to SGS, and then converted to the Ovoot Tolgoi Mining Licence. A number of fairly significant project changes have occurred since the submission and approval of EIA including an increased mine pit size and depth with associated increases in ore and waste rock quantities and hauling, increased blasting, increased operating hours and days, increased workforce, and relocation of the man camp. These changes resulted in the preparation of the Addendum.

As to flooding of the final pit, as backfilling is not proposed as a significant part of the mine plan it is possible that a pit lake would appear as a result of re-establishment of the groundwater table. The possibility that a pit lake will form part of the post mining reclamation creates a potential liability with respect to water quality. It is recommended that appropriate study be performed to determine if the pit lake will discharge to the surface water system or the alluvium in order to estimate the long term effect of water in the final pit. Detailed plans for reclamation of the final mining pit have yet to be determined as the final pit would provide possible access for future open pit or underground mining to extract some of the remaining coal, if economic. For information on the Company's environmental policy refer to "SOCIAL AND ENVIRONMENTAL POLICIES – Environmental Policy" in this Annual Information Form.

## Taxes

The following taxes, royalties, and other government levies are applicable to the Ovoot Tolgoi mining operation:

- Royalty payments to the Government of Mongolia. Based on SGS's understanding of the Mongolian royalty legislation, it is subject to a base royalty in Mongolia of 5% on all export coal sales. In addition, effective January 1, 2011, SGS is subject to an additional sliding scale royalty of up to 5%. The royalty is calculated using a set reference price per tonne published monthly by the Government of Mongolia, except for the period from April 1, 2014 and December 31, 2014 for which a "flexible tariff" regime was implemented. Under this "flexible tariff" royalty regime, the royalty per tonne for export coal sales was calculated based on the actual contracted sales price per tonne, including the costs of transporting the coal to the Mongolia-China border. On January 1 2015, this "flexible tariff" royalty regime ended

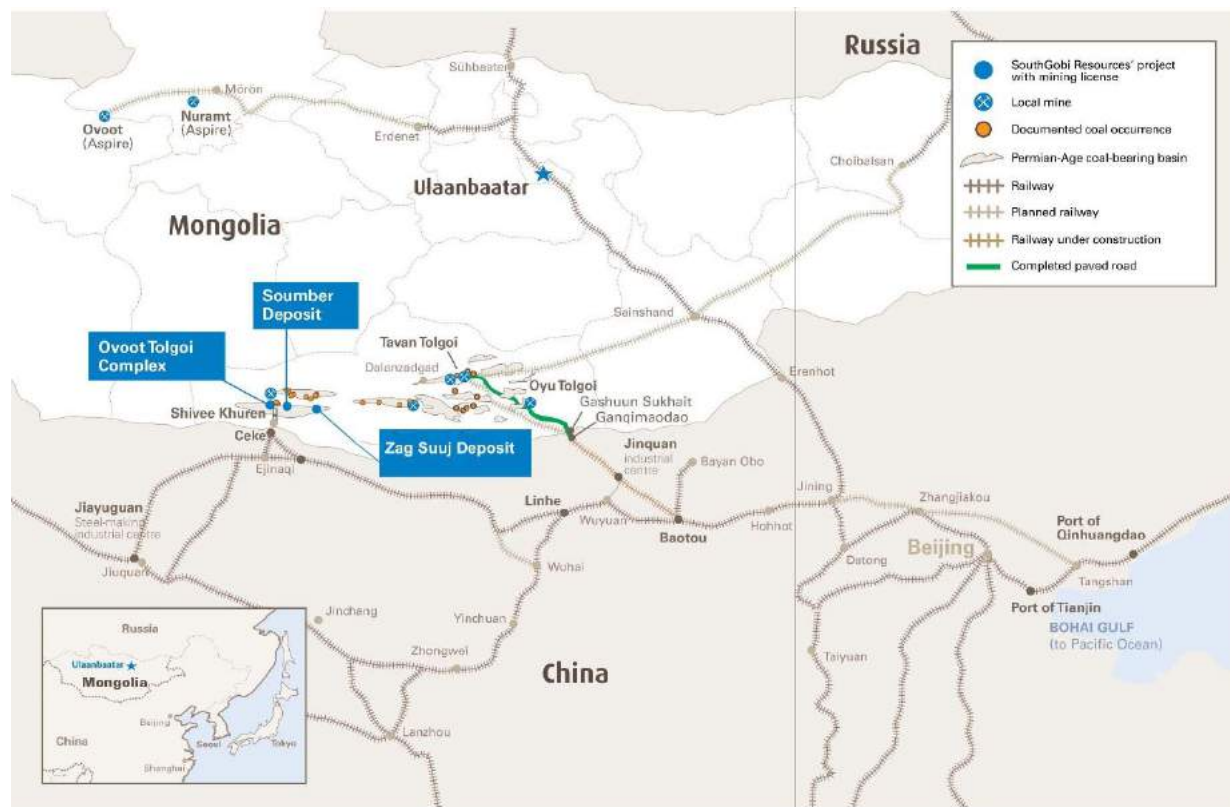
and royalty payments have reverted to the previous regime which is based on a set reference price per tonne published monthly by the Government of Mongolia. Effective from May 1, 2015, the amendments were made on the coal quality of the set reference price as approved by the Government of Mongolia dated March 16, 2015. The Company's coal is under semi-coking coal and non-coking coal category of raw coal. The Company and other Mongolian coal producers are actively engaging the Mongolian authorities to seek the continuation of the "flexible tariff" regime. On February 1, 2016, the Government of Mongolia issued a resolution in connection with the royalty regime. From February 1, 2016 onwards, royalties are calculated based on the actual contract price in which transportation cost to the Mongolia border should have been included. If such transportation cost was not included in the contract, the relevant transportation costs, custom documentation fees, insurance and loading cost should be estimated for the calculation of royalties. In the event of such calculated sales price as described above differs from the contract sales price by other entities in Mongolia (same quality of coal and same border crossing) by more than 10%, the calculated sales price will be deemed to be "non-market" under Mongolian tax law and royalties will then be calculated based on a reference price as determined by the Government of Mongolia. Refer to "RISK FACTORS – Risks relating to the Company's projects in Mongolia" in this Annual Information Form.

- Property Tax: 0.6% on acquisition value in 2012 and 1% in subsequent years;
- Mining Licence: A fee of MNT7,250 per hectare is payable yearly on the Ovoot Tolgoi Mining Licence in the amount of MNT67.5 million (MNT7,250 x 9,312ha = MNT67.5 million) (approximately US\$33.8 thousand as of Dec 31, 2015);
- VAT: 10% on capital, materials and supplies. VAT is assumed to be refunded once the Company's coal is incorporated in the final mining product list;
- Air pollution fee: A fee of 1,000 MNT per tonne of ROM coal;
- Land fee: A fee of 5 MNT per square meter, the fee is imposed twice higher for the mining areas which is 10 MNT per square meter;
- Income Tax: 10% of the first three billion MNT of net profit before tax, 25% thereafter; and
- Depreciation: 10 years on equipment, 40 years on fixed assets, three years on minor assets.

## **Soumber Deposit**

### ***Property Description and Location***

The Soumber Deposit is located in the western part of the Umnugobi Aimag (South Gobi Province) of Mongolia, within the Uvuljuu Uul area of Gurvantes Soum. The property lies approximately 1,000km southwest of Ulaanbaatar, 300km west of the town of Dalanzadgad, and 45km southeast of Gurvantes Soum. The approximate center of the area covered by the Soumber Mining Licence (as defined herein) is located at latitude 42°58'00"N and longitude 101°32'00"E.



The Soumber Deposit is currently undeveloped and has experienced no mining activity to date. It is largely in a natural state with no paved roads or permanent dwellings. Human habitation occurs in the form of temporary nomadic camps and occasional shelters for animal herds.

The Soumber Deposit consists of three distinct fields: Soumber (which is subdivided into Central Soumber and East Soumber fields), Biluut and Jargalant. The Soumber Deposit is covered by two MELs held by SGS: (i) MEL XV-009443, covering an area of 13,671ha (which expired on December 31, 2015 and converted to the mining license MV-020436 covering 2,473ha granted on January 12, 2016 for 30 years); and (ii) MEL XV-009449, covering an area of 43,558ha (which expire on August 12 and converted to the mining license MV-020451 covering 8,796ha granted on January 25, 2016 for 30 years), and one mining licence, MV-016869, granted on July 6, 2011 and covering an area of 10,992.92ha (the "Soumber Mining Licence"). The Soumber Mining Licence covers the East Soumber and Biluut fields and expires on July 4, 2041, with an option for two 20 year extensions. MEL XV-009443 was initially granted to OT LLC on December 28, 2002 and transferred to SGS on February 22, 2007. Part of MEL XV-009443 and XV-009449 have been converted to the Soumber Mining Licence.

For additional information on MELs and mineral licences in Mongolia refer to "DESCRIPTION OF MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Property Description and Location*" in this Annual Information Form.

Further, the Company was granted a PMA for the Central Soumber field covering 23,970.20ha on January 18, 2013 and the Jargalant and South Biluut fields covering 168,538.79ha on August 12, 2013. The Company officially returned 10,298.58ha from the Central Soumber area on December 26, 2013 after exploration analysis indicated extremely low likelihood of the presence of economic coal. The PMA was amended on January 9, 2014, to reflect this change and the remaining area is 13,671.62ha. This change does not impact the NI 43-101 compliant resource.

The pre-mining agreement of the exploration license XV-009449 was evaluated by the MRAM on July 30, 2015. The letter of application numbered MN-025576 was forwarded to the GMCD on August 5, 2015 to obtain a mining license for 8797 ha of 43558 ha of the exploration license XV-009449 that covers South Biluut and Jargalant.

The Citizens' Representative Khural of Umnugobi province transferred the whole area of the exploration license XV-009443 (currently MV-02040436) to the special protection for 10 years according to its resolution 9/13 dated December 04, 2015. The Company is working to get the applications reviewed and resolved by the MRAM.

### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The area currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Umnugobi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km<sup>2</sup>. The number of skilled persons in the exploration and development of mining properties in Mongolia is limited. To date, SGS has been successful in recruiting key personnel to assist in the exploration.

The surface expression of the deposit ranges from flat, gravel-covered desert plains to moderately hilly terrain. Surface elevation ranges from 1,508 to 1,563m above sea level. Vegetation is sparse, consisting primarily of small shrubs and grasses. The region experiences a continental desert climate. Temperature typically ranges from 0° to -30°C in the winter, increasing to 30° to 35°C in the summer months. High winds occur frequently, particularly throughout the spring. Average annual rainfall is approximately 130mm with most precipitation occurring during the summer months. The weather is acceptable for exploration activities from mid-March through October. Exploration activities are not recommended during the harsh winter months; however, the climate is expected to allow year round mining operations, based on the Company's experience at the nearby Ovoot Tolgoi Deposit and competitor mines in the region.

The Soumber Deposit can be reached via chartered aircraft from Ulaanbaatar utilising the Ovoot Tolgoi airstrip. A regular air service is also available from Ulaanbaatar to Dalanzadgad. Travel from Dalanzadgad to the property takes approximately seven hours over unpaved roads. All parts of the property can be reached with four-wheel-drive vehicles. The property is also accessible over desert trails from the Gurvantes Soum via the Ovoot military base.

The property is well placed to access the railroad between Ceke and Jiayuguan City in the PRC. Coal trucks travel from the neighbouring coal mines, MAK-Qinghua and Ovoot Tolgoi, to the railroad terminus in Ceke, approximately 50km southwest of the Soumber Deposit.

Electrical power is available from a power line distributing power from the PRC to the MAK-Qinghua coal mine, Gurvantes Soum, the military base and the Ovoot Tolgoi Mine. No surface water is available in the immediate area of the Soumber, Biluut, and Jargalant fields. Water for the Ovoot Tolgoi mine camp and shop complexes is being supplied from water supply wells drilled near each location as part of hydrological investigations. Groundwater requires treatment to provide a potable supply.

There is sufficient area within the areas covered by the two Soumber MELs to locate waste disposal without impacting identified coal resources. There is also sufficient land for mine facilities including coal handling and ROM coal processing plant, if necessary.

### ***History***

The first geologic investigations at Soumber region occurred between 1951 and 1952. This initial geologic investigation led by V.S. Volkhonina, included mapping at a scale of 1:500,000. Additional mapping by



Burenkhuu identified the coal bearing Late Permian Deliin Shand Formation as having significant occurrences of bituminous coal.

In mid-2000, OT LLC conducted geology reconnaissance in the region of existing Ovoot Tolgoi resources and discovered a number of coal occurrences, mostly along the structural trend of Ovoot Tolgoi resources. Coal was first identified approximately 20km east of the Ovoot Tolgoi property during 2005 exploration by Norwest and Sapphire and the area was informally assigned the name "N field". Another coal occurrence was discovered during that time and referred to as the "O field". The following year in 2006, the exploration area was extended to the east of N field and referred to as the "N Extension".

The "N", "O" and "N Extension" fields are located in what is now known as the Soumber Deposit. The name was proposed by the Buddhist Purevbat Lama of Mongolia and means "beginning of the universe".

### ***Geological Setting***

#### *Regional Geology*

The Soumber Deposit is structurally located along the Nariin Sukhait thrust fault approximately 25km east of the Ovoot Tolgoi Deposit. The coal-bearing strata at the Soumber Deposit are believed to be of Late Permian age due to similarities in the sedimentary sequence, palynological evidence, similar structural setting to the Ovoot Tolgoi resource and its proximity to the Ovoot Tolgoi and Nariin Sukhait deposit. Coal is interpreted to have been deposited along the margins of tectonically active continental basins. The region has subsequently been interpreted to have undergone basin and range style extensional tectonics followed by a period of compressional folding and faulting.

The pre-Mesozoic rocks of Mongolia and central Asia are considered to reflect a complex history of continental accretion and subsequent extensional tectonic activity. In southern Mongolia, this is interpreted to have involved Devonian and Carboniferous volcanic island arc units colliding with older cationic land masses through the Early to Late Permian.

#### *Coal Occurrences*

The coal occurrence within the Soumber field measures approximately 12km long, east-west, and 2km wide, north-south, whilst the strike length of the Biluut and Jargalant field is approximately 25km. Based on past geological mapping, the coal-bearing Deliin Shand suite is exposed along the trend of the Nariin Sukhait thrust fault. The exposed sediments mapped in the vicinity of Soumber and Biluut are thought to have been deposited during Permian, Triassic, Jurassic, and Quaternary time.

The coal sequence contains many rock partings and interburden of varying thicknesses that, together, produce a multi-seam deposit.

Overburden and interburden lithotypes consist of fine to coarse grained sediments that are typically moderately hard to slightly soft. Thin zones containing pyrite and siderite were noted in core logs as being relatively hard compared to the majority of the non-coal rock types present.

Work by Norwest at the Soumber Deposit identified seven coal seams, named S6 (top seam) through S0 (base seam). Their work identified S4 as the main seam, having more continuity than the other seams, and containing the majority of the coal resource. The S1 and S2 seams varied considerably in both thickness and quantity of in-seam partings, but contribute locally to the identified coal resource. The S0 seam was intercepted in a number of drill holes, but did not appear to have significant resource potential. Norwest interpreted the seam sequence as being locally repeated three times by two major east-west trending faults.

Exploration programs in 2010 and 2011 provided the data necessary to support a re-interpretation of the stratigraphy at the Soumber Deposit. Six major (0 to 5) and two minor (6 and 7) seams were identified in those exploration programs, which have been further split into plies based on stone partings within the seams. Approximately 40% of the resources are held in the 2 seam, which averages 5.9m thick. MBGS considers that two east-west faults interpreted by Norwest do not exist, and that the seams can be correlated through the area with the aid of downhole geophysics.

Three major seams have been identified in the Biluut, South Biluut, and Jargalant fields, which have also been sub-divided into plies based on stone partings. No attempt has yet been made to correlate the seams with those present at Soumber.

The coal rank at Soumber ranges from Low to Medium Volatile Bituminous as defined by ASTM standard D388.

### *Structural Geology*

The geologic framework of the Soumber, Biluut, and Jargalant fields is structurally complex. The coal-bearing sequence is interpreted to be preserved in a shallow structural basin, created by post-depositional compression. The basin structure appears to continue through the adjacent areas to the east. Between the Central Soumber and East Soumber areas there is a barren area where coal deposition did not occur or coal has not been preserved during post depositional tectonic activity. The most prominent structure relating to the Soumber and Biluut coal deposits is the arcuate, east-west-trending, moderately-dipping Nariin Sukhait fault, which occurs immediately to the north of the coal deposits.

### *Exploration*

The first exploration of the deposit occurred in 2005 under the supervision of Norwest. Excavations, including trenches and exploratory drilling in 2005 indicated the potential for thick coal deposits within MEL XV-009443. Exploration campaigns on the Soumber Deposit continued in 2006 and carried over to 2007 through 2013. These resulted in the completion of some 509 exploration drill holes, for an aggregate of 86,588m drilled. The Biluut field exploration campaigns in 2005, 2008, 2010, 2011 and 2013 resulted in the drilling of 301 exploration drill holes, for an aggregate OT 58,523m drilled. During 2011, 22 holes were drilled at South Biluut, for 13,621m drilled. The first holes were drilled at Jargalant in 2005, with subsequent drillings in between 2008 and 2011, and in 2014 resulted in a total of 159 drill holes, for an aggregate OT 30,437m drilled in the field.

Exploration geology fieldwork, including reconnaissance mapping, trenching, geologist descriptions of drilling returns, geotechnical data, field logs, and database development, was undertaken primarily by Sapphire and supervised by TAG in 2009, MBGS in 2010 and the Company in 2011. Norwest provided assistance with a review of field activities and interpretation of results in 2005 and 2006. Drilling was performed by a number of contractors including Erd Geo Inc., Tanan Impex and Major Drilling Mongolia Co. Ltd. Drill hole survey and surface topography data were acquired by Mongolian contractor TopCad Co. Ltd.

Drill hole core and cutting descriptions, geophysical logs, and coal analyses data from the surface resources exploration programs have been used to characterize and interpret the stratigraphy and structure of the potential resource area.

### *Drilling*

Drilling to date on the three fields comprises 991 exploration holes completed, for an aggregate of 189,169m drilled.

At the Soumber Deposit, drilling has been concentrated in the central and eastern areas; limited drilling has taken place in the western part of the field. At Soumber, traverse spacing is currently between 120m to 150m, whilst hole spacing along the traverses is 30m to 100m. Average drill hole depth is 170m and the deepest hole drilled is 347m.

Drilling coverage at Biluut is quite regular with traverses spaced at approximately 150m, and hole spacing along the traverses between 50m to 150m. The average drill hole depth is 170m and the maximum hole depth is 340m.

At Jargalant, the traverse spacing is 250m to 300m, with hole spacing along the traverses is between 70m to 120m. The average drill hole depth is 191m and the maximum hole depth is 341m.

Only limited drilling has taken place at South Biluut to date, with traverse spacing around 700m and hole spacing along traverses around 300m. The average drill hole depth is 620m and the deepest hole is 950m deep.

All holes were drilled vertically from the surface. Drilling contractors provided truck-mounted, multi-purpose drill rigs equipped for both wireline coring and RC drilling of up to 110mm diameter holes. Drill depths were measured from surface and recorded based on the length of the drill string and coring tools at the start and end of each core run.

All core logs were recorded by well-site geologists of Sapphire and ErdGeo Inc. These logs contain lithologic descriptions, sample interval identification, and core depths. Basic geotechnical logging was performed on all cored holes that were completed during the 2008 and 2009 exploration campaign.

Geophysical logs were recorded by Monkarotaj Co Ltd., a geophysical contractor based in Ulaanbaatar. Natural gamma logs were obtained through the drill pipe for most holes. Open hole logs were then obtained consisting of gamma, density, resistivity and calliper logs. The open hole logs varied in depth dependent upon drill hole conditions. An attempt was made to collect an open hole log from each drill hole, except where holes were blocked or down-hole conditions created a risk of logging tool loss. Verticality logs were not run.

Total drilling to date is summarized in the table below.

**Soumber and Biluut/Jargalant – Drilling Summary by Year**

| Year              | Soumber   |                | Biluut    |                | South Biluut |                | Jargalant |                |
|-------------------|-----------|----------------|-----------|----------------|--------------|----------------|-----------|----------------|
|                   | No. Holes | Metres drilled | No. Holes | Metres drilled | No. Holes    | Metres drilled | No. Holes | Metres drilled |
| 2005              | 35        | 3,803          | 12        | 1,648          | -            | -              | 18        | 2,694          |
| 2006              | 27        | 3,599          | -         | -              | -            | -              | -         | -              |
| 2007              | 23        | 3,965          | 4         | 595            | -            | -              | -         | -              |
| 2008              | 98        | 20,618         | 42        | 9,815          | -            | -              | 30        | 6,530          |
| 2009              | 6         | 1,339          | -         | -              | -            | -              | 4         | 1,130          |
| 2010 <sup>1</sup> | 182       | 28,586         | 67        | 13,960         | -            | -              | 27        | 5,934          |
| 2011              | 134       | 24,498         | 172       | 32,355         | 22           | 13,621         | 78        | 14,069         |
| 2013 <sup>1</sup> | 4         | 180            | 4         | 150            | -            | -              | -         | -              |
| 2014 <sup>1</sup> | -         | -              | -         | -              | -            | -              | 2         | 80             |

|              |            |               |            |               |           |               |            |               |
|--------------|------------|---------------|------------|---------------|-----------|---------------|------------|---------------|
| <b>TOTAL</b> | <b>509</b> | <b>86,588</b> | <b>301</b> | <b>58,523</b> | <b>22</b> | <b>13,621</b> | <b>159</b> | <b>30,437</b> |
|--------------|------------|---------------|------------|---------------|-----------|---------------|------------|---------------|

<sup>1</sup> The table above includes (i) additional hole data from 2010 which was made available after the completion of the Soumber Technical Report; and (ii) data related to holes drilled in 2013 and 2014 subsequent to the completion of the Soumber Technical Report.

### ***Mineralization***

The coals of the Soumber Deposit are Late Permian in age and are found in a similar geologic setting as the Late Permian coals found at the Ovoot Tolgoi and Nariin Sukhait and other coal occurrences in the South Gobi region. The coal rank ranges from Low to Medium Volatile Bituminous as defined by ASTM standard D388.

Eight distinct seams are recognized at Soumber and have been correlated to provide the basis of the geologic model used for coal resource estimation. The table below shows thickness statistics for the full seam sequence.

#### **Soumber Field Summary of Thickness**

| <b>Seam</b> | <b>Mean (m)</b> | <b>Minimum (m)</b> | <b>Maximum (m)</b> |
|-------------|-----------------|--------------------|--------------------|
| 7           | 2.1             | 0.5                | 4.6                |
| 6           | 1.5             | 0.6                | 3.4                |
| 5           | 10.3            | 0.7                | 44.5               |
| 4           | 12.5            | 0.7                | 58.2               |
| 3           | 9.8             | 0.5                | 58.5               |
| 2           | 5.9             | 0.4                | 23.7               |
| 1           | 9.1             | 1.7                | 21.3               |
| 0           | 8.6             | 1.6                | 34.5               |

At the Biluut and Jargalant fields there are three major seams as reported in the table below. The 3 Seam is not well developed and only occurs sporadically.

#### **Biluut/Jargalant Field Summary of Thickness**

| <b>Seam</b> | <b>Mean (m)</b> | <b>Minimum (m)</b> | <b>Maximum (m)</b> |
|-------------|-----------------|--------------------|--------------------|
| 3           | 3.7             | 0.1                | 15.9               |
| 2U          | 5.0             | 0.4                | 19.4               |
| 2L          | 5.1             | 0.1                | 25.0               |
| 1U          | 0.8             | 0.1                | 2.8                |
| 1L          | 2.5             | 0.1                | 10.9               |

### ***Deposit Type***

Structural geology at Soumber and Biluut/Jargalant shows evidence of folding and faulting with some steeply inclined limbs. The deposit has been subjected to relatively intense deformation and seam thicknesses are

interpreted to have been substantially modified from their pre-deformation thickness in many parts of the field. The deposit is classified as "Complex" based on these criteria consistent with GSC Paper 88-21. For further information on "Complex" deposit types, refer to the Table entitled "Criteria used to Define Assurance of Existence for Coals in Complex Geology Type" under heading "DESCRIPTION OF MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Mineralization*" in this Annual Information Form.

The Soumber and Biluut/Jargalant deposits, based on the low cumulative stripping ratio and depth of the coal within the MELs, are considered to be a "surface" deposit type. Very little drilling to date has been done down-dip; it is possible if such a drilling program were undertaken that the deposit could be extended with underground potential.

### ***Sample Preparation, Analysis and Security***

Approximately 20% of exploration drill holes have been completed with triple-tube coring equipment that provides full core for coal sampling and laboratory analysis. These cored holes are distributed approximately 100m to 300m apart over a two km<sup>2</sup> area of the deposit. The procedures described below apply to holes used in the preparation of the Soumber coal quality model.

#### ***Core Drilling Samples***

Core from the drill hole was logged by a geologist using standard geological terms to document various attributes. The geologist's core log consists of the measured depths and description of the coal, inter-seam partings, adjacent roof and floor rock, and details of any sample intervals removed for analysis. Core handling was performed promptly in the following sequence: the core is pumped out of the core barrel, excess mud is washed off and the core fitted back together, recovered length is measured and depths are marked, core photos are taken on 0.5m intervals, lithologic logging is completed, and other parameters for sample identification and processing as described below.

Core recovery in the coal quality holes was 75% overall, and was considered to be reasonable. The measured length of recovered coal core was compared to the geophysical logs, and sample depths adjusted if necessary. All samples used in the geologic model were reconciled to the geophysical log intercept depths.

Incremental samples were selected by Sapphire based on comparison of field geologic and geophysical logs. Physical composite samples were prepared following the receipt of the initial analytical results from the increment samples.

Recovered core was measured to determine an overall recovery (reported in percent) by comparing the recovered core length with the core run length recorded by the driller. Recovered core was also compared to the coal interval thickness determined from the geophysical log suite for validation purposes.

Recovered coal intervals are sampled using the following protocol: (i) coal samples are broken out based on variations in coal brightness and banding, samples are bagged about every 0.6m as per the capacity of the core boxes; (ii) in-seam partings, to a maximum thickness of 0.1m, are included in a coal sample, where the thickness of the adjacent coal beds above and below the parting are both a minimum of twice the parting thickness; and (iii) partings are sampled separately if they are greater than 0.05m thick, carbonaceous shale, bone or interbedded coal/mudstone, or deemed to comprise greater than 50% coal.

Collected samples were cleaned of mud contamination and placed in individual 6mm plastic core sleeves and sealed air-tight to prevent loss of moisture and volatiles. The bags were labelled on the outside with the core hole, sample number, and depth interval. Samples were placed in sequence into waxed-cardboard core boxes. Boxes were sealed with tape and shipped to SGS-CSTS Ltd. analytical prep laboratory (until 2010) or the Stewart Mongolia LLC laboratory (during 2011) in Ulaanbaatar, Mongolia. At the prep lab, the samples were weighed,

dried, crushed, split and repackaged for shipment to the SGS-CSTS Ltd. analytical laboratory in Tianjin, PRC. In 2011 all testing was performed at the Stewart Mongolia LLC laboratory in Ulaanbaatar, Mongolia.

Laboratory instructions and the shipment manifests were forwarded to the relevant laboratory. All records were compared with contents upon arrival at the analytical laboratory. All samples shipped to the laboratories were accounted for and underwent the specified analysis regimen.

Analytical work was performed by SGS Laboratories Inc. in Tianjin, PRC from 2005 to 2010 and by Stewart Mongolia LLC ("Stewart Laboratories") in Ulaanbaatar, Mongolia in 2011. Both laboratories currently hold ISO-17025 certification, accredited by the CNAS. The laboratories are certified to ASTM and ISO standards. Sample handling and quality control measures used practices that are considered to be standard to the international coal industry. Coal sampling and analyses were performed to a level adequate for the conclusions reached in the Soumber Technical Report.

An aggregate of eight large diameter (8"/203mm) cored holes were drilled at Soumber (6 holes drilled) and Biluut (2 holes drilled) in late 2013 and Jargalant (2 holes drilled) in 2014. Coal samples were collected at 50cm intervals within seams, excluding partings, consistent with the protocols followed for earlier slim core sampling described above. Proximate analyses, cv, FSI and float sink test results for samples were provided by Stewart and Bureau Veritas Laboratories. Seam composites were prepared based on this data for small scale coke oven testing by ALS and Bureau Veritas laboratory Coal of Brisbane, Australia.

#### Security of Samples

Security measures to specifically detect any tampering with samples while in transit were not employed. Coal is a bulk commodity and, consequently, not susceptible to modification or "salting" as this would require replacement or modification of a considerable proportion of the sample collected for analysis, which is difficult to achieve on full, solid core. All samples are, however, held securely at the project site and while being analysed by laboratories.

In RungePincockMinarco's opinion, sample preparation and analysis was performed adequately and securely so as to provide unbiased and accurate results.

All geologic, geophysical, and sampling data was entered and maintained on a site in an electronic database maintained by Norwest and/or Sapphire in early exploration programs. All mapping was entered and maintained in electronic format on a CAD-based system. Data entry of all geologic data was managed by Norwest at the project site. All electronic data was forwarded on a routine basis to Norwest's office in Salt Lake City. Results from coal quality testing were added into the database in the Salt Lake office. From 2006 onwards similar procedures were in place with data routinely sent through to TAG's office in Lakewood, Colorado. During the 2010 field season, data was managed at site by MBGS personnel and in 2011 it was managed by the Company's exploration team.

#### Data Verification

Several levels of data verification were applied to the field and laboratory data under the supervision of the QP. Typical verification included: (i) direct comparison of geologist core log intervals with down-hole geophysical logs; (ii) reconciliation of coal sample intervals and recovered coal core to down-hole geophysical logs; and (iii) comparison of laboratory coal quality results with geophysical and geologists core logs.

Coal quality data was subjected to statistical analysis to identify any errors in reported values. The electronic geologic database was subjected to a series of checks designed to locate data entry errors or inconsistencies.

RungePincockMinarco was not in a position to verify the data used in the resources estimated since this information was stored in individual databases maintained by previous consultants and at present is not in the possession of the Company. This approach of relying on third party consultants to maintain and verify the Company's database has inherent risks in terms of data provenance and integrity. In each of the individual technical reports produced on the project the data has been independently verified and signed off; however, this verified data has not been incorporated into a central Company database that can then be cross checked against original records. It is intended that in the future the Company will maintain its own database incorporating that data stored with previous consultants, together with soft copies of original logs and a record of all coal quality information.

The QP has audited a subset of the data from the individual data logs. Scanned field lithology logs and geophysical logs were provided to RungePincockMinarco, and notwithstanding RungePincockMinarco's inability to verify this data, a representative number of these logs were checked against the seam picks used to generate the geological model. Drill hole collars were also compared to elevations in the digital terrain model, and a number of drill hole locations were checked in the field. No material errors were encountered. A similar audit of fundamental drilling data was undertaken independently by senior Rio Tinto geologists during 2013 and they reached a similar conclusion.

***Mineral Resource Estimate***

In accordance with NI 43-101, RungePincockMinarco has used the CIM "Definition Standards on Mineral Resources and Reserves," and referenced GSC Paper 88-21 during the classification, estimation and reporting of coal resources for the Soumber Deposit. The resource estimations contained in the Soumber Technical Report are on a clean basis. i.e. as an in-situ tonnage and not adjusted for mining losses or recovery.

The term "resource" is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface considered by the QP to have reasonably prospects for eventual economic extraction. The resource estimates presented are on an in-place basis, i.e. without adjustment for mining losses or coal recovery. For more information on resources, refer to "DESCRIPTION OF MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Mineral Resource Estimate*" of this Annual Information Form. However, minimum seam thickness and maximum parting thickness are considered. Coal intervals not meeting these criteria are not included in the reported resources. Seam thicknesses of less than 0.3 m and partings of greater than 0.3 m were excluded from the resource estimates. The resources for the "surface" deposit type are limited to 300 m depth from surface, a depth viewed as the maximum depth from which coal can be extracted using surface mining methods.

The category to which a resource is assigned depends on the level of confidence in the geological information available. GSC Paper 88-21 provides guidance for categorizing various types of coal deposits by levels of assurance. These were considered by the QP during the classification of the resources at the Soumber Deposit. The Soumber Technical Report has sufficient geologic data to support a valid estimate of mineral resources using criteria outlined in the "CIM Definition Standards on Mineral Resources and Reserves" and referenced GSC Paper 88-21. The resource boundaries have been defined based on the review of each individual seam. The distribution of resources categories for the Soumber Deposit is illustrated in the table below.

**Criteria used to Define Assurance of Existence for Coals in Complex Geology Type**

| Criteria                  | Assurance of Existence Category |           |          |
|---------------------------|---------------------------------|-----------|----------|
|                           | Measured                        | Indicated | Inferred |
| Cross-section spacing (m) | 150                             | 300       | 600      |

| Criteria                          | Assurance of Existence Category |           |          |
|-----------------------------------|---------------------------------|-----------|----------|
|                                   | Measured                        | Indicated | Inferred |
| Minimum # data points per section | 3                               | 3         | 3        |
| Mean data point spacing (m)       | 100                             | 200       | 400      |
| Maximum data point spacing (m)    | 200                             | 400       | 800      |

Coal resources at the Soumber Deposit are defined for the categories of measured, indicated and inferred, as summarized in the tables below. This updated estimate is based on the same technical data, geological model, and estimation methodology as the 2012 estimates and the resource estimate for Soumber field is materially unchanged from the 2012 quantities. The total resource estimate for the Biluut, South Biluut, and Jargalant fields have increased approximately 54%, 68%, and 83% respectively from the 2012 resource estimates contained in the Soumber Technical Report. The increases in resource estimate were identified by RungePincockMinarco when reviewing the technical data for the resources in the course of on-going mine planning studies for the Company. These studies included the reconciliation of MMC Minescape and MGBS Minex™ models. This reconciliation identified aggregation discrepancies which resulted in higher resource estimates that were originally reported.

#### **Summary of Soumber Deposit Resources as of 10<sup>th</sup> January 2013**

| Area                                 | Measured Mt | Indicated Mt | Mes+Ind Mt   | Inferred Mt |
|--------------------------------------|-------------|--------------|--------------|-------------|
| <b>Surface Depth &lt; 300m</b>       |             |              |              |             |
| Central Soumber                      | 30.8        | 16.3         | 47.1         | 11          |
| East Soumber                         | 16.9        | 15.1         | 32.0         | 10          |
| Biluut                               | 14.7        | 50.9         | 65.5         | 18          |
| South Biluut                         | 0.0         | 0.0          | 0.0          | 0           |
| Jargalant                            | 0.0         | 20.5         | 20.5         | 19          |
| <b>Underground Depth 300m – 600m</b> |             |              |              |             |
| Biluut                               | 0.0         | 2.3          | 2.4          | 18          |
| South Biluut                         | 0.0         | 4.2          | 4.2          | 41          |
| Jargalant                            | 0.0         | 1.0          | 1.0          | 5           |
| <b>Grand Total</b>                   |             |              |              |             |
| Central Soumber                      | 30.8        | 16.3         | 47.1         | 11          |
| East Soumber                         | 16.9        | 15.1         | 32.0         | 10          |
| Biluut                               | 14.7        | 53.2         | 67.9         | 36          |
| South Biluut                         | 0.0         | 4.2          | 4.2          | 42          |
| Jargalant                            | 0.0         | 21.5         | 21.5         | 24          |
| <b>TOTAL</b>                         | <b>62.4</b> | <b>110.3</b> | <b>172.7</b> | <b>123</b>  |

The geologic model was developed using industry-accepted gridded seam modeling conventions using Minex™ software. Bulk density values derived from the incremental samples from drill hole core samples were incorporated into the geologic model and subsequently used to estimate coal resource tonnages. Zones of core loss within coal seams were assigned an average density as per the judgment of the geologist. Trends in density values were interpolated and extrapolated across the areal extent of the property via the modeling process. The



coal quality model was also developed using Minex™ software, based on the core holes at Soumber and Biluut/Jargalant.

### **Potential Coal Tonnage**

"Potential coal tonnage" has been estimated where drill hole coverage is insufficient for resource classification under the NI 43-101 rules. The NI 43-101 criteria demand that there are at least three drill holes per section or traverse. For traverse lines where only one or two holes have been drilled to date, coal is classified as "potential tonnage" or "exploration potential" rather than an inferred resource. A confidence discount of -30% has then been applied to the figure estimated from the software to obtain the upper limit of the range. In all other respects this coal has been estimated in the same manner as the resources. The potential tonnages are conceptual in nature and cannot be construed to represent a coal resource. Further, it is uncertain if further exploration will result in the targeted resource being realized.

#### **Soumber Field "Potential Coal Tonnage" as of 10 January 2013**

| Area                                  | Tonnage estimate range Mt |    |
|---------------------------------------|---------------------------|----|
|                                       | From                      | To |
| <b>Surface: depth &lt; 300m</b>       |                           |    |
| Central Soumber                       | 0                         | 1  |
| East Soumber                          | 0                         | 3  |
| Biluut                                | 0                         | 8  |
| South Biluut                          | 0                         | 0  |
| Jargalant                             | 0                         | 8  |
| <b>Underground: depth 300m – 600m</b> |                           |    |
| All areas                             | 0                         | <3 |

### ***Exploration and Development***

#### **Development Plan**

Environmental baseline studies have been completed and a general EIA and EPP have been approved. The Company has all necessary permits to continue operations at the Soumber Deposit. For additional information on environmental liabilities and the terms of applicable royalties in Mongolia refer to "DESCRIPTION OF MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Property Description and Location*" and "MATERIAL PROPERTIES – Ovoot Tolgoi Deposit - *Environmental Matters*".

The Company has delayed plans for a pre-feasibility study for the Soumber Deposit and intends to manage the feasibility planning and physical preparation of the Soumber Deposit with respect to ongoing market conditions, government requirements and the Company's available financial resources.

## **Zag Suuj Deposit**

### ***Property Description and Location***

The Zag Suuj field is located in south-central Mongolia, in the Noyon and Bayandalai Soums, in the southwest corner of the Umnugobi Aimag (South Gobi Province). It is approximately 200km southwest of the provincial capital of Dalanzadgad, 950km south of the nation's capital Ulaanbaatar, 150km east of the Company owned Ovoot Tolgoi mine, and 45km north of the Chinese border. The Umnugobi Aimag is the most sparsely populated province in Mongolia with less than one person/km<sup>2</sup>.

SGS holds the licences and permits to the Zag Suuj Deposit. The Zag Suuj field is covered by two MELs: (i) MEL XV-0013779, covering an area 7,760.73ha; and (ii) MEL XV-005267, covering an area of 12,997.28ha.

SGS officially returned certain areas covered by MEL XV-0013779 on December 20, 2013 and certain areas covered by MEL XV-005267 on December 24, 2013 to the Mongolian Government after exploration analysis indicated extremely low likelihood of the presence of economic coal. The PMAs covering these areas were each amended on January 9, 2014, to reflect the changes in the areas. The remaining areas are 7,760.37ha for MEL XV-013779 and 12,997.28ha for MEL XV-005267. These changes do not impact the NI 43-101 compliant resource. For details of the exploration and mining licence regimes, environmental liabilities and the terms of applicable royalties, see "DESCRIPTION OF MATERIAL PROPERTIES - Ovoot Tolgoi Deposit – *Property Description and Location*" in this Annual Information Form.

### ***Accessibility, Climate, Local Resources, Infrastructure, and Physiography***

The Zag Suuj Deposit is accessible via unpaved roads from a sealed airstrip at the Ovoot Tolgoi Deposit which has regular flights from Ulaanbaatar. Regular air service is also available between Ulaanbaatar and Dalanzadgad which is approximately seven hours away via unpaved roads. There is a railroad terminus at Ceke, approximately 50km south of the Ovoot Tolgoi Mine which is connected to the PRC rail network and is accessible via truck. All parts of the project area can be reached with four-wheel-drive vehicles.

Zag Suuj is in a region that experiences a continental desert climate. Temperatures range from 0° to -30°C in the winter and from 30° to 35°C in the summer. High winds frequently occur throughout the spring. Average annual rainfall is 130mm with most of the precipitation occurring during the summer months. The weather allows for exploration activities from mid-March through October and allows for year-round mining operations.

The Umnugobi Aimag is within the physiographic region of the Gobi Desert. The topography of the deposit varies from flat, gravel-covered plains to moderately hilly terrain. Surface elevation ranges from 1,200m to 1,250m above sea level. Vegetation is sparse, consisting primarily of small shrubs and grasses. The area currently supports a traditional subsistence economy focused on raising sheep, goats and camels.

Initially diesel generators will be used for power, but eventually it is expected that Zag Suuj will be connected to a power line that runs from the PRC to Gurvantes Soum and the Ovoot Tolgoi mine camp.

No surface water is currently available in the immediate area of Zag Suuj. It is expected that Zag Suuj will develop a similar water supply to that used at Ovoot Tolgoi where the mine camp and shop complex are supplied with water from wells which has been treated to provide a potable supply.

There is sufficient area within the MELs covering the Zag Suuj field to locate waste disposal without impacting in-place resources, and to site mine facilities including a coal handling and processing (wash) plant, if necessary.

## ***History***

The first geologic investigations in the Zag Suuj region were led by V.S. Volkhonina in 1951 and 1952. They included mapping at a scale of 1:500,000. Further geological investigations were carried out by Russian surveys during the 1960s, including a geological mapping programme at 1:200,000 in 1968.

The first drilling program was carried out by SGS in 2007. Two holes, both of which intersected significant thicknesses of coal, were drilled. Based on this, SGS conducted detailed exploration and drilling programs from 2007 to 2011. There has been no production from the property since December 2011 to date.

## ***Geological Setting***

### **Regional Geography**

The South Gobi region of Mongolia is interpreted to have undergone a complex geologic history of continental accretion and basin and range style crustal extension followed by further compressional folding and faulting. The region has elongated, east-west trending mountain ranges and intervening basins, which comprise sedimentary rocks of Late Cretaceous to Permian age, overlain by a relatively thin Quaternary gravel layer or thin, Holocene aeolian deposits. Mountain ranges between the basins comprise mostly crystalline basement rocks dominated by intermediate to high angle faults that show evidence for both compressional and extensional movement.

The basement of the Zag Suuj area is formed by the Silurian-Devonian Tumuurt Formation conformably overlain by the Carboniferous Khadanus Formation consisting of rhyolite, andesite porphyry and tuff. Overlying these volcanics is the Late Permian Deliin Shand Formation consisting of brown to grey sandstone, siltstone, breccia and coal. These older rocks are unconformably overlain by the Late Cretaceous Bortolgoi and Amgalan Teeg Formations.

The coal deposit at Zag Suuj occurs within the Deliin Shand Formation, which is estimated to be up to 1,300m thick in the Ovoot Khural Basin. The Deliin Shand Formation is described as a sedimentary sequence of intercalated claystones, siltstones, sandstones, conglomerates and coal.

### **Coal Occurrences**

The coal occurrence within the Zag Suuj field measures approximately 12km long east-west and 3km wide north-south. The exposed sediments mapped in the vicinity of Zag Suuj are thought to have been deposited in the series of geologic sequences of Permian, Triassic, Jurassic, and Quaternary Age.

The coal seams of the Zag Suuj Deposit are Late Permian in age and occur in a similar geologic setting as the Late Permian coals found at the Ovoot Tolgoi and Nariin Sukhait Mines and other coal occurrences in the South Gobi. The coal rank ranges from Low to Medium Volatile Bituminous as defined in ASTM standard D388.

The coal sequence contains many rock partings and interburden of varying thicknesses. It is a multi-seam deposit.

Overburden and interburden lithotypes consist of fine to coarse grained sediments that are moderately hard to slightly soft. Thin zones containing pyrite and siderite were noted in core logs as being relatively hard compared to the majority of the non-coal rock types.

### Structural Geology

The geologic framework of the Zag Suuj Deposit appears to be of high structural complexity. The geometry of the strata is interpreted to be a shallow structural basin, created by post-depositional compression. The basin structure appears to continue through the adjacent areas to the east.

The coal bearing section structure trends from west to east. The coal seams occur in what is believed to be a localised, relatively open syncline, with dips generally ranging from 15 to 30 degrees.

### **Exploration**

Starting in 2007 exploration geology fieldwork, including reconnaissance mapping, trenching, geologist descriptions of drilling returns, geotechnical data, field logs, and database development, was contracted to Sapphire and supervised by the Company. Drilling was performed by drilling contractors, Tanan Impex and Major Drilling Mongolia Co. Ltd. Drill hole survey and surface topography were conducted by Mongolian contractor TopCad Co. Ltd. As well as the drilling program, 16 trenches in 2009 and 55 trenches in 2010 were excavated to intersect coal seams at the subcrop.

### **Drilling**

To date at the Zag Suuj Deposit 216 exploration holes consisting of 45,768m have been drilled. Drilling has been concentrated in the central area, with limited drilling taking place in the eastern and western parts of the field. All holes were oriented vertically at surface. The average depth of the holes was 220m, with 155 holes having a depth greater than 200m depth, and the maximum depth drilled was approximately 300m. Drilling contractors provided truck-mounted, multi-purpose drill rigs equipped for wireline coring and RC drilling. Core rigs were equipped with HQ size coring tools of a diameter of 63.5mm and RC drilling utilised larger (approximately 110mm) diameter equipment. Drill depths were measured from ground surface and recorded based on the length of the drill string and coring tools at the start and end of each core run.

Sapphire's well-site geologists recorded most of the core logs. These logs contain lithologic descriptions, sample interval identification, and core depths.

Geophysical logs were recorded by Monkarotaj Co Ltd., a geophysical company based in Ulaanbaatar. Natural gamma logs were obtained through the drill pipe for most holes. Open hole logs were then obtained consisting of gamma, density, resistivity and caliper. The open hole logs varied in depth dependent upon hole conditions. All holes were geophysically logged except where holes caved preventing geophysical logging tools from proceeding further. No verticality logs were run.

Total drilling to date is summarized in the table below:

#### **Zag Suuj Drilling Summary by Year**

| <b>Year</b>       | <b>Open Holes</b> | <b>Cored Holes</b> | <b>Total Metres</b> | <b>Drilling Company</b> | <b>Geophysical Company</b> |
|-------------------|-------------------|--------------------|---------------------|-------------------------|----------------------------|
| 2007 <sup>1</sup> | 3                 | 0                  | 710                 | Tanan Impex             | Monkorataj                 |
| 2008              | 11                | 0                  | 2,522               | Tanan Impex             | Monkorataj                 |
| 2009              | 4                 | 1                  | 922                 | Tanan Impex             | Monkorataj                 |
| 2010              | 112               | 18                 | 31,647              | Tanan Impex             | Monkorataj                 |
| 2011 <sup>1</sup> | 28                | 35                 | 10,377              | ErdGeo                  | Monkorataj                 |

|                   |            |           |               |             |                |
|-------------------|------------|-----------|---------------|-------------|----------------|
| 2014 <sup>1</sup> | 0          | 4         | 590           | Top Diamond | not applicable |
| <b>Total</b>      | <b>158</b> | <b>58</b> | <b>46,768</b> |             |                |

<sup>1</sup> The table above includes (i) additional hole data from 2010 which was made available after the completion of the Zag Suuj Technical Report; and (ii) data related to holes drilled in 2013 and 2014 subsequent to the completion of the Zag Suuj Technical Report.

Drill hole locations were initially recorded by GPS; however, at the end of each program, all holes were accurately surveyed by a licenced contractor.

### ***Mineralization***

The coal occurrence within the Zag Suuj field measures approximately 12km long east-west and 3km wide north-south. The exposed sediments mapped in the vicinity of Zag Suuj are thought to have been deposited in the series of geologic sequences of Permian, Triassic, Jurassic, and Quaternary Age.

The coal sequence contains many rock partings and interburden of varying thicknesses and it is a multi-seam deposit.

Overburden and interburden lithotypes consist of fine to coarse grained sediments that are typically moderately hard to slightly soft. Thin zones containing pyrite and siderite were noted in core logs as being relatively hard compared to the majority of the non-coal rock types.

The table below shows the full sequence:

#### **Zag Suuj Deposit Summary of Seam Thickness**

| Seam Group | Coal Thickness (m) |         |
|------------|--------------------|---------|
|            | Mean               | Maximum |
| D          | 19.1               | 39.3    |
| C          | 22.4               | 52.4    |
| B4         | 15.1               | 52.4    |
| B3         | 9.9                | 32.5    |
| B2         | 5.8                | 17.8    |
| B1         | 7.2                | 15.6    |
| A          | 4.5                | 9.3     |

### ***Deposit Type***

Structural geology at Zag Suuj shows evidence of folding and faulting with some steeply inclined limbs. The deposit has been subjected to intense deformation and seam thicknesses have been substantially modified from their pre-deformation thickness. The deposit is classified as "Complex" based on the criteria described in GSC Paper 88-21.

The Zag Suuj coal sequence, based on the low cumulative stripping ratio and depth of the coal occurrence below ground surface within the MELs, is considered to be a "surface" deposit type, consistent with GSC Paper 88-21.

Very little drilling to date has been done down-dip. It is possible if such a drilling program were undertaken that the deposit could be extended with underground potential.

### ***Sample Preparation, Analysis, and Security***

The sample preparation, analysis and securities methods employed at Zag Suuj were identical to those used at the Soumber Deposit. For a description of methods see "DESCRIPTION OF MATERIAL PROPERTIES – Soumber Deposit – *Sample Preparation, Analysis and Security*" in this Annual Information Form.

### **Data Verification**

Data collection, verification and storage at Zag Suuj has been managed by various independent consultants employed by the Company since the start of the exploration programs. A set of procedures was set up by Norwest and TAG in 2005 when exploration at areas which are now covered by the Zag Suuj MELs held by SGS commenced. Norwest and TAG were responsible for the initial training and implementation of these procedures. Sapphire field geologists have been responsible for all exploration programs at Zag Suuj, using the procedures set up by Norwest and TAG.

The QP was not able to personally verify that these protocols for the logging of rotary and percussion holes were being followed in any of the field seasons 2007 to 2011 as the QP was not present during logging and did not visit while drilling was in progress. The QP has reviewed the protocols set up by Norwest for the collection of geological data and considers them reasonable for this style of deposit.

### ***Mineral Resource Estimate***

The key assumptions and parameters used to estimate the resources at Zag Suuj are the same as those used at the Soumber Deposit. For a description of these assumptions and parameters, see "DESCRIPTION OF MATERIAL PROPERTIES – Soumber Deposit – *Mineral Resource Estimate*" in this Annual Information Form. The resource estimations contained in the Zag Suuj Technical Report are on a clean basis. i.e. as an in-situ tonnage and not adjusted for mining losses or recovery.

The surface resource depth cut-off of 300m was used, as pit optimisation studies of the Ovoot Tolgoi Deposit indicate that while mining to such a depth is feasible, there is insufficient deep drilling to quote any potential underground coal tonnage below 300m.

The following updated estimate is based on the same technical data, geological model, and estimation methodology as the 2012 estimate contained in the Zag Suuj Technical Report.

#### **Summary of Zag Suuj Resources as of 10<sup>th</sup> January 2013**

| <b>Indicated (Mt)</b> | <b>Inferred (Mt)</b> |
|-----------------------|----------------------|
| 21.5                  | 84                   |

Of the seven seams in the Zag Suuj Deposit, the resource estimate for six of the seams remains materially unchanged from the 2012 quantities contained in the Zag Suuj Technical Report. The total resource estimate for Zag Suuj has increased approximately 27% from the 2012 resource estimate due to errors which were identified in respect to how the software package used for the estimate aggregated and reported resource. The increases in resource estimate over 2012 were identified by RungePincockMinarco when reviewing the technical data for the resources in the course of on-going mine planning studies for the Company. These studies included the reconciliation of MMC Minescape and MGBS Minex™ models. This reconciliation identified aggregation anomalies which resulted in an increase in the resource estimates that were originally reported.

### **Potential Coal Development**

Potential coal tonnage (exploration potential) has been estimated where drill hole coverage is insufficient for resource estimation. See "DESCRIPTION OF MATERIAL PROPERTIES – Soumber Deposit – *Potential Coal Tonnage*" in this Annual Information Form for further information on potential coal tonnage. A confidence discount of -30% has then been applied to the figure calculated from the software to obtain the lower limit of the range. In all other respects this coal has been estimated in the same manner as the resources. The potential tonnage is conceptual in nature and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

#### **Zag Suuj Deposit "Potential Coal Tonnage" 10<sup>th</sup> January 2013**

| <b>Tonnage Estimate Range (Mt)</b> |           |
|------------------------------------|-----------|
| <b>From</b>                        | <b>To</b> |
| 20                                 | 29        |

### **Exploration and Development**

#### **Development Plan**

Exploration expenditures were curtailed while mining operations at the Ovoot Tolgoi Mine were suspended. It is anticipated that coals from the Zag Suuj Deposit may be washed to produce a coking coal product or a coking coal blend product.

An aggregate of eight large diameter (8"/203mm) cored holes were drilled at Zag Suuj (2 holes drilled) in 2014. Coal samples were collected at 50cm intervals within seams, excluding partings, consistent of the protocols followed by earlier slim core sampling as described above. Proximate analyses, CV, FSI and float sink test results for samples were provided by Bureau Veritas Laboratory. Seam composites were prepared based on this data for small scale coke oven testing by Bureau Veritas laboratory Coal of Brisbane, Australia.

## **SALES AND MARKETING**

The Company expects that all production from the Ovoot Tolgoi Mine will continue to be marketed and sold into the PRC. Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products and Thermal Coal. The Company's raw semi-soft products together with raw higher-ash coals are suitable for washing and blending in order to be sold as a 1/3 coking coal in the Chinese market. The higher-ash Thermal Coal product is sold to end users. Up until the end of December 2015 the products marketed have been a portfolio of the Company's Premium and Standard semi-soft coking coal products and Thermal Coal (high ash coal, referred to as "F product" and high cv Thermal Coal, referred to as "B product").

Coal sales by the Company from Ovoot Tolgoi were made at the "mine-gate", meaning customers took delivery and ownership of the coal at the Ovoot Tolgoi Mine site and made their own arrangements to transport the coal through the Shivee Khuren Border Crossing. Once the coal arrives in the PRC it is distributed from Ceke. End users and logistics specialists generally undertake logistics from Ceke, with the coal destined for use in coke-making, power generation and cement-making.

Mining activities at the Ovoot Tolgoi Mine were curtailed to varying degrees during the second quarter of 2012, and fully curtailed at the end of the second quarter of 2012, to manage coal inventories and to maintain efficient working capital levels. Mining activities remained fully curtailed for the remainder of 2012 and operations at the

Ovoot Tolgoi Mine resumed on March 22, 2013. During the period that mine production had been curtailed, the sales and marketing divisions continued to maintain relationships with the Company's historical customer base which allowed it to deliver record sales volumes in the second half of 2013. The Company mined and sold thermal coal (both high cv B Product and high ash F Product at the mine-gate to Chinese customers in 2014 which were then sold to Chinese power plants and cement plants). The Company's operations were fully curtailed for the first quarter of 2015, the mine operations were resumed from the second quarter of 2015. As of mid-December 2015, the Company mined and sold primarily standard, premium and high thermal coal to the customers in the PRC.

The Company intends to continue to develop markets for both its premium and standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in the PRC to complement its existing customer base and to gain best value of the Company's coal in the Chinese market. The Company is committed to further enhance the quality of its coal products through wet washing and increase its market penetration in the PRC. As part of this strategy, the Company plans to commission Wet Washing Facility in the Ovoot Tolgoi Mine commencing in 2016, a processing study is being conducted to evaluate processing yield and coal quality of washed products. The Wet Washing Facility is expected to have a capacity to produce up to 3 million tonne coal per annum.

The demand for thermal coal in the Gansu area of China is increasing significantly. However, a new regulation regarding coal quality requires coal to have a sulphur content of lower than 0.8%. This is lower than the sulphur content of the Company's products, which are over 1% on average.

The Company is in the process of establishing a wholly owned foreign enterprise in China which will enable SGS to sell coal directly to Chinese end users. To achieve this, the Company requires working capital for production in Mongolia and logistics in China.

## **DIRECT AND INDIRECT EMPLOYEES**

As at December 31, 2015, the Company had approximately 354 employees, including 337 employees in Mongolia.

## **SOCIAL AND ENVIRONMENTAL POLICIES**

### **Environmental Policy**

Within the framework of relevant environmental laws and legislation, the Company aspires to demonstrate environmental leadership by keeping environmental impact at a minimum, avoiding and preventing environmental impact, as well as carrying out rehabilitation, biological offsetting, regular monitoring of possible negative impacts and taking relevant responsive measures and protecting the environment with the participation of locals in the area in which it operates.

In order to implement its environmental policy, the Company commits to adhere to the following:

- fully carrying out its duty of protecting the environment in accordance with Mongolian laws in its mining activities;
- Prioritizing environmental actions to be implemented in its business activities;
- Implementing third party and internal environmental monitoring and include the participation of local people and governmental organizations;



- Preventing and reducing environmental impact, rehabilitate and carry out biological offsetting in the project area;
- Carrying out land reclamation in accordance with Mongolian standards during mining operation and at the time of mine closure;
- Establishing and implementing environmental management system;
- Identifying, assessing and managing the environmental risks of our activities in all planning and operational decisions;
- Regularly examining environmental management system and regulations, and revise them where necessary, in order to continuously improve our environmental activities;
- Cooperating with local people and administration as well as specialists or specialized agencies; and
- Regularly organizing trainings for the Company's employees and contractors with respect to the environment.

The Company uses, and will continue to utilize, appropriate recognized environmental management systems, including documentation of all relevant environmental matters, and conducting internal compliance audits and engaging third parties to conduct audits where necessary to assist with environmental management. Specifically, the measures it is taking or that it expects to take in relation to the protection of the environment at the Ovoot Tolgoi Mine include:

- **Reducing land use footprint at mining site:** Each year the Company determines the potential area that can be reclaimed and in 2015 a total of 25.3ha of land was reclaimed. Reclaimed land size is anticipated to increase each year.
- **Monitoring biodiversity in licence area and surrounding territories:** Currently there are no endangered plant and animal species in the Company's Ovoot Tolgoi Mine area. The Company monitors biodiversity conservation and impact mitigation measures in mining areas and is prepared to undertake action as required in the future to preserve or maintain biodiversity. In 2015 animal monitoring was performed 9 times including wild animals, birds and plant monitoring. External monitoring work was completed this year.
- **Developing an environmental protection strategy:** The Company has worked with a professional organization to develop a strategy for 2014 - 2018 to protect biological diversity, maintain ecosystem balance and preserve species dwelling nearby the Ovoot Tolgoi mine area, all in accordance with new provisions specified in Mongolian laws and regulations. In 2015, biodiversity offset strategic plan was produced. Land quality assessment work was completed in 2015.
- **Monitoring environmental conditions:** The Company purchased automatic environmental monitoring equipment (a mini metrological station and groundwater logger) to monitor weather conditions at the mine site and improve methodology to monitor water quality and amount around mining operations.
- **Re-using greywater:** The Company reuses its greywater using a water treatment facility, which is a key part of reducing the pressure on our water resources and the environment. Ovoot camp commenced to use greywater since 2015.
- **Recycling waste oil:** The Company has engaged a professional waste oil recycling contractor and other non-toxic waste recyclables are given to a local village to add income and provide work opportunities. Additionally, the Company is working together with the first ever local waste service company in Mongolia to improve non-minerals waste handling and management. In 2015, 74.16 tonnes of waste oil was sold to the recycling contractor company. The Company has been working with the local company on waste handling.

For further information on the EIA and EMP for the Ovoot Tolgoi Mine refer to "MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Environmental Matters*" in this Annual Information Form.

### **Health and Safety Policy**

Employees are the greatest assets of the Company and its subsidiaries. Based on industry best practice and advanced technology, our company aspires to be a responsible mining company by complying with Mongolian occupational health and safety standards and requirements, providing employees with a healthy and safe workplace conditions, and committing towards a target of zero incidents.

In order to implement its health and safety policy, the Company commits to adhere to the following:

- The management of the company shall promote safety leadership and prioritize "Occupational health and safety first" in its business operations;
- Identify possible workplace dangers and carry out risk assessment, eliminate workplace dangers thereby decreasing risk;
- Within the framework of Occupational Health and Safety management system, the company shall comply with international and Mongolian health and safety standards for the purpose of continued improvement of its operations;
- Organize regular trainings to improve the safety knowledge and skills of the company's employees and contractors, and instill correct attitude towards health and safety; and
- Provide employees with a safe workplace by equipping them with personal protective equipment with respect to their job positions.

All employees of the Company and contractors are required to understand and act in accordance with this policy.

### **Community Relations**

The Company aspires to be a leader in community relations by (i) treating local citizens with dignity and respect, (ii) developing good relationships and mutual trust with local governments, (iii) implementing environmentally friendly technology for coal exploration and mining. The Company strives to achieve these goals while pursuing the underlying business objective of building value.

In its effort to recruit from the local area around the Ovoot Tolgoi coal mine and to directly liaise with local village members to help build understanding of its projects, the Company employs full-time Community Relations Officers and Representatives in the nearby town of Gurvantes and in the provincial capital of Dalanzadgad.

The Company has played a significant role in contributing to the infrastructure in the South Gobi region. Most notable is the paving of the runway at the Ovoot Tolgoi airport, which has helped to enhance trade and economic activity in the local communities of the South Gobi region. Roads to both Gurvantes and the Shivee Khuren Border Crossing have been improved and upgraded to facilitate the movement of local residents by increasing traffic safety and reducing travel time. The Company, through its joint venture with NTB LLC, completed the construction of a paved highway from the Ovoot Tolgoi Deposit to the Shivee Khuren Border Crossing. The highway significantly increases the safety of coal transportation, reduces environmental impacts, and improves efficiency and capacity of coal transportation. Additionally, the Company renovated and equipped the Gurvantes hospital to provide staff and patients with better working and treatment conditions. Despite the difficulties and

challenges faced in 2015, the Company continued its core corporate social responsibility activities which included:

- providing university scholarships to 16 students from Umnugobi, Mongolia;
- contributing to the preservation of cultural heritages of local community including support for important events such as Naadam celebration;
- continuing to provide coal and animal feeds to local residents during the harsh winter; and
- within the framework of the flight discount agreement with GT, local citizens are donated 50% of discount flight fee between Ovoot and Ulaanbaatar.

### **Corporate Social Responsibility**

The Company and its subsidiaries, and all of their respective employees, board members and contractors strive to be a leader in CSR across all of the Company's investments and across all stages of a mine project life cycle and to do no harm to communities and the natural resources upon which people depend. The Company recognizes the value of its partnerships with the community, stakeholders and government. The Company's profitability is influenced by the strength of these partnerships, and accordingly it is committed to ongoing investment in the community to contribute to the sustainable development of Mongolia.

The Company endeavours to go "beyond compliance"; to not only act lawfully and respect human rights in accordance with international norms, but to do more than is required by national and local law, and take a long term strategic view in its operations and activities. CSR in this context is a continuous commitment to behave ethically and to contribute to sustainable development while improving quality of life for the Company's workforce, their families, local communities, and the wider Mongolian society. The Company aims to understand and respond to concerns and aspirations of the community to enhance the quality of life for communities impacted by its business activities, and work in partnership to create a positive legacy. In taking this enduring view, the Company and its subsidiaries seek to be the employer and operator of choice for employees and communities in Mongolia, and to gain acceptance and participation from the local community and stakeholders.

The Company's CSR commitment requires efforts for continuous improvement and being alert and responsive to new issues and considerations as these emerge over time. In order to fulfill this commitment, the Company reports periodically on its progress and has a policy of transparency to its employees, Shareholders, governments, to the public, and to the communities where it works.

The Company's CSR policy is broken down into four themes:

1. **Responsible Economic Development** – the Company is committed to pursue its business objectives lawfully, ethically and in a manner that is respectful of its employees, host communities and the environment.
2. **Environment** - the Company is committed to responsive and effective environmental impact management across all of its exploration, development and production activities through ongoing risk assessment, openness and partnership working with stakeholders to implement best practices in environmental management.
3. **Human Capital** - the Company acknowledges that its employees are its most important assets and maintains its commitment to providing safe and healthy work conditions with fair remuneration for its people, with a target of zero incidents in all its activities.

4. **Community** - the Company aspires to be a leader in community relations. Fundamental to this is treating people with dignity and respect, and ensuring it works effectively and respectfully with stakeholders in a consultative framework to establish priorities and implement agreed actions.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares. As at March 28, 2016, there were 257,686,305 Common Shares and no Preferred Shares issued and outstanding. Rights and restrictions in respect of the Common Shares and Preferred Shares are set out in the Company's Articles, and in the BCBCA and its regulations.

### **Common Shares**

The holders of Common Shares are entitled to one vote per Common Share at all meetings of Shareholders except meetings at which only holders of another specified class or series of shares of the Company are entitled to vote separately as a class or series. Subject to the prior rights of the holders of Preferred Shares and any other shares ranking senior to the Common Shares, the holders of Common Shares are entitled to receive dividends as and when declared by the directors, and to receive a pro rata share of the remaining property and assets of the Company in the event of liquidation, dissolution or winding up of the Company. The Common Shares have no pre-emptive, redemption, purchase or conversion rights. Neither the BCBCA nor the constating documents of the Company impose restrictions on the transfer of Common Shares on the register of the Company, provided that the Company receives the certificate representing the Common Shares to be transferred together with a duly endorsed instrument of transfer and payment of any fees and taxes which may be prescribed by the Board from time to time. There are no sinking fund provisions in relation to the Common Shares and they are not liable to further calls or to assessment by the Company. The BCBCA provides that the rights and provisions attached to any class of shares may not be modified, amended or varied unless consented to by special resolution passed by a majority of not less than two-thirds of the votes cast in person or by proxy by holders of shares of that class.

### **Preferred Shares**

The Preferred Shares rank senior to the Common Shares as to the payment of dividends and the distribution of property and assets on the liquidation, dissolution or winding up of the Company. Holders of Preferred Shares will not be entitled to any voting rights as a class except as may be provided under the BCBCA other than those voting rights which attach to any series of Preferred Shares as determined by the directors from time to time. The Preferred Shares are issuable in one or more series, each consisting of such number of Preferred Shares as may be fixed by the directors. The directors may from time to time by resolution passed before the issue of any Preferred Shares of any particular series, determine the designation of the Preferred Shares of that series, fix the number of Preferred Shares of that series and create, define and attach special rights and restrictions to the Preferred Shares of that series.

## **DIVIDENDS AND DISTRIBUTIONS**

No cash dividends or distributions were declared on the Common Shares for the financial years 2013, 2014 and 2015.

## **MARKET FOR SECURITIES**

The Common Shares are traded in Canada on the TSX under the symbol "SGQ" and in Hong Kong on the SEHK under the stock code 1878. The closing price of the Common Shares on the TSX on March 28, 2016 was Cdn\$0.26 and on the SEHK was HK\$1.69.

The following sets forth the high and low market prices and the volume of the Common Shares traded on the TSX and SEHK during the periods indicated:

**TSX**  
(stated in Canadian dollars)

| <b>Period</b>  | <b>High</b> | <b>Low</b> | <b>Volume</b> |
|----------------|-------------|------------|---------------|
| January 2015   | 0.64        | 0.49       | 400,080       |
| February 2015  | 0.62        | 0.41       | 194,195       |
| March 2015     | 1.15        | 0.60       | 356,967       |
| April 2015     | 0.92        | 0.77       | 113,426       |
| May 2015       | 1.25        | 0.58       | 63,022        |
| June 2015      | 1.00        | 0.51       | 63,387        |
| July 2015      | 0.81        | 0.58       | 73,054        |
| August 2015    | 0.60        | 0.45       | 65,239        |
| September 2015 | 0.55        | 0.39       | 1,142,566     |
| October 2015   | 0.45        | 0.26       | 1,325,987     |
| November 2015  | 0.47        | 0.25       | 60,902        |
| December 2015  | 0.39        | 0.24       | 64,590        |

**SEHK**  
(stated in Hong Kong dollars)

| <b>Period</b>  | <b>High</b> | <b>Low</b> | <b>Volume</b> |
|----------------|-------------|------------|---------------|
| January 2015   | 4.20        | 3.55       | 3,358,350     |
| February 2015  | 4.01        | 3.70       | 1,070,150     |
| March 2015     | 8.28        | 3.94       | 31,665,525    |
| April 2015     | 6.69        | 4.52       | 13,937,975    |
| May 2015       | 7.61        | 4.87       | 12,022,900    |
| June 2015      | 6.83        | 4.80       | 7,654,200     |
| July 2015      | 5.90        | 2.90       | 6,363,750     |
| August 2015    | 4.20        | 3.01       | 2,056,000     |
| September 2015 | 3.26        | 2.67       | 3,221,500     |
| October 2015   | 3.37        | 2.69       | 3,323,838     |
| November 2015  | 2.74        | 2.10       | 3,000,144     |
| December 2015  | 2.41        | 1.70       | 4,541,050     |

## DIRECTORS AND OFFICERS

### Biographical Information

The name, province or state, and country of residence and position with the Company of each director and executive officer of the Company, and the principal business or occupation in which each director or executive officer has been engaged during the immediately preceding five years is as follows:

| Name and Municipality of Residence                        | Position with Company                                                                                                                                        | Principal Occupation During Past Five Years                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AMINBUHE<br>Beijing, China                                | Executive Director and Chief Executive Officer (CEO and Executive Director since September 2015, Director since August 2015)                                 | Chief Executive Officer of the Company (September 2015 – present); Executive Director of National United Resources Holding Limited (December 2013 – February 2015); Chairman and President of Inner Mongolia Ejina Jin Yun Kun Tai Industrial Development Co. Ltd. (October 2010 – December 2013).                                                                                                                                                                                                                   |
| YULAN (Allen) GUO<br>Beijing, China                       | Executive Director and Chief Financial Officer (Executive Director since August 2015, Chief Financial Officer since September 2015, Director since May 2015) | Chief Financial Officer of the Company (September 2015 – present); Interim Chief Executive Officer of the Company (August 2015 – September 2015); Vice President of the Investment Banking Department of China International Capital Corporation (July 2009 – June 2015).                                                                                                                                                                                                                                            |
| PIERRE LEBEL<br>North Vancouver, British Columbia, Canada | Lead Director (Lead Director since June 2007, Director since August 2003)                                                                                    | Chairman of the Board of Directors, Imperial Metals Corporation (2003 to present).                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| NINGQIAO LI<br>Beijing, China                             | Executive Chairman and Executive Director (Chairman and Executive Director since November 2015, Director since August 2015)                                  | Executive Chairman of the Company's Board of Directors (September 2015 – present); Director of Novel Sunrise Investments Limited (April 2015 – present); Senior Advisor of United Energy Group Limited (2009 – 2012); Senior Advisor of Convoy Investment Services Limited (January 2014 – June 2015); Director of China Orient Group Corporation Ltd.(February 2010 – December 2013); Senior Advisor of PetroAsian Energy Holdings Limited (2012 –2013); Director of China Orient Group Incorporation (2010 –2013). |
| ZHU LIU<br>Beijing, China                                 | Director (Director since May 2015)                                                                                                                           | Retired                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

| Name and Municipality of Residence                              | Position with Company                        | Principal Occupation During Past Five Years                                                                                                                                                                                          |
|-----------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| JIN LAN (Jacqueline) QUAN<br>Sydney, Australia                  | Director<br>(Director since August 2015)     | Financial Planner and Business Consultant, J&Q Investments Pty Ltd. (June 2004 – present).                                                                                                                                           |
| MAO SUN<br>Richmond, British Columbia, Canada                   | Director<br>(Director since November 2015)   | Founding partner, SunRonkai LLP (October 2009 - present).                                                                                                                                                                            |
| HUIYI (DEAN) WANG<br>Hong Kong                                  | Director<br>(Director since February 2016)   | Investment Associate, China Cinda (HK) Holdings Company Limited (September 2014 - present); Investment Banker, Macquarie Capital (Hong Kong) Limited (August 2011 - August 2014).                                                    |
| ALLISON SNETSINGER<br>North Vancouver, British Columbia, Canada | Corporate Secretary<br>(since November 2014) | Corporate Secretary of the Company (November 2014 to present and May 2012 to March 2014); Assistant Corporate Secretary of the Company (May 2003 to May 2012); Assistant Corporate Secretary, Turquoise Hill (May 2001 to May 2014). |

Each director's term of office expires at the next annual general meeting of the Company.

#### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Other than disclosed below, to the knowledge of the Company, no director, executive officer or Shareholder of the Company holding a sufficient number of Common Shares to materially affect control is, as at the date in this Annual Information Form, or has been, within 10 years before the date in this Annual Information Form, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity:

- was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
- was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
- 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
- has within the 10 years before the date in this Annual Information Form, 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 proposed director.

## **Shareholdings of Directors and Senior Management**

As at March 28, 2016, the directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 5,100 Common Shares representing less than 1% of the outstanding Common Shares.

## **Committees of the Board**

The committees of the Board consist of an Audit Committee; a Nominating and Corporate Governance Committee; a Compensation and Benefits Committee; and a Health, Environment, Safety and Social Responsibility Committee. In addition, the Company has a Mergers and Acquisitions Committee created to review, assess and provide guidance on all potential acquisitions, divestitures and strategic investment transactions to which the Company may become a party. The Mergers and Acquisitions Committee was inactive throughout 2014 and 2015.

The members of the Audit Committee are Messrs. Mao Sun (Chair) and Pierre Lebel, and Ms. Jacqueline Quan.

The members of the Nominating and Corporate Governance Committee are Messrs. Pierre Lebel (Chair), Zhu Liu and Mao Sun, and Ms. Jacqueline Quan.

The members of the Compensation and Benefits Committee are Messrs. Zhu Liu (Chair), Pierre Lebel and Mao Sun.

The members of the Health, Environment, Safety and Social Responsibility Committee are Messrs. Aminbuhe (Chair), Yulan (Allen) Guo and Zhu Liu.

## **Audit Committee Information**

### ***Audit Committee Charter***

The charter of the Audit Committee is reproduced in its entirety in Schedule "A" to this Annual Information Form.

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

The Audit Committee consists of Messrs. Pierre Lebel and Mao Sun (Chair), and Ms. Jacqueline Quan. The Board has determined that each of Messrs. Lebel and Sun and Ms. Quan are "independent" directors, and each is "financially literate" within the meaning of Multilateral Instrument 52-110 *Audit Committees*.

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

#### **Pierre Lebel**

Mr. Lebel holds a Masters of Business Administration from McMaster University and a Bachelor of Laws (LLB) from Western Ontario. He currently serves as Chairman, Director and Audit Committee Member of Imperial Metals Corporation and is a Director and Audit Committee member of West Kirkland Mining Inc. Previously Mr. Lebel served on the Audit Committee of Zedi Inc.



### Jacqueline Quan

Ms. Quan is currently an independent financial planner and business consultant based in Sydney, Australia. In 2003 Ms. Quan resigned from an extensive and diverse finance and audit career, with her last position being audit partner with Arthur Anderson in Sydney, Australia.

Ms. Quan has extensive experiences in financial consulting services with specialist skills in external auditing, internal audit structuring, corporate financing and risk management and business acquisition.

Ms. Quan is a certified public accountant of China and a member of CICPA. She is a fellow of the association of chartered certified accountants of United Kingdom and a member of the Canadian Institute of Corporate Directors.

### Mao Sun

Mr. Sun is a Chartered Accountant and graduated from Columbia University in New York with a Master Degree of International Affairs, International Finance and Business and a Bachelor Degree in Computer Science from Nanjing University, China.

He is a founding partner of SunRonkai LLP, a private accounting firm offering tax, assurance and management consulting services. Prior to founding SunRonkai LLP, Mr. Sun was the audit manager in Vancouver office of KPMG, an internationally recognized accounting firm.

Mr. Sun has extensive experience with Canadian listed companies and was the director and chairman of audit committee of Yalian Steel Corporation from 2012 to 2013 and has been the chief financial officer of HFX Holding Corp since 2014.

### ***Pre-Approval Policies and Procedures***

All services to be performed by the Company's independent auditor must be approved in advance by the Audit Committee or a designated member of the Audit Committee ("Designated Member"). The Designated Member is a member of the Audit Committee who has been given the authority to grant pre-approvals of permitted audit and non-audit services.

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the external auditor, other than any de minimis non-audit services allowed by applicable law or regulation. The decisions of the Designated Member to pre-approve permitted services need to be reported to the Audit Committee at its regularly scheduled meetings.

Pre-approval from the Audit Committee or Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in scope or in final fees.

Pursuant to these procedures, 100% of each of the services provided by the Company's external auditor relating to the fees reported as audit, audit-related, tax and other fees were pre-approved by the Audit Committee or the Designated Member.

### ***Audit Fees***

PwC has served as the Company's auditor since April 2, 2012.

Fees billed by PwC and its affiliates during fiscal 2015 and fiscal 2014 were approximately Cdn\$448,000 and Cdn\$620,000, respectively. These fees are detailed below.

|                                 | <b>PwC</b>  | <b>PwC</b>  |
|---------------------------------|-------------|-------------|
| <i>(Canadian \$ in 000's)</i>   | <u>2015</u> | <u>2014</u> |
| Audit Fees <sup>1</sup>         | 358         | 453         |
| Audit Related Fees <sup>1</sup> | 90          | 165         |
| All Other Fees <sup>2</sup>     | -           | 2           |
| Total                           | <u>448</u>  | <u>620</u>  |

<sup>1</sup> Fees for audit services billed relating to fiscal 2015 and fiscal 2014 consisted of: (i) audit of the Company's annual financial statements; (ii) reviews of the Company's quarterly financial statements; and (iii) comfort letters, consents, and other services related to Canadian securities regulatory authorities' matters.

<sup>2</sup> All Other Fees pertaining to fiscal 2015 related to Mongolian salary survey costs performed by PwC.

### **Conflicts of Interest**

Certain directors of the Company and its subsidiaries are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with the BCBCA, directors and officers of the Company are required to disclose to the Company the nature and extent of any interest that they have in a material contract or material transaction, whether made or proposed, with the Company, if the director or officer: (i) is a party to the contract or transaction; (ii) is a director or an officer, or an individual acting in a similar capacity, of a party to the contract or transaction; or (iii) has a material interest in a party to the contract or transaction.

The Nominating and Governance Committee monitors the disclosure of conflicts of interest by directors with a view to ensuring that no director votes or participates in any Board deliberations on a matter in respect of which such director has a material interest.

Specifically, in 2015 certain directors, or former directors, of the Company disclosed conflicts of interest in regards to a transaction as follows:

- Messrs. Bold, Sanders and Tygesen were, at the time of the approval of the Novel Private Placement, directors of the Company who had a conflict of interest in regards to the Novel Private Placement by virtue of being employees of Turquoise Hill or Rio Tinto. Accordingly, each of the foregoing directors (or former directors, as applicable) refrained from participating in the negotiations of the Novel Private Placement and, in accordance with the provisions of the BCBCA, abstained from voting on resolutions approving the Novel Private Placement.

### **Ethical Business Conduct**

In 2012, the Company adopted and implemented a revised Code of Business Conduct and Ethics (the "Ethics Policy") based on the Rio Tinto model policy called "*The way we work*". The Ethics Policy is applicable to all employees, consultants, officers and directors regardless of their position in the organization, at all times and everywhere the Company does business.

Using "*The way we work*" as a starting point, the Company adopted additional guidance notes and standards which, together with "*The way we work*", form the Company's overall Ethics Policy. The guidance notes and standards adopted are: (i) guidelines for investigations into allegations of serious wrongdoing; (ii) dawn raid guidance notes; (iii) anti-bribery due diligence guidelines; (iv) business integrity standards relating to anti-corruption and conflicts of interest (collectively, the "Code of Conduct Standards"); and (v) the Speak-Out program.

Speak-Out is the Company's whistleblowing service and is available whenever an individual suspects or is aware of illegal, unsafe or inappropriate activity at work. Speak-Out provides an avenue for employees to raise concerns confidentially and anonymously.

The Ethics Policy provides that the Company's employees, consultants, officers and directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and directors. A copy of "*The way we work*" and the various policies forming the Code of Conduct Standards are available on the Company's website (southgobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 1100 – 355 Granville Street, Vancouver, British Columbia, Canada V6C 2G8, Attention: Corporate Department, or by phone to 604-681-6799.

The Audit Committee monitors compliance with the Ethics Policy, including the Code of Conduct Standards.

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

### **Services Agreement**

The Company, through its subsidiary SGS, is a party to a services agreement with TRQ Singapore, in relation to the Company's global information technology infrastructure, support and projects. Costs of the services provided are recovered from the Company proportionate to the time spent by the TRQ Singapore employees on matters pertaining to the Company. During the year ended December 31, 2015, the Company's share of these costs was US\$418,219.

### **Turquoise Hill Facility**

Each of Turquoise Hill (by virtue of being the owner of 55.95% of the Common Shares at the time when the Turquoise Hill Facility was entered into) and Messrs. Baatar, Sanders and Tromans and Ms. Priestly (each by virtue of being employees, or having been employees of Rio Tinto or Turquoise Hill at the time the Turquoise Hill Facility was entered into) had or have an interest in the Turquoise Hill Facility transaction.

For a description of the Company's Turquoise Hill Facility refer to "MATERIAL CONTRACTS – Turquoise Hill Facility" in this Annual Information Form. For further information regarding the conflicts of interest refer to "DIRECTORS AND OFFICERS – Conflicts of Interest" in this Annual Information Form.

### **Novel Private Placement**

Each of Messrs. Sanders and Tygesen has or had an interest in the Novel Private Placement by virtue of being employees of Rio Tinto. Mr. Ted Chan had an interest in the Novel Private Placement by virtue of being a member of the "Novel Group", which includes Novel Sunrise and its affiliated companies in the PRC. Guogang (Wilson) Chen is the sole owner and founder of Novel Sunrise and the Novel Group. Mr. Wilson Chen is the brother of Mr. Ted Chan, who joined the Board and became a member of the Company's management team concurrently with the closing of the Initial Tranche of the Novel Private Placement.

For a description of the Novel Private Placement refer to "MATERIAL CONTRACTS – Novel Private Placement" in this Annual Information Form. For further information regarding the conflicts of interest refer to "DIRECTORS AND OFFICERS – Conflicts of Interest" in this Annual Information Form.

### **TRANSFER AGENTS AND REGISTRARS**

The registrar and transfer agent for the Common Shares in Canada is CST Trust Company at its principal offices in Vancouver and Toronto. The registrar and transfer agent for the Common Shares in Hong Kong is Computershare Hong Kong Investor Services Limited.

### **MATERIAL CONTRACTS**

Material contracts under NI 51-102 are contracts, other than contracts entered into in the ordinary course of the Company's business, which are material to the Company. The Company has not entered into any material contracts since January 1, 2016. Prior to January 1, 2016, the following material contracts were entered into and remain in effect:

#### **Novel Private Placement**

On February 24, 2015, the Company entered into a subscription agreement (the "Novel Subscription Agreement") with Novel Sunrise setting out the terms and conditions of the Novel Private Placement, which consists of the issuance of a combination of mandatory convertible units of the Company ("Mandatory Convertible Units") and Common Shares to Novel Sunrise.

The Novel Private Placement was completed in two stages; the first stage (the "Initial Tranche") was completed on March 3, 2015 and consisted of the issuance by the Company of 10,131,113 Mandatory Convertible Units at a price of Cdn\$0.432 per Mandatory Convertible Unit to Novel Sunrise, which units shall automatically convert into Common Shares upon the earlier of the closing or the termination of the Novel SPA on a one for one basis for a deemed issue price of Cdn\$0.432, in consideration of subscription funds of US\$3.5 million. The Mandatory Convertible Units are not transferable, except in connection with an assignment of the Novel Subscription Agreement.

The second stage of the Novel Private Placement (the "Subsequent Tranche") was completed on April 23, 2015 and consisted of the issuance by the Company of 11,618,887 Common Shares at a price of Cdn\$0.432 for proceeds of approximately US\$4 million. In connection with the closing of the Subsequent Tranche, Novel Sunrise converted their previously acquired 10,131,113 Mandatory Convertible Units on a one for one basis with Common Shares. With the completion of the Subsequent Tranche and combined with the conversion of the Mandatory Convertible Units issued during the Initial Tranche, an aggregate of 21,750,000 Common Shares were issued for aggregate proceeds of approximately US\$7.5 million.

The issue price for both tranches of the private placement was set at CAD\$0.432 ("Placing Price") and represented a discount of approximately 20% to the then 5-day volume-weighted average price per Common Share of approximately CAD\$0.54, as of the date the Company received price protection from the TSX for the private placement. The Placing Price was determined with reference to the prevailing market price of the Common Shares and was negotiated on an arm's length basis between the Company's independent directors and Novel Sunrise.

For a description of the Novel SPA refer to "GENERAL DEVELOPMENTS OF THE BUSINESS – 2015" in this Annual Information Form.

The net proceeds of the Novel Private Placement were applied towards general working capital.

Pursuant to the terms of the Novel Subscription Agreement, Novel Sunrise has the option to nominate up to three individuals for appointment or election to the Board and to appoint executive officers of the Company, subject to Novel Sunrise and its affiliates owning certain threshold percentages of the issued and outstanding Common Shares, as more particularly set out in Novel Subscription Agreement. At the 2015 annual general meeting, Novel Sunrise's nominees Messrs. Yulan (Allen) Guo, Ningqiao Li and Aminbuhe were elected as directors of the Company.

In connection with Novel Private Placement, Novel Sunrise agreed to assist the Company in the implementation of the Novel Funding Plan, which is intended to improve the Company's financial position with the goal of positioning the Company with a strong future as a coal producer. The Novel Funding Plan includes introducing potential customers in the PRC to the Company to allow the Company to expand its customer base further inland in China, and helping the Company to secure longer-term coal offtake arrangements, thereby allowing the Company to ramp up production to capacity. Novel Sunrise has also committed to helping the Company establish relationships with commercial banks in China and Hong Kong to help the Company to secure short term bridge loans, trading credit facilities and other types of financing.

A copy of the Novel Subscription Agreement is available on SEDAR at [sedar.com](http://sedar.com).

### **Turquoise Hill Shareholder Loan**

The major terms of the Turquoise Hill Facility are described in the chart below. Unless otherwise defined in this Annual Information Form, capitalized terms used in the chart below shall have the meanings ascribed to them in the Turquoise Hill Facility.

|                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transaction:         | Unsecured Turquoise Hill Facility in the principal amount of US\$10 million made available to SGS and SGQ Coal, as borrowers (together, the "Borrowers") and the Company (together with the Borrowers, the "Obligors").                                                                                                                                                                                                                               |
| Availability Period: | Borrowing under the Turquoise Hill Facility was made available commencing on May 24, 2014 and ends on the earlier of (i) the date immediately preceding the Maturity Date or (ii) the date the Turquoise Hill Facility is termination according to its terms, provided that the initial advance of a Loan under the Turquoise Hill Facility had to occur no later than June 15, 2014, subject to fulfillment of the applicable conditions precedents. |
| Maturity:            | August 30, 2014 (the "Maturity Date"), which maturity date may be extended by Turquoise Hill in its sole discretion.                                                                                                                                                                                                                                                                                                                                  |
| Interest:            | The Turquoise Hill Facility carries an annual rate of interest equal to the sum of the one month LIBOR Rate in effect thereunder and the Margin.                                                                                                                                                                                                                                                                                                      |
| Use of Proceeds:     | The proceeds from the Turquoise Hill Facility are to be used solely for general corporate purposes in order to meet short term working capital requirements, including payments under the Convertible Debenture, in the ordinary course of business, and are a last resort funding mechanism that will only become available once all other funding alternatives have been exhausted.                                                                 |
| Pre-payment:         | The Turquoise Hill Facility is subject to mandatory repayment as follows:                                                                                                                                                                                                                                                                                                                                                                             |

- (i) the Borrowers shall prepay in full all outstanding Obligations following the occurrence of a Change of Control of the Company or advance of funds under another loan facility;
- (ii) the applicable Obligor shall prepay the outstanding Obligations from net proceeds of any capital raising or rights offering by the Company, any other sale of the Company securities or assets of the Obligors, any Debt made available to the Obligors or cash injected or free cash flow generated or received into the business of the Obligors from any other sources; and
- (iii) the applicable Obligor shall prepay from any cash balance of the Obligors at the end of any month the amount which is in excess by more than US\$500,000 over the forecasted cash needs of the Obligors for the following month.

Repayment:

Prior to the Maturity Date, the Borrowers may prepay any outstanding Obligations without penalty or bonus.

Turquoise Hill may require repayment on the Maturity Date to be satisfied by the required number of tons of Coal B Product having a market value as being the prevailing arm's length market price for such product on the delivery date equal to the payment obligation.

In the event that no sale or going private transaction of Turquoise Hill's interest in the Company occurs or alternative funding has been made available, in each case, by the Maturity Date, the Obligors will proceed with a private placement of the Common Shares, forward sale of coal or other funding option acceptable to Turquoise Hill to repay funds borrowed under the Turquoise Hill Facility.

Cancellation:

Each Borrower may cancel any undrawn principal amount available to it under the Turquoise Hill Facility or cancel the whole facility in the event that there are no Obligations outstanding thereunder.

Fees and Expenses:

Each Borrower is obligated to pay a commitment fee quarterly in arrears calculated as follows:

- (i) the simple average of the difference between (x) the maximum principal amount available to such Borrower under the Turquoise Hill Facility on each day during the relevant quarterly period and (y) the outstanding principal balance on such day; multiplied by
- (ii) a fraction, the numerator of which is the number of days during such calculation period and the denominator of which is 360, multiplied by the amount per annum equal to 35% of the Margin.

A front end fee of US\$100,000 was payable by the Borrowers on May 23, 2014.

The Borrowers will pay to the Turquoise Hill and its affiliates all of its reasonable costs and expenses incurred by such persons in connection with the Turquoise Hill Facility and all transactions contemplated thereby.

The initial advance of a Loan under the Turquoise Hill Facility occurred prior to June 15, 2014 and the Turquoise Hill Facility remains outstanding.

On May 25, 2014, the Company announced it had obtained a \$10 million revolving credit facility from Turquoise Hill to meet its short term working capital requirements. The terms and conditions of this facility were filed on SEDAR ([www.sedar.com](http://www.sedar.com)) on June 2, 2014. The key commercial terms of the facility were: an original maturity date of August 30, 2014 (subsequently extended); an interest rate of one month US dollar LIBOR Rate in effect plus 11% margin per annum; a commitment fee of 35% of interest rate payable quarterly in arrears on undrawn principal amount of facility and a front end fee of \$0.1 million.

During 2014 and 2015, the due date of the Turquoise Hill Facility has been extended several times and the limit has been reduced to \$3.8 million.

On October 27, 2015, Turquoise Hill agreed to and signed a Deferral Letter Agreement with the Company, in which Turquoise Hill agreed to a limited and circumscribed deferral of repayment all remaining amounts and obligations now and hereafter owing under the Turquoise Hill Facility to April 22, 2016. The key terms and conditions are as follows:

- The Company agreed to effect a partial repayment under the Turquoise Hill Facility and a one-time deferral fee of \$0.2 million and \$50 thousand, respectively, no later than the fifth business day following October 27, 2015, the outstanding amount under the Turquoise Hill Facility shall be reduced by \$0.4 million upon the receipt of such amount. The Company has made the repayment of \$0.2 million and settled the one-time deferral fee of \$50 thousand accordingly;
- Interest shall continue to accrue on all outstanding obligations but at the prevailing 12-month US dollar LIBOR rate plus 8%;
- In the event that the Company has the ability and capacity to make one or more further partial repayments between October 27, 2015 and the Second Limited Deferral Date, then Turquoise Hill agrees to accept such partial repayment up to an aggregate amount of \$1 million and the outstanding amount under the Turquoise Hill Facility shall be reduced by an amount equal to 200% of the amount so partially repaid up to a maximum aggregate reduction of \$2 million;
- In the event that the Company receives any cash proceeds upon closing of any financing or funding transactions by ways of issuance of equity or debt securities or of hybrid equity-debt securities, or any cash proceeds under and sales, offtake or other commercial agreement(s) (whether as a payment, prepayment or otherwise), then immediately following the receipt of such proceeds, the Company shall make a partial repayment to Turquoise Hill in an amount equal to 10% of the aggregate gross proceeds and the outstanding amount under the Turquoise Hill Facility shall be reduced by an amount equal to 200% of the amount so repaid;
- In the event that the Company fails to strictly comply with any of the provisions set in the Deferral Letter Agreement shall result in the immediate termination and revocation of the Deferral Letter Agreement and the Company shall immediately be in default of the Turquoise Hill Facility.

At December 31, 2015, the outstanding principal and accrued interest under this facility amounted to \$3.4 million and \$0.6 million respectively (at December 31, 2014, the outstanding principal and accrued interest amounted to \$3.8 million and \$0.1 million respectively).

A copy of the Turquoise Hill Facility agreement may be found on SEDAR at [sedar.com](http://sedar.com).

### **Convertible Debenture**

The major terms of the Convertible Debenture are described in the chart below. Unless otherwise defined in this Annual Information Form, capitalized terms used in the chart below shall have the meanings ascribed to them in the Convertible Debenture.

|                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transaction:                          | An original principal amount of US\$500 million senior debentures convertible into Common Shares (US\$485 million net of advisory fees). Subsequently, as described herein, US\$250 million was converted into Common Shares, leaving an outstanding principal balance of US\$250 million                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Maturity:                             | 30 years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Interest:                             | The Convertible Debenture carries interest of 8.0% per annum made up of: <ul style="list-style-type: none"><li>(i) a cash coupon of 6.4% payable semi-annually; and</li><li>(ii) additional interest of 1.6% per annum payable in Common Shares to be issued on each anniversary of the issue. Share value shall be calculated based on the 50 business day volume weighted average price ("VWAP") prior to each anniversary of the issue.</li></ul>                                                                                                                                                                                                                                                                              |
| Conversion Price:                     | <p>Cdn\$11.88 shall be considered the "Base Conversion Value" and ordinarily, the conversion price will be set at the Base Conversion Value, subject to the adjustments set out below.</p> <p>At the time of conversion, the VWAP of the Common Shares for the 50 business days prior to the conversion date will be calculated (the "Conversion Date Value").</p> <p>In the event the Conversion Date Value is lower than the Base Conversion Value, then the conversion price will be the Conversion Date Value.</p> <p>The conversion price will be subject to a "Floor Price" of Cdn\$8.88.</p> <p>The conversion price, so determined, is referred to as the "Conversion Price" in this summary of key investment terms.</p> |
| CIC's Conversion Right:               | <p>Convertible by CIC Subco into Common Shares at any time after 12 months from closing at the Conversion Price.</p> <p>There are no lock-up arrangements on Common Shares to be issued to CIC Subco upon conversion. There are no early redemption rights granted to CIC Subco.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| The Company's Early Conversion Right: | After the earlier of two years from closing or the time of the Qualified Float (as defined below), the Company will have the right to require conversion of up to 50% of the initial principal amount of US\$500 million at the Conversion Price.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |



|                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                        | <p>The Company exercised this conversion right and on March 29, 2010, the Company converted US\$250 million of the debt into 21,560,961 Common Shares at a price of US\$11.64 per share.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| The Company's Normal Conversion Right: | <p>After 60 months from closing, if at any time the VWAP of the Common Shares for 50 consecutive business days is 20% higher than the Floor Price, the Company will be entitled to require conversion of the entire Convertible Debenture at the Conversion Price.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Qualified Float:                       | <p>A transaction whereby the Common Shares are listed on the SEHK or the TSX and that meets the following three criteria, shall be considered a "Qualified Float": (i) not less than 25% of the issued and outstanding Common Shares (on a non-diluted basis, except including the initial principal amount of the Convertible Debenture on an as-converted basis) are held by persons who are not insiders of the Company (i.e. insider holdings cannot exceed 75%); (ii) the offering price of the Common Shares issued to achieve the public float is not less than the base conversion value unless CIC consents; and (iii) the Common Shares are listed on the SEHK.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Turquoise Hill Support:                | <p>Turquoise Hill will vote in favour of the issuance of the Convertible Debenture, to support any Shareholder vote required on conversion, and for the nominee, if any, of CIC Subco to the Board.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Right to Nominate Director:            | <p>While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, CIC Subco has the right, but not the obligation, to nominate one person to the Board. When CIC Subco nominates a person, the Board is not obliged to appoint such nominee as a director; the election of a nominee to the Board is subject to Shareholders' approval. Furthermore, the CIC Subco cannot require that its nominee be employed by or participate as the Company's executive or manager, and the sole entitlement of the nominee is to act in the capacity of director. If appointed to the Board the nominee would be a non-independent non-executive director.</p>                                                                                                                                                                                                                                                                                                                                                                                               |
| Voting Restriction:                    | <p>CIC or any transferee will be entitled to one vote per Common Share held on matters to be voted on by Shareholders. However, if conversion results in CIC Subco, or its affiliates, directly or indirectly owning more than 29.9% of the fully diluted Common Shares outstanding, CIC Subco will not vote any Share in excess of 29.9%. This cap in CIC's voting rights is a contractual agreement between CIC and the Company and will not extend to third party transferees of all or a part of any Common Shares issued to CIC and thereafter sold to a third party. The cap does include shares held by CIC affiliates, and shares beneficially owned by CIC, so affiliate transferees are part of the aggregate summation to determine the 29.9%. Further, if CIC transfers its interest, in the Convertible Debenture or the ancillary agreements, the latter being the security holder's agreement and the registration rights agreement made in connection with the Convertible Debenture financing, to an affiliate, the transferee of the interest would be bound by the contractual voting limitation.</p> |
| Use of Proceeds:                       | <p>In addition to repaying certain indebtedness, the proceeds from the Convertible Debenture are to be used mainly for the continuing development and expansion at the Ovoot Tolgoi Mine, the development of the Soumber Deposit, the development of infrastructure to support current and future coal</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

mining and related projects, and for exploration activities, as set out in the agreement. The majority of the funds from the financing are expected to be used within the next three years.

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Security:             | The Convertible Debenture is secured by a first charge over the Company's assets. Standard loan restrictive covenants regarding incurring additional debt and granting additional security to third parties (with standard carve-outs and grace periods for issues of this type) apply to the Company and its direct and indirect subsidiaries.                                                                                                                                                                                         |
| Pre-emptive Right:    | While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, the CIC Subco has a pre-emptive right on a pro rata basis to subscribe for any new Common Shares issued during the period which the Convertible Debentures remain outstanding. The pre-emptive right will not apply to new Common Shares issued pursuant to pro-rata public equity offerings made to all Shareholders, or the exercise of stock options and shares to achieve a 25% public float. |
| Right of First Offer: | While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, CIC Subco has a right of first offer for any direct or indirect sale of Turquoise Hill's stake in the Company.                                                                                                                                                                                                                                                                                    |
| Liquidity Rights:     | CIC Subco has registration rights for Common Shares received upon conversion of the Convertible Debenture.                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Regulatory Approval:  | The TSX-V granted final approval for the issuance of the Convertible Debenture on November 20, 2009.                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Advisors:             | Citigroup Local Markets Asia Limited served as the financial advisor to CIC with respect to the Convertible Debenture. Macquarie Capital Securities Limited served as the Company's financial advisor and Projects Investment Group (H.K.) Limited provided the Company with additional advisory services.                                                                                                                                                                                                                              |

On November 20, 2014, the Company announced that it was delaying the payment of the November 2014 installment of cash interest due to CIC under the terms of the Convertible Debenture.

On May 20, 2015, under the terms of the Convertible Debenture, CIC confirmed to the Company that subject to certain conditions and limitations, it would grant a deferral of payment of approximately \$7.9 million in cash interest due by the Company to CIC on May 19, 2015 until July 22, 2015, subject to a three-day cure period which expired on July 27, 2015.

On July 27, 2015, CIC confirmed to the Company that, subject to certain conditions and limitations, it agreed to grant a further deferral of payment of the May 2015 cash interest installment until November 19, 2015 to allow the Company to execute the Novel Funding Plan.

On November 24, 2015, the Company announced an agreement with CIC for the deferral of cash interest payments. Pursuant to this agreement, the cash interest payment originally due in May 2015 and deferred to November 2015 would be payable in seven cash payments between November 2015 to May 2016. As consideration for the deferrals, the Company will pay CIC a deferral fee at a rate of 6.4% per annum.

A copy of the Convertible Debenture may be found on SEDAR at [sedar.com](http://sedar.com).

## **CIC Mutual Cooperation Agreement**

In addition, on November 19, 2009, the Company entered into a mutual co-operation agreement with CIC. The agreement is on customary commercial terms consistent with industry practices. Under the terms of the agreement, CIC will provide advice and services to the Company on matters that include sales to the PRC, procurement and logistics, and will receive a customary commercial payment for such services based on product sales from Mongolia to the PRC. Under this agreement, if cumulative coal sales were less than 10 million tonnes during the initial five-year period (an average of two million tonnes per year), the Company would be obliged to pay CIC a compensatory payment, less any amount previously paid under the mutual co-operation agreement. CIC has confirmed that the Company exceeded this threshold and accordingly no compensatory payment was necessary.

## **INTERESTS OF EXPERTS**

PwC is the independent auditor of the Company and they have advised they are independent with respect to the Company within the meaning of the Code of Professional Conduct of the Institute of Chartered Professional Accountants of British Columbia

Disclosure in this Annual Information Form of scientific and technical information with respect to the Ovoot Tolgoi Deposit (other than the estimate of mineral resources in respect of the Ovoot Tolgoi deposit), the Soumber Deposit, and the Zag Suuj Deposit is based on the Ovoot Tolgoi Technical Report 2012, the Soumber Technical Report, and the Zag Suuj Technical Report, respectively, each of which were prepared by RungePincockMinarco. With respect to the mineral resources estimate of the Ovoot Tolgoi Deposit, the Company anticipates filing a technical report supporting such estimate on SEDAR on or before May \*, 2016.

To the knowledge of the Company, neither RungePincockMinarco nor any of their "designated professionals", as defined in NI 51-102, holds securities of the Company representing in excess of 1% of the outstanding securities of any class.

## **INSURANCE**

The Company currently holds their primary insurance policies through Canadian insurance providers to insure its properties. The Company has taken out insurance for risks including commercial general liability, umbrella liability and aviation premises liability. The Company maintains mining property insurance for all of its mining assets wherever located, property insurance on their office premises and liability insurance for its directors and officers. However, no assurance can be given that the Company will elect or be able to obtain such insurance coverage at economically reasonable premiums (or at all), or that any coverage it obtains will be adequate to cover the extent of any claims brought against it.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans will be contained in the management proxy circular for the annual general meeting of the Company when filed. Additional financial information is contained in the Company's comparative financial statements and MD&A as at and for the years ended December 31, 2015 and 2014. Copies of the financial statements and MD&A are, and the proxy circular, when filed, will be, available on SEDAR at [sedar.com](http://sedar.com) and may also be obtained upon request from the Corporate Department at 1100 – 355 Burrard Street, Vancouver, British Columbia, V6C 2G8 or Suite 3712-15, Tower Two, Times Square 1, Matheson Street, Causeway Bay, Hong Kong.

Additional information relating to the Company may be found on SEDAR at [sedar.com](http://sedar.com).

## **SCHEDULE "A"**

### **AUDIT COMMITTEE CHARTER**

#### **I. Purpose**

The primary objective of the Audit Committee (the "Committee") of SouthGobi Resources Ltd. (the "Company") is to act as a liaison between the Board and the Company's independent auditors (the "Auditors") and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the financial statements and other financial information provided by the Company to its shareholders, the public and others, (b) the Company's compliance with legal and regulatory requirements, (c) the Company's risk management and internal financial and accounting controls, and management information systems and (d) the qualification, independence and performance of the Auditors..

Although the Committee has the powers and responsibilities set forth in this Charter, the role of the Committee is oversight. The members of the Committee are not full-time employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditors.

The responsibilities of a member of the Committee are in addition to such member's duties as a member of the Board.

#### **II. Organization**

The Committee shall consist of three or more independent non-executive directors of the Company. The Committee membership shall satisfy, at a minimum, the laws governing the Company and the independence, financial literacy, expertise and financial experience requirements under applicable securities laws, rules and regulations, stock exchange and any other regulatory requirements applicable to the Company.

The members of the Committee and the Chair of the Committee shall be appointed by the Board on the recommendation of the Nominating & Corporate Governance Committee. A majority of the members of the Committee shall constitute a quorum. A majority of the members of the Committee shall be empowered to act on behalf of the Committee. Matters decided by the Committee shall be decided by majority vote. The Chair of the Committee shall have an ordinary vote and not a casting vote.

Members of the Committee must be financially literate, as the Board interprets such qualification in its business judgment and all members shall be able to read and understand financial statements, including a company's balance sheet, income statement and cash flow statement. No member of the Committee shall have (i) been a partner of or otherwise have had a financial interest in the Auditors during the past year; or (ii) participated in the preparation of the financial statements of the Company or any current subsidiary at any time during the past three years. At least one member of the Committee shall have past employment experience in finance or accounting of public companies, requisite professional certification in accounting, or any other comparable experience or background which results in such individual's financial sophistication (including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities).

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director of the Company.

The Committee may form and delegate authority to subcommittees when appropriate.

### **III. Meetings**

The Committee shall meet as frequently as circumstances require, but not less frequently than four times per year. The Committee shall meet at least quarterly with management, the Company's financial and accounting officer(s) and the Auditors in separate sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. Meetings may be held telephonically to the extent permitted by the Company's organizational documents and applicable British Columbia law.

The Chair of the Committee shall be an independent chair who is not Chair of the Board. In the absence of the appointed Chair of the Committee at any meeting, the members shall elect a temporary Chair from those in attendance at the meeting. The Chair of the Committee, in consultation with the other members of the Committee, shall set the frequency and length of each meeting and the agenda of items to be addressed at each upcoming meeting.

The Committee will appoint a Secretary who will keep full minutes of all meetings. The Secretary may be the Company's Corporate Secretary or another person who does not need to be a member of the Committee. Draft and final versions of the meeting minutes should be sent to all members of the Committee within a reasonable time following such meetings.

The Committee may invite, from time to time, such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee. The Company's accounting and financial officer(s) and the Auditors shall attend any meeting when requested to do so by the Chair of the Committee.

### **IV. Authority and Responsibilities**

The Board, after consideration of the recommendation of the Committee, shall nominate the Auditors for appointment by the shareholders of the Company in accordance with applicable law. The Auditors report directly to the Audit Committee. The Auditors are ultimately accountable to the Committee and the Board as representatives of the shareholders.

In fulfilling its duties and responsibilities under this Charter, the Committee will be entitled to reasonably rely on (a) the integrity of those persons within the Company and of the professionals and experts (such as the Auditors) from whom it receives information, (b) the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts and (c) the representations made by the Auditors as to any services provided by them to the Company.

The Committee shall have the following responsibilities:

#### **(a) Auditors**

1. Recommend to the Board the independent auditors to be nominated for appointment or reappointment as the Auditors of the Company at the Company's annual meeting and the remuneration to be paid to the Auditors for services performed during the preceding year; approve the scope of all auditing services to be provided by the Auditors; be responsible for the oversight of the work of the Auditors, including the resolution of disagreements between management and

the Auditors regarding financial reporting; and recommend to the Board and the shareholders the termination of the appointment of the Auditors, if and when advisable.

2. When there is to be a change of the Auditors, (i) review all issues related to the change, including any notices required under applicable law, stock exchange or other regulatory requirements, and the planned steps for an orderly transition; and (ii) be primarily responsible for questions relating to such change.
3. Review the Auditors' audit plan and discuss the Auditors' scope, staffing, materiality, and general audit approach.
4. Review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the Auditors the nature and scope of the audit and reporting obligations prior to the commencement of the audit.
5. Review on an annual basis the performance of the Auditors, including the lead audit partner.
6. Take reasonable steps to confirm the independence of the Auditors, which include:
  1. ensuring receipt from the Auditors of a formal written statement in accordance with applicable regulatory requirements delineating all relationships between the Auditors and the Company;
  2. considering and discussing with the Auditors any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the Auditors;
  3. develop and implement policy on the provision of non-audit related services provided by the Auditors to the Company and approve in advance the provision of and the fees for such services, with a view to ensure independence of the Auditors, and in accordance with applicable regulatory standards, including applicable stock exchange requirements with respect to approval of non-audit related services performed by the Auditors (for the purposes of this Part IV(a)(6)(c), Auditors include any entity that is under common control, ownership or management with the Auditors or any entity that a reasonable and informed third party knowing all the relevant information would reasonably conclude to be part of the Auditors, nationally or internationally); and
  4. as necessary, taking or recommending that the Board take appropriate action to oversee the independence of the Auditors.
7. Review and approve any disclosures required to be included in periodic reports under applicable securities laws, rules and regulations and stock exchange and other regulatory requirements with respect to non-audit services provided by the Auditors.
8. Confirm with the Auditors and receive written confirmation at least once per year: (i) indicating that the Auditors are a member in good standing with the Canadian Public Accountability Board (CPAB) and comparable bodies elsewhere to the extent required and disclosing any sanctions or restrictions imposed by the CPAB and such other comparable bodies; and (ii) responding to any other reasonable request of the Audit Committee for confirmation as to their qualifications to act as the Company's Auditors.

9. Consider the tenure of the lead audit partner on the engagement in light of applicable law, stock exchange or applicable regulatory requirements.
10. Review all reports required to be submitted by the Auditors to the Committee under applicable laws, rules and regulations and stock exchange or other regulatory requirements.
11. Receive all recommendations and explanations which the Auditors place before the Committee.
12. Ensure any provision of non-audit related services by the Auditors does not impair their independence or objectivity and develop and implement any necessary policies in that regard.

**(b) Financial Statements and Financial Information**

13. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, prior to filing or distribution of such statements and recommend to the Board, if appropriate, that the Company's audited financial statements be included in the Company's annual reports distributed and filed under applicable laws and regulatory requirements.
14. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's interim financial statements, including management's discussion and analysis, and the Auditors' review of interim financial statements, prior to filing or distribution of such statements.
15. Review any earnings press releases of the Company before the Company publicly discloses this information.
16. Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of these procedures.
17. Discuss with the Auditors and review the matters required to be discussed by applicable auditing standards requirements relating to the conduct of the audit including:
  - (a) the adoption of, or changes to, the Company's significant auditing and accounting principles and practices, including significant assumptions and qualifications;
  - (b) the management letter provided by the Auditors and the Company's timely response to that letter;
  - (c) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management; and
  - (d) any material queries raised by the Auditors to management about accounting records, financial accounts or systems of control and management's response.
18. Discuss with management and the Auditors major issues regarding accounting principles used in the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles at least twice a year. Review and discuss analyses prepared by management and/or the Auditors setting forth significant financial reporting

issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles.

19. Review any report under applicable securities law, stock exchange or other regulatory requirements, including any reports required to be included in statutory filings, including in the Company's annual proxy statement.

**(c) Ongoing Reviews and Discussions with Management and Others**

20. Obtain and review an annual report from management relating to the accounting principles used in the preparation of the Company's financial statements, including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof.
21. Periodically review separately with each of management, the financial and accounting officer(s) and the Auditors; (a) any significant disagreement between management and the Auditors in connection with the preparation of the financial statements; (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and (c) management's response to each.
22. Periodically discuss with the Auditors, without management being present: (a) their judgments about the quality, integrity and appropriateness of the Company's accounting principles and financial disclosure practices as applied in its financial reporting; and (b) the completeness and accuracy of the Company's financial statements.
23. Monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and review significant financial reporting judgments contained therein. In reviewing such reports before submission to the Board, the Committee's review shall include a review of:
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the audit;
  - (d) going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with applicable stock exchange regulations and other legal requirements relating to financial reporting.
24. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or management and the resulting financial statement impact. Review with the Auditors or management the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
25. Review and discuss with management, the Auditors and the Company's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including applicable changes in accounting standards or rules, or



compliance with applicable laws and regulations, inquiries received from regulators or government agencies and any pending material litigation.

26. Discuss with the Company's financial and accounting officer(s) and the Auditors any matters which should be brought to the attention of the Committee concerning accounting, financial and operating practices and controls and accounting practices of the Company and give due consideration to such matters.
27. Review the principal control risks to the business of the Company, its subsidiaries and joint ventures; and verify that effective control systems are in place to manage and mitigate these risks.
28. Review and discuss with management any earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (i.e. discussion of the types of information to be disclosed and the types of presentations made).
29. Review and discuss with management any material off-balance sheet transactions, significant or unusual items, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may need to be reflected in the reports or accounts, or may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.
30. Review and discuss with management the Company's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including the Company's risk assessment and risk management guidelines and financial and accounting policies.

**(d) Risk Management and Internal Controls**

31. Review, based upon the recommendation of the Auditors and management, the scope and plan of the work to be done by the Company's financial and accounting group and the responsibilities, budget and staffing needs of such group.
32. Discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. Such discussions should include adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.
33. Ensure that management has designed and implemented effective systems of risk management and internal controls and, at least annually, review and assess the effectiveness of such systems.
34. Approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk.
35. In consultation with the Auditors and management, review the adequacy of the Company's internal control structure and procedures designed to ensure compliance with laws and regulations, and discuss the responsibilities, budget and staffing needs of the Company's financial and accounting group.

36. Establish and review procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns, including without limitation, concerns with respect to internal controls, financial reporting and questionable accounting or auditing matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of such matters and for appropriate follow-up.
  37. Ensure coordination between the internal and external auditors and ensure that the internal auditor function is adequately resourced and has appropriate standing within the Company. Maintain a direct reporting relationship with the internal auditors and review: (i) the internal control reports prepared by management, including management's assessment of the effectiveness of the Company's internal control structure and procedures for financial reporting; (ii) the Auditors' attestation, and report, on the assessment made by management; and (iii) the performance of the internal auditors on an annual basis.
  38. Review the appointment of the Chief Financial Officer and any key financial executives involved in the financial reporting process and recommend to the Board any changes in such appointment.
  39. Review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and act as the key representative body for overseeing the Company's relations with the external auditor.
- (e) Other Responsibilities**
40. Create an agenda for the ensuing year and confirm a timetable for the Audit Committee for the ensuing year.
  41. Review and approve related-party transactions if required under applicable law, stock exchange or other regulatory requirements.
  42. Review and approve (a) any change or waiver in the Company's code of ethics applicable to senior financial officers and (b) any disclosures made under applicable law, stock exchange or other regulatory requirements regarding such change or waiver.
  43. Establish, review and approve policies for the hiring of partners, former partners, employees, or former employees of the Company's Auditors or the Company's former independent auditors.
  44. Review and reassess the duties and responsibilities set out in this Charter annually and recommend to the Nominating and Corporate Governance Committee and to the Board any changes deemed appropriate by the Committee.
  45. Review its own performance annually, seeking input from management and the Board.
  46. Confirm annually that all responsibilities outlined in this Charter have been carried out.
  47. Perform any other activities consistent with this Charter, the Company's articles and by-laws and governing law, as the Committee or the Board deems necessary or appropriate.

## **V. Reporting**

The Committee shall report regularly to the Board, including on matters set out in applicable stock exchange regulations, and shall submit the minutes of all meetings of the Committee to the Board (which minutes shall ordinarily be included in the papers for the next full board meeting after the relevant meeting of the Committee). The Committee shall also report to the Board on the proceedings and deliberations of the Committee at such times and in such manner as the Board may require. The Committee shall review with the full Board any issues that have arisen with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance or independence of the Auditors or the performance of the Company's financial and accounting group.

## **VI. Resources and Access to Information**

The Committee shall be provided with sufficient resources to perform its duties. The Committee shall have the authority to retain independent legal, accounting and other advisors or consultants to advise the Committee, as it determines necessary to carry out its duties.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities. The Committee has direct access to anyone in the organization and may request any officer or employee of the Company or the Company's outside counsel or the Auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee with or without the presence of management. In the performance of any of its duties and responsibilities, the Committee shall have access to any and all books and records of the Company necessary for the execution of the Committee's obligations.

The Committee shall determine the extent of funding necessary for payment of (a) compensation to the Company's independent public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (b) compensation to any independent legal, accounting and other advisors or consultants retained to advise the Committee and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.