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南戈壁資源有限公司*

(a company continued under the laws of British Columbia, Canada with limited liability)
(Stock Code: 1878)

OVERSEAS REGULATORY ANNOUNCEMENT

SouthGobi Resources Ltd. (TSX: SGQ, HK: 1878) has filed the attached shareholder loan facility agreement in Vancouver, Canada on June 2, 2014 on SEDAR in Canada (www.sedar.com).

By order of the Board
SouthGobi Resources Ltd.

Ms. Kay Priestly
Chairperson

Hong Kong, June 3, 2014

As of the date of this announcement, the executive Director is Mr. Kenneth Ross Tromans, the non-executive Directors are Ms. Kay Priestly, Mr. Bold Baatar, and Mr. Kelly Sanders, and the independent non-executive Directors are Mr. Pierre Bruno Lebel, Mr. Andre Henry Deepwell, and Mr. William Gordon Lancaster.

* *For identification purposes only*

Cautionary Note for Readers

CONFIDENTIAL AND COMMERCIALY SENSITIVE INFORMATION HAS BEEN REDACTED FROM THIS DOCUMENT.

The attached Shareholder Loan Facility Agreement (the “**Agreement**”) has been filed with certain securities regulatory authorities in Canada pursuant to National Instrument 51 - 102 *Continuous Disclosure Obligations* (“**NI 51-102**”), which requires SouthGobi Resources Ltd. (the “**Corporation**”) to file certain material contracts to which it (or any subsidiary) is a party. Unlike certain other documents filed on behalf of the Corporation, the attached Agreement has not been prepared as a disclosure document and was not drafted with the intention of providing actual information about the Corporation (or any affiliate) for the benefit of investors.

The attached Agreement contains certain confidential and commercially sensitive information, which has been redacted from this document.

NI 51-102 allows reporting issuers to omit certain provisions of material contracts and readers are cautioned that statements made by the Corporation in the attached Agreement may be qualified (in whole or in part) by information redacted from the attached copy of the Agreement, which information is not otherwise available to the public.

Moreover, information concerning the Corporation or the subject matter of statements made in the attached Agreement concerning the Corporation may change after the date of the attached Agreement, and subsequent information may or may not be fully reflected in the Corporation’s public disclosures. Accordingly, investors should not rely on statements in the attached Agreement concerning the Corporation as accurate statements of fact.

Dated May 23, 2014

SOUTHGOBI SANDS LLC and SGQ COAL INVESTMENT PTE LTD.

(as Borrowers)

and

SOUTHGOBI RESOURCES LTD.

(as SouthGobi)

TURQUOISE HILL RESOURCES LTD.

(as Lender)

US DOLLAR 10,000,000 SHAREHOLDER LOAN FACILITY



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THIS AGREEMENT is made as of the 23rd day of May, 2014 between

- (1) **SOUTHGOBI SANDS LLC**, a corporation incorporated under the laws of Mongolia (**SGS**), as borrower;
- (2) **SGQ COAL INVESTMENT PTE LTD.**, a corporation incorporated under the laws of Singapore (**SGQ**), as borrower;
- (3) **SOUTHGOBI RESOURCES LTD.**, a corporation incorporated under the laws of British Columbia (**SouthGobi**); and
- (4) **TURQUOISE HILL RESOURCES LTD.**, a corporation continued under the laws of the Yukon Territory (**TRQ**), as lender (the **Lender**).

AND WHEREAS the Lender has agreed to provide the Facility in order for the Obligors (as such term is defined herein) to meet short term working capital requirements (including, payments of interest under the CIC Debenture (as such term is defined herein)) in accordance with the terms of the Budget (as defined herein) and implement the Revenue Enhancements (as such term is defined herein);

NOW THEREFORE, in consideration of the covenants and agreements herein contained, it is agreed as follows:

ARTICLE 1 - DEFINITIONS AND INTERPRETATION

1.1 Defined Terms

The terms hereinafter defined shall, for all purposes of this Agreement, have the meanings set out below unless the context otherwise requires:

Advance means an advance of funds made by the Lender to a Borrower under, and in accordance with the terms of, the Facility;

Affiliate means, in respect of a specified person, any person which Controls, is Controlled by, or is under common Control with, such specified person and, in the case of the Lender or any member of the Rio Tinto Group, **Affiliate** includes any member of the Rio Tinto Group but excludes SouthGobi and its Subsidiaries and, in the case of SouthGobi or any of its Subsidiaries, excludes any member of the Rio Tinto Group;

Agreed Currency has the meaning given to such term in Subsection 13.16a);

Agreement means this shareholder loan facility agreement, including its recitals and schedules;

Applicable Laws means all applicable laws (statutory or common), rules, ordinances, regulations, grants, concessions, franchises, licences, orders, directives, judgments, decrees, and other governmental restrictions, including permits and other similar requirements, whether federal, provincial, territorial, municipal or local, whether domestic or foreign, and whether legislative, administrative or judicial in nature, and **Applicable Law** means any of the foregoing;

Availability Period means the period from and including the date of this Agreement to the date which is the earlier of (i) the date immediately preceding the Maturity Date, and (ii) the date of termination of this Agreement pursuant to Section 6.4;

B.C. Securities Act means the Securities Act (British Columbia);



Borrowers means SGS and SGQ either collectively or jointly and severally as the context requires, and a **Borrower** means each of them or either of them as the context requires

Breakage Costs means the amount (if any) by which, as calculated by the Lender acting reasonably:

- i) the interest which the Lender should have received for any amount of principal prepaid under the Facility on any day prior to the applicable Payment Date had that amount of principal been received on such Payment Date as calculated for the period starting on and inclusive of the Business Day following receipt of such principal prepayment and ending on and inclusive of such Payment Date

exceeds
- ii) the amount which the Lender would be able to obtain by placing an amount equal to the relevant principal amount on deposit with a leading bank in the London interbank market for a period starting on and inclusive of the Business Day following receipt of such principal prepayment and ending on and inclusive of such Payment Date;

Budget means a budget prepared by the Borrowers in respect of the Obligors setting out the Obligor's detailed monthly budgets covering a period of at least one year (and weekly budgets in respect of the first two months of such Budget), as approved by the board of directors of each Obligor;

Business Day means any day other than a Saturday or Sunday upon which banks in Vancouver, British Columbia are ordinarily open for business;

Canadian Securities Laws means, collectively, the B.C. Securities Act and the applicable securities laws of the other provinces and territories of Canada, the regulations made and forms prescribed thereunder together with all applicable published rules, instruments, policy statements and blanket orders and rulings of the Canadian securities regulatory authorities;

Capital Lease means a capital lease or a lease that should be treated as a capital lease under GAAP;

Cash Flow Forecast means a detailed cash flow forecast covering a period of at least one year from the opening date of the forecast, setting out projected cash flows of the Obligors on a monthly basis (and on a weekly basis in respect of the first two months of such cash flow forecast);

CIC means from time to time the holder of the CIC Debenture (which on the date of this Agreement is Land Breeze II S.à r.l.);

CIC Debenture means the US\$500,000,000 convertible debenture issued by SouthGobi on November 19, 2009 in favour of Land Breeze II S.à r.l., as amended, restated, supplemented or otherwise modified from time to time;

Coal B Product means Coal B as described by SouthGobi for current sales purposes and is typically mined from the Sunrise and Sunset pit, with a calorific value (NAR) of 6,500 Kcal/kg +/- 15%, Ash (arb) ~ 12.5% and Sulphur Content (ar): ~1.2%;

Commitment Fee has the meaning given to such term in Section 7.1;

Commitment Fee Rate means an amount per annum equal to 35% of the Margin payable in arrears on the daily average of the undrawn principal amount under the Facility;

Constating Documents means the charter, the memorandum, the articles of association, the articles of incorporation, the articles of continuance, the articles of amalgamation, the by-laws and any other instrument pursuant to which an entity is created, incorporated, continued, amalgamated or otherwise established, as the case may be, and/or which governs in whole or in part such entity's affairs, together with any amendments thereto;

Contingent Obligation means, with respect to any person, any obligation, whether secured or unsecured, of such person guaranteeing or indemnifying, any indebtedness, leases, dividends, letters of credit or other monetary obligations (the "primary obligations") of any other person (the "primary obligor") in any manner, whether directly or indirectly, including any obligation of such person as an account party in respect of a letter of credit or letter of guarantee issued to assure payment by the primary obligor of any such primary obligation and any obligations of such person, whether or not contingent, (i) to purchase any such primary obligation or any Property constituting direct or indirect security therefor, (ii) to advance or supply funds for the purchase or payment of any such primary obligation or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase Property, securities or services primarily for the purpose of assuring the obligee under any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise to assure or hold harmless the obligee under such primary obligation against loss in respect of such primary obligation; provided, however, that the term Contingent Obligation does not include endorsements of instruments for deposit or collection in the ordinary course of business;

Control used as a verb means, with respect to a body corporate, the right in all circumstances, directly or indirectly, to exercise a majority of the votes which may be cast at a general meeting of the shareholders of the body corporate or the right to elect or appoint, directly or indirectly, a majority of the directors of the body corporate and, when used with respect to any other person, means the actual or legal ability to control the actions of another, through family relationship, agency, contract or otherwise; and "Control" used as a noun means an interest which gives the holder the ability to exercise any of the foregoing powers;

Debt means, with respect to any person, all obligations that, in accordance with GAAP, would then be classified as a liability of such person, and, without limitation, includes, with respect to such person:

- i) an obligation in respect of borrowed money or for the deferred purchase price of assets, property or services or an obligation that is evidenced by a note, bond, debenture or any other similar instrument;
- ii) a transfer with recourse or with an obligation to repurchase, to the extent of the liability of such person with respect thereto;
- iii) an obligation under a Capital Lease;
- iv) an obligation under a residual value guarantee made with respect to an operating lease in which such person is the lessee;
- v) a reimbursement obligation or other obligation in connection with a bankers' acceptance or any similar instrument, or letter of credit or letter of guarantee issued by or for the account of such person;
- vi) a Contingent Obligation to the extent that the primary obligation so guaranteed would be classified as "Debt" (within the meaning of this definition) of such person; or

- vii) any shares in the capital of such person that are redeemable or retractable at the option of the holder of such shares for cash or obligations constituting Debt or any combination thereof;

provided, however, that there shall not be included for the purpose of this definition any obligation that is on account of trade accounts payable incurred which are in the ordinary course of business provided such trade accounts payable are not delinquent and in no event are outstanding for more than ninety (90) days;

Drawdown Conditions means, at the time of each advance of a Loan under this Agreement, each of the following: (i) that the Obligors have used their best endeavours to source funding alternatives to meet their funding needs and have provided any documentary evidence that the Lender requested to satisfy the Lender that the Obligors have made such best endeavours and that no funding alternatives exist, (ii) that the Obligors have no other funding alternatives as determined by the Lender in its absolute discretion, (iii) that the Lender has received the Cash Flow Forecast and the Budget which the Obligors will provide and update in advance on a weekly basis, and (iv) that the Loan requested by the Borrower (unless otherwise agreed by the Lender) will be available to be advanced only to cover the upcoming 3 Business Days cash needs of the Obligors (including, if applicable, payments of interest under the CIC Debenture) on an as required basis in accordance with the Budget;

Encumbrance means any mortgage, charge, pledge, hypothecation, security interest, lien, easement, right-of-way, encroachment, covenant, condition, right-of-entry, lease, license, assignment, option or claim or any other encumbrance, charge or any title defect of whatever kind of nature, regardless of form, whether or not registered or registrable and whether or not consensual or arising by law (statutory or otherwise);

Environmental Claims means any and all enforcement, clean-up, remedial or other governmental or regulatory actions, orders, directions or proceedings instituted, pending or completed or, to the best of the knowledge of each Obligor, after due inquiry, threatened or anticipated pursuant to any Environmental Laws, and all claims made or, to the best of the knowledge of such Obligor, after due inquiry, threatened, by any third party against any such Obligor relating to damage, contribution, costs recovery, compensation, loss or inquiry resulting from any violation or alleged violation of any Environmental Laws;

Environmental Laws means laws relating to environmental matters, including abatement of pollution, protection from harm or damage to the environment, protection of wildlife and other living organisms, including endangered species, ensuring public safety from environmental hazards, protection of cultural or historic resources, management, storage or control of Hazardous Substances, releases or threatened releases of Hazardous Substances as wastes into the environment, including air, surface water and groundwater, and all other Applicable Laws relating to the generation, processing, distribution, use, treatment, storage, disposal, handling or transport of Hazardous Substances;

Event of Default has the meaning given to such term in Section 12.1;

Facility means the revolving secured credit facility established by the Lender in favour of the Borrowers hereunder and made available to the Borrowers by the Lender under the terms and conditions of this Agreement in an aggregate principal amount of up to US\$10,000,000 as per the terms of Section 2.1;

Facility Documents means this Agreement and any other documents, agreements or instruments entered into in connection with any of the foregoing, and **Facility Document** means any of the foregoing;

Front End Fee has the meaning given to such term in Section 7.2;

Funding Request means a request and certificate duly executed by a senior officer of the Borrower, substantially in the form attached hereto as Schedule A with such additional certification by the Borrower as required by pursuant to Subsection 3.2c), Subsection 3.2d), Subsection 3.2e) and otherwise;

GAAP means those accounting principles which are recognized as being generally accepted in Canada from time to time, including those set out in the handbook published by the Canadian Institute of Chartered Accountants;

Governmental Authority means any national, central, federal, provincial, state, municipal, county or other government or regional authority, whether executive, legislative or judicial, and includes any ministry, department, commission, bureau, board, tribunal, administrative or other agency or regulatory body or instrumentality thereof;

Hazardous Substance means any substance or material whether natural or artificial and whether in solid or liquid form or in the form of a gas or vapour whether alone or in combination (chemically or physically) with any other substance that is causing or capable of causing harm to any living organism or damage to the environment;

HKSE means the Hong Kong Stock Exchange;

Indemnified Taxes has the meaning given to such term in Subsection 8.1b);

Lender means, at the date hereof, TRQ or, if applicable, following the date hereof, any person, including but not limited to a member of the Rio Tinto Group to whom TRQ may have transferred its rights and obligations under this Agreement pursuant to Subsection 1.6b) and which accedes to this Agreement in accordance with the terms hereof;

Facility means the revolving loan facility to be made available by [REDACTED] as lender to each of the Borrowers as borrowers pursuant to a loan facility agreement to be entered into after the date of this Agreement;

SPA means the share purchase agreement contemplated to be entered into between [REDACTED] as purchaser, and the Lender, as seller, pursuant to which the Lender shall, subject to the terms and conditions set forth therein, agree to sell all [REDACTED] common shares in the capital of the SouthGobi that it owns, and [REDACTED] shall, subject to the terms and conditions set forth therein, agree to purchase such shares;

LIBOR Rate means in relation to any interest period, the interest rate expressed as a percentage per annum calculated on the basis of a 360 day year equal to the rate at which deposits in US Dollars are offered in the London interbank market for a term comparable to such period, or such other period as specified herein quoted as the Official BBA LIBOR Fixing for such term conducted by the British Bankers' Association at or about 11 a.m. (London time) on the second business day in London prior to the first day of such period, and accessed through the appropriate Bloomberg page (or such other page as may replace such page on such service or system, or on another service or system designated by the British Bankers' Association for the purpose of displaying the rates (expressed to five decimal places) at which dollar deposits are offered by leading banks in the London interbank market) provided that if no rate is quoted as the Official BBA LIBOR Fixing for such term conducted by the British Bankers' Association for such interest period, there shall be taken instead the arithmetic mean of the rates quoted to the Lender by three leading banks selected by the Lender in the London interbank market, at or about 11 a.m. (London time) two business days in London before the first day of such interest period for the making of deposits in US Dollars for a term comparable to such period, provided further that if no rate is quoted to the

Cautionary Note for Readers

The name of a potential third party lender has been redacted from the previous page given the confidential and commercially sensitive nature of the information as per National Instrument 51-102 *Continuous Disclosure Obligations*.

Lender by three leading banks selected by the Lender in the London interbank market, the LIBOR Rate shall be determined by the Lender acting reasonably;

Loans means collectively, all advances to the Borrowers under the Facility and each such advance, a **Loan**;

Mandatory Repayment has the meaning given to such term in Section 6.2a);

Margin means 11% per annum;

Material Adverse Effect means, in the sole opinion of the Lender, acting reasonably, the effect of any event or circumstance which is or is likely to be materially (i) adverse to the ability of any Obligor to perform or comply with its obligations under any of the Facility Documents, or (ii) prejudicial to the business, operations or financial condition of the Obligors taken as a whole;

Maturity Date means the date that is the earliest of (i) August 30, 2014; and (ii) the date on which the Obligations otherwise become due and payable in accordance with the terms of this Agreement;

Maximum Loan Amount means in respect of each Borrower, the maximum amount (including all interest and fees hereunder) that can be advanced to a Borrower under the Facility at any time, such that the Obligations of such Borrower after such advance is made continues to qualify as "Permitted Debt" as defined in the CIC Debenture from time to time.

Net Proceeds means, (i) with respect to any sale or other disposition of assets by any Obligor, the aggregate fair market value of proceeds of such disposition net of reasonable bona fide direct transaction costs and expenses incurred in connection with such disposition, and (ii) with respect to any issuance of SouthGobi Shares or other capital of SouthGobi or incurrence of Debt by any Obligor, the aggregate fair market value of proceeds of such equity issuance or Debt net of reasonable bona fide direct transaction costs and expenses incurred in connection therewith;

Notice has the meaning given to such term in Section 13.5;

Obligations means all obligations of the Borrowers to the Lender under or in connection with this Agreement or any Facility Documents, including all Debts and liabilities, present or future, direct or indirect, absolute or contingent, matured or not, at any time owing by the Borrowers to the Lender in any currency remaining unpaid by the Borrowers to the Lender under or in connection with this Agreement or any other Facility Document whether arising from dealings between the Lender and the Borrowers or from any other dealings or proceedings by which the Lender may be or becomes in any manner whatever a creditor of the Borrowers pursuant to this Agreement or any other Facility Document, and wherever incurred, and whether incurred by any Borrower alone or with another or others and whether as principal or surety, and all interest, fees and other costs, charges and expenses relating thereto;

Obligors means collectively, the Borrowers and SouthGobi, and **Obligor** means any of them;

Official means any officer of a political party or candidate for political office or any officer or employee of a Governmental Authority or of a public international organization;

Offshore Accounts has the meaning given to such term in Section 9.1, each such account an Offshore Account;

Parties means the Lender and the Obligors collectively, and **Party** means any of them;

Payment Currency has the meaning given to such term in Subsection 13.16a);

Payment Date has the meaning given to such term in Section 5.3 of this Agreement;

Permitted Debt means (i) Debt under this Agreement; (ii) Debt under the CIC Debenture; (iii), Debt secured by Permitted Encumbrances; and (iv) other Debt constituting "Permitted Debt" under the terms of the CIC Debenture as it exists on the date of this Agreement (excluding any future amendment or waiver by CIC of those terms).

Permitted Encumbrance means at any time and from time to time:

- i) security given in respect of the CIC Debenture;
- ii) other Encumbrances constituting "Permitted Encumbrances" under the terms of the CIC Debenture as it exists on the date of this Agreement (excluding any future amendment or waiver by CIC of those terms); and
- iii) such other Encumbrances as may from time to time be consented to in writing by the Lender prior to the incurrence thereof;

person means any entity, whether an individual, bank, trustee, corporation, partnership, joint venture, association, joint stock company, trust, estate, executor, administrator, unincorporated organization, business association, firm, Governmental Authority or otherwise a person, firm, corporation or other entity;

Prohibited Payment by a person is any offer, gift, payment, promise to pay or authorization of the payment of any money or anything of value, directly or indirectly, to or for the use or benefit of any Official (including to or for the use or benefit of any other person if such person knows, or has reasonable grounds for believing, that the other person would use such offer, gift, payment, promise or authorization of payment for the benefit of any such Official), for the purpose of influencing any act or decision or omission of any Official in order to obtain, retain or direct business to, or to secure any improper benefit or advantage for, the person, its Affiliates or any other person; provided that any such offer, gift, payment, promise or authorization of payment shall not be considered a Prohibited Payment if it is lawful under Applicable Law which for these purposes includes the laws of the jurisdiction in which the payment is made and the laws of Canada, the United States and England;

Property means, with respect to any person, all or any position of that person's undertaking and property both real and personal;

Revenue Enhancements means the revenue enhancement initiatives and strategies to be agreed between the Lender and SouthGobi designed to improve the long term viability and prosperity of the Obligors' coal business in Mongolia, provided that: (i) same could not reasonably be construed to constitute a "Material Adverse Effect" under the CIC Debenture, and (ii) same is not prohibited under any insurance policy to which the Obligors are subject;

Rio Tinto Group means Rio Tinto plc (incorporated in England), Rio Tinto Limited (incorporated in Victoria, Australia) and any other corporation wherever situated in which Rio Tinto plc and/or Rio Tinto Limited owns or Controls, directly or indirectly, more than 50 per cent of the shares or stock carrying the right to vote at a general meeting (or its equivalent) of the corporation but excludes SouthGobi and its Subsidiaries;

Securities Laws means, the Canadian Securities Laws and all other Applicable Laws regulating securities;

SEHK means the Stock Exchange of Hong Kong Limited;

SFC Event means the Hong Kong Securities and Futures Commission either (a) having confirmed in writing that the Hong Kong Code on Takeovers and Mergers will or would apply to the transaction contemplated by the [REDACTED] SPA, or (b) not having confirmed in writing that the Hong Kong Code on Takeovers and Mergers will not apply to the transaction contemplated by the [REDACTED] SPA on or before June 30, 2014;

SGQ has the meaning given to such term in the recitals;

SGS has the meaning given to such term in the recitals;

SouthGobi has the meaning given to such term in the recitals;

SouthGobi Change of Control means any person, or group of persons acting jointly or in concert (other than the Lender or its Affiliates), acquiring beneficial ownership of more than fifty per cent (50%) of the outstanding SouthGobi Shares;

SouthGobi Continuous Disclosure Documents means, at any time, the following continuous disclosure documents filed by SouthGobi pursuant to National Instrument 51-102 Continuous Disclosure Obligations of the Canadian securities regulatory authorities, as amended:

- i) SouthGobi's then most recently filed annual information form;
- ii) SouthGobi's then most recently filed audited annual consolidated comparative financial statements, together with the notes thereto and the auditors' report thereon and including management's discussion and analysis of financial condition and results of operations for the periods reported upon;
- iii) SouthGobi's unaudited interim comparative consolidated financial statements, including management's discussion and analysis of financial condition and results of operations for periods to which such financial statements relate, filed since the end of the financial year of SouthGobi to which SouthGobi's then most recently filed audited annual consolidated comparative financial statements relate;
- iv) all management proxy circulars filed by SouthGobi during the twelve (12) months preceding such time;
- v) all material change reports filed by SouthGobi since the beginning of SouthGobi's then current financial year; and
- vi) SouthGobi's then most recently filed annual report on Form 40-F;

SouthGobi Share means a common share without par value in the capital of SouthGobi;

Subsidiary means, in respect of any person, a person who is under the Control of such person;

Tax or **Taxes** means all present or future taxes, rents, rates, deductions, liens, duties, withholdings, imposts, levies, premiums, assessments, governmental fees or dues of any kind or nature whatsoever imposed by any Governmental Authority having power to tax, together with any penalties, fines, additions to tax and interest thereon;

Tax Act means the *Income Tax Act* (Canada);

TSX means the Toronto Stock Exchange; and

US Dollars or **US\$** means lawful money of the United States of America.

Cautionary Note for Readers

The name of a potential third party lender has been redacted from the previous page given the confidential and commercially sensitive nature of the information as per National Instrument 51-102 *Continuous Disclosure Obligations*.

1.2 Interpretation

The following rules shall be applied in interpreting this Agreement:

- a) "this Agreement" means this Agreement, including the schedules and exhibits hereto, as it may from time to time be supplemented, amended or modified and in effect; the words "hereby", "herein", "hereto", "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section, Subsection, Clause, subclause, paragraph, or other subdivision;
- b) all references in this Agreement to designated "Sections", "Clauses", "subclauses", "paragraphs" and "Schedules" and any other subdivisions are, unless otherwise described herein, to the designated Sections, Subsections, Clauses, Subclauses, paragraphs, schedules and other subdivisions of this Agreement;
- c) the headings are for convenience of reference only and do not form a part of this Agreement and are not intended to interpret, define or limit the scope, extent or intent of this Agreement or any provision of this Agreement;
- d) where the context so admits, all references in this Agreement to the singular shall be construed to include the plural, the masculine to include the feminine and neuter gender and, where necessary, a body corporate or other person, and *vice versa*;
- e) the word "including", when following any general statement, term or matter, is not to be construed to limit such general statement, term or matter to the specific items or matters set forth immediately following such word or to similar items or matters whether or not non-limiting language (such as "without limitation" or "but not limited to" or words of similar import) is used with reference thereto, but rather such general statement, term or matter is to be construed to refer to all other items or matters that could reasonably fall within the broadest possible scope of such general statement, term or matter;
- f) any reference to a statute includes and is a reference to such statute and to the regulations made pursuant thereto and, unless otherwise expressly provided herein, includes a reference to all amendments made thereto and in force from time to time, and to any statute or regulation that may be passed which has the effect of supplementing or superseding such statute or such regulation;
- g) all references to currency are deemed to mean US Dollars (unless expressed to be in some other currency) and all amounts to be calculated or paid pursuant to this Agreement are to be calculated in US Dollars and paid in immediately available funds;
- h) any reference to an entity includes and is also a reference to any entity that is a successor to such entity;
- i) in the event that any date on which an action is required to be taken, or a payment is required to be made, hereunder by any of the Parties is not a Business Day, such action will be required to be taken, or such payment will be required to be made, on the next succeeding day which is a Business Day unless otherwise provided herein;
- j) save as expressly provided herein, where any amount to be calculated or paid pursuant to this Agreement is in Canadian dollars, such amount shall be converted into US Dollars using the Bank of Canada noon rate of exchange on the applicable date;
- k) for the purposes of any representation or warranty of any Borrower set out herein which is made to such Borrower's "knowledge", the term "knowledge" means actual knowledge

of on the part of the directors and executive officers of such Borrower, or any of them, after due inquiry; and

- l) any reference in this Agreement to a Canadian legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any legal concept or thing shall, in any respect of any jurisdiction other than Canada, be deemed to include a reference to that which most nearly approximates such Canadian legal term in such jurisdiction.

1.3 Schedules

The following Schedules are appended to and form a part of this Agreement:

Schedule A - Form of Funding Request

1.4 Maximum Rate of Interest

For the purposes of this Agreement, each Borrower acknowledges that where the rate of interest payable under this Agreement is found by a court of competent jurisdiction to exceed the maximum rate of interest permitted by Applicable Law, then during the time that the rate of interest would exceed the permissible limit, that part of each interest payment attributable to the portion of the interest rate that exceeds the permissible limit shall not be payable.

1.5 Interest Calculation

For the purposes of this Agreement, whenever interest to be paid hereunder is to be calculated on the basis of 360 days or any other period of time that is less than a calendar year, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by 360 or such other number of days in such period, as the case may be.

1.6 Parties and Assignment

- a) For greater certainty, the Obligors agree that they may not transfer their rights or obligations under this Agreement or any other Facility Document to which any of them is a party.
- b) The Lender may, without the prior consent of the Obligors, transfer any of its rights and obligations under this Agreement and the other Facility Documents to any person, including but not limited to any member of the Rio Tinto Group.
- c) Each Borrower agrees that it shall execute and shall procure that each Obligor executes such agreements, deeds and other instruments as required by the Lender and/or the new Lender to give the new Lender the full benefit of all rights transferred to it pursuant to Subsection 1.6b) and shall agree, and procure that each Obligor agrees, to such modifications and consequent changes to this Agreement, any other Facility Document and any other agreements between the parties relating to this Agreement as shall be required by the Lender and/or such new Lender, acting reasonably, to reflect the new identity of such new Lender.

**ARTICLE 2 -
FACILITY**

2.1 The Facility

Upon the terms and subject to the conditions of this Agreement, the Lender agrees to make available to SGS and SGQ, as joint and several borrowers, a revolving loan facility of up to a principal amount of USD\$10,000,000 in the aggregate (the **Facility**), available to SGS up to the Maximum Loan Amount at any time, and available to SGQ up to the Maximum Loan Amount at any time (provided that at no time shall the principal amount of all Loans outstanding to the Borrowers exceed USD\$10,000,000). The Facility shall be available to the Borrowers during the Availability Period. During the Availability Period, the Facility will be available on a revolving basis such that, subject to all the terms and conditions of this Agreement, the Borrowers may re-borrow the whole or any part of any Loan previously repaid to the extent of then undrawn principal amount under the Facility.

2.2 Purpose

The Borrowers shall apply the proceeds of any Loan under the Facility solely for general corporate purposes in order to meet short term working capital requirements (including, payments of interest under the CIC Debenture), in the ordinary course of business, strictly in accordance with the terms of the Budget and consistent with the terms of the Revenue Enhancements. Other than in respect of the initial Loan under the Facility, the Facility shall be a last resort funding mechanism that will only become available once the Obligor has exhausted all their other funding alternatives.

2.3 Monitoring

The Lender is not bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

2.4 Availability Period and Maturity Date

- a) The initial advance of a Loan under the Facility must occur on a date no later than June 15, 2014 (subject to the prior satisfaction of the conditions precedent in Section 3.1).
- b) Further advances of Loans under the Facility will be available until the expiration of the Availability Period (subject to, for each advance of a Loan following the initial Loan under the Facility contemplated in Section 2.4a), the prior satisfaction of the conditions precedent in Section 3.2). No advances of Loans under the Facility may be made by the Lender following the end of the Availability Period, notwithstanding that the Facility may not have been fully drawn by such time.
- c) The Facility will mature and be cancelled on the Maturity Date, and all principal, interest and other amounts owing or outstanding under this Agreement will be finally due and payable, on such Maturity Date (subject to any provision of this Agreement requiring the Borrowers to repay the Obligations in full prior to such date).

**ARTICLE 3 -
CONDITIONS PRECEDENT**

3.1 Conditions Precedent to the Initial Advance of a Loan under the Facility

The effectiveness of this Agreement is subject to the delivery to the Lender of an executed copy or original of this Agreement and the payment of the Front End Fee. The obligation of the Lender

to make the initial advance of a Loan under the Facility pursuant to the terms of the Funding Request delivered in connection therewith will be subject to and conditional upon each of the following conditions being satisfied (in form and substance satisfactory to the Lender) unless waived in writing by the Lender in its absolute discretion, such satisfaction or waiver being given on or before June 15, 2014 (or such later date as may be agreed by the Lender, acting reasonably):

- a) the Lender has received from a Borrower a Funding Request pursuant to Section 4.1;
- b) the Lender has been provided with a certificate of status, compliance of good standing or the equivalent (to the extent available in the relevant jurisdiction) with respect to each Obligor;
- c) the Lender has been provided with copies of the Constatng Documents of each Obligor, in each case certified by a senior officer thereof, together with the evidence that all necessary corporate authorizations have been obtained by each Obligor with respect to the transactions contemplated by the Facility Documents;
- d) the Lender has been provided with a certificate from each Obligor signed by a senior officer thereof on behalf of such Obligor, as applicable, as to the incumbency of natural persons authorized to execute and deliver the Facility Documents, to which it is a party and any instruments or agreements required hereunder or thereunder to which such entity is a party;
- e) each Obligor has duly executed and delivered each of the Facility Documents, to which it is a party;
- f) the Lender has been provided with an officer's certificate certifying that all material consents, waivers, permits, orders and approvals of all Governmental Authorities, and all consents, waivers and approvals of other third parties, which are necessary to be obtained in connection with, or in order to permit, the transactions contemplated by the Facility Documents have been obtained or received on terms and conditions satisfactory to the Lender, acting reasonably;
- g) the Lender has been provided with a certificate from each Borrower signed by a senior officer thereof on behalf of such Borrower certifying that no event has occurred and is continuing which constitutes an Event of Default or which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default and that no Event of Default will result directly or indirectly from the initial advance of a Loan to the relevant Borrower in accordance with the terms hereof;
- h) the Lender has received a certificate from each Borrower signed by a senior officer thereof on behalf of such Borrower certifying that no event or circumstance giving rise to a Material Adverse Effect has occurred or will occur as a result of the transactions contemplated by this Agreement;
- i) the Lender has received a certificate from each Borrower signed by a senior officer thereof on behalf of such Borrower certifying that all of the representations and warranties set forth in Article 10 are true and correct;
- j) the Front End Fee has been paid in full on the date of this Agreement and all other amounts and fees due and payable to the Lender under this Agreement on or prior to the date of the initial advance of a Loan hereunder has been paid in full;

- k) the Lender has received a waiver of certain Rio Tinto Group covenants limiting the Lender's ability to make Loans available to the Borrowers;
- l) documentation for the Revenue Enhancements has been agreed;
- m) any legally required SouthGobi shareholder approval has been obtained;
- n) any legally required SouthGobi board approval has been obtained;
- o) any legally required Lender board approval has been obtained;
- p) any required approval by the TSX and HKSE has been obtained;
- q) the Lender is satisfied that the Drawdown Conditions have been satisfied (other than under clauses (i) and (ii) thereof);
- r) the Lender shall have received a current Cash Flow Forecast, in form and substance acceptable to the Lender in its sole discretion;
- s) the Lender shall have received the Budget, in form and substance acceptable to the Lender in its sole discretion; and
- t) the Lender shall have approved of the proposed use of the proceeds of the Loan as set out in more detail in the Funding Request, which shall be in form and substance acceptable to the Lender in its sole discretion.

3.2 Conditions Precedent to Subsequent Advances of a Loan under the Facility

The obligation of the Lender to make further advances of Loans to the Borrowers under the Facility during the Availability Period requested pursuant to the terms of any Funding Request delivered in connection therewith is subject to and conditional upon each of the following conditions being satisfied (in form and substance satisfactory to the Lender) unless waived in writing by the Lender in its absolute discretion prior to the proposed advance date of any requested Loan:

- a) the Lender has received from a Borrower a Funding Request pursuant to Section 4.1;
- b) if the Constatng Documents of any Obligor previously delivered to the Lender have been amended, the Lender has received a copy of such amended Constatng Documents certified by a senior officer of such Obligor on behalf of such Obligor;
- c) the Borrower shall have certified in the applicable Funding Request that no event or circumstance giving rise to a Material Adverse Effect has occurred and is continuing or will result from the advance of the Loan requested by the Borrower pursuant to the applicable Funding Request;
- d) the Borrower shall have certified in the applicable Funding Request that no event will have occurred and be continuing which constitutes an Event of Default or which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default and that no Event of Default will result directly or indirectly from the advance of the Loan requested by the Borrower pursuant to the applicable Funding Request;
- e) the Borrower shall have certified in the applicable Funding Request that each representation and warranty set forth in Article 10 is true and correct in all material respects;

- f) if the Lender has transferred any of its rights and obligations under this Agreement pursuant to Subsection 1.6b), each Obligor shall have executed and delivered such agreements, deeds and other instruments and agreed to such modifications and consequent changes to this Agreement and any other agreements between the parties relating to this Agreement as, in each case, required by the Lender and/or the new lender hereunder, acting reasonably, pursuant to Subsection 1.6c);
- g) the Lender has received payment in full of all amounts and fees due and payable to the Lender under this Agreement on or prior to the date of such advance of the Loan requested under the applicable Funding Request, including without limitation, all accrued but unpaid interest then due and owing under this Agreement, any Commitment Fee then due and owing under this Agreement and all other fees, charges, costs and other amounts outstanding under this Agreement on the advance date of such Loan;
- h) the Lender is satisfied that the Drawdown Conditions have been satisfied;
- i) on the proposed advance date of any requested Loan, no SFC Event shall have occurred;
- j) the Lender shall have received a current Cash Flow Forecast, in form and substance acceptable to the Lender in its sole discretion;
- k) the Lender shall have received the Budget, in form and substance acceptable to the Lender in its sole discretion; and
- l) the Lender shall have approved of the proposed use of the Loan proceeds as set out in more detail in the Funding Request, which shall be in form and substance acceptable to the Lender in its sole discretion; and
- m) the Lender shall have received a certificate from the Borrowers signed by a senior officer thereof on behalf of the Borrowers, certifying that the proceeds of the previous Loan advance were used in all material respects in accordance with the Funding Request as approved by the Lender at the time of such advance,

whereupon, subject to the terms and conditions of this Agreement, the Lender will make a Loan to the Borrower requesting same as specified in the applicable Funding Request.

ARTICLE 4 - FUNDING REQUEST

4.1 Delivery of Funding Request

The Borrowers will, and may only, utilize the Facility by delivery during the Availability Period of a duly completed Funding Request at least two (2) Business Days before the requested date of the proposed Advance. Notwithstanding anything to the contrary herein, the Borrowers may only request an Advance to fund payments relating to items described in the updated weekly Budget, provided that such Budget was previously consented to and approved in writing by the Lender in its sole and absolute discretion.

4.2 Completion of Funding Request

- a) A Funding Request shall be irrevocable and will not be regarded as having been duly completed unless:
 - (i) it complies with the requirements of Section 4.3; and

(ii) has been duly signed by an authorised signatory of the Borrower.

b) Only one Loan may be requested in each Funding Request.

4.3 Currency and amount

a) The currency specified in the Funding Request must be in US Dollars.

b) The amount of the Loan requested by the Borrower under each Funding Request, as applicable, must be in an amount which is not less than the lower of (i) US \$10,000; and (ii) the then undrawn principal amount of the Facility available to the Borrower under this Agreement (having a view to the Maximum Loan Amount in respect of the Borrower making the Funding Request).

ARTICLE 5 - INTEREST

5.1 Calculation of Interest

Prior to the occurrence of an Event of Default, each Borrower will pay in respect of each calendar month period (or such lesser period as may apply), in accordance with Section 5.3, interest on the principal amount of its Loans under the Facility from time to time outstanding and on overdue interest thereon, at a rate *per annum* equal to the sum of (a) the one month LIBOR Rate in effect hereunder plus (b) the Margin. Interest on the principal amount of each Loan under the Facility outstanding from time to time and on overdue interest thereon shall accrue from day to day including the date of advance thereof or the date on which such overdue interest is due, as the case may be, until the final repayment of all amounts due hereunder (both before and after maturity and after as well as before judgement) and shall be calculated on the basis of the actual number of days elapsed divided by 360. Each determination by the Lender of the LIBOR Rate applicable from time to time will, in the absence of manifest error, be binding upon the Borrowers. Changes in the LIBOR Rate, if any, on the date of determination by the Lender in respect of any interest period in accordance with the definition of LIBOR Rate will cause an immediate adjustment of the interest rate for such interest period applicable to the Loans without necessity of any notice to the Borrowers. The Lender shall use reasonable efforts to notify the Borrowers of the applicable LIBOR Rate following each determination thereof by the Lender from time to time in accordance with the provisions of this Agreement and the Borrowers agree that there shall be no recourse against the Lender for any liability to the Lender arising in connection with a failure by the Lender to deliver any such notice to the Borrowers and that any failure by the Lender to deliver any such notice to the Borrowers does not constitute a waiver, release or discharge of any of the indebtedness, or of any of the terms, covenants, conditions or provisions of this Agreement and the other Facility Documents and the same shall continue until terminated in accordance with the terms hereof.

5.2 Default Interest

If an Event of Default has occurred and is continuing, until the same has been remedied in full, each Borrower shall pay interest (after as well as before judgment) on the aggregate amount of its Loans made under the Facility from time to time outstanding and on any other payment obligation under this Agreement outstanding at a daily rate equal to the one month LIBOR Rate in effect plus the Margin plus one hundred (100) basis points.

5.3 Payment Dates and Calculation Information

While any principal amount of any Loan is outstanding under the Facility during a calendar month, interest accrued thereon during such calendar month will be paid by the relevant Borrower to the

Lender monthly in arrears on the last day of the applicable LIBOR Rate interest period for that Loan or, if sooner, the Maturity Date (each, a **Payment Date**). All payments of interest will be grossed up for any tax deductions in accordance with Section 8.1. Absent manifest error in the calculation of such interest amount, the interest calculation of the Lender pursuant to this Article 5 for any particular calendar month will be the amount of interest to be paid by the Borrowers on the applicable Payment Date.

ARTICLE 6 - REPAYMENT, PREPAYMENT AND CANCELLATION

6.1 Repayment

- a) The Facility will mature, and all Obligations will be due and payable in full on the Maturity Date (subject to any provision of this Agreement requiring the Borrowers to repay the Obligations in full prior to such date).
- b) At its sole discretion, the Lender may notify the Borrowers (not later than 30 Business Days before the Maturity Date) not to pay amounts owing on the Maturity Date (subject to any provision of this Agreement requiring the Borrowers to repay the Obligations in full prior to such date) in cash amounts and instead require the Borrowers to satisfy such payment obligations by the delivery to the Lender, at the mine gate (or as otherwise agreed between the parties), of the required number of tons of Coal B Product free from any Encumbrances having a market value (determined by the Lender acting reasonably) as being the prevailing arm's length market price for such product on the delivery date equal to such payment obligation.
- c) Without limiting the Obligors' obligation to repay any funds borrowed under the Facility by the Maturity Date, in the event that no sale or going private transaction of the Lender's interest in SouthGobi occurs or alternative funding has been made available, in each case, by the Maturity Date, the Obligors will proceed with a private placement of SouthGobi Shares, forward sale of coal or other funding option acceptable to the Lender to repay funds borrowed under the Facility and interest and fee payments thereon. The Lender may extend at its entire discretion the Maturity Date of the Facility, provided that, without limitation, it is satisfied that the Obligors' proposed funding plan will result in repayment of the Facility on the extended maturity date (including, that the Lender be satisfied with the terms and conditions of a possible private placement).

6.2 Prepayment

- a) The Facility shall be subject to the following mandatory repayment obligations and the Obligors agree to comply with same (each a **Mandatory Repayment**): (i) the Borrowers shall prepay in full all outstanding Obligations following the occurrence of a SouthGobi Change of Control or from the initial advance of funds under the [REDACTED] Facility, (ii) the applicable Obligor shall prepay the outstanding Obligations from the Net Proceeds of any capital raising or rights offering by SouthGobi, any other sale of the SouthGobi securities or assets of the Obligors, any Debt made available to the Obligors (other than under the [REDACTED] Facility same being covered in clause (i) above), or cash injected or free cashflow 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 which is in excess by more than US\$500,000 over the forecasted cash needs of the Obligors for the following month. Any such Mandatory Repayment shall be made no later than three (3) Business Days following (a) the SouthGobi Change of Control or the date of the initial advance of funds under the [REDACTED] Facility, in the case of the Mandatory Repayment under clause (i) above, (b) the receipt of such funds by the applicable Obligor from time to time, in the case of any Mandatory Repayment under clause (ii) above, or

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The name of a potential third party lender has been redacted from the previous page given the confidential and commercially sensitive nature of the information as per National Instrument 51-102 *Continuous Disclosure Obligations*.

(c) the end of each month, in the case of any Mandatory Repayment under clause (iii) above. The Mandatory Repayment under clause (i) above shall be used to permanently prepay and cancel in full the Facility. Any Mandatory Repayment under clause (ii) or (iii) above shall not permanently prepay and cancel the amount of the Facility and, subject to all terms and conditions of this Agreement (including prior satisfaction of the conditions precedent in Section 3.2), the Borrowers may reborrow the whole or any part of any Loan so prepaid.

- b) The Borrowers may, without penalty or bonus, prepay the outstanding Obligations, in whole or in part, upon giving five (5) Business Days' notice to the Lender, which shall be irrevocable and binding on the relevant Borrower and which shall specify the proposed date and aggregate principal amount of the prepayment.
- c) If any Borrower by reason of any prepayment or repayment hereunder or otherwise, prepays any particular amount or amounts of the Obligations under the Facility prior to a Payment Date, such Borrower will compensate the Lender for any loss or expense that the Lender incurs as a result thereof including any Breakage Costs up to and including such Payment Date.

6.3 Cancellation

Each Borrower will have the right upon giving five (5) Business Days' written notice to the Lender to (i) permanently cancel any undrawn principal amount available to it under the Facility and (ii) permanently cancel the whole Facility available to it in the event that there are no Obligations outstanding thereunder.

6.4 Termination of Facility Documents

- a) This Agreement will terminate upon (i) repayment in full of the Obligations on the Maturity Date pursuant to Section 6.1, (ii) permanent prepayment in full of the Obligations pursuant to Subsection 6.2, (iii) cancellation in full of the Facility pursuant to Section 6.3(ii), or (iv) if no Obligation is then outstanding, upon signing of the LH Facility by the parties thereto.
- b) Any unpaid principal, interest, fees (including any unpaid Commitment Fees) and other costs hereunder shall be due and payable on the Maturity Date or, if the Borrowers permanently repay or prepay the Facility in full (and permanently cancel the Facility in full) prior to the Maturity Date in accordance with the terms hereof, or permanently cancel in full the Facility in accordance with the terms hereof, on the date of such repayment, prepayment or cancellation.

ARTICLE 7 - FEES AND EXPENSES

7.1 Commitment Fee

Each Borrower shall pay to the Lender a commitment fee quarterly (on the Business Day which first follows March 31, June 30, September 30 and December 31 of each year) in arrears calculated at the Commitment Fee Rate on an annual basis on the daily average of the undrawn principal amount under the Facility available to it (the **Commitment Fee**). Such Commitment Fee will be calculated as (i) the simple average of the difference between (x) the maximum principal amount available to such Borrower under the Facility on each day during the relevant quarterly period or, where applicable, part thereof during such quarterly period (the **Calculation 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 Commitment Fee Rate. The Commitment Fee will accrue from the date of this Agreement until the date on which the Availability Period terminates in accordance with the terms of this Agreement and any outstanding Commitment Fee will be payable in full on the Maturity Date. In the event that the Facility is cancelled in accordance with the terms hereof or is repaid, prepaid and cancelled in its entirety pursuant to the terms hereof prior to the end of the Availability Period, any unpaid Commitment Fee in respect of the portion of the Calculation Period ending on the date of cancellation, repayment or prepayment will be accelerated and will be payable on the date of such cancellation, repayment or prepayment and termination. For greater certainty, if any amount remains undrawn under the Facility on the Maturity Date, any unpaid Commitment Fee in respect of the portion of the Calculation Period ending on the Maturity Date will be accelerated and will be payable on the Maturity Date.

7.2 Front End Fee

A front end fee of US\$100,000 (such fee, the **Front End Fee**) will be payable by the Borrowers on the date of this Agreement. The Borrowers shall comply with section 8.1 hereof, including the timely remittance of taxes to be withheld, in connection with the payment of the Front End Fee.

7.3 Other Costs

The Borrowers will pay to the Lender and its Affiliates all of its reasonable costs and expenses (including the reasonable fees, expenses and disbursements of external legal counsel) incurred by such persons in connection with the preparation, negotiation and closing the Facility Documents, and all transactions contemplated thereby (including without limitation any amendments or waivers required by the Lender or requested by any Borrower from time to time or to the provisions of this Agreement or any document contemplated hereby). The Borrowers will reimburse the Lender for all of its reasonable costs and expenses (i) in enforcing this Agreement and the documents contemplated hereby in connection with an Event of Default, (ii) in actions for declaratory relief in any way related to this Agreement or the documents contemplated hereby, (iii) in collecting any sum which becomes payable to the Lender under this Agreement or any document contemplated hereby, or (iv) in connection with the participation of the Lender or any Rio Tinto Group member in any arbitration proceedings in connection with this Agreement or any document contemplated hereby, except to the extent that the Lender is unsuccessful in such arbitration proceedings and the arbitrator specifies in his or her award that the costs and expenses of the Lender or any such Rio Tinto Group member are to be borne by the Lender.

7.4 General

All fees and other amounts payable to the Lender under this Article 7 will be grossed up for any applicable withholding taxes in accordance with Subsection 8.1.

ARTICLE 8 - TAX MATTERS

8.1 Indemnified Taxes

- a) Each Obligor shall make all payments to be made by it under the Facility Documents without any tax deduction, unless a tax deduction is required by Applicable Law.
- b) If any Obligor is required by Applicable Law to withhold or deduct any Taxes (including any stamp or documentary taxes or any other excise or property taxes, but not including any income or capital taxes) in respect of any such payment to or any such obligation in favour of any member of the Rio Tinto Group (including, without limitation, the Front End Fee, any Commitment Fee, any other fee or any interest payment) (collectively **Indemnified Taxes**), then such Obligor shall pay such member such additional amounts

as may be necessary so that after making or allowing for all required withholdings and deductions (including withholdings and deductions applicable to additional amounts payable hereunder) such member receives an amount equal to the amount such member would have received had no such deductions or payments been required. Each Obligor will timely remit any taxes withheld or deducted to the relevant Governmental Authority in accordance with Applicable Law. Each Obligor will indemnify any member of the Rio Tinto Group, within 10 days after demand therefor, for the full amount of any Indemnified Taxes paid by such member (including any Indemnified Taxes imposed or asserted on or attributable to additional sums payable hereunder), together with any penalties, interest and reasonable expenses arising therefrom or with respect thereto. Notwithstanding the foregoing, the amount of any additional payments or indemnity payments made hereunder shall not exceed the amount of such additional payments or indemnity payments that would have been payable but for the exercise by a member of the Rio Tinto Group of the transfer rights described in Subsection 1.6b).

**ARTICLE 9 -
OFFSHORE BANK ACCOUNTS**

9.1 Establishment of Offshore Accounts

The Borrowers will maintain one or more accounts offshore to Mongolia, including the account as set forth below, from time to time and otherwise in a jurisdiction(s) reasonably satisfactory to the Lender (such accounts, the **Offshore Accounts**). Such Offshore Accounts so established shall be maintained until the repayment in full of the Obligations and the termination of the Facility in accordance with the terms of this Agreement.

In respect of SGS:

Beneficiary bank name:	[REDACTED]
Swift Code:	[REDACTED]
Beneficiary name:	SouthGobi Sands LLC
Beneficiary Address:	7 – 8/F Monnis Building, Orgil Stadium 22, Great Mongolian State Street, 15th Khoroo, Khan Uul District, Ulaanbaatar 17011 Mongolia
Beneficiary Bank Account Number:	[REDACTED] (USD Current Account)
Bank Address:	[REDACTED]

In respect of SGQ (through an account of SouthGobi):

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The banking information of each of the Borrowers has been redacted from the previous page given the confidential nature of the information as per National Instrument 51-102 *Continuous Disclosure Obligations*.

Beneficiary Name:	SouthGobi Resources Ltd.
Beneficiary Address:	Suite #354-200 Granville St. Vancouver B.C. V6C 1S4 Canada
Account Number	[REDACTED]
Beneficiary Bank:	[REDACTED] [REDACTED] [REDACTED] [REDACTED]
USD Wires: Routing Information (Correspondence)	[REDACTED] New York Fedwire ABA: [REDACTED] [REDACTED]

9.2 Payments

Save as expressly provided hereunder or as otherwise agreed between the Parties in accordance with the terms hereof, all payments made hereunder by any Party to the other Party, or at its direction will be, at the direction of the Lender, made through the Offshore Accounts established and maintained pursuant to Section 9.1.

**ARTICLE 10 -
REPRESENTATIONS AND WARRANTIES**

10.1 Representations and Warranties of the Obligors

Each Obligor represents and warrants to the Lender as follows:

- a) each Obligor is a corporation or company duly incorporated, amalgamated or continued and validly existing, and current with respect to all filings required, under the laws of its jurisdiction of incorporation, amalgamation or continuance, as the case may be, is duly licensed or qualified to carry on its business and is in good standing in each jurisdiction where the conduct of its business or the ownership, leasing or operation of its property and assets requires such qualification, and no proceedings have been taken or authorized by it or, to the best of its knowledge, by any other person, with respect to the bankruptcy, insolvency, liquidation, dissolution or winding-up of such Obligor;
- b) each Obligor's execution and delivery of the Facility Documents to which it is a party, including all matters contemplated thereby, has been authorized by all necessary corporate action and each Obligor has the corporate power and authority to enter into and perform its obligations under the Facility Documents to which it is a party;

Cautionary Note for Readers

The banking information of each of the Borrowers has been redacted from the previous page given the confidential nature of the information as per National Instrument 51-102 *Continuous Disclosure Obligations*.

- c) none of the execution and delivery of the Facility Documents, the implementation of the transactions contemplated by the Facility Documents or the fulfilment of, or compliance with, the terms and provisions thereof by each Obligor which is a party thereto do or will, with the giving of notice or the lapse of time or otherwise:
 - i) result in the breach of, or violation of any term or provision of, such Obligor's Constatng Documents, or
 - ii) conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any material agreement to which such Obligor is a party or by which it is bound or to which any of its material assets are subject or any Applicable Law to which such Obligor is subject;
- d) except as otherwise specifically contemplated by the Facility Documents, no exemption, consent, approval, order or authorization of, or registration or filing with any court, Governmental Authority or any third party is required by, or with respect to, any Obligor in connection with the execution, delivery and performance of the Facility Documents or the consummation by each Obligor of the transactions contemplated by the Facility Documents;
- e) other than as disclosed in the SouthGobi Continuous Disclosure Documents, there is not, to the best of each Obligor's knowledge, any order or decree of a court of competent jurisdiction or any Governmental Authority restraining, interfering with or enjoining such Obligor's ability to perform its obligations under, or to complete any of the transactions contemplated by, the Facility Documents;
- f) each of the Facility Documents to which each Obligor is a party has been duly executed and delivered by such Obligor, as applicable, and is a valid and binding obligation of such Obligor, as applicable, enforceable against it in accordance with its terms subject to bankruptcy, insolvency and other laws affecting the enforcement of creditors' rights generally and to general principles of equity;
- g) each Obligor has all requisite corporate or limited liability company power and authority to carry on its business as now conducted and as currently proposed to be conducted, and to own, lease and operate its property and assets;
- h) each Obligor has conducted and is conducting its business in compliance in all material respects with all Applicable Laws of each jurisdiction in which its business is carried on, and each Obligor holds all necessary licences, permits, approvals, consents, certificates, registrations and authorizations, whether governmental, regulatory or otherwise, to enable its business to be carried on as now conducted and its property and assets to be owned, leased and operated, and the same are validly existing and in good standing and none of the same contain or is subject to any term, provision, condition or limitation which has or may have a material adverse effect on the operation of such Obligor's businesses or which may adversely change or terminate such licence, permit, approval, consent, certification, registration or authorization by virtue of the completion of the transactions contemplated by the Facility Documents;
- i) the SouthGobi Continuous Disclosure Documents provide, full, true and plain disclosure of all material facts relating to SouthGobi and do not contain any misrepresentation or any untrue, false or misleading statement of a material fact or omit to state any material fact required to be stated therein or necessary to make any statement therein, in the light of the circumstances in which it is made, not false or misleading;



- j) SouthGobi is a "reporting issuer", not in default of its obligations under Canadian Securities Laws, and no material change relating to SouthGobi has occurred with respect to which the requisite material change report has not been filed under Canadian Securities Laws and no such disclosure has been made on a confidential basis;
- k) there has not been any "reportable event" (within the meaning of National Instrument 51-102 Continuous Disclosure Obligations of the Canadian securities regulatory authorities) with any present or former auditors of SouthGobi;
- l) the auditors of SouthGobi who audited the financial statements for the year ended December 31, 2013 and who provided their audit report thereon were on such date independent public accountants in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia;
- m) the currently issued and outstanding SouthGobi Shares are listed and posted for trading on the TSX and the SEHK, and SouthGobi is in compliance with all rules and policies of such exchanges;
- n) other than as disclosed in the SouthGobi Continuous Disclosure Documents, since March 31, 2014:
 - i) there has been no material change (actual, anticipated, proposed or prospective, whether financial or otherwise) in the business, affairs, operations, assets, liabilities (contingent or otherwise) prospects, financial position, capital or Control of the Obligors, taken as a whole;
 - ii) the Obligors have carried on their respective businesses in the ordinary course and there has been no transaction entered into the Obligors which is material to the Obligors, taken as a whole, other than those in the ordinary course of business and those transactions contemplated by the Facility Documents; and
 - iii) there has been no material change in the capital or long term debt of the Obligors, taken as a whole;
- o) the Obligors are not liable for the debts, liabilities or other obligations of any third party whether by way of guarantee or indemnity or other contingent or indirect obligation except for Permitted Debt;
- p) except as previously disclosed to the Lender, all indebtedness of the Obligors is being paid in the ordinary course of business;
- q) no Obligor is a party to any agreement restricting the such Obligor from engaging in any line of business which such Obligor currently engages or proposes to engage in or competing with any other person in any business in which such Obligor currently engages or proposes to engage in;
- r) other than as disclosed in the SouthGobi Continuous Disclosure Documents, no Obligor has entered into nor has any present intention to enter into any agreement to acquire any securities in any other corporation or entity or to acquire or lease any other business operations which are material to the business and operations of the Obligors, taken as a whole;
- s) other than as disclosed in the SouthGobi Continuous Disclosure Documents, there is no action, suit, proceeding or investigation in respect of each Obligor, pending or, to the knowledge of such Obligor, threatened against or affecting such Obligor, at law or in

equity by any third party including, without limitation, by any Governmental Authority which could in any way materially and adversely affect the Obligors, taken as a whole, or the condition (financial or otherwise) of the Obligors, taken as a whole;

- t) no order, ruling or determination by any Governmental Authority or stock exchange having the effect of suspending the sale or ceasing the trading of any securities of SouthGobi has been issued or made and is continuing in effect and no proceedings for that purpose have been instituted or are pending or, to each Obligor's knowledge after due inquiry, are contemplated or threatened by any such authority or under any Securities Laws;
- u) no Obligor is in violation of its Constatng Documents or the resolutions of its securityholders, directors, or any committee of its directors, or in default in the performance or observance of any material term, obligation, agreement, covenant or condition contained in any contract, indenture, trust, deed, mortgage, loan agreement, note, lease or other agreement or instrument to which it is a party or by which it or its property may be bound and there exists no state of facts or circumstances which, after notice or lapse of time or both, or otherwise, would constitute a default under or breach of a material term, obligation, agreement, covenant or condition of any of such document and all such contracts, indentures, trusts, deeds, mortgages, loan agreements, notes, leases and other agreements are in good standing;
- v) all financial statements forming part of the SouthGobi Continuous Disclosure Documents are complete and comply with Securities Laws in all material respects, and fairly present the consolidated financial position of SouthGobi as of the dates and for the periods indicated, and have been prepared in accordance with GAAP applied on a consistent basis throughout such periods;
- w) other than as disclosed in the SouthGobi Continuous Disclosure Documents, to the best of each Obligor's knowledge and belief, no Obligor or any person acting on behalf of them, has made any Prohibited Payment with respect to the conduct of business of such Obligor or any transaction contemplated by the Facility Documents, including in connection with obtaining licenses, permits, concessions or other authorizations for the operation of their business;
- x) the board of directors of SouthGobi has determined that the transactions contemplated by the Facility Documents are not subject to or are exempt from, as the case may be, the formal valuation and minority approval requirements of Part 5 of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*;
- y) no Event of Default has occurred and is continuing and, to the knowledge of each Obligor, there exists no state of facts or circumstances which after notice or lapse of time or both or otherwise would constitute an Event of Default;
- z) no Obligor has any Debt outstanding other than Permitted Debt;
- aa) other than as disclosed in the SouthGobi Continuous Disclosure Documents, each Obligor owns all of its assets, property and undertaking, and has good and marketable title to such assets, property and undertaking, in each case free and clear of all Encumbrances and claims except Permitted Encumbrances; and
- bb) no Obligor is in default under any instrument evidencing any Debt or under the terms of any instrument pursuant to which any Debt has been issued or made and delivered, and there exists no state of facts or circumstances which after the giving of notice or the lapse of time or both or otherwise would constitute such a default.

10.2 Repetition

The representations and warranties of the Obligors set out in Section 10.1 are deemed to be repeated *mutatis mutandis* by each Obligor by reference to the facts and circumstances then existing on the date of each Funding Request given hereunder and the first day of each interest period of any Loan.

10.3 Reliance and Survival

Each Obligor acknowledges that the Lender will rely on the representations and warranties set out in Section 10.1 in completing the transactions contemplated by the Facility Documents and agrees that such representations and warranties will survive the date of this Agreement and the date on which each Loan is made under the Facility and will continue in full force and effect until the date of termination of this Agreement in accordance with the terms of this Agreement.

10.4 Effect of Investigations

All representations, warranties, covenants and agreements contained in this Agreement or any certificate, exhibit, or other document or other instrument furnished to the Lender by or on behalf of each Obligor in connection with the transactions contemplated by the Facility Documents will survive any investigation made by or on behalf of the Lender at any time with respect to any of the foregoing.

**ARTICLE 11 -
COVENANTS OF THE BORROWERS**

11.1 Covenants

Each Obligor covenants and agrees as follows:

- a) Except as otherwise consented to in writing by the Lender:
 - i) no Encumbrance shall be directly or indirectly created on the whole or any part of any Obligor 's assets or properties or the revenues or cash flows derived therefrom other than a Permitted Encumbrance;
 - ii) no Obligor will create, incur, assume or permit to remain outstanding any Debt other than Permitted Debt; and
 - iii) there shall be no direct or indirect transfer of the whole or any part of any Obligor's assets or properties to any person other than in accordance with the applicable exceptions currently permitted under the terms of the CIC Debenture as it exists on the date of this Agreement (excluding any future amendment or waiver by CIC of those terms),

provided that the Parties agree and acknowledge that, subject to compliance with all other terms and conditions of this Agreement, the above covenants will not be construed to prevent the Obligors from pursuing any funding alternative they consider appropriate at any time, and that would result in repayment in full of the Obligations.

- b) The Borrowers will duly and punctually pay or cause to be paid when due in accordance with the terms of the Facility Documents all amounts in respect of principal, interest and any other fees, costs and charges which are due and owing under the terms of the Facility.

- c) Each Obligor will, in all material respects, comply with all material Applicable Laws to the extent affecting its business.
- d) Each Obligor will maintain insurance on and in relation to its business and assets with financially sound and reputable insurance companies or associations including all-risk property insurance and comprehensive general liability insurance, in amounts and against risks that are determined by it to be appropriate and which are prudent in the circumstances, and will furnish to the Lender, on written request, satisfactory evidence of the insurance carried and notify the Lender of any claim it makes under the foregoing insurance policies that is in excess of US\$1,000,000.
- e) Each Obligor will, provide all information which the Lender may reasonably request; provided that under no circumstances will any Obligor be required to provide to the Lender any information if the provision of such information will result in or give rise to a contravention of any Applicable Law or any reasonably required written contractual confidentiality agreements (provided further that any such Obligor will use commercially reasonable endeavours to secure consent to disclose any such information pursuant to any such laws or agreements).
- f) Notwithstanding Section 11.1e) above, each Obligor will notify the Lender promptly of:
 - i) any proposed change in the name or address of any Obligor or any proposed change in the location of the chief executive office of any Obligor to any other jurisdiction;
 - ii) details of any litigation, dispute, arbitration or other proceeding to which any Obligor is a party, the result of which if determined adversely (A) would be a judgement or award in excess of US\$1,000,000, or (B) would be reasonably likely to have a Material Adverse Effect;
 - iii) any loss or damage of a material amount (and for the purpose of this paragraph iii), "material amount" will mean an amount equal to or greater than US\$1,000,000;
 - iv) any Environmental Claims which could reasonably be expected to have a Material Adverse Effect;
 - v) particulars of any Event of Default or any event which constitutes an event of default under any material contract, mortgage, debenture, indenture, lease, licence, agreement or other document or instrument made by any Obligor, or any event which with the giving of notice or the lapse of time or both would constitute such an event, and particulars of the action which the relevant Obligor proposes to take with respect thereto, forthwith after the relevant Obligor has obtained knowledge of the occurrence of such event; or
 - vi) any event or circumstance which could reasonably be expected to have a Material Adverse Effect.
- g) No Obligor will, without the consent of the Lender, change its business in any material respect or cease to carry on all or a substantial part of its business.
- h) Each Obligor will, at all times maintain its corporate existence in good standing under Applicable Laws and obtain and maintain in good standing all necessary licences and registrations in any jurisdiction where the nature of the business carried on by such

Obligor makes such licences necessary or advantageous and will carry on and conduct its business in a prompt and efficient manner.

- i) Each Obligor will immediately and duly pay when due (and will furnish to the Lender when required or requested by the Lender evidence establishing any such payments):
 - i) all obligations to its or their employees and all obligations to others which relate to the employees of the relevant entity, including all Taxes related thereto;
 - ii) all Taxes before the imposition of any fine, interest or penalty for the late payment thereof, unless the relevant entity shall in good faith contest its obligation so to pay and has satisfied the Lender that the contestation will not jeopardize the business of such entity, and an appropriate financial reserve in accordance with GAAP applied on a basis consistent with past practice and satisfactory to the Lender has been established; and
 - iii) without derogating from the terms of this Agreement, any obligation secured by any Encumbrance and any obligation incurred by, or imposed on, the relevant entity or any of its assets, property, effects and undertaking, or any part thereof, by virtue of any contract, mortgage, debenture, indenture, lease, licence, agreement, permit or other document or instrument or otherwise, the breach or default of which could result in any Encumbrance or any right of distress, forfeiture, sale or termination or any other remedy being enforced against such entity or its assets, property, effects and undertaking, or any part thereof.
- j) Each Obligor will, observe and perform all of their material obligations, covenants, terms and conditions under any material contract, mortgage, debenture, indenture, lease, licence, agreement or other instrument to which any of them is a party, including the Facility Documents, or by which any of them is bound or by which any of their assets is subject, except in the case of any such instrument which is not a Facility Document or any other agreement between any Obligor and any other member of the Rio Tinto Group where such observance or non-performance would not reasonably be expected to result in a Material Adverse Effect.
- k) No Obligor will:
 - i) amend its Constatting Documents;
 - ii) enter into a merger, amalgamation or arrangement or effect an acquisition with a value in excess of US\$1,000,000, or propose a material reorganization (including any reclassification or change of its outstanding shares), liquidation or dissolution;
 - iii) enter into any transaction, whether by way of reconstruction, reorganization, consolidation, amalgamation, merger, transfer, sale, lease or otherwise whereby all or substantially all of the assets, property, effects or undertaking of the relevant person would become the property of any other person; or
 - iv) make payments to any person or any Affiliate (other than the Lender or another Obligor) in excess of \$50,000 in the aggregate or enter into any contact with any person that would require payments by any Obligor in excess of \$50,000 in the aggregate, unless such payments or contracts, as the case may be are contemplated and consistent with the Budget and accepted by the Lender in its sole discretion.

- l) Each Obligor will use and operate all of its property and assets in compliance with all, and in a manner which would not result in liability under any, Environmental Laws and keep all necessary permits relating to environmental matters in effect and remain in compliance therewith.
- m) The Borrowers will use the proceeds of all advances under the Facility made available to it only for the purposes set forth in Section 2.2.
- n) Each Obligor will take all actions necessary (including the making or delivery of filings and payment of fees) to:
 - i) comply with its obligations under the Facility Documents to which it is a party; and
 - ii) preserve and keep in full force and effect its existence under its jurisdiction of incorporation or existence, as applicable, and rights under each Facility Document and any other material agreement to which any Obligor and any other member of the Rio Tinto Group are parties.
- o) Each Obligor will give the Lender immediate notice in writing of any Event of Default or any event which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default.
- p) SouthGobi will take all actions necessary to (i) maintain the listing or quotation of its common shares on (A) the TSX and (B) the SEHK and (ii) maintain in a province of Canada its status as a "reporting issuer" not in default of Canadian Securities Laws.
- q) SouthGobi will deliver or cause to be delivered to the Lender:
 - i) As soon as approved by the SouthGobi board of directors but no later than 60 days after the close of each fiscal quarter, quarterly (and year-to-date) unaudited financial statement of SouthGobi that present fairly such entity's financial position; and
 - ii) As soon as approved by the SouthGobi board of directors but no later than 120 days after the close of each fiscal year, as applicable, audited financial statements of SouthGobi that present fairly such entity's financial position.
- r) In the event that, notwithstanding Subsection 6.2a), any Obligor receives any amount that is payable to the Lender pursuant to the terms of Subsection 6.2a), such Obligor shall hold such amount in trust for the Lender forthwith upon receipt thereof and promptly pay such amount to the Lender.
- s) The Obligors will:
 - i) At the end of each Business Day, deliver to the Lender (by email or otherwise) copies of bank account statements or screenshots or other evidence in respect of material cash payments made by the Obligors allowing the Lender to track compliance by the Obligors with the current Budget and Cash Flow Forecast previously consented to and approved by the Lender; and
 - ii) Twice a week (and not less than every four days) and on any date on which a Borrower delivers a Funding Request hereunder, cause the chief financial officer of the Obligors to be available to contact TRQ via conference call (through representatives or agents of TRQ identified by TRQ from time to time) to update

TRQ generally with respect to the cash managements and budget obligations of the Obligors hereunder.

11.2 Termination of Covenants

Each of the covenants of the Borrowers set out in this Article 11 will terminate upon the repayment in full of the Obligations and the valid termination of this Agreement pursuant to Section 6.4.

ARTICLE 12 - EVENTS OF DEFAULT

12.1 Events of Default

The occurrence of any one or more of the following will constitute an **Event of Default** hereunder:

- a) any Borrower fails to pay when due any amount payable by it under the terms of this Agreement;
- b) any Obligor breaches or fails to perform or observe any obligation, covenant or provision contained in Sections 6.2a), 11.1a), 11.1b), 11.1m) or 11.1r) of this Agreement;
- c) any Obligor breaches or fails to perform or observe, in any material respect, any other obligation, covenant or provision contained in any of the Facility Documents to which it is a party or any other agreement between such Obligor and the Lender and such breach or failure to perform by such Obligor is not remedied within thirty (30) days of the Lender notifying such Obligor of such non-compliance or, if earlier, the date of such Obligor becoming aware of such non-compliance;
- d) any representation or warranty made or given by any Obligor in any of the Facility Documents to which it is a party or any notice, certificate or statement delivered or made hereunder or thereunder is materially inaccurate or misleading or proves to have been materially inaccurate or misleading when made and, if capable of remedy, has not been remedied within thirty (30) days of the Lender notifying such Obligor of such material inaccuracy or misleadingness or, if earlier, the date of such Obligor becoming aware thereof;
- e) any Debt of any Obligor for money borrowed in an amount in excess of US\$500,000 in the aggregate, is not paid when due (taking into account any applicable cure period) or is accelerated or otherwise becomes due and payable (or is capable of being accelerated) prior to its specified maturity date in accordance with the terms of the instrument(s) governing such Debt;
- f) one or more judgments, awards, or orders (or any settlement of any claim that, if breached, could result in a judgment, order, or award) for the payment of money exceeding \$500,000 in the aggregate shall be rendered against an Obligor and remain unsatisfied, or any Obligor shall agree to the settlement of any one or more pending or threatened actions, suits, or proceedings affecting any Obligor before any court or other Governmental Authority or any arbitrator or mediator, providing for the payment of money exceeding \$500,000 in the aggregate, and in the case of any such judgment or order either (i) enforcement proceedings shall have been commenced by any creditor upon any such judgment, order, award or settlement, (ii) there shall be a period of 10 consecutive days after entry thereof during which a stay of enforcement of any such judgment, order, award or settlement, by reason of a pending appeal or otherwise, shall not be in effect or (iii) at any time during which a stay of enforcement of any such judgment, order, award or

settlement, by reason of a pending appeal or otherwise, is in effect, such judgment, order, award or settlement is not bonded in the full amount of such judgment, order, award or settlement; provided, however, that any such judgment, order, award or settlement shall not give rise to an Event of Default under this subsection if and for so long as (A) the matter remains subject to appeal, (B) the amount of such judgment, order, award or settlement is covered by a valid and binding policy of insurance between the applicable Loan Party and the insurer covering full payment thereof (other than any deductible) and (C) such insurer has been notified, and has not disputed the claim made for payment, of the amount of such judgment, order, award or settlement;

- g) the commencement of any proceeding, or the taking of any step by or against any Obligor to obtain relief, under the laws of any jurisdiction relating to the bankruptcy, insolvency, reorganization, compromise of debts, liquidation, dissolution or winding-up of any Obligor or the appointment of a liquidator, trustee in bankruptcy, administrator or receiver or the equivalent under the laws of any jurisdiction in respect of any Obligor, provided that, notwithstanding the foregoing, it will not be an Event of Default where such proceeding, step or appointment was not consented to and is being actively contested by such Obligor in proceedings commenced not later than ten (10) Business Days following the date of commencement of such proceeding, step or appointment and the proceeding, step or appointment is withdrawn or discharged within sixty (60) days following such date of commencement;
- h) any Obligor is unable to pay its Debts as they generally fall due, or stops or suspends or threatens to stop or suspend payment of its debts, as they generally fall due;
- i) either:
 - i) any Governmental Authority seizes, expropriates, nationalises, requisitions or compulsorily acquires, directly or indirectly (including by way of (x) any act or series of acts, whether legislative or otherwise, of any such Governmental Authority, or (y) any unlawful, discriminatory or arbitrary withdrawal or revocation of a material consent, waiver, license, permit, registration, order, decree, approval or other authorisation of any Governmental Authority, or any combination of the events referred to in subclauses (x), and (y) above which, in each case, contribute to such effect), all or any material portion of the shares or assets of any Obligor, or
 - ii) there occurs any declared or undeclared war, civil war, acts of foreign enemies, riot, insurrection, politically motivated acts of terrorism or sabotage, revolution or coup d'état (excluding actions of environmental groups, labour disputes or student unrest, in each case, which is not politically motivated) or an embargo sanctioned by a resolution of the United Nations which, in each case renders the continued performance by any Obligor of its obligations under any of the Facility Documents impracticable or unreasonably hazardous;
- j) any litigation, arbitration or administrative proceeding taking place against any Obligor is reasonably likely to have an adverse outcome and such outcome would be reasonably expected to have a Material Adverse Effect, unless within ninety (90) days of the initiation thereof such litigation, arbitration or administrative proceeding is either (i) dismissed or (ii) no longer reasonably likely to have an adverse outcome or such outcome would no longer be reasonably expected to have a Material Adverse Effect;
- k) (i) the SouthGobi Shares are delisted or suspended from trading for more than five (5) days on the TSX or HKSE or (ii) SouthGobi ceases to be a "reporting issuer" in a province of Canada unless the Lender provides its written consent thereto; or

- l) if in the opinion of the Lender, acting reasonably, an event that has or is likely to have a Material Adverse Effect has occurred.

12.2 Consequences of Default

- a) Upon the occurrence of an Event of Default which, if capable of being remedied, has not been remedied within any applicable cure period provided for in this Agreement, the Lender may, at its option and without prejudice to any other rights and remedies available to it, serve on the Borrowers a written notice requiring the full amount of the Obligations outstanding to be immediately repaid in full and suspending all further disbursements of Loans hereunder, provided that in the case of an Event of Default pursuant to Section 12.1g), no such notice will be required and all such amounts will be immediately and automatically repayable in full and all further disbursements of Loans will be immediately and automatically suspended hereunder.
- b) Upon the occurrence of an Event of Default, if capable of being remedied, has not been remedied within any applicable cure period provided for in this Agreement, the Lender may, in its discretion, exercise any right or recourse available to it under this Agreement or otherwise and proceed by any action, suit, remedy or proceeding against the Borrowers or any other Obligor authorized or permitted by law for the recovery of all of the outstanding Obligations and, whether or not the Lender has exercised any of its respective rights under Section 12.2a), proceed to exercise any and all rights hereunder.
- c) The Lender is not under any obligation to the Borrowers or any other person to realize upon any collateral or to allow any of the collateral to be sold, dealt with or otherwise disposed of. The Lender is not responsible or liable to the Borrowers or any other person for any loss or damage arising from such realizable or enforcement or the failure to do so or for any act or omission on its part or on the part of any of its directors, officers, employees, agents or advisors in connection with any of the foregoing.

ARTICLE 13 - MISCELLANEOUS

13.1 Fees and Expenses

- a) If any Borrower requests an amendment, waiver or release of, or consent in relation to the Facility Documents or either of them, such Borrower shall on demand reimburse the Lender for the amount of all reasonable costs and expenses (including legal fees) incurred by the Lender in responding to, evaluating, negotiating or complying with that request or requirement.
- b) The Borrowers shall on demand pay to the Lender the amount of all reasonable costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or preservation of any rights under, the Facility Documents.

13.2 Waiver

No waiver of, or failure by the Lender to exercise or delay on the part of the Lender, in exercising any right or remedy hereunder, and no waiver as to any default or Event of Default hereunder, shall operate as a waiver thereof unless made in writing and signed by an authorized officer of the Lender, nor shall any single or partial exercise of any right or remedy preclude any further or other exercise by the Lender of any right or remedy hereunder.

13.3 Dealings by Lender

The Lender and its Affiliates may grant extensions of time and other indulgences, take and give up securities, accept compositions, grant releases and discharges and otherwise deal with the Borrowers, debtors of the Borrowers, sureties and others and with the Facility Documents and other securities as the Lender or its Affiliates may see fit without prejudice to the liability of the Borrowers under the Facility Documents or the Lender's right to hold and enforce the Facility Documents.

13.4 Arbitration

Any dispute, controversy or claim arising out of or relating to this Agreement or the transactions contemplated hereby, or the breach, termination or invalidity thereof, shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules. The appointing authority shall be the Hong Kong International Arbitration Centre (HKIAC). The number of arbitrators shall be three. The place of arbitration shall be Vancouver, British Columbia, Canada. The language used in the arbitration proceedings shall be English.

13.5 Notices

All notices, payments and other required or permitted communications (each a **Notice**) to either Party will be in writing, and will be addressed respectively as follows:

If to the Lender:

Turquoise Hill Resources Ltd.
Suite 354 - 200 Granville Street
Vancouver, British Columbia
V6C 1S4

Attention: Corporate Secretary
Fax: 604-688-7168

With a copy to:

Norton Rose Fulbright Canada LLP
1 Place Ville Marie, Suite 2500
Montreal, QC
Canada H3B 1R1

Attention: Steve Malas
Fax: 514-286-5474

If to SGS:

SouthGobi Sands LLC
8th floor, Monnis Building, Stadium Orgil 22
Great Mongolian State Street
15th khoroo, Khan-Uul District
Ulaanbaatar
Mongolia

Attention: President and CEO
Fax: +976-70070720

If to SGQ:

SGQ Coal Investment Pte Ltd.
c/o SouthGobi Resources Ltd.
Suite 1501, The Center
99 Queen's Road Central
Hong Kong

Attention: Chief Financial Officer
Fax: 852 2156 1439

If to SouthGobi: SouthGobi Resources Ltd.
Suite 1501, The Center
99 Queen's Road Central
Hong Kong

Attention: Chief Financial Officer
Fax: 852 2156 1439

With a copy to: Goodmans LLP
355 Burrard Street
Suite 1800
Vancouver, BC V6C 2G8

Attention: Paul Goldman
Fax: 604.682.7131

or at such other address of fax number or to such other contact person as a Party may give Notice to the other Party. All Notices will be given by registered mail with acknowledgement of receipt, or by courier, or by fax or by registered mail or courier with acknowledgement of receipt. All Notices will be effective and will be deemed given:

- a) if delivered by hand, immediately;
- b) in the case of delivery by mail or courier, two (2) Business Days after the date of posting (if posted or couriered to an address in the same country) or five (5) Business Days after the date of posting (if posted or couriered to an address in another country); and
- c) in the case of fax, on receipt by the sender of a transmission control report from the dispatching machine showing the relevant number of pages and the correct destination fax machine number and indicating that the transmission has been made without error,

but if the result is that a Notice would be taken to be given or made on a day which is not a Business Day or is received later than 4.00 pm (local time), it will be taken to have been given or made at the commencement of the next Business Day in that place.

13.6 Further Assurances

Each Borrower and the Lender will, at its expense, promptly execute and deliver to the other Party, upon request by the other Party, all such other and further documents, agreements, opinions, certificates and instruments in compliance with, or accomplishment of, the covenants and agreements of such first-mentioned Party under the Facility Documents or more fully to state the obligations of such first-mentioned Party as set forth therein and will make any recording, file any notice or obtain any consent, all as may be reasonably necessary or appropriate in connection therewith.

13.7 Severability

If any provision of this Agreement or any part of this Agreement or thereof shall be found or determined to be invalid, illegal or unenforceable in any jurisdiction, it shall for the purposes of such jurisdiction only be severable from this Agreement, and the remainder of this Agreement,

shall for the purposes of such jurisdiction only be construed as if such invalid, illegal or unenforceable provision or part had been deleted herefrom or therefrom.

13.8 Remedies Cumulative

For greater certainty, it is expressly understood that the rights and remedies of the Lender hereunder or under any other Facility Document or instrument executed pursuant to this Agreement are cumulative and are in addition to and not in substitution for any rights or remedies provided by law or by equity; and any single or partial exercise by the Lender of any right or remedy for a default or breach of any term, covenant, condition or agreement contained in this Agreement or any other Facility Document will not be deemed to be a waiver of or to alter, affect or prejudice any other right or remedy or other rights or remedies to which the Lender may be lawfully entitled in connection with such default or breach.

13.9 Perform Obligations

If an Event of Default has occurred and is continuing and if any Borrower has failed to perform any covenant or agreement given by it in any Facility Document, the Lender may perform any such covenant or agreement in the manner deemed fit by the Lender without thereby waiving any rights to enforce such Facility Document. The reasonable expenses (including any legal costs) incurred by the Lender in respect of the foregoing will constitute a part of the Obligations.

13.10 Application of Payments

All payments made by any Borrower hereunder or received pursuant to any Facility Documents will be applied to amounts due under the Obligations as determined by the Lender in its sole discretion.

13.11 Third Parties

It is not necessary for any person dealing with the Lender, or any other agent of the Lender to inquire whether the powers that the Lender is purporting to exercise may be exercised, or whether any Obligations remain outstanding upon the security thereof, or as to the necessity or expediency of the stipulations and conditions subject to which any sale is to be made.

13.12 Successors and Assigns

The Facility Documents will enure to the benefit of and be binding upon the successors and permitted transferees of the Borrowers and the Lender, respectively

13.13 Governing Law and Submission to Jurisdiction

This Agreement and any obligation arising out of or in connection with the subject matter hereof, whether contractual or non-contractual in nature, shall be governed by and construed in accordance with the laws of British Columbia and the federal laws of Canada applicable therein, without regard to conflict of law principles.

13.14 Modification

No modification, rescission, waiver, release, or amendment of any provision of this Agreement shall be made, except by a written agreement signed by the Borrowers and a duly authorized officer of the Lender.



13.15 Entire Agreement

This Agreement is intended by the Borrowers and the Lender to be the final, complete, and exclusive expression of the agreement between them relating to the subject matter of this Agreement. This Agreement supersedes any previous agreement between the Parties relating to the subject matter of this Agreement.

13.16 Currency Conversion Indemnity

If:

- a) any amount payable under, or in connection with any matter relating to or arising out of, the Facility Documents, is received by the Lender in a currency (the **Payment Currency**) other than that agreed to be payable thereunder (the **Agreed Currency**), whether voluntarily or pursuant to an order, judgment or decision of any court, tribunal, arbitration panel or administrative agency or as a result of any bankruptcy, receivership, liquidation or other insolvency type proceedings or otherwise; and
- b) the amount so received by converting the Payment Currency so received into the Agreed Currency is less than the relevant amount of the Agreed Currency;

then:

- c) the amount so received shall constitute a discharge of the liability of the Borrowers under or in connection with the Facility Documents only to the extent of the amount of Agreed Currency received following the conversion described in paragraph b) above; and
- d) the Borrowers shall forthwith indemnify and save the Lender harmless from and against such deficiency of Agreed Currency and any loss or damage arising as a result thereof.

Any conversion pursuant to this Section 13.16 shall be made at such prevailing rate of exchange on such date as is within three (3) Business Days following the date the Payment Currency is received by the Lender and in such market as is determined by the Lender as being the most appropriate for such a conversion. The Borrowers shall, in addition, pay the reasonable costs of such conversion.

13.17 Day count convention

Any interest or fee accruing under the Facility Documents will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

13.18 Counterparts

This Agreement may be executed in any number of counterparts, and by the Parties in separate counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

13.19 Facsimiles

Delivery of an executed signature page to this Agreement by either Party by electronic transmission will be as effective as delivery of a manually executed copy of the Agreement by such Party provided however that each manually executed signature shall also be delivered in original form promptly thereafter.



13.20 Exclusion of Set-Off

All amounts due under this Agreement shall be paid by the Borrowers to the Lender in full without any deduction or withholding (other than any deduction or withholding of tax as required by law), and the Borrowers shall not be entitled to claim set-off or to counterclaim against the Lender in relation to the payment of the whole or part of any such amount.

13.21 Time of the Essence

Time is of the essence in this Agreement.

13.22 Announcements and Public Disclosure

The Lender and SouthGobi will if deemed necessary make a joint announcement in agreed form upon execution of this Agreement. Subject always to SouthGobi's legal obligations to make timely disclosure of material undisclosed information, SouthGobi will provide a reasonable opportunity for the Lender and its counsel to review and comment upon (i) drafts of all materials to be filed by SouthGobi with any Governmental Authority or stock exchange in connection with the transactions contemplated hereby, and (ii) any press release or other public disclosure that may be issued by SouthGobi to the extent such press release or other disclosure relates to the transactions contemplated hereby, and SouthGobi will give due consideration to such comments, acting reasonably. The forms of this Agreement and any other Facility Document which are to be filed by any party with securities regulators (including any redactions therefrom) will be agreed between the parties prior to filing, provided, however, that such commitment will not prevent SouthGobi or any member of the Rio Tinto Group from complying, in good faith and upon the advice of counsel, with its filing obligations under applicable Securities Laws.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

SOUTHGOBI SANDS LLC,
AS BORROWER

By: Ross Tromans
Name: ROSS TROMANS
Title: Authorized Representative

SGQ COAL INVESTMENT PTE LTD.,
AS BORROWER

By: Ross Tromans
Name: ROSS TROMANS
Title: DIRECTOR

SOUTHGOBI RESOURCES LTD.

By: Ross Tromans
Name: ROSS TROMANS
Title: President + CEO

TURQUOISE HILL RESOURCES LTD.,
AS LENDER

By: Stephen Scott
Name: STEPHEN SCOTT
Title: GENERAL MANAGER COMMERCIAL

**SCHEDULE A
FORM OF FUNDING REQUEST**

To: Turquoise Hill Resources Ltd. (the Lender)

Re: Form of Funding Request

Reference is hereby made to that certain Shareholder Loan Facility, dated the 23rd day of May, 2014 by and between Southgobi Sands LLC, SGQ Coal Investment PTE LTD., SouthGobi Resources LTD. and Turquoise Hill Resources LTD. (as amended, restated, supplemented or otherwise modified from time to time, the Facility). Capitalized terms used in this request without separate definitions shall have the meanings given to them in the Facility. Unless otherwise indicated herein, all references to currency herein are to lawful money of the United States and, for greater certainty, "\$" means United States dollars.

We hereby request a Loan be made to us, in accordance with the Facility, as follows:

Amount of the Loan: \$ _____

Borrower: _____

Date of advance of the Loan: _____

The proceeds of the Loan should be made available to us/our designee by credit to the account of

Any governmental and third party approvals and consents required to be obtained in connection with the Loan have been obtained and remain in effect, and all conditions precedent in Subsections [3.1/3.2] of the Facility have been satisfied.

The undersigned certifies the following to the best of his knowledge and belief:

- The advance of the Loan will not cause the Obligations of each Borrower to exceed its Maximum Loan Amount;
- No event or circumstance giving rise to a Material Adverse Effect has occurred in accordance with the terms of the Facility or will occur from the applicable advance of the Loan to the Borrower;
- No event has occurred and is continuing which constitutes an Event of Default or which, with the giving of notice or the lapse of time, or both, would constitute an Event of Default and that no Event of Default will result directly or indirectly from the applicable advance of the Loan to the Borrower in accordance with the terms of the Facility;
- Each representation and warranty set forth in Article 10 of the Facility is true and correct;
- The Borrower is in compliance with its covenants under the Facility Documents to which it is a party, and
- The proceeds of the previous Loan advance to the undersigned were used for the following purposes, in accordance with the Funding Request for that Advance:

•

- The proceeds of the Loan requested above will be used consistent with this Funding Request and specifically as follows:

[Insert details of proposed use of proceeds]



[Note: The following representation to be inserted only in the Funding Request relating to the initial advance of a Loan under the Facility:] The Borrower represents and warrants to the Lender that the Obligors have exhausted all their other funding alternatives and that the Funding Request for the initial Loan under the Facility is therefore required.

Dated _____

●

Per:

Name: _____

Title:

A handwritten signature in black ink, appearing to be the initials 'AB' with a flourish at the end.