SOUTHGOBI RESOURCES LTD.

Annual Information Form

For the year ended
December 31, 2014

Dated March 30, 2015

TABLE OF CONTENTS

DEFINITIONS AND OTHER INFORMATION

Currency and Exchange Rates

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

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

(Stated in Canadian dollars)

	Year Ended December 31		
	2014	**2013**	**2012**
End of period	1.1601	1.0636	0.9949
High for the period	1.1643	1.0697	1.0418
Low for the period	1.0614	0.9839	0.9710
Average for the period	1.1045	1.0299	0.9996

The Bank of Canada noon buying rate as of March 27, 2015 for the purchase of one United States dollar using Canadian dollars was Cdn$1.258 (one Canadian dollar on that date equalled US$0.79).

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

(Stated in Canadian dollars)

	Year Ended December 31		
	2014	**2013**	**2012**
End of period	0.1496	0.1372	0.1284
High for the period	0.1377	0.1377	0.1343
Low for the period	0.1127	0.1127	0.1253
Average for the period	0.1424	0.1328	0.1289

The Bank of Canada noon buying rate as of March 27, 2015 for the purchase of one Hong Kong dollar using Canadian dollars was Cdn$0.162 (one Canadian dollar on that date equalled HK$6.16).

Defined Terms and Abbreviations

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

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

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

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

"**Aspire**" means Aspire Mining Limited, a company listed on the Australian Stock Exchange under the symbol "AKM".

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

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

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

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

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

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

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

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

"**CHALCO**" means Aluminum Corporation of China Limited.

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

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

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

"**CMC**" means China Mongolia Coal Co. Ltd.

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

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

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

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

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

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

“**DCHF**” means the Company’s dry coal handling facility located at the Ovoot Tolgoi Mine.

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

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

“**Ejin Jinda**” means Ejinaqi Jinda Coal Industry Co. Ltd.

“**EIA**” means Environmental Impact Assessment.

“**EMP**” means Environmental Management Plan.

“**EPP**” means Environmental Protection Plan.

“**FIL**” means Foreign Investment Law of Mongolia.

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

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

“**GSC**” means Geological Survey of Canada.

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

“**IFRS**” means International Financial Reporting Standards.

“**ISO**” means the International Organization for Standardization.

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

“Land Law of Mongolia” means Law on Land of Mongolia enacted on June 7, 2002, as amended.

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

“**MAK**” means Mongolyn Alt MAK LLC.

“**MAK-Qinghua**” means the joint venture between MAK and Qinghua.

“**MBGS**” or “**McElroy Bryan**” means McElroy Bryan Geological Services.

“**MD&A**” means the Company’s Management’s Discussion and Analysis of Financial Condition and Results of Operation for the period ended December 31, 2014.

“**MEL**” means a Mongolian mineral exploration licence.

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

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

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

"**Modun**" means Modun Resources Limited, a company listed on the Australian Stock Exchange under the symbol "MOU".

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

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

"**NFC**" means Mongolia's National Forensic Centre.

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

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

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

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

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

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

"**Novel SPA**" means the agreement between Turquoise Hill and Novel Sunrise for the sale of 48,705,155 Common Shares owned by Turquoise Hill to Novel Sunrise.

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

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

"**NUR SPA**" means the agreement between Turquoise Hill and NUR for the sale of 56,102,000 Common Shares owned by Turquoise Hill to NUR.

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

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

“**Ovoot Tolgoi Mine**” means the Company’s operating pit coal mine at Ovoot Tolgoi which is comprised of the Sunrise and Sunset open pit coal mines and comprising coal resources to a depth of 300m below surface.

“**Ovoot Tolgoi Preliminary Feasibility Study**” means the preliminary feasibility study and technical report on the Ovoot Tolgoi Complex resources and reserves prepared by RungePincockMinarco issued in March 2012.

“**Ovoot Tolgoi Technical Report**” means a Technical Report on the Ovoot Tolgoi Deposit dated March 19, 2012, prepared by RungePincockMinarco (known as Minarco-MineConsult as of the date of such report).

“**Ovoot Tolgoi Underground Deposit**” means the Company’s underground development project at Ovoot Tolgoi comprising coal resources from a depth of 300 to 600m below surface.

“Parliament of Mongolia” means the State Great Khural of Mongolia.

“**PMA**” means pre-mining agreement.

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

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

“**Proposed Class Action**” means the proposed class action lawsuit in Canada against the Company, certain former and current directors and officers of the Company and the Company’s former auditor relating to the Restatement.

“**PwC**” means PricewaterhouseCoopers, LLP.

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

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

“**Renminbi**” or “**RMB**” means the lawful currency of the PRC.

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

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

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

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

“**SEHK**” means The Stock Exchange of Hong Kong Limited.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Tsagaan Tolgoi Deposit**" means the Company's Tsagaan Tolgoi coal exploration project in Mongolia.

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

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

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

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

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

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

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

Conversion Factors

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

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

Glossary of Geological and Mining Terms

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

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

cv: means calorific value.

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

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

ha: hectares.

indicated mineral resource: that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and test information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

inferred mineral resource: that part of a mineral resource for which the quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

kcal: kilocalorie.

km: kilometres.

km^2: square kilometres.

lb: pound.

logged: measured and described.

m: metres.

measured mineral resource: that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

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

mineral reserve: the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, and economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

mineral resource: a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

mm: millimetres.

Mt: million tonnes.

PCD: polycrystalline.

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

probable reserve: the economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

proven reserve: the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

RC: reverse circulation.

ROM: run-of-mine.

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

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

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

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

FORWARD LOOKING STATEMENTS

Certain statements made herein, including statements relating to matters that are not historical facts and statements of the Company beliefs, intentions and expectations about developments, results and events which will or may occur in the future constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information and statements are typically identified by words such as "anticipate," "could", "should", "expect", "seek", "may", "intend", "likely", "plan", "estimate", "will", "believe" and similar expressions suggesting future outcomes or statements regarding an outlook. These include, but are not limited to, statements respecting: business outlook; anticipated stock market conditions; future prices of the Common Shares; future ownership of Common Shares; anticipated business activities; planned expenditures; corporate strategies; proposed acquisitions and dispositions of assets; discussions with third parties respecting material agreements; potential future agreements with third parties; anticipated capital expenditures; anticipated financing needs; the closing of the Subsequent Tranche of the Novel Private Placement; the implementation and impact of the Funding Plan; the outcome of the TSX's remedial delisting review of the Company; the Company's ability to meet its obligations under the Convertible Debenture; development plans; future production; future coal market conditions in the PRC, including supply and demand for coal; expected impacts of the administrative restrictions on certain of the Company's Mongolian assets; the impact of future disclosure of the results of the internal investigations being conducted by the Audit Committee; the results of the Proposed Class Action; the ability of the Company to pay the Tax Penalty (as defined under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS – Investigations by the Mongolian Government" in this Annual Information Form); the possible consequences of the Tax Verdict (as defined under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS – Investigations by the Mongolian Government" in this Annual Information Form) and the Appeal Verdict (as defined under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS – Investigations by the Mongolian Government" in this Annual Information Form) and the effect thereof on the Company; the possibility that the Supreme Court of Mongolia would hear a final appeal of the Tax Penalty and the likelihood of success and consequences of the final appeal of the Tax Penalty on this Company; expected production at the Ovoot Tolgoi Mine; expected mine life and payback period of capital of the Ovoot Tolgoi Mine; mining methods used at the Ovoot Tolgoi Deposit; the proposed coal beneficiation process at Ovoot Tolgoi; effects of the EIA and Addendum for the Ovoot Tolgoi Deposit; the effects of the rotary breaker at the Ovoot Tolgoi Mine on screening costs and yield recoveries; utilization of wet washing facility to toll-wash coal from the Ovoot Tolgoi Mine; the effects of toll washing on the Company's coal products; the proposal to connect the coal handling facility at the Ovoot Tolgoi Deposit to the power line from the PRC; effects of the curtailment of operations in 2012 on the payback period of capital; future exploration, development and expenditures on the Soumber Deposit, Zag Suuj Deposit and other projects in Mongolia; the intention of the Company to maintain its own database for storing data; increased coal transportation capacity; the anticipated yields from the washing plant and the DCHF; the ability to retain customers; the effect of the highway from the Ovoot Tolgoi Deposit to the Shivee Khuren Border Crossing on trucking costs and export capacity; expenditures and actions taken for the purpose of mitigation of potential environmental impacts; planned actions relating to the Company's health and safety policy and CSR commitments; adequacy of the Company's funding sources; estimates of the Company's mineral reserves and resources; the impact of the review of the geology type at the Ovoot Tolgoi Mine; the impact of amendments to, or the application of, the laws of Mongolia and other countries in which the Company carries on business; the adequacy for any particular purpose of the coal products, if any, that may, in the future, be mined from the Company's coal exploration and development properties; the type of coal products being produced; the outlook for Mongolian coal exports; whether coal prices in the PRC will remain under pressure and whether that will continue to affect the Company; the availability of additional sources of financing for the Company; the ability of the Company to retain its infrastructure advantage or resource base; the availability of growth options for run-of-mine capacity; the Company's ability to improve its operational efficiency and to reduce costs; greenfield options with the Soumber Deposit and the Zag Suuj Deposit; the ability to continue to deliver value through marketing; the ability of the Company to achieve its vision and establishing good working relationships with external stakeholders; and other statements that are not historical facts.

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

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

CORPORATE STRUCTURE

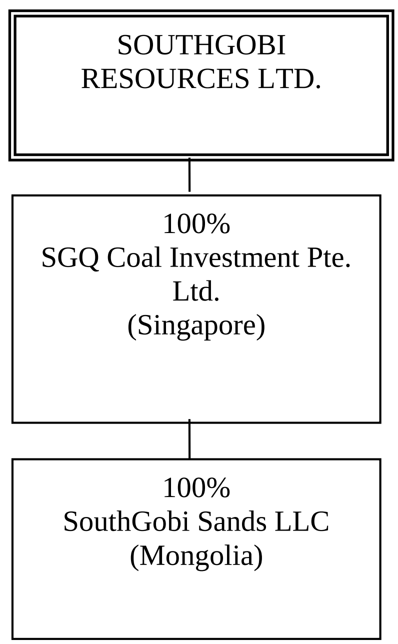
Name, Address and Incorporation

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

The Company's head office and registered office are located at 354 – 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

Intercorporate Relationships

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



GENERAL DEVELOPMENT OF THE BUSINESS

Overview

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

The Common Shares trade on the TSX under the symbol "SGQ Coal" and on SEHK under the stock code symbol "1878".

As at March 27, 2015, Turquoise Hill directly owned 104,807,155 million Common Shares representing approximately 48% of the issued and outstanding Common Shares.[1]

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

Context

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

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

The Ovoot Tolgoi Mine operations were curtailed for the second half of 2012. Following the resumption of coal production operations on March 22, 2013, the Company has undertaken a review of the strategic life of mine plan for the Ovoot Tolgoi Deposit. This review was prompted by adverse market conditions and a significant reduction in coal prices since RungePincockMinarco updated the Ovoot Tolgoi Preliminary Feasibility Study and the Ovoot Tolgoi Technical Report.

The Company has not finalized the review of the strategic life of mine plan. However, changes were made as part of the Company's 2015 annual plan in order to align production with demand, optimize costs and maximize revenue generation. The mine plans for both the Sunset and Sunrise pits in 2015 are generally similar to those described in the Ovoot Tolgoi Technical Report other than the following changes:

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[1] 48,705,155 Common Shares owned by Turquoise Hill are subject to sale to Novel Sunrise under the Novel SPA and 56,102,000 Common Shares owned by Turquoise Hill are subject to sale to NUR. Assuming these sales are completed, Turquoise Hill will no longer own any Common Shares. For more information on the sales of Turquoise Hill's Common Shares, refer to "GENERAL DEVELOPMENT OF THE BUSINESS – Three Year History" in this Annual Information Form.

- 2015 production is now planned to be lower than the 8.0 million tonnes forecasted in the Ovoot Tolgoi Technical Report;

- increased proportion of coal produced from the Sunrise open pit;

- the inclusion of the Sunrise extended open pit, an area of the Sunrise Pit not previously included in the mine plan;

- in 2014 the Company determined that the DCHF would not be completed in the near term as the Company continued to focus on preserving its financial resources. This remains the case for 2015 as the Company assessed in the first quarter of 2015 that it currently had the adequate equipment and capacity to efficiently meet its commercial objectives and execute its current product strategy; and

- the proposed increase in wash plant annual capacity to 7.0 million tonnes of annual capacity is now excluded from the mine plan.

These changes to coal processing have resulted in the coal product splits into Premium Coal, Standard Coal and Thermal Coal. The Company cautions that its ability to meet production targets described above is subject to a number of risks. For a list of risks that may affect production levels see “Risk Factors” in this Annual Information Form.

Subject to available financial resources, the Company expects to update geological models, complete the review of the strategic life of mine plan and update mineral resource and reserve estimates during 2015.

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

The Zag Suuj Deposit is located approximately 150km east of the Ovoot Tolgoi Mine and approximately 80km north of the Mongolia-PRC border. A NI 43-101 compliant resource has been established for the Zag Suuj Deposit. Exploration results indicate potential for thick coal seams and it is anticipated that the coals from the Zag Suuj Deposit can be washed to produce a coking coal or coking coal blend product.

The Company has conducted substantial exploration activities at the Ovoot Tolgoi Underground Deposit and has delineated mineral resources. The Ovoot Tolgoi Underground Deposit is covered by the existing Ovoot Tolgoi Mining Licence.

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

Three Year History

2012

In February 2012, the Company announced the commissioning of the DCHF at the Ovoot Tolgoi Mine. The DCHF has capacity to process nine million tonnes of ROM coal per year. The DCHF includes a 300-tonne-capacity dump hopper, which was to receive ROM coal from the Ovoot Tolgoi Mine and to feed a coal rotary breaker that would size coal to a maximum of 50mm and rejects oversize ash. The rotary breaker was anticipated to reduce screening costs and improve yield recoveries.

In March 2012, the Company announced an agreement for the sale of the Tsagaan Tolgoi Deposit to Modun. Under the transaction, the Company expected to receive $30 million of total consideration, comprised of $7.5 million up-front in cash, $12.5 million up-front in Modun shares and deferred consideration of an additional $10.0 million also payable in Modun shares. The transactions contemplated by the agreement for sale were anticipated to close by June 1, 2012. Subsequently, on April 2012, the Company announced that the expected closing date for the sale of the Tsagaan Tolgoi Deposit to Modun had been extended to on or before December 31, 2012 and in August 2012, the Company announced that the proposed sale of Tsagaan Tolgoi Deposit had been cancelled by mutual agreement of the parties.

In March 2012, RungePincockMinarco completed and updated the Ovoot Tolgoi Technical Report, estimating total proven and probable reserves at 175.7 million tonnes and combined surface and underground resources in the measured and indicated category of 302.3 million tonnes with an additional inferred coal resource of 86 million tonnes.[2]

In March 2012, RungePincockMinarco updated the resource estimate at the Soumber Deposit estimating combined surface and underground coal resources in the measured and indicated category at 137.3 million tonnes with an additional inferred coal resource of 83 million tonnes.

In March 2012, the Company announced an updated independent NI 43-101 compliant resource estimate at the Zag Suuj Deposit estimating coal resources in the indicated category at 17 million tonnes, with an additional inferred coal resource of 66 million tonnes.

In April 2012, the Company signed a cooperation agreement with CHALCO and received notification of CHALCO's intention to make a proportional take-over bid for up to 60% of the then issued Common Shares, at Cdn$8.48 per Common Share. In September 2012, the Company was notified that Turquoise Hill and CHALCO had agreed to terminate the proportional takeover bid for the Company.

In April 2012, MRAM announced a request to suspend exploration and mining activity on certain licences owned by the Company. The requested suspension included the Ovoot Tolgoi Mining Licence.

In April 2012, the Company announced the resignation of Mr. John Macken as a member of the Board.

In May 2012, the Company reported that eight new border gates, created exclusively for coal transportation, were opened at the Shivee Khuren Border Crossing.

In June 2012, the Company announced that as a result of a regulatory issue in Mongolia, PRC market conditions and infrastructure constraints in Mongolia, it had curtailed mining operations and suspended uncommitted capital expenditure and exploration expenditure for all of its projects.

In July 2012, the Company announced that SGQ Coal had filed a Notice of Investment Dispute against the Mongolian Government pursuant to the Bilateral Investment Treaty between Mongolia and Singapore. The notice of investment dispute consisted of, among other things, notice of the failure by MRAM to execute PMAs for which valid applications had been lodged.

In August 2012, the Company announced the suspension of the completion of the DCHF at the Ovoot Tolgoi Deposit to minimize uncommitted capital expenditures and preserve the Company's financial resources.

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[2] The measured and indicated resources are inclusive of those resources modified to produce the reserves (i.e., reserves are not in addition to resources).

In September 2012, the Company announced the resignation of directors Mr. Edward Flood, the Honourable Robert Hanson and chairman Mr. Peter Meredith, and the appointment of Messrs. Lindsay Dove, Sean Hinton, Brett Salt, Kelly Sanders and Ms. Kay Priestly, as directors of the Company.

In September 2012, the Company announced that Mr. Ross Tromans had been appointed President and Chief Executive Officer replacing Mr. Alexander Molyneux who resigned.

In October 2012, the Company announced the departure of Mr. Curtis Church as Chief Operating Officer and Mr. Tromans assumed those duties.

In November 2012, the Company announced the departure of Mr. Matthew O'Kane as Chief Financial Officer and, in the interim prior to the appointment of Mr. Bertrand Troiano as Chief Financial Officer in April 2013, Mr. Tromans acted as the Company's Principal Financial Officer.

In November 2012, Mr. Tromans was appointed to the Board.

2013

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

In March 2013, SouthGobi announced updated NI 43-101 compliant resource estimates for the Soumber and Zag Suuj Deposits, which increased the Company's total measured and indicated resources to 533 million tonnes (representing an increase of 8%) and inferred resources to 302 million tonnes (representing an increase of 24%).

In April 2013, Mr. Troiano was appointed Chief Financial Officer of the Company.

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

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

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

On November 14, 2013, the Company announced that it was conducting a review of the DCHF project and its contribution to the Company's product strategy, and that an impairment loss on the DCHF may be required depending on the outcome of the review.

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

2014

In January 2014, the Company reported the public announcement regarding the Proposed Class Action against certain of the Company's current and former senior officers and directors, and its former auditors, in relation to the Restatement. For more information on the risks associated with Proposed Class Action, refer to the Risk Factor entitled "*Due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of the Proposed Class Action or determine the amount of any potential losses, if any*" in this Annual Information Form.

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

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

In June 2014, the Company announced that the exemption granted to the Company in relation to its secondary listing status on the SEHK in 2010 by the Hong Kong Securities and Futures Commission pertaining to Takeovers, Mergers and Share Repurchases (the “Takeovers Code”) had been withdrawn and that the Company would be considered a public company in Hong Kong for matters relating to the Takeovers Code.

On June 24, 2014, it was announced that the Court of Justice in Mongolia had set June 30, 2014 as the trial date for the tax investigation case against SGS and three of its former employees.

In July 2014, SouthGobi reported that Turquoise Hill had entered into the NUR SPA to sell Common Shares representing 29.95% of the Company’s total issued and outstanding Common Shares. On December 2, 2014, Turquoise Hill announced that the closing date for the NUR SPA had been extended to April 30, 2015. The sale transaction contemplated under the NUR SPA remains subject to SEHK approval of the circular to be issued by NUR for the purposes of conducting a shareholder vote for approval of the transaction, which circular has not yet been issued.

On August 26, 2014, the Court of Justice in Mongolia returned the tax investigation case against SGS and three of its former employees to the Prosecutor General for further investigations.

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

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

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

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

On December 1, 2014, SouthGobi announced that it had entered into the December Private Placement and that CIC had agreed to extend the cure period agreed for the November CIC Payment to December 4, 2014.

On December 3, 2014, the Company announced the successful completion of the December Private Placement and payment of the November CIC Payment.

On December 5, 2014, the Company announced the extension of the payment date for principal and interest amounts owing under the Turquoise Hill Facility.

On December 12, 2014, the Company announced the resignation of Mr. Ross Tromans as President and Chief Executive Officer of the Company, and the appointment of Mr. Enkh-Amgalan Sengee as President and Chief Executive Officer of the Company.

On December 31, 2014, Mr. Tromans resigned as a Director of the Company.

2015 to date

In January 2015, the Company announced the dismissal of the money laundering accusations and the transfer of the tax investigation case back to the Court of Justice in Mongolia.

On February 1, 2015, the Company announced that the Court of Justice of Mongolia had declared the Tax Verdict (as defined under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS" in this Annual Information Form) whereby three former employees of SGS were guilty of tax evasion and that SGS had been held liable as a civil defendant.

On February 18, 2015 following the issuance of the Tax Verdict, SGS lodged its appeal against such verdict. The three former employees declined the option of lodging an appeal and instead requested a pardon from the President of Mongolia which was subsequently granted on February 26, 2015.

For more information on the risks associated with the Tax Verdict, refer to the Risk Factor entitled "*If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder"* in this Annual Information Form.

On February 24, 2015, the Company announced that it had entered into the Novel Private Placement for proceeds of up to approximately US$7.5 million. The Company was also advised that Turquoise Hill had entered into the Novel SPA to sell Common Shares representing 22.26% of the Company's total issued and outstanding Common Shares.

On March 2, 2015, the Company was informed that the TSX had provided conditional approval of the Novel Private Placement and the Company's application to rely on the financial hardship provision of the TSX Company Manual and that as a consequence of relying on this exemption, the Company had been placed on remedial delisting review by the TSX. The Company was informed that it had 90 days from February 25, 2014 to comply with all requirements of the TSX for continued listing.

For a description of the Novel Private Placement refer to "MATERIAL CONTRACTS – Novel Private Placement" in this Annual Information Form.

For more information on the risks associated with the delisting review, refer to the Risk Factor entitled *"As a consequence of the Novel Private Placement and the series of related transactions, the Company is subject to mandatory de-listing review by the TSX, which could ultimately result in the de-listing of the Common Shares from the TSX and the occurrence of an event of default under the Convertible Debenture, which events threaten the Company's ability to continue as a going concern"* in this Annual Information Form.

On March 3, 2015, the Company announced the successful completion of the Initial Tranche of the Novel Private Placement raising proceeds of US$3.5 million. In accordance with the terms of the Novel Private Placement, Mr. Ted Chan was concurrently appointed to the Company's management team as Executive Director and the Board.

On March 13, 2015, Mr. Enkh-Amgalan Sengee tendered his resignation as President and Chief Executive Officer. Mr. Ted Chan assumed the duties formerly handled by Mr. Sengee from March 17, 2015 until further notice.

On March 18, 2015, the Company announced that Mr. Jeffery Tygesen resigned as a non-executive Director.

On March 25, 2015, the hearing of the appeal of the Tax Verdict took place. The Tax Verdict was upheld and the appeal by the Company was dismissed. It is the view of the Company that there is a lack of evidence to support both the Tax Verdict and the Appeal Verdict, and accordingly, the Company will continue to defend itself through all available legal means including a final appeal. The Tax Penalty would only be payable after a final appeal. For more information on the risks associated with the Tax Verdict, refer to the Risk Factor entitled "*If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder.*" in this Annual Information Form.

Outlook

Coal markets continued to deteriorate in 2014. China, the main market for Mongolian coal producers, suffered from overcapacity coupled with decreasing demand. China's import of thermal and coking coal fell by 1.2% and 17.2% respectively year-on-year.

Coal prices in China, which were already under pressure from excess supply, continued to decline as demand fell in 2014. Prices stabilized in the fourth quarter of 2014 after hitting seven year lows in the third quarter of 2014. However, prices remain well below the levels achieved over the last three years and the Mongolian coal industry faced strong competition from seaborne and domestic Chinese coal producers.

The Chinese government introduced quality standards for commercial coal in September 2014. These standards were implemented on January 1, 2015 and apply to both domestic and import coal. Coal import tariffs were also introduced by the Chinese government, effective as of October 15, 2014. Import tariff on coking coal is 3% and thermal coal is 6%. These import tariffs put Mongolian coal exporters at a disadvantage relative to coal producers from certain other countries as some of the largest coal exporters into China are exempt from the tariffs due to country-to-country trade agreements.

The outlook for Mongolian coal exports remains dependent on the Chinese economy. Demand in early 2015 has been seasonally weak with Chinese coal imports hitting a 43-month low in January 2015. Prices declined again after rising slightly in the fourth quarter of 2014.

The Company anticipates that coal prices in China will remain under pressure in 2015, which will continue to impact the Company's margins and liquidity. The Company continues to strive for further cost reductions and, where possible, will delay expenditures. In addition, the Company entered into the transaction with Novel Sunrise as a new significant shareholder and strategic partner intending to bring its operational and marketing expertise to the Company. Novel Sunrise has agreed to assist the Company in implementing a funding plan intended to improve cash flow for the Company and support its business strategy and operations in a difficult market, with the goal of positioning the Company with a strong future as a coal producer. The proposed plan includes introducing potential customers in China to the Company to allow the Company to expand its customer base further inland in China, and helping the Company to secure longer-term coal offtake arrangements, thereby allowing the Company to ramp up production to capacity. Novel Sunrise also intends to help the Company to establish relationships with commercial banks in China and Hong Kong to help the Company to secure short term bridge loans, trading credit facilities and other types of financing.

The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2015 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing will be available on terms acceptable to the Company. If for any reason, the Company is unable to implement the funding plan it has developed with Novel Sunrise or is not able to secure additional sources of financing to continue as a going concern, adjustments to the amounts and classifications of assets and liabilities in the Company's consolidated financial statements may be required and such adjustments could be material.

A continued delay in securing additional financing could ultimately result in an event of default of the Convertible Debenture, which, if not cured within applicable cure periods in accordance with the terms of such debenture, may result in the principal amount owing and all accrued and unpaid interest becoming immediately due and payable upon notice to the Company by CIC.

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

- **Strategic location** – The Ovoot Tolgoi Mine is located approximately 40km from China, which represents the main coal market. The Company has an infrastructure advantage, being approximately 50km from a major Chinese coal distribution terminal with rail connections to key coal markets in China.

- **Large resource base –** The Company's aggregate coal resources include measured and indicated resources of 497 million tonnes and inferred resources of 293 million tonnes. These numbers have been aggregated from the Ovoot Tolgoi Technical Report, the Soumber Technical Report and the Zag Suuj Technical Report. The measured and indicated coal resources are inclusive of those coal resources modified to produce the coal reserves.

- **Several growth options** – The Company has several growth options including an anticipated increase to 9 million tonnes annual run-of-mine capacity at the Ovoot Tolgoi Mine as well as greenfield options with the Soumber Deposit and Zag Suuj Deposit, located approximately 20km east and approximately 150km east of the Ovoot Tolgoi Mine, respectively.

- **Flexible product offering** – Most of the Company's coal resources have coking properties, including a mixture of semi-soft coking coals and hard coking coals. The Company is currently studying options to supply washed coal to the market to further improve its market position and access to end customers.

Objectives

The Company's objectives for 2015 and the medium term are as follows:

- **Execute step change improvement in the Company's sales, marketing and logistics capabilities and expand the Company's customer base further inland in China –** Subject to available financial resources and in cooperation with the Company's new strategic partner, Novel Sunrise, implement an effective business structure and production profile that is capable of delivering a profitable product mix to the Chinese market.

- **Drive operational excellence** – The Company is focused on further improving productivity and operational efficiency in delivering production to meet market requirements.

- **Progress growth options** – Subject to available financial resources, the Company plans to further the development of the Soumber Deposit, while staying compliant with all government requirements in relation to its licences and agreements.

- **Operate in a socially responsible manner** – The Company is focused on maintaining the highest standards in health, safety and environmental performance.

- **Enhance the Company's reputation** – The Company is committed to contributing to the long-term development and prosperity of Mongolia and its local communities.

GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS

Investigations by the Mongolian Government

The Company was subject to investigations by IAAC regarding allegations of breaches of Mongolia's anti-corruption laws (the "Anti-Corruption Case"), and tax evasion and money laundering (the "Tax Evasion Case"). On March 18, 2013 the Prosecutor's Office decided to split the Tax Evasion Case from the Anti-Corruption Case and on April 12, 2013, the Public Prosecutor of Capital city Prosecutor's Office issued a resolution that the jurisdiction to conduct the investigation on Tax Evasion Case was with the SIA and not the IAAC, and the Tax Evasion Case was transferred to SIA.

While the IAAC has not made any formal accusations against any current or former employee of the Company or the Company under the Anti-Corruption Case, administrative penalties were imposed on certain of the Company's Mongolian assets in connection with the investigation, including a restriction of the use of US$1.2 million (the "Restricted Funds") held in bank accounts in Mongolia to spending in Mongolia. The Company has been informed that the Anti-Corruption Case has been suspended; however, it has not received formal notice that the investigation is completed and the restriction on the Restricted Funds remains in place. The Restricted Funds are included within the prepaid expenses and deposits balance in the Company's financial statements. This restriction may have a material impact on the Company's activities in light of the Tax Penalty.

Investigations under the Tax Evasion Case included investigations of three of the Company's former employees (the "Former Employees"). On December 30, 2014, the Capital City Prosecutor's Office (Ulaanbaatar, Mongolia) dismissed the allegations of money laundering as not having been proven during the investigation. The Former Employees were indicted for tax evasion by the Prosecutor General on March 14, 2014. The case was sent to the First Instance Second District Criminal Court of Justice (the "District Court"). The Company was advised on May 12, 2014 that the appointed judge of the District Court concluded that the investigation of the Tax Evasion Case initiated by IAAC and continued by SIA was incomplete and ordered the case to be returned to the Prosecutor General for additional investigation. The additional investigation was subsequently completed and the case was sent to the District Court again on June 4, 2014. The trial took place on August 25 and 26, 2014. A panel of three judges appointed to the case returned the case to the Prosecutor General once again for further investigation due to insufficient evidence presented by the prosecutor.

On October 7, 2014, based on the District Court verdict, the SIA ordered a re-investigation (the "Fourth Investigation") into allegations of violations of Mongolian tax laws by the Former Employees. Following the completion of the Fourth Investigation, the Former Employees were indicted again and on December 31, 2014 the Former Employees were tried in the District Court. On January 30, 2015, the panel of appointed judges from the District Court found the Former Employees guilty of tax evasion and imposed sentences on the Former Employees ranging from 5 years and 6 months to 5 years and 10 months of imprisonment in the correctional facilities of strict regimen in Mongolia. The Former Employees were immediately imprisoned. The Company was informed that, following the receipt of the written verdict (the "Tax Verdict"), the Former Employees requested pardons from the President of Mongolia and waived their right of appeal. On February 26, 2015 the President of Mongolia issued a decree to pardon to the Former Employees. The Former Employees were released from imprisonment following the decree and departed Mongolia.

The Tax Verdict declared SGS to be financially liable as a "civil defendant" for a penalty (the "Tax Penalty") of MNT35.3 billion (approximately US$18.2 million on February 1, 2015). The Company firmly rejects this conclusion. On February 18, 2015, the Company appealed the Tax Verdict (the "Tax Verdict Appeal") on the grounds that it has prepared its financial statements, including those of SGS, in compliance with IFRS, and lodged all its tax returns in the required format under Mongolian tax law. The hearing of the Tax Penalty Appeal took place on March 25, 2015 at the 10th Appeal Court for Criminal Case of Mongolia (the "Court of Appeal") and a panel of three appointed judges decided to uphold the Tax Verdict and dismissed the Tax Verdict Appeal by the Company. As of the date of this Annual Information Form, the Court of Appeal has not provided any explanation of its reasoning to uphold the Tax Verdict and the Company is awaiting a written version of the Appeal Court's verdict ("Appeal Verdict"). It is the view of the Company that there is a lack of evidence to support both the Tax Verdict and the Appeal Verdict.

The Company has been advised that it can appeal further to the Supreme Court of Mongolia. However there is no assurance that the Supreme Court of Mongolia will agree to hear the appeal. The Tax Penalty would only be payable after a final appeal. The Company will continue to defend itself through all available legal means including a final appeal.

The consequences for the Company of the Tax Verdict and the Appeal Verdict are uncertain. If the Tax Verdict is not reversed on final appeal, or if the amount of the Tax Penalty is not reduced upon exhaustion of the foregoing appeal process, the Company may not be able to pay the Tax Penalty or the final assessed amount, which could result in voluntary or involuntary insolvency proceedings involving the Company. For further information see the Risk Factor entitled "If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder" in this Annual Information Form.

Internal Investigations

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

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

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

LEGAL MATTERS

Mining Prohibition in Specified Areas

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

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

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

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

The Company understands that the status of the Mining Prohibition in Specified Areas Law is unclear and it has not been enforced to date. Reports from Mongolia suggest that the law may be amended. The Company will continue to monitor developments and will ensure that it is fully compliant with Mongolian law.

Legislation Update to 2006 Minerals Law

On January 16, 2014, the Parliament of Mongolia adopted a State minerals policy (the "State Minerals Policy") which is intended to form the basis for the amendments to the 2006 Minerals Law. The State Minerals Policy promotes four key principles: (i) to establish a stable investment environment; (ii) to improve the quality of mineral exploration, mining and processing in Mongolia; (iii) to encourage the use of environmentally friendly and modern technology; and (iv) to strengthen the competitiveness of the Mongolian mining sector on the international market. The 2006 Minerals Law was amended by the Parliament of Mongolia on July 1, 2014 introducing changes based on the State Minerals Policy including:

- The exploration and mining of common (which includes gravel, sand and clay) minerals are no longer regulated by the 2006 Minerals Law.
- New stakeholders are brought into the licence regime such as the National Geological Office, an ad hoc policy council, and accredited technical experts and specialists.
- The preparation of exploration reports and feasibility studies and the independent evaluation of the same are to be carried out by accredited technical experts and specialists.
- The Mineral Council under MRAM is to review and issue recommendations on feasibility studies relating to mining and concentrating plants.
- The establishment of an integrated national database on geological studies and mineral resources.
- License holders should give preference to domestic suppliers and service providers in the procurement of goods and services and in the supply of their products to Mongolian entities.
- New obligations of licence holders, including:
    - appointing a full-time employee responsible for reporting on environmental, restoration, and mine closure matters;
    - priority to business entities registered in Mongolia when procuring goods or services and hiring sub-contractors;

- priority to Mongolian concentrator plants when selling their extracted, concentrated, or semi-processed products;
- informing MRAM in the event of the suspension or closure of mine infrastructure or concentrating plants;
- submitting reports on deposit reserves and prospecting and exploration work findings together with the conclusion of an accredited technical expert;
- submitting a feasibility study on the development of the deposit prepared by an accredited technical expert within one year of obtaining the mining licence;
- ensuring that feasibility studies include detailed information on the transportation of mining products, development of infrastructure, and funds required for mine restoration and closure work;
- submitting an exploration work plan by 15 April each year and annual exploration work report by 15 February of the following year;
- submitting a mining plan with production estimates by 1 December of each year; and
- notifying the Petroleum Authority of Mongolia if methane is discovered during coal mining.

In terms of new rights, up to 10% of the employees of the subcontractors of licence holders may now be foreign citizens. Previously this dispensation only applied to licence holders themselves.

On February 18, 2015, the Parliament of Mongolia adopted yet another set of amendments to the 2006 Minerals Law.

Pursuant to the 2006 Minerals Law, the state may participate up to 50% jointly with a private legal entity in the exploitation of a minerals deposit of strategic importance where state funded exploration was used to determine proven reserves and such percentage of the state share is determined by an agreement on exploitation of the deposit considering the amount of investment made by the state. Further, the state may hold up to 34% of the shares of the investment made by a licence holder in a mineral deposit of strategic importance where proven reserves were determined through funding sources other than the state budget and the percentage of the state share is determined by an agreement on exploitation of the deposit considering the amount of investment to be made by the state budget.

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

RISK FACTORS

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

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

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

Specifically adverse conditions and material uncertainties cast significant doubt upon the going concern assumption contained in the Company's financial statements. The Company had limited cash of $3.8 million at December 31, 2014 and anticipates that coal prices in China will remain under pressure through 2015, which will continue to impact the Company's margins and liquidity. The Company's consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating until at least December 31, 2015 and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. While the Company is actively seeking prepaid coal offtake agreements and other additional sources of financing to continue operating and meet its objectives, there can be no assurance that such financing will be available on terms acceptable to the Company. Moreover, the Company's ability to successfully implement, and the cost of, any such transaction will depend on numerous factors, including the demand and prices for its coal products, general economic conditions, the strength of the credit and capital markets, its ability to successfully execute its funding plan and meet its operating and financial targets, its ability to remain in compliance with the Convertible Debenture, the operational synergies created by its association with Novel Sunrise and implementation of the Novel Funding Plan, its ability to maintain relationships with its suppliers, customers, employees, stockholders and other third parties, and market and investor confidence as to its ability to continue as a going concern.

Notwithstanding the proceeds from the December 2014 Placement and the Initial Tranche (as defined herein) of the Novel Private Placement, the Turquoise Hill Facility, and certain coal prepayments received from customers, the Company continues to experience negative impacts on its margins and liquidity. Therefore, there can be no assurance that the Company will have sufficient funding to be able to continue as a going concern, including the interest payment on the Convertible Debenture, which is approximately $8 million due on each of May 19, 2015 and November 19, 2015.

In addition to the implementation of the Novel Funding Plan, the Company has in place planning, budgeting and forecasting processes to help determine the funds required to support the Company's normal operations on an ongoing basis and its expansionary plans. Assuming successful implementation of the Novel Funding Plan (see risk factor described in "RISK FACTORS – Risk Relating to the Company's Ability to Continue As A Going Concern - *The Novel Funding Plan may not be successfully implemented*" in this Annual Information Form) and based the projections from these processes for the year ended December 31, 2015, the Company is still unlikely to have sufficient capital resources and does not expect to generate sufficient cash flows from mining operations in order to satisfy its ongoing obligations, future contractual commitments, including cash interest payments due on the Convertible Debenture, and potential monetary penalty imposed in respect of the Tax Penalty.

The Company expects the receipt of the approximate $4.0 million cash proceeds underlying the Subsequent Tranche (as defined under the heading "MATERIAL CONTRACTS – Novel Private Placement" in this Annual Information Form) of the Novel Private Placement will assist the Company in meetings its objectives; however, the Company notes that the funding of such tranche is conditional upon the occurrence of certain events that are outside of its control, and there is no assurance that these conditions will be fulfilled. Therefore, the Company must continue to actively seek additional sources of financing and/or coal prepayments to continue operating and meet its objectives. For a description of the Novel Private Placement refer to "MATERIAL CONTRACTS – Novel Private Placement" in this Annual Information Form.

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

The Novel Funding Plan may not be successfully implemented.

While it is the Company's intention to proceed to implement the Novel Funding Plan as soon as possible and assuming the Subsequent Tranche is completed, such plan is indicative only and the Company's ability to implement it successfully is dependent on a number of factors beyond its control, including but not limited to, the China's economic growth and coal demand growth, market prices of coal, the availability of credit and market interest rates, and exchange rates of currencies of countries where the Company operates. In particular, the Company anticipates that coal prices in China will remain under pressure through 2015, which will continue to impact the Company's margins and liquidity. If the Company in unable to successfully implement the Novel Funding Plan, the Company would not likely be able to continue as a going concern and would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value. For more information on the Novel Funding Plan, refer to "MATERIAL CONTRACTS – Novel Private Placement" in this Annual Information Form

As a consequence of the Novel Private Placement and the series of related transactions, the Company is subject to mandatory de-listing review by the TSX, which could ultimately result in the delisting of the Common Shares from the TSX and the occurrence of an event of default under the Convertible Debenture, which events threaten the Company's ability to continue as a going concern.

Assuming completion of the Subsequent Tranche and completion of the acquisition of Common Shares by Novel Sunrise under the Novel SPA, Novel Sunrise will become the Company's largest shareholder with a 29.3% equity interest. As a result, the TSX views the Novel Private Placement and the Novel SPA as one transaction and one that would have a material effect on control of the Company, which normally would require the approval of a majority of disinterested Shareholders under the provisions of the TSX Company Manual. Given the serious financial difficulty faced by the Company and the time delay inherent in holding a shareholder meeting to approve the transaction, the Company relied on the TSX's financial hardship exemption to avoid the requirement to obtain Shareholder approval.

As a result of the Company's reliance on the financial hardship exemption from the requirement to obtain Shareholder approval, the TSX has placed the Company under remedial delisting review. A delisting review is customary practice under TSX policies when a listed company requests relief in reliance on this exemption. The Company is currently in discussions with TSX staff to demonstrate the long term viability of the Company. The Company is confident that the business synergies emerging from its association with Novel Sunrise and the implementation of the Novel Funding Plan will allow it to demonstrate its long term viability and to successfully clear the delisting review. However, if the Company is not successful in clearing the TSX delisting review by May 19, 2015, subject to possible extension, the Common Shares may be delisted from the TSX. The Company notes that any such delisting would result in an event of default under the Convertible Debenture, thereby allowing CIC to declare the principal and accrued interest owing thereunder immediately due and payable. The Company does not currently have the financial resources to satisfy the payment of all sums owing under the Convertible Debenture, and if the same were declared due and payable, the Company would not likely be able to continue as a going concern and would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

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

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

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

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

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

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

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

If the Company is unsuccessful in a final appeal of Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder.

On February 4, 2015, the Company received the Tax Verdict from the District Court (as defined under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS" in this Annual Information Form) confirming the outcome of the criminal trial of the Former Employees (as defined under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS" in this Annual Information Form) and against SGS as a "civil defendant". The District Court pronounced the Former Employees guilty of tax evasion and sentenced such individuals to prison for periods ranging from 5 years and 6 months to 5 years and 10 months. In addition, SGS was held financially liable for the Tax Penalty (as defined under the heading "GOVERNMENTAL, REGULATORY AND INTERNAL INVESTIGATIONS" in this Annual Information Form) under the Tax Verdict.

The Company announced on February 18, 2015 that it had appealed the Tax Verdict related to SGS. The Company has been informed that the Former Employees requested and received pardons from the President of Mongolia. These pardons were granted on the condition that the individuals not appeal the Tax Verdict as it applied to them. The Tax Verdict related to SGS was upheld at the hearing of the appeal on March 25, 2015. It is the view of the Company that there is a lack of evidence to support both the Tax Verdict and the Appeal Verdict and, accordingly, the Company will continue to defend itself through all available legal means including a final appeal.

The consequences for the Company of the Tax Verdict, the Appeal Verdict and the decision of the Supreme Court to hear a final appeal are uncertain. If the Appeal Verdict is not reversed on final appeal, or if the amount of the Tax Penalty is not reduced upon exhaustion of the foregoing appeal process, the Company may not be able to pay the Tax Penalty or the final assessed amount, which could result in voluntary or involuntary insolvency proceedings involving the Company. For further information see the Risk Factor entitled "If the Company is unsuccessful in appealing the Tax Verdict it will likely not have sufficient cash resources to satisfy the penalty imposed thereunder" in this Annual Information Form.

The Company remains confident in the merits of the final appeal of the Tax Verdict; however, if such appeal is not successful and SGS is required to pay the Tax Penalty, neither SGS nor the Company on its behalf is likely to have sufficient cash resources to satisfy such penalty. In such circumstances, all of the assets of SGS may become subject of seizure by Mongolian authorities in the enforcement of the Tax Penalty. Any enforcement of the Tax Penalty would likely impair the Company's ability to continue as a going concern and the Company would likely need to seek relief under applicable bankruptcy and insolvency legislation, which may negatively affect the price and volatility of the Common Shares and any investment in such shares could suffer a significant decline or total loss in value.

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

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

In January 2014, Siskinds LLP, a Canadian law firm, filed the Proposed Class Action against the Company, certain of its former senior officers and current directors, and its former auditors, Deloitte LLP, in the Ontario Superior Court of Justice (the "Ontario Court") in relation to the Company's restatement of financial statements as previously disclosed in the Company's public filings.

The plaintiff seeks leave to bring a claim under applicable Canadian securities legislation and seeks certification of a class action with respect to a class of persons who purchased shares of the Company between March 30, 2011 and November 7, 2013, alleging that the financial reporting of the Company during that period contained misrepresentations giving rise to liability at common law and under applicable Canadian securities legislation. The Proposed Class Action also seeks general damages against all defendants in the sum of Cdn$30 million, without particulars as to how such amount was determined, or such other amount that the Ontario Court deems appropriate. The motions for leave and certification will be heard in Toronto on June 17, 18 and 19, 2015. Assuming that leave is granted, the action is certified as a class proceeding, and there is a finding of liability, the actual quantum of damages will depend upon the evidence which is adduced in the court proceedings.

Named in the Proposed Class Action as individual defendants are the Company's former Chief Executive Officer, Alexander Molyneux, the Company's former Chief Financial Officers, Messrs. Terry Krepiakevich and Matthew O'Kane, and the members of its Audit Committee, Messrs. Andre Deepwell, Pierre Lebel and Gordon Lancaster, each of whom held those positions during the period at issue.

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

In the event the Company incurs any liability in connection with the Proposed Class Action, it maintains insurance with respect thereto. While the Company believes that such insurance coverage is in an amount that would be sufficient to cover any amounts the Company may be required or determines to pay with respect thereto, there can be no assurance that such coverage will be adequate to do so, and, if so, any amounts not so covered would be required to be paid by the Company. The Company's ability to continue as a going concern will be impacted to the extent it is required to pay any amounts in connection with the Proposed Class Action.

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

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

- An insolvency filing by or against the Company will cause an event of default under the Convertible Debenture (see Risk Factor below entitled "If an event of default occurs under the Convertible Debenture, CIC has the right to accelerate amounts owing thereunder");

- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;

- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;

- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity holders and other parties in interest; and

- The value of the Common Shares could be reduced to zero as result of an insolvency filing.

Risks Relating to the Company's Projects in Mongolia

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

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

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

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

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

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to the Company, which include: (i) inconsistencies between laws; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretations of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; and (vi) bankruptcy procedures that are not well developed and are subject to abuse. The Mongolian judicial system has relatively little experience in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation; it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction.

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

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

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

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

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

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

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

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

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

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

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

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

On February 18, 2015 the Parliament of Mongolia adopted an amendment to the Law on Implementation of the Specified Areas Law (the "Law on Implementation"). The amendment provides an opportunity for licence holders covered within the scope of application of the Specified Areas Law to continue their mining operations subject to advance placement of funds to cover 100% of the future environmental rehabilitation costs. A model contract and a specific Government regulation on this requirement is expected be adopted by the Government in the first half of 2015. The licence holder must also apply within 3 months after the amendment to the Law on Implementation comes into effect to obtain permission from MRAM to resume activities. Penalties for not acting in accordance with the Law on Implementation include the potential revocation of mining and exploration licences.

The Company will continue to monitor developments and will ensure that it follows the necessary steps in the Law on Implementation to secure its operations and licences and is fully compliant with Mongolian law.

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

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

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

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

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

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

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

Under the 2006 Minerals Law, the size of the Government of Mongolia's participation is determined largely by the level of state funding which has been provided for the exploration and development of any deposit, with the Government of Mongolia entitled to participate up to 50% in the event that there has been state funding of such deposit and up to 34% if there has not. However, the 2006 Minerals Law is very vague as to the details and method by which the Government of Mongolia will take its interest and the final arrangements in respect of the Government of Mongolia's interest in each Mineral Deposit of Strategic Importance, including the amount of compensation to be paid to the licence holder and the actual form of the Government of Mongolia's interest are subject to negotiation between the Government of Mongolia and the licence holder. As discussed in the section in this Annual Information Form entitled "Legislative Developments", on February 18, 2015, the Parliament of Mongolia adopted an amendment to the 2006 Minerals Law providing for a possibility for the Government to collect a special royalty on minerals deposit of strategic importance in lieu of holding an equity stake in such deposit.

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

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

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

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

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

Risks relating to the Company's business and industry

Some of the Company's projects may not be completed as planned; costs may exceed original budgets and may not achieve the intended economic results or commercial viability.

The Company's business strategy depends largely on expanding its production capacity at the Ovoot Tolgoi Mine and further developing its other coal projects into commercially viable mines. Whether a mineral deposit will be commercially viable depends on a number of factors, including: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) commodity prices, which are highly cyclical; and (iii) government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of mineral resources and environmental protection. The Company's long term intention to develop mines at the Soumber Deposit, the Zag Suuj Deposit, and the Ovoot Tolgoi Underground Deposit in the future is based on geological, engineering, environmental and mine planning evaluations. The feasibility of mining at these projects has not been and may never be established. If the Company is unable to develop all or any of its projects into a commercial working mine, its business, financial condition and results of operations will be materially and adversely affected.

The Company's projects are subject to both (i) technical risk in that they may not perform as designed, or (ii) operational redesign or modification as a result of the current evaluation of the projects (refer to "DESCRIPTION OF MATERIAL PROPERTIES – Ovoot Tolgoi Deposit - *Mineralization*" in this Annual Information Form for more information on the current technical review being undertaken by the Company and the responsible QPs). Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than expected at the time of the development decision. This would have a negative impact on the Company's business and results of operations. No assurance can be given that the Company would be adequately compensated by third party project design and construction companies (if not performed by the Company) in the event that a project did not meet its expected design specification.

The Ovoot Tolgoi Technical Report assumed that the Ejin Jinda wet wash plant at Ceke would process 1.5 million tonnes of coal in 2012. Construction of the wet wash plant was completed in 2012. The Ovoot Tolgoi Technical Report also assumes that the Ejin Jinda wet wash plant is expanded to process 7.0 million tonnes annually from mid-2014. The Company is currently cooperating with Ejin Jinda in studying the utilization of the wet washing facility. Any delay in expanding annual capacity to 7.0 million tonnes by mid-2014, would likely impact the project economics, as the coal would be sold as lower value coal. As of the date of this Annual Information Form, commercial operations of the Ejin Jinda wet wash plant have not commenced and to date no plans have been discussed with the Company for the expansion of the Ejin Jinda wet wash plant to the proposed 7.0 million tonne annual capacity.

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

The Company's coal reserves and resources are estimates based on a number of assumptions, and the Company may produce less coal than its current estimates.

The coal reserve and resource estimates are based on a number of assumptions that have been made by the QPs in accordance with NI 43-101. Reserve and resource estimates involve expressions of judgment based on various factors such as knowledge, experience and industry practice, and the accuracy of these estimates may be affected by many factors, including quality of the results of exploration drilling and analysis of coal samples, as well as the procedures adopted by and the experience of the person making the estimates.

The Company and the responsible QPs are currently engaged in a comprehensive review of the information upon which the mineral resource and reserve estimates for the Ovoot Tolgoi Technical Report have been based. This review is part of the normal re-optimization process generally adopted by mining companies experiencing significant changes in their economic environment. The review of the mine plan by the Company includes updates of the cash costs and cost profile of the operations, project development and production sequencing and forecasts. The Company and the responsible QPs are also reviewing the classification of a portion of the geology type at the Ovoot Tolgoi Deposit, which may have a material impact on production levels as discussed under the heading "MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Mineralization*" in this Annual Information Form. In addition, the Company is reviewing and updating its mine design parameters, mine designs and project development schedule in order to reflect its production plan and the market conditions.

The review of the geology and mine plan for the Ovoot Tolgoi Complex has not yet been completed, nor has a new mine plan been presented to or been approved by the Board. As a result of the significant changes in some of the mining planning factors compared to those used for the Ovoot Tolgoi Technical Report, this review may result in material changes to the reserves for the Ovoot Tolgoi Deposit. Some of these changes, such as an upgrading of some resources from the inferred category to the measured and indicated category in the Sunset Pit area, a change to mine design with steeper pit walls resulting in less waste and a lower strip ratio and improved mining cash costs, simplified and lower cost coal processing and product marketing, and general cost reductions achieved by the Company in recent times, may result in an increase in reserves. However, other changes, such as the decline in coal prices in China, decreased mining quantities resulting from smaller pit dimensions as a result of changed mining parameters and coal prices, and the exclusion of coal identified in the previous studies as marginally economic due to coal price reductions, may result in a decrease in reserves.

Until the Company has completed this review and adopted a new mine plan, it is unable to conclude that a change in the coal reserve estimates has occurred compared to previous studies and it is also unable to conclude on the materiality of any such change for the Company. Upon the completion and adoption of a new mine plan, the Company intends to have all input parameters, procedures and forecasts fully verified and reviewed in accordance with NI 43-101. This may lead, if required, to the preparation of a new technical report containing updated coal reserves estimates for the Ovoot Tolgoi Deposit.

As a result of this review, estimates of the Company's mineral reserves and resources may change significantly, and existing interpretations and deductions on which the current reserves and resources estimates are based may prove to be inaccurate. Any downward adjustments to the Company's mineral resource or reserve estimates resulting from this review could materially affect the Company's development and mining plans, which could materially and adversely affect its business and results of operations

In addition to the aforementioned specific review in respect of the Ovoot Tolgoi Technical Report, the Company also notes that, in general, mineral resource and reserve estimates are always subject to change based on new information. Specifically, should the Company encounter mineralization different from that predicted by past drilling, sampling and similar examination, mineral resource and/or reserve estimates may have to be adjusted downward. In addition, the rank of coal ultimately mined may differ from that indicated by drilling results. There can be no assurance that coal recovered in laboratory tests will be duplicated under on-site conditions or in production-scale operations. In the event that the actual level of impurities is higher than expected or the coal mined is of a lower quality than expected, the demand for, and realizable price of, the Company's coal may decrease. Short term factors relating to reserves, such as the need for orderly development of coal seams or the processing of new or different quality coals, may also materially and adversely affect the Company's business and results of operations.

The inclusion of reserve and resource estimates should not be regarded as a representation that all these amounts can be economically exploited and nothing contained herein (including, without limitation, the estimates of mine lives) should be interpreted as assurance of the economic lives of the Company's coal reserves and resources or the profitability of its future operations.

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

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

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

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

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

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

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

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

The new SNT overlaps with the following licences held by the Company in the area:

- MEL XV-009443 at the south-east edge point of the licence; and

- The Soumber Mining Licence (as defined under the heading "MATERIAL PROPERTIES – Soumber Deposit – *Property Description and Location*" in this Annual Information Form).

The CRK has previously adopted similar resolutions purporting to take the areas covered by various licences of the Company to establish a new SNT, including MELs XV-009443X and MEL XV-009449, as well as the Soumber Mining Licence. The Company successfully challenged these previous resolutions though administrative court process and obtained court verdicts invalidating such resolutions. The Company is planning to yet again challenge the newest CRK resolution.

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

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

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

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

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

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

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

The Company's coal mining operations are subject to a number of operational risks, some of which are beyond its control, which could delay the production and delivery of coal. These risks include unexpected maintenance or technical problems, periodic interruptions to its mining operations due to inclement or hazardous weather conditions and natural disasters, industrial accidents, power or fuel supply interruptions and critical equipment failure, including malfunction and breakdown of its shovels, upon which its coal mining operations are heavily reliant and which would require considerable time to replace. These risks and hazards may result in personal injury, damage to, or destruction of, properties or production facilities, environmental damage, business interruption and damage to its business reputation. In addition, breakdowns of equipment, difficulties or delays in obtaining replacement shovels and other equipment, natural disasters, industrial accidents or other causes could temporarily disrupt the Company's operations, which in turn may also materially and adversely affect its business, prospects, financial condition and results of operations.

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

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

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

In September 2014, a new paved highway from the Ovoot Tolgoi Deposit to the Shivee Khuren Border Crossing was opened for limited use. This highway, which the Company has an indirect 40% shareholding, when fully operational on a commercial scale, is expected to significantly increase the safety of coal transportation, reduce environmental impacts and improve efficiency and capacity of coal transportation. The commercial operation of this highway has been delayed and is currently expected to commence in the second quarter of 2015. The paved highway is expected to have a carrying capacity in excess of 20 million tonnes of coal per year.

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

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

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

Recruiting, retaining and training qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition within the mining industry for such persons is intense, in particular, Mongolian law requires that at least 90% of a mining company's employees be of Mongolian nationality. This provision of the law, coupled with the large number of active mining projects in Mongolia, further limits the number of available personnel and increases competition for skilled personnel. The reputation and capability to operate continuously over the longer term are key factors in also attracting key personnel to its business. The Company is reinforcing its core values of ethical behavior in dealing with all its stakeholders from senior management down in order to ensure the Company attracts the right people to its business. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional operations staff.

If the Company is not successful in attracting such key personnel, or retaining existing key personnel, its business and results of operations could be materially and adversely affected.

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

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

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

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

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

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

Additionally, the Company has been selling its coal products since 2008. The Company had six active customers with the largest customer representing approximately 34%, the second largest customer representing approximately 29%, the third largest customer representing approximately 27% and the remaining customers accounting for 10% of the Company's total sales for the year ended December 31, 2014. In order to mitigate this risk, the Company developed the Novel Funding Plan collaboratively with Novel Sunrise in order to expand its existing customer base.

The Company still expects to sell the majority of the coal from its Mongolian mining operations to customers in China. Chinese law requires specific authorization to be obtained by entities responsible for the import of coal into China. In the event that the Company's customers, or the agents of such customers who are responsible for importing coal into China on their behalf, fail to obtain and retain the necessary authorizations, their ability to import coal into China may be affected, which could materially and adversely affect the Company's business and results of operations.

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

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

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

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

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

Foreign currency fluctuations could affect expenses and any future earnings.

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

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

The Company expects that a majority of coal sales from the Ovoot Tolgoi Mine will be made to customers based in China. Accordingly, the economic, political and social conditions, as well as government policies, of China may affect its business. The Chinese economy differs from the economies of most developed countries in many respects, including: (i) structure; (ii) level of government involvement; (iii) level of development; (iv) growth rate; (v) control of foreign exchange; and (vi) allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the Chinese government has implemented economic reform measures emphasizing the utilization of market forces in the development of the Chinese economy. Changes in the Chinese's political, economic and social conditions, laws, regulations and policies could materially and adversely affect the Company's business and results of operations.

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

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

As of March 30, 2015, TRQ and CIC (also the Company's largest creditor by virtue of the Convertible Debenture) hold approximately 48% and17% of the Common Shares, respectively. If the Novel SPA closes (i) Novel Sunrise will acquire Common Shares from TRQ and (ii) pursuant to the terms of the Novel Private Placement, the Mandatory Convertible Units (as defined under the heading "MATERIAL CONTRACTS – Novel Private Placement" in this Annual Information Form) owned by Novel Sunrise will convert to Common Shares and Novel Sunrise will subscribe for additional Common Shares, such that Novel Sunrise will own approximately 29% of the Common Shares in the aggregate. The interests of each of these stakeholders may conflict with the interests of other Shareholders and there is no assurance that any of these stakeholders will vote its Common Shares in a way that benefits minority Shareholders. While no Shareholder has the ability to elect a majority of the Board unilaterally, each of CIC and Novel Sunrise have been granted contractual director appointment rights. In addition, the Company believes that third parties may be discouraged from making a tender offer or bid to acquire the Company because of this concentration of ownership of Common Shares among these three parties.

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

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

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

Future stock market conditions may change.

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

Common Share price will also be subject to numerous influences including broad trends in the stock market and the share prices of individual companies or sectors.

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

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

DESCRIPTION OF MATERIAL PROPERTIES

Qualified Persons

Disclosure of a scientific or technical nature in this Annual Information Form, as derived from the Ovoot Tolgoi Technical Report, Soumber Technical Report, and Zag Suuj Technical Report, in respect of the Company's applicable material mineral projects was prepared by or under the supervision of the QPs listed below. Copies of the Ovoot Tolgoi Technical Report (dated March 19, 2012), the Soumber Technical Report (dated March 25, 2013) and the Zag Suuj Technical Report (dated March 25, 2013) are available on SEDAR at www.sedar.com.

Property	Qualified Persons	Field of Expertise	Relationship to Company
Ovoot Tolgoi	Merryl Peterson	Resources	Independent Consultant
Ovoot Tolgoi	Robert Mackenzie	Reserves	Independent Consultant
Ovoot Tolgoi	Ross Seedsman	Geotechnical	Independent Consultant
Ovoot Tolgoi	David Morris	Dry Coal Processing	Independent Consultant
Ovoot Tolgoi	Michael Evans	Wet Coal Processing	Independent Consultant
Soumber	Merryl Peterson	Resources	Independent Consultant
Zag Suuj	Merryl Peterson	Resources	Independent Consultant

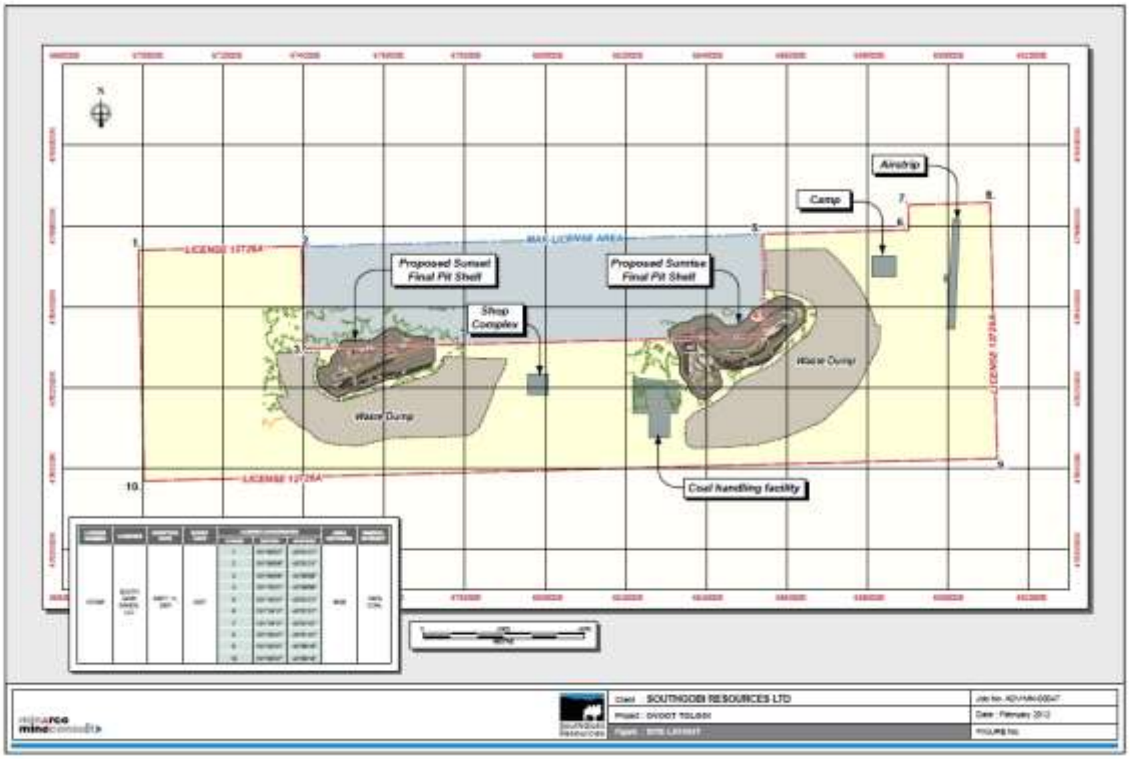
Other disclosures of a scientific or technical nature in this Annual Information Form in respect of the Ovoot Tolgoi Mine and the Soumber and Zag Suuj projects were prepared by employees of the Company and reviewed by Robert Mackenzie, an employee of RungePincockMinarco, a registered member and Chartered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

Ovoot Tolgoi Deposit

Property Description and Location

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

The property controlled by the Company surrounds and is adjacent to the existing MAK-Qinghua Mines (including the Nariin Sukhait Mine) operations. The Ovoot Tolgoi Deposit resources are found in two different resource areas, referred to as the Sunrise and Sunset Fields respectively, and each are within the Ovoot Tolgoi Mining Licence, which covers a total of 9,312ha and expires in 2037, with two possible 20 year extensions. The waste dumps for the Sunrise and Sunset Fields are located to the south of either field within the Ovoot Tolgoi Mining Licence area. The map below sets out the licence area and location of key infrastructure at the Ovoot Tolgoi Deposit:



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

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

Mongolian Mineral Exploration Licence Fees

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

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

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

In September 2007 portions of existing MELs covering the Ovoot Tolgoi Deposit area held by the Company were converted to licence no. 12726A covering an area of approximately 9,300ha encompassing the areas of the Sunset Pit and the Sunrise Pit for the development of an open-pit coal mine (the "Ovoot Tolgoi Mining Licence"). The Ovoot Tolgoi Mining Licence is held by SGS and expires in 2037. RungePincockMinarco has sighted a copy of this mine licence.

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

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

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The area around the Ovoot Tolgoi Deposit currently supports a traditional subsistence economy focused on raising sheep, goats, and camels. The Umnugobi Aimag is the most sparsely populated province in Mongolia with a density of 0.8 people/km^2. There are two primary sources of mining labour – Ulaanbaatar and the local soum. As at December 31, 2014, approximately 50% of the 308 SGS employees working at the Ovoot Tolgoi

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

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

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

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

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

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

History

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

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

Geological Setting

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

Regional Geology

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

Coal Occurrences

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

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

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

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

Structural Geology

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

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

The underground resources in the Sunset Field area represent the down dip extension of the stratigraphy described for the Sunset Field. Current exploration has been focussed on the delineation of No. 5 Seam resources. Overburden to the No. 5 Seam can be an up to 650m thick sequence of sandstones and conglomerates. The apparent average (drilled) thickness for the No. 5 Seam is 53m.

Exploration

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

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

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

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

Drilling

Drilling through December 31, 2014 at Ovoot Tolgoi holdings includes a total of 611 exploration holes completed and 132,873m drilled. This does not include limited drilling that took place under the Soviet-Government of Mongolia sponsored exploration programs.

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

Historic Coal Exploration Drilling Activity

Field	Year	RC		Rotary		Core		Combination[1]		Total		Management Company/
		No. Holes	Metres Drilled	No. Holes	Metres Drilled	No. Holes	Metres Cored	No. Holes	Metres Cored	No. Holes	Metres Drilled	Field Geologist Company
Sunrise	2004	-	-	-	-	5	750	-	-	5	750	TRQ
	2005	76	14,425	18	2,807	34	5,525	-	-	128	22,757	TRQ
	2006	11	4,855	12	1,999	5	1,860	-	-	28	8,714	SouthGobi/ Sapphire
	2007	-	-	17	3,542	1	254	-	-	18	3,796	SouthGobi/ Sapphire
	2010	35	6,671	16	3,486	6	993	-	-	57	11,150	McElroy Bryan/ Tanan Impex
	2013[2]	-	-	-	-	46	2,106	-	-	46	2,106	RDD LDC
	2014[2]	-	-	-	-	-	-	17	2,436	17	2,436	SGS/SGS Geologist
	Total	**122**	**25,951**	**63**	**11,834**	**97**	**11,488**	**17**	**2436**	**299**	**51,709**	
Sunset	2005	70	12,861	17	2,223	13	2,034	-	-	100	17,118	Norwest/Sapphire
	2006	48	10,203	0	0	25	5,737	-	-	73	15,940	Norwest/Sapphire
	2007	-	-	23	5,430	7	2,699	-	-	30	8,129	SouthGobi/ Sapphire
	2008	-	-	-	-	-	-	41	23,189	41	23,189	SouthGobi/ Sapphire
	2009[2]	13	1,720	-	-	-	-	-	-	13	1,720	SouthGobi/ Sapphire
	2011	-	-	-	-	-	-	55	15,068	55	15,068	SouthGobi/ Sapphire
	Total	**131**	**24,784**	**40**	**7,653**	**45**	**10,470**	**96**	**38,257**	**312**	**81,164**	
TOTAL		**253**	**50,735**	**103**	**19,487**	**96**	**19,852**	**96**	**38,257**	**611**	**132,873**	

[1] Combination holes with RC and/or PCD rotary and/or core method.

[2] The table above includes (i) additional hole data from 2009 which was made available after the completion of the Ovoot Tolgoi Technical Report; and (ii) data related to holes drilled in 2013 and 2014 subsequent to the completion of the Ovoot Tolgoi Technical Report.

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

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

Mineralization

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

Ovoot Tolgoi Deposit Coal Seam Characteristics

Sunset Field Coal Seam Thickness

Seam	Mean (m)	Maximum (m)
10	3.69	28.80
9	10.78	54.80
8	2.05	13.90
5U	25.96	204.26
5L	7.48	139.72

Sunrise Field Coal Seam Thickness

Seam	Mean (m)	Maximum (m)
5U2	6.17	70.70
5U1	4.63	87.11
5L2	19.98	124.00
5L1	10.52	86.93

Deposit Type

“Geology Type” for coal deposits is a parameter that was introduced in GSC Paper 88-21 to systematically characterise the extent to which coal deposits have been affected by seam thickness variation, faulting and folding. The classification of a coal deposit by “Geology Type” provides guidance as to the approach to be used in resource and reserve estimation and classification by Qualified Persons. The Geology Type for the Sunrise and Sunset Fields has been determined to be “Complex”. The classification of a portion of the geology type of the coal deposits at the Ovoot Tolgoi Deposit is currently under review. The results of this review are not yet known and may have a material impact on production levels from the Ovoot Tolgoi Deposit. For more information on the risks associated with classification of geology type of coal deposits, refer to the Risk Factor entitled "*The Company's coal reserves and resources are estimates based on a number of assumptions and the Company may produce less coal than its current estimates.*" in this Annual Information Form.

“Deposit Type” as defined in GSC Paper 88-21 refers to the extraction method most suited to the coal deposit. There are four categories of extraction method: (i) surface; (ii) underground; (iii) non-conventional; and (iv) sterilized. The Ovoot Tolgoi Deposit is considered to contain both “surface” mineable and “underground” mineable deposits.

Coal Quality

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

Sunset – Summary of Drill hole Quality Data

Seam	Total Moisture % ar	Inherent Moisture % ar	Ash % ad	Volatile Matter % ad	Total Sulphur % ad	Calorific Value kcal/kg ad	FSI	Relative Density
10	5.2	1.2	19.7	31.8	1.25	6,273	2.8	1.46
9	5.3	1.2	20.5	31.1	1.28	6,290	3.5	1.45
8	6.1	1.1	19.7	30.3	1.09	6,451	4.2	1.44
5U	4.1	1.0	12.1	31.0	0.78	7,100	3.6	1.38
5L	3.0	0.7	13.3	32.0	1.01	7,060	4.6	1.38

Sunrise – Summary of Drill hole Quality Data

Seam	Total Moisture % ar	Inherent Moisture % ad	Ash % ad	Volatile Matter % ad	Total Sulphur % ad	Calorific Value kcal/kg ad	FSI	Relative Density
570	8.4	1.7	18.6	31.2	1.17	6,385	3.0	1.40
5U2	9.2	1.1	14.9	30.5	1.15	6,740	2.2	1.42
5U1	6.8	0.9	13.0	31.9	0.87	6,975	2.1	1.40
5L2	7.8	1.2	12.7	32.2	1.02	6,810	3.2	1.37
5L1	8.1	1.2	14.9	30.7	0.92	6,767	3.0	1.40

Sample Preparation, Analysis and Security of Samples

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

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

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

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

Core Drilling Samples

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

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

Collected samples are cleaned of any mud contamination and placed in individual, core-sleeve style plastic bags. The bags are labelled on the outside with both the core hole and sample number and sealed with plastic tape to prevent excessive moisture loss. Samples are then placed in sequence into waxed-cardboard core boxes. Core boxes are sealed with tape. Core boxes from the 2005 program were transported to OT LLC in Ulaanbaatar, then shipped to SGS North America Inc.[3] mineral labs in Denver, Colorado (ISO-9000 certified, accredited by National Quality Assurance in the United States). Core from the 2006 program was similarly transported to offices affiliated with SGS North America Inc. laboratories offices in Ulaanbaatar, and then shipped to SGS-CSTS Ltd. laboratories in Tianjin, PRC (currently holds ISO-17025 certification, accredited by CNAS).

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

Reverse Circulation Samples

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

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

Data Verification

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

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

Security of Samples

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

Mineral Resource Estimate

The term “resource” is utilized to quantify coal contained in seams occurring within specified limits of thickness and depth from surface considered by the QP to have reasonable prospects for eventual economic extraction. For a complete description of a resource, refer to “mineral resource” under the heading “DEFINITIONS AND OTHER INFORMATION – Glossary of Geological and Mining Terms” in this Annual Information Form. The resource estimates presented are on an in-place basis, i.e., without adjustment for mining losses or coal recovery. Minimum seam thickness and maximum parting thickness are considered and coal intervals not meeting these criteria are not included in the reported resources. Seam thicknesses of less than 0.3m and partings of greater than 0.3m were excluded from the Ovoot Tolgoi resource estimates.

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

The resource estimations contained in the Ovoot Tolgoi Technical Report are on a clean basis. i.e. as an in-situ tonnage and not adjusted for mining losses or recovery.

The table below states the criteria for classifying coal resource estimates found in geology type “Complex” conditions.

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

Criteria	Assurance of Existence Category		
	Measured	Indicated	Inferred
Cross-section spacing (m)	150	300	600
Minimum # data points per section	3	3	3
Mean data point spacing (m)	100	200	400
Maximum data point spacing (m)	200	400	800

The resources have been further divided into surface mineable and underground resources. The surface mineable resources are limited to a depth from surface of 300m and the underground resources are limited to between 300m and 600m from surface. The underground resources are limited to the No. 5 Seam series due to consistency in seam thickness and extent of drill hole intercepts at depths below 300m. All coal seam occurrences within each series are limited to a minimum apparent seam thickness of 0.6m. Surface resources are updated to 300m to reflect the nominal depths of the open pits at both the Sunrise and Sunset Fields.

Coal resources at the Ovoot Tolgoi Deposit defined by type (surface or underground) and as belonging to the category of measured, indicated and inferred resources are summarized in the table below.

Total (Surface and Underground) Coal Resources effective October 31, 2011

Field	Type	Seam group	Measured Mt	Indicated Mt	Inferred Mt
Sunset	Surface (depth < 300m)	10	8.8	2.4	1
		9	20.9	6.2	3
		8	5.1	1.7	1
		5U	17.4	15.51	4
		5L	5.5	10	5
		Total	**57.8**	**35.5**	**15**
	Underground (depth 300m-600m**)**	5U	47.4	10.9	9
		5L	3.8	9.5	16
		Total	**51.2**	**20.4**	**25**
Sunrise	Surface (depth < 300m)	7L/6U/6L	7.3	8.3	4
		5U3/5U2	21.8	9.4	4
		5U1/5U0	6.3	2.1	1
		5L2	27.2	3.7	0
		5L1/5L0	12.8	0.9	0
		Total	**75.5**	**24.4**	**9**
	Underground (depth 300m-600m)	5U3/5U2	0.02	0.9	4

Field	Type	Seam group	Measured Mt	Indicated Mt	Inferred Mt
		5U1/5U0	0.1	0.8	1
		5L2	5.7	11.5	19
		5L1/5L0	8.9	9.9	13
		Total	**14.63**	**22.9**	**37**
Grand total	**Surface (depth < 300m)**		**133.3**	**59.9**	**24**
	Underground (depth 300m-600m)		**65.8**	**43.3**	**62**

Geological models for the Sunrise and Sunset Fields were developed by McElroy Bryan using Minex^{TM} software. Resources were estimated using these geological models by RungePincockMinarco. Key horizons or "surfaces" were modeled to provide the necessary limits for volume estimation. Volumes were converted to tonnages by application of density values representative of the coal seams as derived from available coal quality data.

Mineral Reserve Estimate

Mineral reserves are sub-divided in order of increasing confidence into probable and proven reserves, respectively. The measured and indicated resources are inclusive of those resources modified to produce the reserves, i.e. reserves are not additional to resources.

Total mineral reserves at the Ovoot Tolgoi Mine as of October 31, 2011, are summarized in the table below.

Summary of Mineral Reserves Ovoot Tolgoi Mine

Reserve Area	ASTM Coal Rank	Open pit Reserves Tonnes in Millions		
		Proven	**Probable**	**Total**
Sunset	hvB to hvA[1]	47.6	31.4	79.1
Sunrise	hvB to hvA	71.5	25.1	96.6
Ovoot Tolgoi Mine	hvB to hvA	119.1	56.5	175.7

[1] *hvB to hvA – high-volatile bituminous coal B to A rank based on ASTM D388 standards.*

This estimate of resources and reserves was generated using the best information available concerning issues related to environmental, permitting, legal, title, taxation, socio-economics, marketing and political factors that could have a material influence on RungePincockMinarco's findings. RungePincockMinarco is not aware of any additional factors which may affect its reserves estimate.

Mining Operations

Mining Method

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

The review of the DCHF project was completed in the first quarter of 2014. In 2015 the Company continues to focus on preserving its financial resources and has assessed, using updated operating cost assumptions and estimates, that it currently has the adequate equipment and capacity to efficiently meet its commercial objectives and execute its product strategy without the use of the DCHF. The use of mobile screens at stockpile areas closer to the pits has enabled the Company to incur less costs than hauling the coal to the central DCHF and operating the rotary breaker, providing a lower cost solution without adversely impacting the coal quality of the coal planned to be mined over the next year. As coal markets improve and production from the Ovoot Tolgoi Mine increases in line with its anticipated annual capacity of nine million tonnes run-of-mine production, the Company will review the use of the DCHF as part of its existing assets and continue developing beneficiation capabilities to maximize value from its product.

Separate mine plans have been considered by RungePincockMinarco for Sunrise and Sunset with an overall aim of increasing total ROM coal annually to nine million tonnes by 2016 and by mining in both pits at the same time. Mining is planned to be completed in 2031. Initially, the majority of the coal will be mined from the lower strip ratio Sunset Pit then, from 2017, the majority of coal will be mined from the Sunrise Pit.

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

The open pit limits extend across the Ovoot Tolgoi Mining Licence boundary into the adjacent lease held by MAK. As described, the Company and MAK have a cooperation agreement in place to allow mining across the boundary, which stipulates that SGS is responsible for removal of MAK waste but MAK is responsible for mining of MAK coal. Accordingly, the reserves estimate does not include any coal within the MAK lease that must be extracted as part of the Company mining operation. For the Ovoot Tolgoi Preliminary Feasibility Study, waste and coal within the pit and within the MAK lease was treated as waste (i.e., costs have been assumed for mining of the MAK waste and coal but no revenue has been assumed for the MAK coal).

Production Forecast

The following table sets out the ROM and product coal production forecast over the life of mine at the Ovoot Tolgoi Deposit from the Ovoot Tolgoi Technical Report. Actual productions in 2013 and 2014 were below quantities listed in the table below. The Company cautions that it will not meet the 2015 quantities listed below and its ability to meet the 2016 quantities below are subject to a number of risks. For a list of risks that may affect production levels see "Risk Factors".

Life of Mine Summary Quantities

(in thousands)	2013	2014	2015	2016	2017	2018	2019	2020	2021
ROM Coal (kt)	8,000	8,000	9,000	9,300	9,300	9,300	9,100	9,100	9,000
Product Coal (kt)	6,901	6,550	7,468	7,711	7,761	7,462	7,336	7,702	7,454

(in thousands)	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
ROM Coal (kt)	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	8,052	169,152
Product Coal (kt)	7,508	7,727	7,636	7,783	7,636	7,692	7,606	7,743	7,941	7,179	142,796

The following table sets out the annual waste, ROM coal and strip ratio forecast over the life of mine at the Ovoot Tolgoi Mine from the Ovoot Tolgoi Technical Report. Actual productions in 2013 and 2014 were below quantities listed below. The Company cautions that it will not meet the 2015 quantities listed below and its ability to meet the 2016 quantities below are subject to a number of risks. For a list of risks that may affect production levels see "Risk Factors".

Annual Waste, Coal Quantities and Strip Ratio – Sunset and Sunrise

	Sunset			Sunrise				Total		
Year	**Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**	**Waste (kbcm)**	**Cont. Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**	**Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**
2013	24,300	5,000	4.9	10,700	-	3,000	3.6	35,000	8,000	4.4
2014	24,300	6,000	4.1	21,200	-	2,000	10.6	45,500	8,000	5.7
2015	24,300	5,500	4.4	34,700	-	3,500	9.9	59,000	9,000	6.6
2016	27,800	5,500	5.1	38,200	-	3,800	10.1	66,000	9,300	7.1

	Sunset			Sunrise				Total		
Year	**Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**	**Waste (kbcm)**	**Cont. Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**	**Waste (kbcm)**	**ROM Coal (kt)**	**Strip Ratio (bcm/t)**
2017	38,000	4,200	9.0	38,000	-	5,100	7.5	76,000	9,300	8.2
2018	38,100	4,800	7.9	38,200	-	4,500	8.5	76,300	9,300	8.2
2019	44,000	4,300	10.2	41,500	5,500	4,800	9.8	91.000	9,100	10.0
2020	44,500	4,000	11.1	41,500	8,500	5,100	9.8	94,500	9,100	10.4
2021	34,000	4,000	8.5	41,500	8,500	5,000	10.0	84,000	9,000	9.3
2022	26,000	3,500	7.4	41,500	6,500	5,500	8.7	74,000	9,000	8.2
2023	17,200	3,000	5.7	41,500	6,500	6,000	8.0	65,200	9,000	7.2
2024	13,000	3,000	4.3	41,500	11,000	6,000	8.7	65,500	9,000	7.3
2025	15,500	3,000	5.2	37,500	-	6,000	6.2	53,000	9,000	5.9
2026	12,000	3,000	4.0	36,500	-	6,000	6.1	48,500	9,000	5.4
2027	14,000	3,000	4.7	31,500	-	6,000	5.3	45,500	9,000	5.1
2028	8,200	3,000	2.7	23,000	-	6,000	3.8	31,200	9,000	3.5
2029	8,200	3,000	2.7	16,000	-	6,000	2.7	24,200	9,000	2.7
2030	5,500	3,000	1.8	16,000	-	6,000	2.7	21,500	9,000	2. 4
2031	4,559	2,510	1.9	11,470	-	5,542	2.1	16,029	8,052	2.0
TOTAL	423,459	74,010	5.6	601,270	46,500	93,642	7.1	1,025,429	167,652	6.3

The production forecast is an estimate only and is subject to change. The Company is currently reviewing its mine plan for the Ovoot Tolgoi Deposit. Changes to the mine plan may have an impact on the quantities of measured and/or indicated resources and reserves of the Ovoot Tolgoi Deposit. Specifically, a change in Geology Type for the Ovoot Tolgoi Deposit may have a material adverse effect on production forecast. For further information on the Geology Type refer to “MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Mineralization*” in this Annual Information Form.

Metallurgical Process

Following an extensive review that commenced in the fourth quarter of 2013, the Company concluded that it does not plan to either complete or use the DCHF at the Ovoot Tolgoi Mine in the foreseeable future. For more information concerning the Company’s review of the DCHF, refer to the MD&A, available on SEDAR at www.sedar.com.

The first phase of the DCHF project comprised a coal rotary breaker intended to reduce screening costs and improve yield recoveries. On February 13, 2012, the Company announced the commissioning of the coal rotary breaker. The Ovoot Tolgoi Mine operations were curtailed during the second half of 2012 and resumed on March 22, 2013. The Company has not operated the rotary breaker since its announced commissioning. The second phase of the DCHF project included the installation of dry air separation modules and covered load out conveyors with fan stackers to take processed coals to stockpiles and enable more efficient blending. In August 2012, the Company announced the suspension of the completion of the DCHF project to minimize uncommitted capital expenditures and preserve the Company's financial resources. On November 14, 2013, the Company announced that it was conducting a review of the DCHF project and its contribution to the Company's product strategy, and that an impairment loss on the DCHF may be required depending on the outcome of the review.

The review of the DCHF project was completed at the beginning of the first quarter of 2014 and no changes or updates have been made to the review to date. The Company continues to focus on preserving its financial resources and has assessed that it currently had the adequate equipment and capacity to efficiently meet its commercial objectives and execute its product strategy without the use of the DCHF. The Company continues to plan to further enhance product value through wet washing.

If and when coal markets improve and production from the Ovoot Tolgoi Mine increases in line with its anticipated increase of annual capacity to over nine million tonnes run-of-mine production, the Company will seek to leverage its existing assets, including its rotary breaker, and continue developing beneficiation capabilities to maximize value from its product.

Coal Markets, Marketing and Sales Contracts

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

Environmental Matters

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

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

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

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

As to flooding of the final pit, as backfilling is not proposed as a significant part of the mine plan it is possible that a pit lake would appear as a result of re-establishment of the groundwater table. The possibility that a pit lake will form part of the post mining reclamation creates a potential liability with respect to water quality. It is recommended that appropriate study be performed to determine if the pit lake will discharge to the surface water system or the alluvium in order to estimate the long term effect of water in the final pit. Detailed plans for reclamation of the final mining pit have yet to be determined as the final pit would provide possible access for future open pit or underground mining to extract some of the remaining coal, if economic. The Ovoot Tolgoi Preliminary Feasibility Study includes an allowance of US$0.25/product tonne for annual environmental work, such as progressive rehabilitation of waste dumps, as dumps reach their final shape. A further allowance of US$20 million has been assumed in the Ovoot Tolgoi Preliminary Feasibility Study for final rehabilitation, such as covering exposed coal seams with waste, securing the final pit walls by dozing the unconsolidated upper materials and constructing bunds to ensure public safety and rehabilitation (dozing and seeding) of final waste dumps.

For information on the Company's environmental policy refer to “SOCIAL AND ENVIRONMENTAL POLICIES – Environmental Policy” in this Annual Information Form.

<u>*Taxes*</u>

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

- Royalty payments to the Government of Mongolia. Based on SGS’s understanding of the Mongolian royalty legislation, it is subject to a base royalty in Mongolia of 5% on all export coal sales. In addition, effective January 1, 2011, SGS is subject to an additional sliding scale royalty of up to 5%. The royalty is calculated using a set reference price per tonne published monthly by the Government of Mongolia, except for the period from April 1, 2014 and December 31, 2014 for which a “flexible tariff” regime was implemented. Under this “flexible tariff” royalty regime, the royalty per tonne for export coal sales was calculated based on the actual contracted sales price per tonne, including the costs of transporting the coal to the Mongolia-China border. On January 1 2015, this “flexible tariff” royalty regime ended and royalty payments have reverted to the previous regime which is based on a set reference price per tonne published monthly by the Government of Mongolia. The Company and other Mongolian coal producers are actively engaging the Mongolian authorities to seek the continuation of the “flexible tariff” regime. Refer to “RISK FACTORS – Risks relating to the Company’s projects in Mongolia” in this Annual Information Form.

- Property Tax: 0.06% on acquisition value in 2012 and 0.1% in subsequent years;

- Mining Licence: A fee of MNT7250 per hectare is payable yearly on the Ovoot Tolgoi Mining Licence in the amount of MNT67.5 million (MNT7250 x 9,312ha = MNT67.5 million) (approximately US$35.8 thousand as of Dec 31, 2014);

- VAT: 10% on capital, materials and supplies. VAT is assumed to be refunded in the following year, based on SGS understanding of the Mongolian VAT refund for processed coal;

- Income Tax: 10% of the first three billion MNT of net profit before tax, 25% thereafter; and

- Depreciation: 10 years on equipment, 40 years on fixed assets, three years on minor assets.

Expected Payback Period of Capital

According to the Ovoot Tolgoi Technical Report, the current base case indicated that the development capital would be recovered during 2013. Based on the curtailment of operations in 2012 and delays in reaching production levels set out in the Ovoot Tolgoi Technical Report, there will be a delay in the payback period of capital.

Soumber Deposit

Property Description and Location

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

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

The Soumber Deposit consists of three distinct fields: Soumber (which is subdivided into Central Soumber and East Soumber fields), Biluut and Jargalant. The Soumber deposit is covered by two MELs held by SGS: (i) MEL XV-009443, covering an area of 13,671ha (which expires on December 31, 2015); and (ii) MEL XV-009449, covering an area of 43,558ha (which expires on August 12, 2016), and one mining licence, MV-016869, granted on July 6, 2011 and covering an area of 10,992.92ha (the “Soumber Mining Licence”). The Soumber Mining Licence covers the East Soumber and Biluut fields and expires on July 4, 2041, with an option for two 20 year extensions. MEL XV-009443 was initially granted to OT LLC on December 28, 2002 and transferred to SGS on February 22, 2007. Part of MEL XV-009443 has been converted to the Soumber Mining Licence. For additional information on MELs and mineral licences in Mongolia refer to “DESCRIPTION OF MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Property Description and Location*” in this Annual Information Form.

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

Accessibility, Climate, Local Resources, Infrastructure and Physiography

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

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

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

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

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

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

History

The first geologic investigations at Soumber region occurred between 1951 and 1952. This initial geologic investigation led by V.S. Volkhonina, included mapping at a scale of 1:500,000. Additional mapping by Burenkhuu identified the coal bearing Late Permian Deliin Shand Formation as having significant occurrences of bituminous coal.

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

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

Geological Setting

Regional Geology

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

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

Coal Occurrences

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

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

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

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

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

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

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

Structural Geology

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

Exploration

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

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

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

Drilling

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

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

Drilling coverage at Biluut is quite regular with traverses spaced at approximately 150m, and hole spacing along the traverses between 50m to150m. The average drill hole depth is 170m and the maximum hole depth is 340m.

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

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

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

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

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

Total drilling to date is summarized in the table below.

Soumber and Biluut/Jargalant – Drilling Summary by Year

Year	Soumber		Biluut		South Biluut		Jargalant	
	No. Holes	**Metres drilled**	**No. Holes**	**Metres drilled**	**No. Holes**	**Metres drilled**	**No. Holes**	**Metres drilled**
2005	35	3,803	12	1,648	-	-	18	2,694
2006	27	3,599	-	-	-	-	-	-
2007	23	3,965	4	595	-	-	-	-
2008	98	20,618	42	9,815	-	-	30	6,530
2009	6	1,339	-	-	-	-	4	1,130
2010[1]	182	28,586	67	13,960	-	-	27	5,934
2011	134	24,498	172	32,355	22	13,621	78	14,069
2013[1]	4	180	4	150	-	-	-	-
2014[1]	-	-	-	-	-	-	2	80
TOTAL	**509**	**86,588**	**301**	**58,523**	**22**	**13,621**	**159**	**30,437**

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

Mineralization

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

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

Soumber Field Summary of Thickness

Seam	Mean (m)	Minimum (m)	Maximum (m)
7	2.1	0.5	4.6
6	1.5	0.6	3.4
5	10.3	0.7	44.5
4	12.5	0.7	58.2
3	9.8	0.5	58.5

Seam	Mean (m)	Minimum (m)	Maximum (m)
2	5.9	0.4	23.7
1	9.1	1.7	21.3
0	8.6	1.6	34.5

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

Biluut/Jargalant Field Summary of Thickness

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

Deposit Type

Structural geology at Soumber and Biluut/Jargalant shows evidence of folding and faulting with some steeply inclined limbs. The deposit has been subjected to relatively intense deformation and seam thicknesses are interpreted to have been substantially modified from their pre-deformation thickness in many parts of the field. The deposit is classified as "Complex" based on these criteria consistent with GSC Paper 88-21. For further information on "Complex" deposit types, refer to the Table entitled "Criteria used to Define Assurance of Existence for Coals in Complex Geology Type" under heading "DESCRIPTION OF MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Mineralization*" in this Annual Information Form.

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

Sample Preparation, Analysis and Security

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

Core Drilling Samples

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

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

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

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

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

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

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

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

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

Security of Samples

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

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

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

Data Verification

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

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

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

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

Mineral Resource Estimate

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

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

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

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

Criteria	Assurance of Existence Category		
	Measured	Indicated	Inferred
Cross-section spacing (m)	150	300	600
Minimum # data points per section	3	3	3
Mean data point spacing (m)	100	200	400
Maximum data point spacing (m)	200	400	800

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

Summary of Soumber Deposit Resources as of 10th January 2013

Area	Measured Mt	Indicated Mt	Mes+Ind Mt	Inferred Mt
Surface Depth < 300m				
Central Soumber	30.8	16.3	47.1	11
East Soumber	16.9	15.1	32.0	10
Biluut	14.7	50.9	65.5	18

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

The geologic model was developed using industry-accepted gridded seam modeling conventions using Minex™ software. Bulk density values derived from the incremental samples from drill hole core samples were incorporated into the geologic model and subsequently used to estimate coal resource tonnages. Zones of core loss within coal seams were assigned an average density as per the judgment of the geologist. Trends in density values were interpolated and extrapolated across the areal extent of the property via the modeling process. The coal quality model was also developed using Minex™ software, based on the 81 core holes at Soumber and 69 cored holes at Biluut/Jargalant.

Potential Coal Tonnage

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

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

Area	Tonnage estimate range Mt	
	From	To
Surface: depth < 300m		
Central Soumber	0	1
East Soumber	0	3
Biluut	0	8
South Biluut	0	0
Jargalant	0	8
Underground: depth 300m – 600m		
All areas	0	<3

Exploration and Development

Development Plan

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

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

Zag Suuj Deposit

Property Description and Location

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

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

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

Accessibility, Climate, Local Resources, Infrastructure, and Physiography

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

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

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

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

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

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

History

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

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

Geological Setting

Regional Geography

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

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

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

Coal Occurrences

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

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

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

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

Structural Geology

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

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

Exploration

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

Drilling

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

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

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

Total drilling to date is summarized in the table below:

Zag Suuj Drilling Summary by Year

Year	Open Holes	Cored Holes	Total Metres	Drilling Company	Geophysical Company
2007[1]	3	0	710	Tanan Impex	Monkorataj
2008	11	0	2,522	Tanan Impex	Monkorataj
2009	4	1	922	Tanan Impex	Monkorataj
2010	112	18	31,647	Tanan Impex	Monkorataj
2011[1]	28	35	10,377	ErdGeo	Monkorataj
2014[1]	0	4	590	Top Diamond	not applicable
Total	**158**	**58**	**46,768**		

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

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

Mineralization

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

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

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

The table below shows the full sequence:

Zag Suuj Deposit Summary of Seam Thickness

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

Deposit Type

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

The Zag Suuj coal sequence, based on the low cumulative stripping ratio and depth of the coal occurrence below ground surface within the MELs, is considered to be a "surface" deposit type, consistent with GSC Paper 88-21. Very little drilling to date has been done down-dip. It is possible if such a drilling program were undertaken that the deposit could be extended with underground potential.

Sample Preparation, Analysis, and Security

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

Data Verification

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

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

Mineral Resource Estimate

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

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

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

Summary of Zag Suuj Resources as of 10th January 2013

Indicated (Mt)	Inferred (Mt)
21.5	84

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

Potential Coal Development

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

Zag Suuj Deposit "Potential Coal Tonnage" 10th January 2013

Tonnage Estimate Range (Mt)	
From	**To**
20	29

Exploration and Development

<u>*Development Plan*</u>

The 2012 exploration program at the Zag Suuj Deposit was planned to better define and expand the existing resource at the Zag Suuj Deposit. Exploration expenditures were curtailed while mining operations at the Ovoot Tolgoi Mine were suspended. It is anticipated that coals from the Zag Suuj Deposit may be washed to produce a coking coal product or a coking coal blend product.

SALES AND MARKETING

The Company expects that all production from the Ovoot Tolgoi Mine will continue to be marketed and sold into the PRC. Saleable products from the Ovoot Tolgoi Mine primarily include the Standard and Premium semi-soft coking coal products and Thermal Coal. The Company’s raw semi-soft products together with raw higher-ash coals are suitable for washing and blending in order to be sold as a 1/3 coking coal in the Chinese market. The higher-ash Thermal Coal product is sold to end users. Up until the end of December 2014 the products marketed have been a portfolio of the Company’s Premium and Standard semi-soft coking coal products and Thermal Coal (high ash coal, referred to as “F product” and high cv Thermal Coal, referred to as “B product”).

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

Mining activities at the Ovoot Tolgoi Mine were curtailed to varying degrees during the second quarter of 2012, and fully curtailed at the end of the second quarter of 2012, to manage coal inventories and to maintain efficient working capital levels. Mining activities remained fully curtailed for the remainder of 2012 and operations at the Ovoot Tolgoi Mine resumed on March 22, 2013. During the period that mine production had been curtailed, the sales and marketing divisions continued to maintain relationships with the Company’s historical customer base which allowed it to deliver record sales volumes in the second half of 2013. The Company mined and sold Thermal Coal (both high cv B Product and high ash F Product at the mine-gate to Chinese customers in 2014 which were then sold to Chinese power plants and cement plants).

The Company intends to continue to develop markets for both its Premium and Standard semi-soft coking coal brands and to pursue long-term supply offtake with end users in the PRC to complement its existing customer base and to gain best value of the Company’s coal in the Chinese market. The Company is committed to further enhance the quality of its coal products through wet washing and increase its market penetration in the PRC. As part of this strategy a processing study is being conducted to evaluate the processing yield and coal quality of washed products and thus the economics of processing operations.

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

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

DIRECT AND INDIRECT EMPLOYEES

As at December 31, 2014, the Company had approximately 357 employees, including 349 employees in Mongolia.

SOCIAL AND ENVIRONMENTAL POLICIES

Environmental Policy

The Company believes that conducting its activities in an environmentally responsible manner is integral to good business management. The Company is committed to performing all of its mining and exploration activities with full respect for the environment and returning the environment to a natural state as required by the Government of Mongolia. All of the Company's employees and contractors are encouraged to prioritize minimizing environmental harm in performing their duties.

The Company expects to fulfil its commitment to the environment by:

- complying with all applicable legislation and regulations, and exceeding those requirements where possible, with a view towards maintaining a healthy environment;

- identifying, assessing and managing the environmental risks of its activities in all planning and operational decisions;

- establishing and implementing management programs relevant to its environmental risks to prevent, reduce or mitigate impacts at all stages of exploration and mining;

- promoting the participation of its employees and contractors in implementing this policy by identifying their competency requirements and providing training tailored to their responsibilities;

- regularly evaluating its performance through auditing business processes and practices and monitoring the environment in which it operates; and

- periodically reviewing its environmental management system and operational procedures to improve efficiency, minimize waste and pollution, and achieve continuous improvement.

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

- **Reducing land use footprint at mining site:** Each year the Company determines the potential area that can be reclaimed and in 2014 a total of 4.5ha of land was reclaimed. Reclaimed land size is anticipated to increase each year.

- **Monitoring biodiversity in licence area and surrounding territories:** Currently there are no endangered plant and animal species in the Company's Ovoot Tolgoi Mine area. The Company monitors biodiversity conservation and impact mitigation measures in mining areas and is prepared to undertake action as required in the future to preserve or maintain biodiversity.

- **Developing an environmental protection strategy:** The Company has worked with a professional organization to develop a strategy for 2014 - 2018 to protect biological diversity, maintain ecosystem balance and preserve species dwelling nearby the Ovoot Tolgoi mine area, all in accordance with new provisions specified in Mongolian laws and regulations.

- **Monitoring environmental conditions:** The Company is planning to purchase automatic environmental monitoring equipment (a mini metrological station and groundwater logger) to monitor weather conditions at the mine site and improve methodology to monitor water quality and amount around mining operations.

- **Re-using greywater:** The Company reuses its greywater using a water treatment facility, which is a key part of reducing the pressure on our water resources and the environment.

- **Recycling waste oil:** The Company has engaged a professional waste oil recycling contractor and other non-toxic waste recyclables are given to a local village to add income and provide work opportunities. Additionally, the Company is working together with the first ever local waste service company in Mongolia to improve non-minerals waste handling and management. For further information on the EIA and EMP for the Ovoot Tolgoi Mine refer to "MATERIAL PROPERTIES – Ovoot Tolgoi Deposit – *Environmental Matters*" in this Annual Information Form.

The Company has received the approval of the Mongolian Ministry of Environment and Green Development Tourism for its Detailed EIA and EMP for the mining operation at its Ovoot Tolgoi Mine.

Health and Safety Policy

The most important assets of the Company and its subsidiaries are its employees. Injuries to its employees and damage to its physical assets are unacceptable and threaten the reputation of the Company and its financial success. For this reason, the Company has adopted a target of zero incidents in all of its activities and strives to achieve this by conducting internal compliance audits and engaging third parties to conduct external audits, if necessary, and by providing training and appropriate and sufficient resources to enable its employees and contractors to work safely and effectively. The Company encourages all of its employees and contractors to take the view that all loss is preventable and accept responsibility for their personal safety and the safety of others and to protect the integrity of the company's physical assets at all times.

The Company aims:

- to plan for safe, efficient and productive work;

- to ensure that all employees and contractors are made aware of their responsibilities regarding loss control;

- to assess and control the risk of loss as part of every decision it makes;

- to comply with relevant legislation and internal occupational health and safety policies and procedures;

- that all employees and contractor managers will demonstrate and promote safety leadership;

- that all employees and contractors will participate in managing health and safety related issues;

- that final contractor selection will include an acceptable review of their Health and Safety programs and a commitment from such contractor to meeting the Company's occupational health and safety standards; and

- that all reported incidents will be investigated with a view to preventing recurrence.

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

Community Relations

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

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

The Company has played a significant role in contributing to the infrastructure in the South Gobi region. Most notable is the paving of the runway at the Ovoot Tolgoi airport, which has helped to enhance trade and economic activity in the local communities of the South Gobi region. Roads to both Gurvantes and the Shivee Khuren Border Crossing have been improved and upgraded to facilitate the movement of local residents by increasing traffic safety and reducing travel time. The Company, through its joint venture with NTB LLC, has completed the construction of a paved highway from the Ovoot Tolgoi Deposit to the Shivee Khuren Border Crossing. The highway will significantly increase the safety of coal transportation, reduce environmental impacts, and improve efficiency and capacity of coal transportation. The Company has improved living and working conditions for Mongolian border officers by building two offices at the Shivee Khuren Border Crossing. The Company has also renovated the Gurvantes secondary school dormitory to provide the students with a better learning and living environment and constructed a kindergarten in Gurvantes for an additional 100 children. As a result, ten new teachers and staff have jobs that provide additional income to their families.

Despite the difficulties and challenges faced in 2014, the Company continued its core corporate social responsibility activities which included:

- providing university scholarships to 15 students from Umnugobi;

- renovating and equipping the Gurvantes hospital to provide staff and patients with a better working and treatment condition;

- contributing to the preservation of cultural heritages of local community including support for important events such as Naadam celebration and the celebration of the 60th anniversary of Gurvantes Soum; and

- continuing to provide coal and animal feeds to local residents during the harsh winter.

Corporate Social Responsibility

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

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

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

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

1. **Responsible Economic Development** – the Company is committed to pursue its business objectives lawfully, ethically and in a manner that is respectful of its employees, host communities and the environment.

2. **Environment -** the Company is committed to responsive and effective environmental impact management across all of its exploration, development and production activities through ongoing risk assessment, openness and partnership working with stakeholders to implement best practices in environmental management.

3. **Human Capital -** the Company acknowledges that its employees are its most important assets and maintains its commitment to providing safe and healthy work conditions with fair remuneration for its people, with a target of zero incidents in all its activities.

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

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of Preferred Shares. As at March 30, 2015, there were 218,753,970 Common Shares and no Preferred Shares issued and outstanding. Rights and restrictions in respect of the Common Shares and Preferred Shares are set out in the Company's Articles, and in the BCBCA and its regulations.

Common Shares

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

Preferred Shares

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

DIVIDENDS AND DISTRIBUTIONS

No cash dividends or distributions were declared on the Common Shares for the financial years 2012, 2013 and 2014.

MARKET FOR SECURITIES

The Common Shares are traded in Canada on the TSX under the symbol "SGQ Coal" and in Hong Kong on the SEHK under the stock code 1878. The closing price of the Common Shares on the TSX on March 27, 2015 was Cdn$0.92 and on the SEHK was HK$5.99.

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

TSX
(stated in Canadian dollars)

Period	High	Low	Volume
January 2014	0.87	0.72	436,800
February 2014	0.84	0.72	341,200
March 2014	0.93	0.54	803,900
April 2014	0.71	0.53	98,700
May 2014	0.70	0.54	417,900
June 2014	0.73	0.61	466,800
July 2014	0.67	0.54	1,036,700
August 2014	0.65	0.53	885,600
September 2014	0.70	0.60	440,000
October 2014	0.66	0.50	152,300

Period	High	Low	Volume
November 2014	0.64	0.50	212,300
December 2014	0.57	0.45	436,500

SEHK
(stated in Hong Kong dollars)

Period	High	Low	Volume
January 2014	6.88	5.50	4,445,300
February 2014	6.20	5.25	2,618,700
March 2014	6.20	5.36	3,593,000
April 2014	5.08	4.62	2,685,900
May 2014	4.84	4.53	1,620,700
June 2014	5.29	4.54	2,457,300
July 2014	5.51	4.76	2,812,400
August 2014	4.95	4.38	5,924,800
September 2014	5.12	4.39	3,482,600
October 2014	4.74	3.88	2,933,100
November 2014	4.30	3.74	2,532,200
December 2014	4.14	3.49	1,970,000

DIRECTORS AND OFFICERS

Biographical Information

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

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
BOLD BAATAR Singapore, China	Director (since September 2013)	Managing Director, Marine of Rio Tinto plc (May 2014 - present); President, International Operations of Rio Tinto Copper group (June 2013 to May 2014); Chief Executive Officer of Golden East LLC (November 2011 to June 2013); Chief Executive Officer of Newcom LLC (November 2009 to September 2011).

Name and Municipality of Residence	Position with Company	Principal Occupation During Past Five Years
TED CHAN Beijing, China	Director and Executive Director (since March 2015)	President of Novel Sunrise (November 2014 to present), General Manager for Beijing Wanhai Real Estate Development Co. Ltd. (2005 to present).
ANDRÉ DEEPWELL Burnaby, British Columbia, Canada	Director (since August 2003)	Chief Financial Officer (April 2002 to present) and Corporate Secretary (December 2001 - present), Imperial Metals Corporation.
W. GORDON LANCASTER West Vancouver, British Columbia, Canada	Interim Chairman and Director (Director since May 2010 and Interim Chairman since December 2014)	Independent business consultant (November 2009 to present); Chief Financial Officer, Ivanhoe Energy Inc. (January 2004 to November 2009).
PIERRE LEBEL North Vancouver, British Columbia, Canada	Lead Director (Lead Director since June 2007, Director since August 2003)	Chairman of the Board of Directors, Imperial Metals Corporation (2003 to present).
KELLY SANDERS Draper, Utah, United States	Director (since September 2012)	President and Chief Executive Officer of the Rio Tinto Iron Ore Company of Canada (July 2014 to present); Managing Director, HME2014, Rio Tinto (October 2013 to July 2014); President and CEO, Kennecott Utah Copper (November 2009 to September 2013).
BERTRAND TROIANO Hong Kong	Chief Financial Officer (since April 2013)	Chief Financial Officer of the Company (April 2013 to present); Finance Director, Rio Tinto Alcan's Business Development, Major Projects and Technology group (March 2011 to April 2013); Vice President (acting) and Manager Rio Tinto Alcan’s Business Analysis group (January 2009 to March 2011); Financial Controller, Rio Tinto Alcan’s Primary Metal Asia Pacific Business Unit (April 2006 to January 2009).
ALLISON SNETSINGER North Vancouver, British Columbia, Canada	Corporate Secretary (since November 2014)	Corporate Secretary of the Company (November 2014 to present and May 2012 to March 2014); Assistant Corporate Secretary of the Company (May 2003 to May 2012); Assistant Corporate Secretary, Turquoise Hill (May 2001 to May 2014)

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

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

- was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

- was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

- within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

- has within the 10 years before the date in this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

Shareholdings of Directors and Senior Management

As at March 27, 2015, the directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 9,850 Common Shares representing approximately 0.00% of the outstanding Common Shares.

Pursuant to Rio Tinto compensation policies, Rio Tinto seconded employees and Rio Tinto nominees to the boards of directors of subsidiary companies are not permitted to receive securities of subsidiary companies, which includes the Company.

Committees of the Board

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

The members of the Audit Committee are André Deepwell (Chair), Pierre Lebel and Gordon Lancaster.

The members of the Nominating and Corporate Governance Committee are Pierre Lebel (Chair), André Deepwell and Gordon Lancaster.

The members of the Compensation and Benefits Committee are Gordon Lancaster (Chair), André Deepwell, and Pierre Lebel.

The members of the Health, Environment, Safety and Social Responsibility Committee are Kelly Sanders (Chair), Bold Baatar and Ted Chan.

The members of the Mergers and Acquisitions committee are Bold Baatar and Pierre Lebel. The Mergers and Acquisitions Committee remains inactive at this time.

Audit Committee Information

Audit Committee Charter

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

Composition of Audit Committee

The Audit Committee consists of André Deepwell, Pierre Lebel and Gordon Lancaster. The Board has determined that each of Messrs. Deepwell, Lebel and Lancaster are "independent" directors. Each member of the Audit Committee is "financially literate" within the meaning of Multilateral Instrument 52-110 *Audit Committees*.

Relevant Education and Experience

André Deepwell

Mr. Deepwell is a Chartered Accountant. He has held the positions of Chief Financial Officer and Corporate Secretary for Imperial Metals Corporation ("Imperial") since 1992, prior to which he was Controller for Imperial since 1984. Before joining Imperial he was a Senior Accountant with Deloitte & Touche.

Pierre Lebel

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

W. Gordon Lancaster

Mr. Lancaster is a Chartered Accountant and had a 20-year career in public accounting with Deloitte & Touche, including holding a partner position for the last 5 years in Deloitte & Touche's Vancouver office. He previously held the position of Chief Financial Officer in Ivanhoe Energy Inc. and Power Measurement Inc. He currently serves as a director and Audit Committee Chair of Ainsworth Lumber Co. Ltd. Previously Mr. Lancaster chaired the Audit Committee of Sonde Resources Corp.

Pre-Approval Policies and Procedures

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

The Audit Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence and has adopted a policy governing the provision of these services.

This policy requires the pre-approval by the Audit Committee or the Designated Member of all audit and non-audit services provided by the external auditor, other than any de minimis non-audit services allowed by applicable law or regulation. The decisions of the Designated Member to pre-approve permitted services need to be reported to the Audit Committee at its regularly scheduled meetings.

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

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

Audit Fees

PwC has served as the Company's auditor since April 2, 2012. Prior to PwC's appointment, Deloitte LLC served as the Company's auditors from August 14, 2003 to April 2, 2012.

Fees billed by PwC and its affiliates during fiscal 2014 and fiscal 2013 were approximately Cdn$620,000 and Cdn$418,000, respectively. These fees are detailed below.

	PwC	**PwC**
(Canadian $ in 000's)	2014	2013
Audit Fees[1]	453	299
Audit Related Fees[1]	165	103
Tax Fees[2]	-	-
All Other Fees[3]	2	16
Total	620	418

[1] Fees for audit services billed relating to fiscal 2014 and fiscal 2013 consisted of: (i) audit of the Company's annual financial statements; (ii) reviews of the Company's quarterly financial statements; and (iii) comfort letters, consents, and other services related to Canadian securities regulatory authorities' matters.

[2] Fees for tax services provided during fiscal 2014 and 2013 consisted of income tax compliance and tax planning and advice relating to transactions and proposed transactions of the Company and its subsidiaries.

[3] All Other Fees pertaining to fiscal 2014 and 2013 related to Mongolian salary survey costs performed by PwC.

Conflicts of Interest

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

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

Specifically, in 2014 certain directors, or former directors, of the Company disclosed conflicts of interest in regards to a transaction as follows:

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

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

Ethical Business Conduct

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

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

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

The Ethics Policy provides that the Company's employees, consultants, officers and directors will uphold its commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, consultants, officers and directors. A copy of *"The Way We Work"* and the various policies forming the Code of Conduct Standards are available on the Company's website (www.SouthGobi.com) and may be obtained, without charge, by request to SouthGobi Resources Ltd., 354 – 200 Granville Street, Vancouver, British Columbia, Canada V6C 1S4, Attention: Corporate Department, or by phone to 604-681-6799.

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Services Agreement

The Company, through its subsidiary SGS, is a party to a services agreement with TRQ Singapore, in relation to the Company's global information technology infrastructure, support and projects. Costs of the services provided are recovered from the Company proportionate to the time spent by the TRQ Singapore employees on matters pertaining to the Company. During the year ended December 31, 2014, the Company's share of these costs was US$614,091.

Turquoise Hill Facility

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

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

Novel Private Placement

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

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

TRANSFER AGENTS AND REGISTRARS

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

MATERIAL CONTRACTS

Material contracts under NI 51-102 are contracts, other than contracts entered into in the ordinary course of the Company's business, which are material to the Company. The Company has entered into the following material contract since January 1, 2015:

Novel Private Placement

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

Convertible Units") and Common Shares to Novel Sunrise. The Novel Private Placement is to be completed in up to two stages; the first stage (the "Initial Tranche") was completed on March 3, 2015 and consisted of the issuance by the Company of 10,131,113 Mandatory Convertible Units at a price of Cdn$0.432 per Mandatory Convertible Unit to Novel Sunrise, which units shall automatically convert into Common Shares upon the earlier of the closing or the termination of the Novel SPA on a one for one basis for a deemed issue price of Cdn$0.432, in consideration of subscription funds of US$3.5 million. The Mandatory Convertible Units are not transferable, except in connection with an assignment of the Novel Subscription Agreement. The second stage (the "Subsequent Tranche"), if completed, will consist of the issuance by the Company of 11,618,887 Common Shares at a price of Cdn$0.432 for proceeds of approximately US$4 million. Assuming completion of the Subsequent Tranche and, when combined with the Initial Tranche, an aggregate of 21,750,000 Common Shares are issuable, for aggregate proceeds of approximately US$7.5 million.

Prior to the earlier of the closing or termination of the Novel SPA, Novel Sunrise may elect to subscribe for up to an additional 11,618,887 Mandatory Convertible Units or Common Shares or any combination of Mandatory Convertible Units and Common Shares, at its option, at a price of Cdn$0.432 per security, provided that the total aggregate number of Mandatory Convertible Units and Common Shares that Novel Sunrise may subscribe for under the Novel Private Placement is 21,750,00 and provided that, if Novel Sunrise elects to exercise this option, the number of Common Shares that Novel Sunrise shall subscribe for under the Subsequent Tranche shall be reduced accordingly.

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

The net proceeds of the Novel Private Placement will be applied towards general working capital and Novel Sunrise has agreed to assist the Company in the implementation of a funding plan intended to improve the Company's financial position.

Pursuant to the terms of the Novel Subscription Agreement, Mr. Ted Chan was appointed to the Company's management team and joined the Company's Board, effective as of March 3, 2015. Novel Sunrise also has the option to nominate up to three individuals for appointment or election to the Board and to appoint executive officers of the Company, subject to Novel Sunrise and its affiliates owning certain threshold percentages of the issued and outstanding Common Shares, as more particularly set out in Novel Subscription Agreement.

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

A copy of the Novel Subscription Agreement is available on SEDAR at www.sedar.com.

Prior to January 1, 2015, the following material contracts were entered into and remain in effect:

Turquoise Hill Shareholder Loan

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

Transaction:	Unsecured Turquoise Hill Facility in the principal amount of US$10 million made available to SGS and SGQ Coal, as borrowers (together, the "Borrowers") and the Company (together with the Borrowers, the "Obligors").
Availability Period:	Borrowing under the Turquoise Hill Facility was made available commencing on May 24, 2014 and ends on the earlier of (i) the date immediately preceding the Maturity Date or (ii) the date the Turquoise Hill Facility is termination according to its terms, provided that the initial advance of a Loan under the Turquoise Hill Facility had to occur no later than June 15, 2014, subject to fulfillment of the applicable conditions precedents.
Maturity:	August 30, 2014 (the "Maturity Date"), which maturity date may be extended by Turquoise Hill in its sole discretion.
Interest:	The Turquoise Hill Facility carries an annual rate of interest equal to the sum of the one month LIBOR Rate in effect thereunder and the Margin.
Use of Proceeds:	The proceeds from the Turquoise Hill Facility are to be used solely for general corporate purposes in order to meet short term working capital requirements, including payments under the Convertible Debenture, in the ordinary course of business, and are a last resort funding mechanism that will only become available once all other funding alternatives have been exhausted.
Pre-payment:	The Turquoise Hill Facility is subject to mandatory repayment as follows: (i) the Borrowers shall prepay in full all outstanding Obligations following the occurrence of a Change of Control of the Company or advance of funds under another loan facility; (ii) the applicable Obligor shall prepay the outstanding Obligations from net proceeds of any capital raising or rights offering by the Company, any other sale of the Company securities or assets of the Obligors, any Debt made available to the Obligors or cash injected or free cash flow generated or received into the business of the Obligors from any other sources; and (iii) the applicable Obligor shall prepay from any cash balance of the Obligors at the end of any month the amount which is in excess by more than US$500,000 over the forecasted cash needs of the Obligors for the following month.
Repayment:	Prior to the Maturity Date, the Borrowers may prepay any outstanding Obligations without penalty or bonus. Turquoise Hill may require repayment on the Maturity Date to be satisfied by the required number of tons of Coal B Product having a market value as being the prevailing arm's length market price for such product on the delivery date equal to the payment obligation. In the event that no sale or going private transaction of Turquoise Hill's interest in the Company occurs or alternative funding has been made available, in each case, by the Maturity Date, the Obligors will proceed with a private placement of the Common Shares, forward sale of coal or

	other funding option acceptable to Turquoise Hill to repay funds borrowed under the Turquoise Hill Facility.
Cancellation:	Each Borrower may cancel any undrawn principal amount available to it under the Turquoise Hill Facility or cancel the whole facility in the event that there are no Obligations outstanding thereunder.
Fees and Expenses:	Each Borrower is obligated to pay a commitment fee quarterly in arrears calculated as follows: (i) the simple average of the difference between (x) the maximum principal amount available to such Borrower under the Turquoise Hill Facility on each day during the relevant quarterly period and (y) the outstanding principal balance on such day; multiplied by (ii) a fraction, the numerator of which is the number of days during such calculation period and the denominator of which is 360, multiplied by the amount per annum equal to 35% of the Margin. A front end fee of US$100,000 was payable by the Borrowers on May 23, 2014. The Borrowers will pay to the Turquoise Hill and its affiliates all of its reasonable costs and expenses incurred by such persons in connection with the Turquoise Hill Facility and all transactions contemplated thereby.

The initial advance of a Loan under the Turquoise Hill Facility occurred prior to June 15, 2014 and the Turquoise Hill Facility remains outstanding. A copy of the Turquoise Hill Facility agreement may be found on SEDAR at www.sedar.com.

On December 4, 2014 as a result of delays of the sale of Turquoise Hill's Common Shares to NUR contemplated by the NUR SPA, Turquoise Hill agreed to allow the Obligors to defer repayment of an aggregate amount of US$3.8 million principal and interest accrued and owing on the Turquoise Hill Loan Facility as follows:

(i) an amount of US$1.9 million in principal and all interest accrued on and under the Turquoise Hill Facility up to and including May 30, 2015 shall become due and payable on May 30, 2015; and

(ii) an amount of US$1.9 million in principal and all interest accrued on and under the Turquoise Hill Facility from June 1, 2015 up to and including August 31, 2015 shall become due and payable on August 31, 2015.

This limited deferral is subject to certain conditions and limitations, including the completion by April 30, 2015 of the transaction contemplated by the NUR SPA, as amended by an agreement dated December 2, 2014.

Convertible Debenture

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

Transaction:	An original principal amount of US$500 million senior debentures convertible into Common Shares (US$485 million net of advisory fees). Subsequently, as described herein, US$250 million was converted into Common Shares, leaving an outstanding principal balance of US$250 million
Maturity:	30 years.
Interest:	The Convertible Debenture carries interest of 8.0% per annum made up of: (i) a cash coupon of 6.4% payable semi-annually; and (ii) additional interest of 1.6% per annum payable in Common Shares to be issued on each anniversary of the issue. Share value shall be calculated based on the 50 business day volume weighted average price (“VWAP”) prior to each anniversary of the issue.
Conversion Price:	Cdn$11.88 shall be considered the “Base Conversion Value” and ordinarily, the conversion price will be set at the Base Conversion Value, subject to the adjustments set out below. At the time of conversion, the VWAP of the Common Shares for the 50 business days prior to the conversion date will be calculated (the “Conversion Date Value”). In the event the Conversion Date Value is lower than the Base Conversion Value, then the conversion price will be the Conversion Date Value. The conversion price will be subject to a “Floor Price” of Cdn$8.88. The conversion price, so determined, is referred to as the “Conversion Price” in this summary of key investment terms.
CIC’s Conversion Right:	Convertible by CIC Subco into Common Shares at any time after 12 months from closing at the Conversion Price. There are no lock-up arrangements on Common Shares to be issued to CIC Subco upon conversion. There are no early redemption rights granted to CIC Subco.
The Company’s Early Conversion Right:	After the earlier of two years from closing or the time of the Qualified Float (as defined below), the Company will have the right to require conversion of up to 50% of the initial principal amount of US$500 million at the Conversion Price. The Company exercised this conversion right and on March 29, 2010, the Company converted US$250 million of the debt into 21,560,961 Common Shares at a price of US$11.64 per share.
The Company’s Normal Conversion Right:	After 60 months from closing, if at any time the VWAP of the Common Shares for 50 consecutive business days is 20% higher than the Floor Price, the Company will be entitled to require conversion of the entire Convertible Debenture at the Conversion Price.
Qualified Float:	A transaction whereby the Common Shares are list on the SEHK or the SEHK and the TSX and that meets the following three criteria, shall be considered a “Qualified Float”: (i) not less than 25% of the issued and outstanding Common Shares (on a non-diluted basis, except including the initial principal amount of the Convertible Debenture on an as-converted basis) are held by persons who are not insiders of the Company (i.e. insider

	holdings cannot exceed 75%); (ii) the offering price of the Common Shares issued to achieve the public float is not less than the base conversion value unless CIC consents; and (iii) the Common Shares are listed on the SEHK.
Turquoise Hill Support:	Turquoise Hill will vote in favour of the issuance of the Convertible Debenture, to support any Shareholder vote required on conversion, and for the nominee, if any, of CIC Subco to the Board.
Right to Nominate Director:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, CIC Subco has the right, but not the obligation, to nominate one person to the Board. When CIC Subco nominates a person, the Board is not obliged to appoint such nominee as a director; the election of a nominee to the Board is subject to Shareholders' approval. Furthermore, the CIC Subco cannot require that its nominee be employed by or participate as the Company's executive or manager, and the sole entitlement of the nominee is to act in the capacity of director. If appointed to the Board the nominee would be a non-independent non-executive director.
Voting Restriction:	CIC or any transferee will be entitled to one vote per Common Share held on matters to be voted on by Shareholders. However, if conversion results in CIC Subco, or its affiliates, directly or indirectly owning more than 29.9% of the fully diluted Common Shares outstanding, CIC Subco will not vote any Share in excess of 29.9%. This cap in CIC's voting rights is a contractual agreement between CIC and the Company and will not extend to third party transferees of all or a part of any Common Shares issued to CIC and thereafter sold to a third party. The cap does include shares held by CIC affiliates, and shares beneficially owned by CIC, so affiliate transferees are part of the aggregate summation to determine the 29.9%. Further, if CIC transfers its interest, in the Convertible Debenture or the ancillary agreements, the latter being the security holder's agreement and the registration rights agreement made in connection with the Convertible Debenture financing, to an affiliate, the transferee of the interest would be bound by the contractual voting limitation.
Use of Proceeds:	In addition to repaying certain indebtedness, the proceeds from the Convertible Debenture are to be used mainly for the continuing development and expansion at the Ovoot Tolgoi Mine, the development of the Soumber Deposit, the development of infrastructure to support current and future coal mining and related projects, and for exploration activities, as set out in the agreement. The majority of the funds from the financing are expected to be used within the next three years.
Security:	The Convertible Debenture is secured by a first charge over the Company's assets. Standard loan restrictive covenants regarding incurring additional debt and granting additional security to third parties (with standard carve-outs and grace periods for issues of this type) apply to the Company and its direct and indirect subsidiaries.
Pre-emptive Right:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, the CIC Subco has a pre-emptive right on a pro rata basis to subscribe for any new Common Shares issued during the period which the Convertible Debentures remain outstanding. The pre-emptive right will not apply to new Common Shares

	issued pursuant to pro-rata public equity offerings made to all Shareholders, or the exercise of stock options and shares to achieve a 25% public float.
Right of First Offer:	While the Convertible Debenture is outstanding, or while CIC Subco has a 15% direct or indirect shareholding interest in the Company, CIC Subco has a right of first offer for any direct or indirect sale of Turquoise Hill's stake in the Company.
Liquidity Rights:	CIC Subco has registration rights for Common Shares received upon conversion of the Convertible Debenture.
Regulatory Approval:	The TSX-V granted final approval for the issuance of the Convertible Debenture on November 20, 2009.
Advisors:	Citigroup Local Markets Asia Limited served as the financial advisor to CIC with respect to the Convertible Debenture. Macquarie Capital Securities Limited served as the Company's financial advisor and Projects Investment Group (H.K.) Limited provided the Company with additional advisory services.

A copy of the Convertible Debenture may be found on SEDAR at www.sedar.com

CIC Mutual Cooperation Agreement

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

INTERESTS OF EXPERTS

PwC is the independent auditor of the Company and they have advised they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia and, to the knowledge of the Company, neither PwC nor any of their "designated professionals", as defined in NI 51-102, hold any securities of the Company.

Disclosure in this Annual Information Form of scientific and technical information with respect to the Ovoot Tolgoi Deposit, the Soumber Deposit, and the Zag Suuj Deposit is based on the Ovoot Tolgoi Technical Report, the Soumber Technical Report, and the Zag Suuj Technical Report, respectively, each of which were prepared by RungePincockMinarco.

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

INSURANCE

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

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans will be contained in the management proxy circular for the annual general meeting of the Company when filed. Additional financial information is contained in the Company's comparative financial statements and MD&A as at and for the years ended December 31, 2014 and 2013. Copies of the financial statements and MD&A are, and the proxy circular, when filed, will be, available on SEDAR, and may also be obtained upon request from the Corporate Department at 354 – 200 Granville Street, Vancouver, British Columbia, V6C 1S4 or Suite 1501, The Center, 99 Queen's Road, Central, Hong Kong.

Additional information relating to the Company may be found on SEDAR at www.sedar.com.

SCHEDULE "A"
AUDIT COMMITTEE CHARTER

I. Purpose

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

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

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

II. Organization

The Committee shall consist of three or more independent non-executive directors of the Company. The Committee membership shall satisfy, at a minimum, the laws governing the Company and the independence, financial literacy, expertise and financial experience requirements under applicable securities laws, rules and regulations, stock exchange and any other regulatory requirements applicable to the Company.

The members of the Committee and the Chair of the Committee shall be appointed by the Board on the recommendation of the Nominating & Corporate Governance Committee. A majority of the members of the Committee shall constitute a quorum. A majority of the members of the Committee shall be empowered to act on behalf of the Committee. Matters decided by the Committee shall be decided by majority vote. The Chair of the Committee shall have an ordinary vote and not a casting vote.

Members of the Committee must be financially literate, as the Board interprets such qualification in its business judgment and all members shall be able to read and understand financial statements, including a company's balance sheet, income statement and cash flow statement. No member of the Committee shall have (i) been a partner of or otherwise have had a financial interest in the Auditors during the past year; or (ii) participated in the preparation of the financial statements of the Company or any current subsidiary at any time during the past three years. At least one member of the Committee shall have past employment experience in finance or accounting of public companies, requisite professional certification in accounting, or any other comparable experience or background which results in such individual's financial sophistication (including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities).

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director of the Company.

The Committee may form and delegate authority to subcommittees when appropriate.

III. Meetings

The Committee shall meet as frequently as circumstances require, but not less frequently than four times per year. The Committee shall meet at least quarterly with management, the Company's financial and accounting officer(s) and the Auditors in separate sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. Meetings may be held telephonically to the extent permitted by the Company's organizational documents and applicable British Columbia law.

The Chair of the Committee shall be an independent chair who is not Chair of the Board. In the absence of the appointed Chair of the Committee at any meeting, the members shall elect a temporary Chair from those in attendance at the meeting. The Chair of the Committee, in consultation with the other members of the Committee, shall set the frequency and length of each meeting and the agenda of items to be addressed at each upcoming meeting.

The Committee will appoint a Secretary who will keep full minutes of all meetings. The Secretary may be the Company's Corporate Secretary or another person who does not need to be a member of the Committee. Draft and final versions of the meeting minutes should be sent to all members of the Committee within a reasonable time following such meetings.

The Committee may invite, from time to time, such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee. The Company's accounting and financial officer(s) and the Auditors shall attend any meeting when requested to do so by the Chair of the Committee.

IV. Authority and Responsibilities

The Board, after consideration of the recommendation of the Committee, shall nominate the Auditors for appointment by the shareholders of the Company in accordance with applicable law. The Auditors report directly to the Audit Committee. The Auditors are ultimately accountable to the Committee and the Board as representatives of the shareholders.

In fulfilling its duties and responsibilities under this Charter, the Committee will be entitled to reasonably rely on (a) the integrity of those persons within the Company and of the professionals and experts (such as the Auditors) from whom it receives information, (b) the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts and (c) the representations made by the Auditors as to any services provided by them to the Company.

The Committee shall have the following responsibilities:

(a) Auditors

1. Recommend to the Board the independent auditors to be nominated for appointment or reappointment as the Auditors of the Company at the Company's annual meeting and the remuneration to be paid to the Auditors for services performed during the preceding year; approve the scope of all auditing services to be provided by the Auditors; be responsible for the oversight of the work of the Auditors, including the resolution of disagreements between management and the Auditors regarding financial reporting; and recommend to the Board and the shareholders the termination of the appointment of the Auditors, if and when advisable.

2. When there is to be a change of the Auditors, (i) review all issues related to the change, including any notices required under applicable law, stock exchange or other regulatory requirements, and the planned steps for an orderly transition; and (ii) be primarily responsible for questions relating to such change.

3. Review the Auditors' audit plan and discuss the Auditors' scope, staffing, materiality, and general audit approach.

4. Review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the Auditors the nature and scope of the audit and reporting obligations prior to the commencement of the audit.

5. Review on an annual basis the performance of the Auditors, including the lead audit partner.

6. Take reasonable steps to confirm the independence of the Auditors, which include:

   (a) **ensuring** receipt from the Auditors of a formal written statement in accordance with applicable regulatory requirements delineating all relationships between the Auditors and the Company;

   (b) **considering** and discussing with the Auditors any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the Auditors;

   (c) **develop** and implement policy on the provision of non-audit related services provided by the Auditors to the Company and approve in advance the provision of and the fees for such services, with a view to ensure independence of the Auditors, and in accordance with applicable regulatory standards, including applicable stock exchange requirements with respect to approval of non-audit related services performed by the Auditors (for the purposes of this Part IV(a)(6)(c), Auditors include any entity that is under common control, ownership or management with the Auditors or any entity that a reasonable and informed third party knowing all the relevant information would reasonably conclude to be part of the Auditors, nationally or internationally); and

(d) **as** necessary, taking or recommending that the Board take appropriate action to oversee the independence of the Auditors.

7. Review and approve any disclosures required to be included in periodic reports under applicable securities laws, rules and regulations and stock exchange and other regulatory requirements with respect to non-audit services provided by the Auditors.

8. Confirm with the Auditors and receive written confirmation at least once per year: (i) indicating that the Auditors are a member in good standing with the Canadian Public Accountability Board (CPAB) and comparable bodies elsewhere to the extent required and disclosing any sanctions or restrictions imposed by the CPAB and such other comparable bodies; and (ii) responding to any other reasonable request of the Audit Committee for confirmation as to their qualifications to act as the Company's Auditors.

9. Consider the tenure of the lead audit partner on the engagement in light of applicable law, stock exchange or applicable regulatory requirements.

10. Review all reports required to be submitted by the Auditors to the Committee under applicable laws, rules and regulations and stock exchange or other regulatory requirements.

11. Receive all recommendations and explanations which the Auditors place before the Committee.

12. Ensure any provision of non-audit related services by the Auditors does not impair their independence or objectivity and develop and implement any necessary policies in that regard.

(b) Financial Statements and Financial Information

13. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, prior to filing or distribution of such statements and recommend to the Board, if appropriate, that the Company's audited financial statements be included in the Company's annual reports distributed and filed under applicable laws and regulatory requirements.

14. Review and discuss with management, the financial and accounting officer(s) and the Auditors, the Company's interim financial statements, including management's discussion and analysis, and the Auditors' review of interim financial statements, prior to filing or distribution of such statements.

15. Review any earnings press releases of the Company before the Company publicly discloses this information.

16. Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of these procedures.

17. Discuss with the Auditors and review the matters required to be discussed by applicable auditing standards requirements relating to the conduct of the audit including:

(a) the adoption of, or changes to, the Company’s significant auditing and accounting principles and practices, including significant assumptions and qualifications;

(b) the management letter provided by the Auditors and the Company’s timely response to that letter;

(c) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management; and

(d) any material queries raised by the Auditors to management about accounting records, financial accounts or systems of control and management’s response.

18. Discuss with management and the Auditors major issues regarding accounting principles used in the preparation of the Company’s financial statements, including any significant changes in the Company’s selection or application of accounting principles at least twice a year. Review and discuss analyses prepared by management and/or the Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles.

19. Review any report under applicable securities law, stock exchange or other regulatory requirements, including any reports required to be included in statutory filings, including in the Company’s annual proxy statement.

(c) Ongoing Reviews and Discussions with Management and Others

20. Obtain and review an annual report from management relating to the accounting principles used in the preparation of the Company’s financial statements, including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof.

21. Periodically review separately with each of management, the financial and accounting officer(s) and the Auditors: (a) any significant disagreement between management and the Auditors in connection with the preparation of the financial statements; (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and (c) management’s response to each.

22. Periodically discuss with the Auditors, without management being present: (a) their judgments about the quality, integrity and appropriateness of the Company's accounting principles and financial disclosure practices as applied in its financial reporting; and (b) the completeness and accuracy of the Company's financial statements.

23. Monitor the integrity of the Company’s financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and review significant financial

reporting judgments contained therein. In reviewing such reports before submission to the Board, the Committee’s review shall include a review of:

(a) any changes in accounting policies and practices;

(b) major judgmental areas;

(c) significant adjustments resulting from the audit;

(d) going concern assumptions and any qualifications;

(e) compliance with accounting standards; and

(f) compliance with applicable stock exchange regulations and other legal requirements relating to financial reporting.

24. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or management and the resulting financial statement impact. Review with the Auditors or management the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.

25. Review and discuss with management, the Auditors and the Company's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including applicable changes in accounting standards or rules, or compliance with applicable laws and regulations, inquiries received from regulators or government agencies and any pending material litigation.

26. Discuss with the Company’s financial and accounting officer(s) and the Auditors any matters which should be brought to the attention of the Committee concerning accounting, financial and operating practices and controls and accounting practices of the Company and give due consideration to such matters.

27. Review the principal control risks to the business of the Company, its subsidiaries and joint ventures; and verify that effective control systems are in place to manage and mitigate these risks.

28. Review and discuss with management any earnings press releases, including the use of “pro forma” or “adjusted” non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (i.e. discussion of the types of information to be disclosed and the types of presentations made).

29. Review and discuss with management any material off-balance sheet transactions, significant or unusual items, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may need to be reflected in the reports or accounts, or may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or

significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.

30. Review and discuss with management the Company's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including the Company's risk assessment and risk management guidelines and financial and accounting policies.

(d) Risk Management and Internal Controls

31. Review, based upon the recommendation of the Auditors and management, the scope and plan of the work to be done by the Company's financial and accounting group and the responsibilities, budget and staffing needs of such group.

32. Discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. Such discussions should include adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

33. Ensure that management has designed and implemented effective systems of risk management and internal controls and, at least annually, review and assess the effectiveness of such systems.

34. Approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk.

35. In consultation with the Auditors and management, review the adequacy of the Company's internal control structure and procedures designed to ensure compliance with laws and regulations, and discuss the responsibilities, budget and staffing needs of the Company's financial and accounting group.

36. Establish and review procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns, including without limitation, concerns with respect to internal controls, financial reporting and questionable accounting or auditing matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of such matters and for appropriate follow-up.

37. Ensure coordination between the internal and external auditors and ensure that the internal auditor function is adequately resourced and has appropriate standing within the Company. Maintain a direct reporting relationship with the internal auditors and review: (i) the internal control reports prepared by management, including management's assessment of the effectiveness of the Company's internal control structure and procedures for financial reporting; (ii) the Auditors' attestation, and report, on the assessment made by management; and (iii) the performance of the internal auditors on an annual basis.

38. Review the appointment of the Chief Financial Officer and any key financial executives involved in the financial reporting process and recommend to the Board any changes in such appointment.

39. Review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and act as the key representative body for overseeing the Company’s relations with the external auditor.

(f) Other Responsibilities

40. Create an agenda for the ensuing year and confirm a timetable for the Audit Committee for the ensuing year.

41. Review and approve related-party transactions if required under applicable law, stock exchange or other regulatory requirements.

42. Review and approve (a) any change or waiver in the Company’s code of ethics applicable to senior financial officers and (b) any disclosures made under applicable law, stock exchange or other regulatory requirements regarding such change or waiver.

43. Establish, review and approve policies for the hiring of partners, former partners, employees, or former employees of the Company’s Auditors or the Company’s former independent auditors.

44. Review and reassess the duties and responsibilities set out in this Charter annually and recommend to the Nominating and Corporate Governance Committee and to the Board any changes deemed appropriate by the Committee.

45. Review its own performance annually, seeking input from management and the Board.

46. Confirm annually that all responsibilities outlined in this Charter have been carried out.

47. Perform any other activities consistent with this Charter, the Company's articles and by-laws and governing law, as the Committee or the Board deems necessary or appropriate.

V. Reporting

The Committee shall report regularly to the Board, including on matters set out in applicable stock exchange regulations, and shall submit the minutes of all meetings of the Committee to the Board (which minutes shall ordinarily be included in the papers for the next full board meeting after the relevant meeting of the Committee). The Committee shall also report to the Board on the proceedings and deliberations of the Committee at such times and in such manner as the Board may require. The Committee shall review with the full Board any issues that have arisen with respect to the quality or integrity of the Company’s financial statements, the Company’s compliance with legal or regulatory requirements, the performance or independence of the Auditors or the performance of the Company’s financial and accounting group.

VI. Resources and Access to Information

The Committee shall be provided with sufficient resources to perform its duties. The Committee shall have the authority to retain independent legal, accounting and other advisors or consultants to advise the Committee, as it determines necessary to carry out its duties.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities. The Committee has direct access to anyone in the organization and may request any officer or employee of the Company or the Company's outside counsel or the Auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee with or without the presence of management. In the performance of any of its duties and responsibilities, the Committee shall have access to any and all books and records of the Company necessary for the execution of the Committee's obligations.

The Committee shall determine the extent of funding necessary for payment of (a) compensation to the Company's independent public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (b) compensation to any independent legal, accounting and other advisors or consultants retained to advise the Committee and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.