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COURT OF QUEEN'S BENCH OF
ALBERTA IN BANKRUPTCY AND
INSOLVENCY

JUDICIAL CENTRE

CALGARY

IN THE MATTER OF THE
COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985,
c. C-36, as amended

AND IN THE MATTER OF A PLAN
OF COMPROMISE OR
ARRANGEMENT OF MONGOLIA
MINERALS CORPORATION

J.C.Q.B.A.

"
ST Lovecchio
"

dated the 16th day of June, 2014

Fiat: Let the within Affidavit be filed notwithstanding
that the Application is scheduled to be heard on June 16,
2014.

DOCUMENT

AFFIDAVIT

ADDRESS FOR SERVICE
AND CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

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AFFIDAVIT OF WILLIAM J. FOSTER

Sworn on June 13, 2014

I, William J. Foster of the City of Calgary in the Province of Alberta, **SWEAR AND SAY THAT:**

1. I am the President and Chief Executive Officer of Mongolia Minerals Corporation ("MMC" or the "**Company**"), a Canadian-owned coal exploration and development company with mining interests in Mongolia.

2. I have served as MMC's President and CEO since August 2010 and as such have personal knowledge of the matters herein deposed to, except where stated to be based on information and belief, in which case I believe the same to be true.

RELIEF REQUESTED

3. This Affidavit is made in support of an application (the "**Application**") by MMC for an Order (the "**Initial Order**") pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), among other things:
- (a) abridging the time for service of the Application, deeming its service to have been good and sufficient, and dispensing with service of the Application on any other parties;
 - (b) declaring that MMC is a company to which the CCAA applies;
 - (c) staying all proceedings and remedies taken or that might be taken in respect of MMC or any of its property, except as set forth in the Initial Order or as otherwise permitted by law;
 - (d) authorizing MMC to carry on business in a manner consistent with the preservation of its property and maximization of the value of its assets for the benefit of its stakeholders;
 - (e) appointing Ernst & Young Inc. ("**E&Y**") as monitor (the "**Monitor**") of MMC;
 - (f) granting an administration charge against MMC's property, assets, and undertakings in the amount of \$300,000 as security for the reasonable professional fees and disbursements incurred by the Monitor, the Monitor's counsel, and MMC's counsel both prior to and during MMC's CCAA proceedings on the terms, and with the priority, set out in the Initial Order;
 - (g) permitting MMC to file with the Court a plan or plans of compromise or arrangement; and
 - (h) such further and other relief as counsel for MMC may advise and this Honourable Court considers to be just and appropriate in the circumstances.

BACKGROUND AND BUSINESS OPERATIONS

Overview

4. MMC is an exploration and development stage company. Its most significant assets are the exploration and mining licenses (the “**Licenses**”) located in Mongolia granted to certain of its indirect subsidiaries by the Mineral Resources Authority of Mongolia.
5. The exploration and development activities authorized by the Licenses are part of a multi-stage process aimed at realizing on the potential of Mongolia’s significant and largely untapped coal resources. Prior to generating any revenue from its interests under the Licenses, MMC will have to, among other things: (i) complete exploration programs pursuant to the exploration licenses; (ii) convert exploration licenses to mining licenses; (iii) develop a mine plan and construct a mine; (iv) develop the transportation, processing facilities and other infrastructure required to process and transport coal to markets; and (v) conduct the actual mining, processing, transportation and marketing of the coal that is produced at the mine pursuant to the Licenses.
6. For each of the activities described above, substantial additional capital investment will be required. MMC’s exploration and development activities constitute a long-term, risky and patient capital investment. I believe that all investors in MMC are aware of the foregoing nature of this investment opportunity and that MMC is in only the first stage of a capital intensive, multi-stage process. An attractive element of investing in this opportunity was the ability to invest in MMC’s coal projects at an early stage in their development.
7. As discussed below, MMC’s two current projects (the Khotgor and Dalan projects) are not yet in the development stage. Mining Licenses have been granted for the Dalan project. The Khotgor project has currently been granted a mining license for a small portion of the project and an exploration license for the much larger remainder. A current timeline of the Khotgor and Dalan projects is below:

Khotgor	Timeline		Dalan	Timeline
Time to obtain all mining licenses	2.5 years to complete		Time to obtain all mining licenses	Complete
Development	3 years to complete		Development	1 – 2 years to complete
Life of mine	23 – 50 years		Life of mine	14 – 28 years

8. In the period from approximately May, 2012 to the present, MMC's ability to continue to finance its business operations has been threatened by a combination of regulatory factors and market instability facing Mongolia's mining industry as a whole, and the withdrawal of support of MMC's primary financial backer, Dundee Capital Markets Inc. and its various affiliates (collectively, "**Dundee**").
9. Severe changes to Mongolia's mining industry started to occur in 2012 and included a significant drop in the price of coal and the imposition of severe regulatory restrictions affecting foreign investment in Mongolia. In 2013, the price of coal remained stable and the severe regulatory restrictions were lifted. Dundee continued to provide financial support to MMC throughout this time.
10. Dundee is MMC's largest common shareholder and secured creditor. Up until very recently, Dundee has been a significant and consistent financial backer to MMC, has acted as a financial advisor and has provided capital to MMC as required to enable it to continue its operations. In May, 2014, Dundee abruptly abandoned its financial support of MMC contrary to representations and assurances it had made to MMC thus putting MMC's financial position in jeopardy.
11. MMC considers its core asset, the Khotgor project, to be a world class coal project that is exceptionally valuable. Accordingly, MMC has pursued a business plan to explore and develop that project with the financial support of its investors, including Dundee. Consequently, MMC has not taken any steps to market or sell the Khotgor project.
12. MMC requires protection from its creditors in order to seek further investors who recognize the long-term value of MMC's business or to conduct a market solicitation

process that will maximize and realize the value of the Company's assets to repay the secured creditors and benefit all other stakeholders.

13. If granted the relief from its creditors requested herein, I am not aware of any prejudice thereby to any of MMC's stakeholders, including the secured creditors and believe there is none.

Corporate Structure

14. MMC was incorporated under the *Canada Business Corporations Act* on April 22, 2010 and has its registered and head office in Calgary, Alberta.
15. For tax and regulatory purposes, including requirements under Mongolian law with respect to the granting of exploration and development licenses, MMC operates through ten wholly-owned direct and indirect subsidiaries. A corporate chart of MMC is attached hereto as Exhibit "1".
16. The licenses, are held by four of MMC's indirect Mongolian subsidiaries, as follows:

Subsidiary	License(s)
CGBEM LLC ("CGBEM")	Exploration License 11615X Exploration License 11694X Exploration License 12114X Exploration License 14883X
MCGT LLC ("MCGT")	Mining License 14492A (Dalan) Mining License 12474A (Khotgor)
Powerland LLC	Mining License 9517A Mining License 13132A
Winter Blossom LLC	Exploration License 16830X (Khotgor)

Senior Management and Board of Directors

17. MMC's senior management includes the following individuals:

- (a) William Foster, President and Chief Executive Officer, has over 35 years of experience in the mining industry and has held senior management positions in iron ore and coal companies with operations in Canada, the USA and Mexico;
 - (b) Brett Collins, Vice President, Operations, Mr. Collins has over 28 years in the mining industry, a portion of which was spent in Mongolia where he held positions in the newly commissioned Boroo Gold Mine in the metallurgical processing department and mining department; and
 - (c) Byambasuren Chuluunbat is MMC's in-country Manager of Government Relations. He has significant experience as a government relations professional. He studied in the United Kingdom and the USA and holds a Bachelor of Science degree in International Relations. He is responsible for all government compliance, regulatory and permission issues.
18. Detailed profiles of the members of MMC's senior management and Board of Directors are attached hereto as Exhibits "2" and "3", respectively.
19. In addition to myself, MMC's Board of Directors is currently made up of the following individuals:
- (a) Robert Cross, has more than 20 years of experience in the mining and oil & gas industries, is a co-founder and non-executive Chairman of Bankers Petroleum Ltd., an oil and gas exploration and production company, is Chairman of B2Gold Corp and is a director of BNK Petroleum and Petrodorado Energy Ltd.;
 - (b) Frank Bellotti, is the Chairman and Chief Executive Officer of Euroglobal Capital Partners Inc., an independent investment firm. Mr. Bellotti is also the Chairman of Bellotti Capital Partners, a registered exempt market dealer firm in Toronto, Ontario, and has previously served as a director for companies including BDE Equities;
 - (c) Michael Parrett, is a director of a number of companies in the mining and oil & gas industries including Pengrowth Energy Corporation, Stillwater Mining Company, Centerra Gold Inc. and Sunshine Silver Mines Corporation;
 - (d) Owen Ryan, is Chairman of GB Minerals, a TSX Venture Exchange listed company. Prior to this Mr. Ryan was Head of Group Business Development with Anglo American plc, an Executive Director at UBS Warburg and a partner of Scarab Capital Partners; and
 - (e) Bat-Erdene Baatar, is a senior consultant at London Economics International LLC but previously worked at both the Mongolian Business Development Agency and the Trade and Development Bank of Mongolia.

20. From February 4, 2014 to June 13, 2014, Peter Deeb was a member of MMC's Board of Directors which was a right he bargained for as part of the Notes Offering (as defined below). Peter Deeb has over 25 years of experience in the construction, mining, oil & gas and real estate industries and is currently the Chairman of Hampton Securities Limited ("**Hampton**"). Hampton assisted in identifying purchasers in some of MMC's earlier private placements and acted as co-lead agent in the Notes Offering, and together with Dundee, has acted as a financial advisor to MMC.
21. Mr. Deeb was an active participant in discussions regarding the appropriate strategy that MMC should pursue following the withdrawal of support by Dundee. He voted in favour of the CCAA filing at a board meeting on June 4, 2014 and reaffirmed his support on June 12, 2014. On the evening of June 12, 2014, on a strictly privileged and confidential basis, a draft of my affidavit was circulated to Mr. Deeb and other members of the Board of Directors of MMC for their review and comment. On Friday, June 13, 2014, Mr. Deeb notified the board that he was resigning "immediately" citing a "conflict of interest".

Exploration and Development Projects

Khotgor Project

22. MMC's core assets are the licence areas it holds in Mongolia's Khotgor region located in northwest Mongolia's Uvs province, approximately 325 km from the China-Mongolia border (the "**Khotgor Project**"). MMC's licenses, which represent the right to explore for and develop coal resources, include an exploration license for the entire Khotgor Project and a mining license for a small portion of the Khotgor Project (the "**Khotgor Licenses**"). Upon completion of the exploration phase, MMC will be applying for a mining license for the remaining portion of the Khotgor Project.
23. The Khotgor Project has the potential to be one of the largest coal projects in the world and the second-largest coal project in Mongolia. MMC commissioned a technical report from Roscoe Postle Associates Inc. with respect to the Khotgor Licenses in September, 2011 (the "**Khotgor Technical Report**"). Prepared pursuant to the requirements set out in National Instrument 43-101 (*Standards of Disclosure for Mineral Projects*), the Khotgor Technical Report has shown, measured, and indicated resources of 571.2 million

tonnes (Mt) of coal. However, based on further drilling work and analysis of data from an adjacent property, management of MMC believes that the resource is potentially much larger, perhaps in the magnitude of 1 billion tonnes. Coal-quality and washability testing of Khotgor samples undertaken for the Khotgor Technical Report has confirmed that the coal resources of the Khotgor Project contain ~30% high-quality pulverized coal injection (PCI) and ~70% high-quality thermal coal.

24. Based on 2011 pricing, the Khotgor Technical Report estimates the net-present value of the Khotgor Project, employing an 8% discount rate, at US\$2.53 billion with an internal rate of return of 30.0%, or in a more aggressive production scenario US\$4.91 billion. Extracts from sections of the Khotgor Technical Report dated November 1, 2011 are attached hereto as Exhibit “4”.
25. Market studies commissioned by MMC have shown that both types of coal products expected to be developed at the Khotgor Project are in high demand to meet China’s appetite for energy and raw materials. The PCI coal is particularly well suited for the Chinese steel manufacturing markets of the nearby Xinjiang and Gansu provinces. Extracts from a market study with respect to the Khotgor Project performed for MMC by Shanxi Fenwei Energy Consulting Co., Ltd dated February 28, 2013 are attached hereto as Exhibit “5”.
26. In connection with its audited annual financial statements for the year ended December 31, 2012, MMC prepared an impairment assessment (the “**2012 Assessment**”) of its various properties to provide an updated valuation of the Licenses. The 2012 Assessment took into account the value added to the Licenses by MMC, depressed market prices for coal and other conservative qualitative assessments of the Licenses. The 2012 Assessment was audited by PricewaterhouseCoopers (“**PwC**”) and confirmed the substantial value of the Khotgor Project although at significantly lower value than that in the Khotgor Technical Report. Extracts from the 2012 Assessment are attached hereto as Exhibit “6”.
27. The Khotgor Project is a significant long-term investment. The remote location of the Khotgor Project will require MMC to make significant infrastructure investments prior to

achieving production, including the construction of a mine-mouth coal fired plant, transportation facilities and a coal processing plant. MMC's management currently anticipates that the Khotgor Project could be in production in approximately five and a half years and would require additional capital of about \$740 Million. MMC requires two and a half years to complete exploration and obtain mining licenses at an estimated cost of about \$40 Million and three years to complete development of the necessary infrastructure and facilities at an estimated cost of about \$700 Million. The mine life of the Khotgor Project is estimated to be 23 – 50 years, depending on the production rate achieved.

Dalan Project

28. Located in Mongolia's southeastern Dornogovi province, MMC's Dalan property (the "**Dalan Project**") is covered by mining license 14492A (the "**Dalan License**").
29. An NI 43-101 compliant resource estimate and technical report completed by Roscoe Postle Associates Inc. for the Dalan Project in August 2011 (the "**Dalan Technical Report**") indicates that the coal resources of the Dalan Project are substantially smaller than those of the Khotgor Project, with measured in-situ coal resources of 33.4 Mt and mineable resources of 28 Mt of thermal coal. The coal producible from the Dalan Project is of lower quality than the Khotgor Project. Extracts from the Dalan Technical Report are attached hereto as Exhibit "7".
30. Market studies commissioned by MMC have confirmed potential markets in northern China for unwashed coal developed from the Dalan Project. Extracts from a market study with respect to the Dalan Project completed by Wood McKenzie in 2011 are attached hereto as Exhibit "8".
31. The 2012 Assessment confirmed that the Dalan Project has significant value although substantially less than that indicated in the Dalan Technical Report. In addition to the 2012 Assessment, MMC conducted a further impairment assessment of the Dalan Project in connection with preparation of MMC's financial statements for the year ended December 31, 2013, however this assessment remains in draft form and has yet to be audited by PwC (the "**2013 Draft Assessment**"). The 2013 Draft Assessment indicates a

significant decrease in the value of the Dalan Project as described in the Dalan Technical Report although it continues to have material value.

32. Like the Khotgor Project, the Dalan Project is a significant long-term investment. MMC's management currently anticipates that the Dalan Project could be in production in approximately one to two years as the mining licenses have already been obtained. The Dalan Project has an expected mine life of 14 – 28 years, depending on the production rate achieved. Due to the much lower value of the Dalan Project (relative to the Khotgor Project) and MMC's intention to focus on its core Khotgor Project, MMC is marketing for sale the Dalan Project and the licenses held by Powerland LLC. MMC currently has more than one interested potential purchaser for these assets.

Other Activities

33. Until recently, MMC was engaged, in addition to the Khotgor Project and Dalan Project, in exploration activities in other areas of Mongolia to assess the potential for further resource development and acquired a number of other licenses in furtherance thereof. For the reasons discussed in this Affidavit, MMC has ceased such further exploration activities in order to focus on preserving the value of its core asset, the Khotgor Project. MMC has commenced to seek buyers for these other licenses.

Financing of MMC's Exploration and Development Activities

Success of Initial Equity Financings

34. From June 2010 to June 2012, MMC raised approximately CAD\$82.4 million in equity in a series of private placements. These funds were used to fund the acquisition of licenses, exploration and development activities and general and administrative costs.
35. Dundee is the largest investor in MMC. Dundee is controlled by Ned Goodman (a member of the Board of Directors of MMC until his abrupt resignation on May 23, 2014) and is a full-service investment dealer, marketing itself as having experience and expertise in assisting mining companies in raising equity and debt capital through initial public offerings, bought deals, private placements and acquisitions. Attached as Exhibit "9" are printouts from Dundee's website providing information about Dundee.

36. Dundee currently holds at least 15.73% of the issued and outstanding common shares of MMC (the “**Shares**”). The most significant of Dundee’s holdings include 13,499,999 Shares, or approximately 5.72%, registered in the name of Dundee Global Resource LP; 8,000,000 Shares, or approximately 3.39%, registered in the name of Dundee Corporation; and 6,666,667 Shares, or approximately 2.83%, registered in the name of The Goodman Family Foundation. The foregoing are the known Dundee holdings. Dundee may hold additional interests in MMC through other affiliates or related parties.
37. After Dundee, MMC’s largest common shareholders include:

Investor	Shareholdings	Percentage
Paloduro Investments Inc.	19,666,667	8.34%
The Bradley Griffiths BDB Trust	17,178,572	7.28%
Jayvee & Co	15,164,286	6.43%
Salida Strategic Growth Fund S.à r.l.	14,244,072	6.04%

A schedule identifying all of MMC’s common shareholders, as of June 11, 2014, and their respective shareholdings is attached as Exhibit “**10**” hereto.

38. Enkhtaivan Chimed (“**Mr. Enkhtaivan**”), a Mongolian citizen and former joint venture partner of MMC, holds 143,535,982 convertible preferred shares.

Changes in Investment Climate

39. In the 18-month period from May 17, 2012 to October 3, 2013 the Mongolian Government implemented significant changes to the regulation of foreign investment that had an immediate chilling effect on investment in Mongolia. The changes involved the introduction on May 17, 2012 of the Strategic Entities Foreign Investment Law (“**SEFIL**”). Among other things, SEFIL placed restrictions on the amount of foreign investment that could be made in certain sectors such as mining. The legislation was broadly drafted and was viewed by some as having extra-territorial application thereby limiting liquidity in public companies outside of Mongolia that held investments in

Mongolia. As a result there was a significant curtailment on new foreign investment, and certain foreign companies exited Mongolia following the introduction of SEFIL.

40. Concurrently with the introduction of SEFIL, Mongolian coal export volumes and the prices for those products dropped substantially in the period from January to December 2012, placing further strain on MMC's ability to raise capital.
41. The nature and extent of the affects of SEFIL and the drop in coal prices on Mongolia's investment climate are discussed in the World Bank's Economic Update – Mongolia dated November, 2013 (the "**Economic Update**"), extracts from which are attached as Exhibit "**11**".

Pursuit of New Financing Strategies

42. Against the backdrop of regulatory instability and weakness in demand and in the price of coal produced in Mongolia, MMC's ability to raise capital was constrained. During this time, MMC spent significant time and resources pursuing alternate financing sources, including potential reverse take-over transactions ("**RTO**") to acquire a public listing and substantial additional capital.
43. During this period, MMC's primary investor, Dundee, by its representatives, Messrs. Ned Goodman and David Anderson, made a series of representations and assurances to MMC, its Board of Directors and/or its management team to the effect that until a more substantial amount of new capital was obtained, through completion of an initial public offering, RTO, or other form of capital raise, the capital needs of MMC would be arranged and/or funded by Dundee. On various occasions MMC expressed concern about its urgent need for capital and in each instance, Dundee represented that it would provide MMC with the capital it needed until securing a more substantial source of capital.
44. During this period, Dundee and Mr. Ned Goodman recommended different transactions with entities that were either controlled by Mr. Goodman, Dundee, or members of Mr. Goodman's family, or entities in which such persons were substantial investors.
45. In November 2011, representatives of Dundee requested that Corecap Inc. ("**Corecap**") provide MMC with an engagement letter whereby Corecap would provide certain

services to MMC as financial advisor in connection with a bridge loan credit facility in the amount of \$20 million. Corecap is a division of GFI Investment Counsel, and has ties to Dundee Corporation. Mr. Mark Goodman, son of Mr. Ned Goodman, was the president and a director of Corecap at the relevant time. The transaction proposed by Mr. Goodman through Corecap was not undertaken.

46. In June 2012, MMC entered into a finders' fee agreement with Corecap regarding an offering of up to \$10 million of units in the capital of MMC. Dundee Corporation subscribed for \$10 million of units and Corecap was paid a finders' fee in respect thereof.
47. Commencing in approximately early January of 2013, representatives of Dundee promoted a transaction involving Focused Capital Corporation ("**Focused Capital**") and a wholly-owned subsidiary of Focused Capital pursuant to which MMC would consummate an RTO with Focused Capital and thereby gain a listing on the TSX Venture Exchange. Mr. Mark Goodman was the Chief Executive Officer of and substantial investor in Focused Capital Corporation.
48. As part of the transaction with Focused Capital, one of the conditions precedent was the completion by MMC of a private placement financing for minimum gross proceeds of \$15 million. MMC entered into a confidentiality agreement with Dundee Securities Ltd., whose parent company Dundee Corporation is substantially owned and controlled by the Goodman family. Dundee Securities Ltd. determined the terms upon which, its affiliate, Dundee Resources Ltd., would be prepared to purchase \$15 million of notes of MMC.
49. MMC devoted significant resources to pursuing this transaction from approximately early January to the end of April when Mr. Ned Goodman recommended that such transaction be abandoned. Prior to that time, MMC had entered into a confidentiality agreement and letter of intent with Focused Capital and Focused Capital had publicly disclosed the transaction.
50. Commencing on about February, 2014, Mr. Ned Goodman promoted another transaction pursuant to which MMC would consummate a reverse take-over transaction with Ryan Gold Corp. (the "**Ryan Gold RTO**"). Mr. Ned Goodman and a member of his family form part of Ryan Gold's board of directors and Dundee is a substantial investor in that

company. During the relevant period, Ryan Gold was listed on the TSX-V; however, as part of the Ryan Gold RTO, the entity resulting from the combination was to be moved from the TSX-Venture Exchange to the Canadian Securities Exchange; an organization in which Mr. Ned Goodman holds the position of Deputy Chairman and in which Dundee is an investor. MMC pursued this transaction until May 23, 2014 when Dundee advised MMC of its withdrawal of support which is described further in paragraph 63.

51. In addition to repeated representations and assurances made by Dundee to MMC, Dundee continued to finance MMC's interim capital needs by advancing funds pursuant to a \$2,500,000.00 secured promissory note dated June 13, 2013, a \$1,590,000.00 secured promissory note dated September 30, 2013 and a \$1,250,000.00 secured promissory note dated December 20, 2013 (collectively, the "**Promissory Notes**"). In addition to entering into the Promissory Notes, Dundee undertook to make introductions and advance more substantial funding opportunities.
52. From January, 2013 to May, 2014, the primary focus of MMC's financing efforts was on obtaining additional capital from Dundee. To this end, MMC held numerous meetings with representatives of Dundee including Ned Goodman and David Anderson and exchanged correspondence with David Anderson. Mr. Ned Goodman was at all material times a member of MMC's Board of Directors.
53. As a result of Dundee's substantial investment (as the largest common shareholder), MMC's dealings with Messrs. Ned Goodman and David Anderson during this period and Dundee's history of providing capital when needed, MMC's management was led to believe that Dundee's financial support for MMC would continue through to completion of the Ryan Gold RTO or other substantial capital raise transaction.
54. Various financing options were considered by MMC and some of the representations and assurances given by Dundee are referred to in minutes of the meetings of the Board of Directors of MMC (the "**Minutes**") and in various e-mails and in my personal work-related notes (collectively, the "**Additional Documentation**"). The Minutes and Additional Documentation, with relevant portions highlighted and privileged information redacted, are attached and collectively marked as Exhibit "**12**".

55. To ensure that MMC could continue operating while it worked with Dundee on a substantial capital raise, MMC consolidated its debt through an offering (the “**Notes Offering**”) of \$10,799,000.00 of 12% secured convertible promissory notes (“**Notes**”) issued by MMC pursuant to a Note Indenture entered into between MMC and Valiant Trust Company (“**Valiant**”), as trustee for the noteholders, dated February 4, 2014 and subsequently supplemented by Supplemental Indentures dated March 6, 2014 and April 1, 2014, respectively (collectively, the “**Note Indentures**”). The largest noteholders are as follows:

Noteholder	Holding
Dundee (through Dundee Global Resource LP)	\$5,454,000
White Falcon Inc. (Mr. Enkhtaivan’s company)	\$2,000,000
Lim Ken Gin	\$600,000
Paloduro Investments	\$520,000

Management and members of their family also participated in the Notes Offering and collectively contributed \$476,000.

56. Significantly, only \$2,825,000 raised through the Notes Offering represented new capital to the Company, \$476,000 of which came from management and members of their family, as the balance of the Note Indentures comprised a rollover of existing promissory notes previously issued by MMC to entities controlled by two of MMC’s board members, including the Promissory Notes issued to Dundee. Also of significance is the fact that Dundee yet again played an integral role in the Notes Offering, as it acted as co-lead agent for the transaction.
57. MMC’s obligations under the Note Indentures are secured by a General Security Agreement (the “**GSA**”) between MMC and Valiant, as trustee for the noteholders, dated February 4, 2014 in favour of Valiant. The GSA provides as security, all of MMC’s present and after-acquired personal property. Accordingly, in addition to being MMC’s

largest shareholder, Dundee is also MMC's largest secured creditor. Attached as Exhibits "13" and "14", respectively are true copies of the Note Indentures and the GSA.

58. During negotiations relating to the Notes Offering, Dundee made further representations to MMC that led MMC's management to believe that further financing from Dundee would be forthcoming and that Dundee continued to view MMC's prospects favourably. Significantly, on or about December, 2013, Mr. Anderson communicated that Dundee was interested in acquiring MMC outright and operating it as a private entity. However, Mr. Anderson stressed that Dundee would only be interested if current management remained.
59. To keep key management personnel with the Company through this difficult and uncertain period of raising capital, the Company and its Board of Directors decided to develop and implement comprehensive retention packages (the "**Retention Packages**") for management. At all times Dundee was fully aware and supportive of the Retention Packages and, in fact, played a role in their design and finalization. The Retention Packages were entered into in April, 2014.
60. In April, 2014 Mr. Anderson advised me that he had spoken with Mr. Ned Goodman and they confirm Dundee would fund MMC through to the end of the Ryan Gold RTO process. I advised MMC's Board of Directors of this on April 11, 2014 and my comments regarding this are referenced in the Minutes dated April 11, 2014. A copy of the April 11, 2014 Minutes is attached hereto as Exhibit "15".
61. Based on the representations made by Messrs. Ned Goodman and Anderson from January, 2013 to May, 2014, MMC's management was led to believe that MMC's ability to continue as a going-concern was not in jeopardy. Mr. Anderson told me on several occasions that Dundee was "1000% behind MMC." Accordingly, in reliance on Dundee's representations and assurances, MMC has not pursued any market solicitation process to date regarding its core asset, the Khotgor Project.
62. At a meeting of the Board of Directors of MMC held May 20, 2014, both Mr. Ned Goodman and Mr. Anderson were present and reiterated Dundee's support of the Ryan Gold RTO process. Mr. Goodman advised the Board of Directors that the Ryan Gold

RTO was moving forward, albeit slower than anticipated. At Mr. Goodman's suggestion, the directors including Mr. Goodman resolved that in the interim, an additional \$5 million in capital should be raised on substantially the same terms as the Notes Offering. Mr. Goodman further advised that Dundee would subscribe for additional notes in such offering. A copy of the May 20, 2014 Minutes is attached hereto as Exhibit "16".

63. However, 3 days later on May 23, 2014, Mr. Anderson telephoned and advised me that as a result of a natural gas trade agreement entered into between the Russian and Chinese governments which, in Mr. Goodman's view, was detrimental to the sale of coal from Mongolia to China, Dundee: (i) no longer supported the RTO, (ii) would no longer provide any financial support to MMC, and (iii) Mr. Goodman was going to resign from the MMC Board of Directors effective immediately.
64. Mr. Anderson later advised me that he was in disbelief with what had transpired. Mr. Anderson stressed that he was present at the May 20, 2014 board meeting when Mr. Goodman expressed Dundee's continued support of the RTO and yet only three days later, Dundee was cutting all ties with MMC. Mr. Anderson emphasized that he was "shocked" by what had occurred in such a short time period, to which I replied, "So was I!"

EVENTS LEADING TO PRESENT APPLICATION

65. The sudden termination of Dundee's support for MMC through to the end of the RTO process has caused a liquidity challenge for MMC that threatens its ability to continue operations.
66. Since Dundee's abrupt abandonment of its financing representations and assurances to MMC, the Company has been acting in good faith and with the due diligence and has taken steps to cut operating cost to a minimum while still preserving the value of its assets for the benefit of all of its stakeholders by, among other things:
 - (a) Shutting down the Calgary office (on May 31, 2014);
 - (b) Laying off all employees in the Calgary office (on May 31, 2014);
 - (c) Shutting down the Mongolian office (on May 31, 2014);

- (d) Laying off all but two Mongolian staff employees (on May 31, 2014);
 - (e) Seeking and obtaining from the Mongolian Ministry of Environment and Green Development a delay until October, 2015 for completion of hydro drilling at the Khotgor Project, estimated to cost \$260,000.
67. Additionally, the Company has continued to actively market the Dalan Project and licenses held by Powerland LLC and is currently in discussions to sell these non-core assets and related data to a third-party investor. MMC currently has more than one interested potential purchaser for these assets.

THE NEED FOR CREDITOR PROTECTION

MMC is Insolvent

68. If it is not able to obtain additional financing by June 30, 2014, or to obtain the relief requested herein, the Company will not be able make the June, 2014 interest payment owing under the Notes Indentures in the amount of \$323,970.00 and risks its creditors enforcing the GSA. Such seizure of its assets, including the Licenses, would destroy the significant long-term investments that the Company has made on behalf of its stakeholders.

Assets and Liabilities

Assets

69. Attached hereto as collectively marked as Exhibit "17" are the audited financial statements for MMC for the fiscal year ending December 31, 2012 and unaudited, draft monthly financial statements for the first three quarters of 2013.
70. MMC's most valuable asset consists of the Khotgor Licenses authorizing the Company to explore and/or develop the Khotgor Project. MMC's other assets include the Dalan License, 4 other minor licenses, and a \$2 million USD receivable from Mr. Enkhtaivan.
71. In addition to the above, MMC deposited funds to be held in trust by its counsel, Osler, Hoskin & Harcourt LLP ("**Osler**"), as follows:

- (a) \$50,000.00 deposited as a retainer for legal services provided (the “**Retainer Funds**”); and
 - (b) Funds (the “**Trust Declaration Funds**”) deposited in the period from September 20, 2013 to January 10, 2014 in accordance with the terms of a declaration of trust entered into amongst MMC and Osler dated September 20, 2013, as amended from time to time (the “**Declaration of Trust**”), pursuant to which Osler agreed to hold such funds in trust for the benefit of directors, officers and employees of MMC. As per the terms of the Declaration of Trust, permitted uses of the funds held in trust by Osler include the payment of salaries and wages, source deductions, director and officer insurance premiums and deductibles.
72. I am advised by Mr. Anderson of Osler that the current balance held in trust by Osler for the Retainer Funds is \$50,000.00, although this entire amount is committed to cover unbilled legal work to date related to MMC’s restructuring. He further advises me that the current balance held in trust by Osler for the Deposit Declaration Funds is \$176,651.47. Now shown to me and marked as Exhibit “18” is chart detailing how the Trust Declaration Funds have been applied to date.
73. In addition to the foregoing, MMC has approximately \$185,000.00 in cash in its bank accounts and assets in Mongolia, primarily comprised of vehicles, having an approximate value of \$65,000.00.

Liabilities

74. The approximate balance owing to MMC’s secured and unsecured creditors as of June 13, 2014 (rounded) is as follows:

Secured Creditors ¹	\$10,799,000.00
Unsecured Creditors (excluding employees)	\$775,000.00
Employee obligations, including severance (Estimate)	\$1,937,000.00
TOTAL	\$13,511,000.00

Paid Remittances

¹ This includes \$2 million CAD owed to White Falcon Inc., Mr. Enkhtaivan’s holding company. It does not account for any set off, abatement or other reduction to which MMC may be entitled as a result of its detrimental reliance on representations and assurances given by Dundee.

75. All obligations owing by MMC to statutory creditors such as Canada Revenue Agency (for payroll deductions and GST), employees (other than accrued holiday pay) and Worker's Compensation, etc. are current.

BENEFITS OF RESTRUCTURING

76. With the protection from its creditors requested herein, MMC will work to develop a market solicitation process with a view to refinancing MMC or selling the Licenses and repaying its Secured Creditors and providing value for MMC's other stakeholders. However, this can only be accomplished if this Honourable Court grants MMC relief from its creditors by way of a general stay under the CCAA.
77. MMC's management is optimistic that the regulatory climate in Mongolia is improving due to the Mongolian Government's repeal of SEFIL on October 3, 2013 and the enactment of the Law on Investment (the "**Law**"). Intended to regain investor confidence in Mongolia, the Law, among other things, reverses some restrictions on foreign investment, entrenches specific investment guarantees, and provides for certain tax stabilization measures. Industry observers have noted that the repeal of the SEFIL and the passage of the Law could have significant positive effects on the mining industry. Attached as Exhibit "**19**" is a copy of an article on developments in the regulation of Mongolia's capital markets published by Sara K. Phillips and David C. Buxman in the November, 2013 edition of *The Mining Law Review*. Key features of the Law are described in the World Bank's economic update on Mongolia, dated November, 2013, extracts from which are attached as Exhibit "**11**" hereto.
78. Moreover, after their dramatic drop in 2012, coal prices have been stable since January, 2013. Extracts from the Economic Update showing the recent stabilization of coal prices are attached hereto as Exhibit "**11**".
79. MMC's management believes that the repeal of SEFIL and the introduction of the Law, combined with the recent stabilization of coal prices, provides an improved investor climate in which to conduct a market solicitation process.

CASH FLOW PROJECTIONS

80. Attached as Exhibit “20” are the weekly cash flow projections of the Company (the “**Cash Flow Projections**”) for the 7 week period commencing the week of June 16, 2014 and ending the week of July 28, 2014. Based on my knowledge of the financial position of MMC and based on the assumptions set out in the Cash Flow Projections, I believe that they are fair and reasonable.
81. MMC’s management has worked with the E&Y, the proposed Monitor, to create the Cash Flow Projections. E&Y has made certain suggestions about the Cash Flow Projections, which have been incorporated therein, and E&Y has not expressed any concerns over the reasonableness of the Cash Flow Projections.
82. I believe, based on the Cash Flow Projections, that the Company will be able to meet its post-filing obligations in the ordinary course.
83. MMC is not seeking interim financing (“**Interim Financing**”) at the application for the Initial Order. MMC may apply to this Honourable Court for Interim Financing, if needed, at or after the hearing of the first stay extension application should this Honourable Court grant the Company the relief requested herein.

PLAN OF ARRANGEMENT

84. Based on the Cash Flow Projections and the other financial information set out in this Affidavit, I believe that given a reasonable period of time to engage in a targeted market solicitation process, MMC has a realistic prospect of raising the capital required to fund repayment to the Secured Creditors and a viable plan of arrangement with its other stakeholders.

ADMINISTRATION AND DIRECTORS’ CHARGES

85. The proposed form of Initial Order requested by the Applicant contains a charge against the assets of the Company in the amount of \$300,000.00 as security for the professional fees and disbursements incurred by the Monitor, counsel to the Monitor, and the Applicant’ legal counsel both prior to and after the making of the Initial Order, as more particularly described therein (the “**Administration Charge**”).

86. MMC has directors and officers liability insurance with coverage up to December 31, 2014.
87. I believe that granting the Administration Charge on the terms, and with the priority position, set out in the form of Initial Order requested by the Company is reasonable and appropriate in the circumstances.

MONITOR

88. I believe that E&Y is qualified and competent to act as Monitor under MMC's CCAA proceedings. Attached and marked as Exhibit "21" is a copy of E&Y's signed Consent to Act as Monitor.

MMC'S PENDING ANNUAL GENERAL MEETING

89. MMC's annual general meeting of shareholders (the "AGM") is scheduled to take place on June 30, 2014. If it is granted the relief requested herein, MMC intends to apply to this Honourable Court for an Order extending the time to call the AGM to a date on or before October 1, 2014 pursuant to Section 133(3) of the *Canada Business Corporation Act* in order to allow the Company and its management to focus on current exigencies.

NO PREJUDICE

90. I am not aware of and do not believe that there will be any prejudice to the Secured Creditors or any other stakeholders by the granting of the relief sought. Rather, it will enable MMC to preserve its assets and develop a market solicitation process for the benefit of all stakeholders.

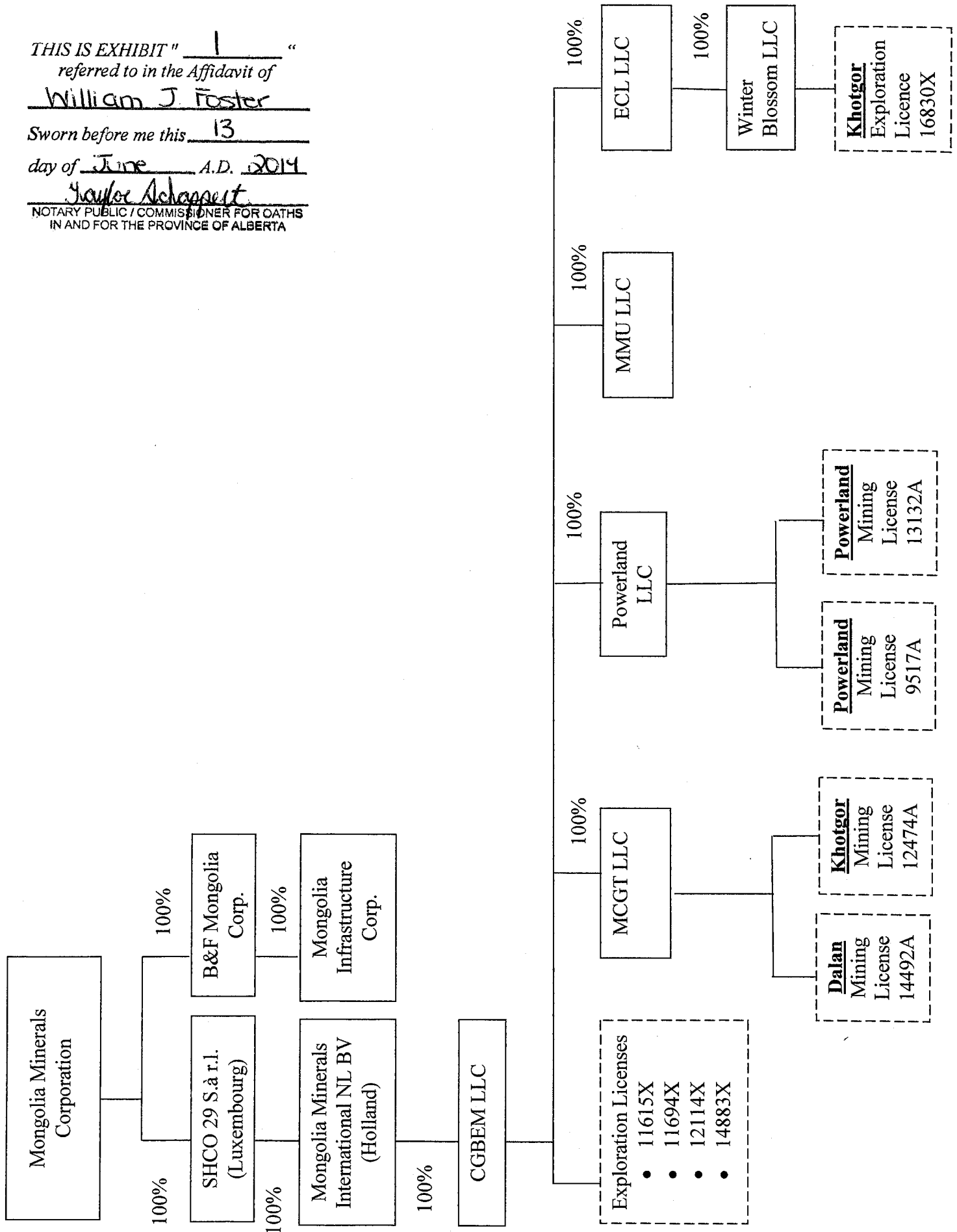
SWORN BEFORE ME at the City of Calgary,)
in the Province of Alberta, this 13th day of)
June, 2014.)

Taylor Schappert)
Commissioner for Oaths in and for the)
Province of Alberta)

William J. Foster

Taylor D. Schappert
Student-at-Law

THIS IS EXHIBIT " 1 " referred to in the Affidavit of William J. Foster
Sworn before me this 13 day of June A.D. 2014
Taylor Schappert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA



Mongolia Minerals Corporation

Profiles for Senior Management

	Position	Bio
William Foster	President and Chief Executive Officer	Mr. Foster has more than 35 years of experience in the mining industry and has held senior management positions in iron ore and coal companies with operations in Canada, USA and Mexico. Mr. Foster was the Chief Executive Officer of Mineral del Norte, an iron ore and coal producing company, from 2007 to 2010. Prior to that Mr. Foster was Senior Vice-President of Elk Valley Coal Corporation, a coal mining company, from 2000 to 2005, and served as Vice President, Operations of Fording Inc.
Brett Collins	Vice President, Operations	Mr. Collins has over 28 years in the mining industry. He moved to Mongolia in 2005 to join the newly commissioned Boroo Gold Mine where he held positions in Boroo's metallurgical processing department, mining department and in the construction of the Boroo Heap Leach. In April 2008, Mr. Collins joined SouthGobi Sands holding progressively senior positions in Loss Control, Mining Operations and Coal Handling & Processing. In April 2011, Mr. Collins joined Mongolia Minerals Corporation as Vice President, Operations and Operations Director for CGBEM, Mongolia Minerals Corporation's wholly owned subsidiary.
Byambasuren Chuluunbat	Government Relations Manager	Mr. Byambasuren is MMC's in-country manager of government relations and has significant experience as a government relations' professional. He studied in the UK and USA and holds a Bachelor of Science degree in International Relations. He is responsible for all government compliance, regulatory and permission issues.

THIS IS EXHIBIT " 2 "
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2014
Guyton Schaeffer
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

THIS IS EXHIBIT " 3 "
referred to in the Affidavit of
William J. Foster

Mongolia Minerals Corporation

Profiles for Board of Directors

Sworn before me this 13th
day of Jun A.D. 2017
Thayer Schappert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

	Position	Bio
Robert Cross	Chairman	Mr. Cross has more than 20 years of experience as a financier in the mining and oil & gas sectors. He is a co-founder and Non-Executive Chairman of Bankers Petroleum Ltd., Chairman of B2Gold Corp., co-founder and Director of Petrodorado Energy Ltd., a Director of BNK Petroleum, and until October 2007, was the Non-Executive Chairman of Northern Orion Resources Inc. Between 1996 and 1998, Mr. Cross was Chairman and Chief Executive Officer of Yorkton Securities Inc. From 1987 to 1994, he was a Partner, Investment Banking with Gordon Capital Corporation in Toronto.
Frank Bellotti	Director	Mr. Bellotti is the Chairman, Chief Executive Officer and founder of Euroglobal Capital Partners Inc., an independent investment firm, and Chairman of Bellotti Capital Partners, a registered EMD firm based in Toronto. Prior to May 2006, Mr. Bellotti was a founding Partner and Director of Kingsdale Capital Corporation, a financial services firm, from June 2001 to June 2006. Mr. Bellotti served as the Vice President and Director of Prime City One Capital Corp., a mortgage and construction management company, from November 2005 to September 2008. Mr. Bellotti is currently a Director of United Hydrocarbon International Energy and has served as a Director of BDE Equities, a mortgage brokerage company, from June 2006 to March 2008.
Michael Parrett	Director	Mr. Parrett is a Director of Pengrowth Energy Corporation, a conventional oil and gas company, Stillwater Mining Company, a palladium, platinum and associated metals producing company, Centerra Gold Inc, a gold mining and exploration company, and Sunshine Silver Mines Corporation, a private corporation in the business of exploring and developing silver projects. Mr. Parrett served as a Director of Gabriel Resources Limited, a mining firm, from 2003 until 2010 and the non-executive chairman from 2005 until 2010. He served as a Director of Fording Coal Limited, a coal mining company from 2003 until 2008. Between 1990 and 2001 Mr. Parrett served as President and as Chief Financial Officer of Rio Algom Limited, a mining company. During 2001, he was Chief Executive Officer of Billiton Base Metals, a base metal product producer.
Owen Ryan	Director	Mr. Ryan is currently a Partner of Scarab Capital Partners LLP, a London based FSA regulated advisory firm that offers mining investment and corporate finance advisory services. Mr. Ryan is currently Chairman of GB Minerals, a TSX-V listed company, and has also served as a non-executive Director of Western Coal Corp. from December 2009 until April 2011. Prior to founding Scarab Capital Partners, Mr. Ryan was the Head of Group Business Development with Anglo American plc from April 2002 until June 2008. Mr. Ryan also served as Executive Director, Head of Global Mining Research and Sales at UBS Warburg in London from 1997 until 2000.
Bat-Erdene Baatar	Director	Bat-Erdene Baatar is a dual Canadian and Mongolian citizen. He is currently employed as a Senior Consultant at London Economics International in Toronto where he advises clients in the infrastructure industry including development companies, banks, regulatory bodies and law firms. Prior to this role Mr Baatar worked at KPMG, the Mongolian Business Development Agency and the Trade and Development Bank of Mongolia. Mr Baatar is a Director of the Ives Trading Corporation in Toronto and ABTS NBFI LLC in Mongolia.

THIS IS EXHIBIT " 4 "
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2014
Shawler Schaeffer
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA



MONGOLIA MINERALS CORPORATION

TECHNICAL REPORT ON THE KHOTGOR PROJECT, UVS PROVINCE, MONGOLIA

NI 43-101 Report

Qualified Persons:

Richard J. Lambert, P.Eng.

James W. Hendry, B.Sc., P.Eng.

Paul Chamois, M.Sc. (Applied), P.Geo.

November 1, 2011

ROSCOE POSTLE ASSOCIATES INC.



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Graham G. Clow

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ECONOMIC ANALYSIS

A pre-tax cash flow projection has been generated from the life-of-mine (LOM) production schedule and capital and operating cost estimates, and is summarized in Table 1-3. A summary of the key criteria is provided below.

ECONOMIC CRITERIA

PHYSICALS

- A production rate of 9 million tpa of raw coal to the wash plant
- A mining rate of a maximum of 218,000 BCM per day of total material
- An average mining rate of 106,000 BCM per day of total material
- Mine life of 50 years, production assumed to commence in 2015
- Wash plant recoveries of:
 - Upper Seam to PCI product: 28%
 - Lower Seam to PCI product: 22%
 - Upper Seam to thermal product: 48%
 - Lower Seam to thermal product: 54%
- Product sales based on approximately 2.2 million tpa of PCI and 4.5 million tpa of thermal coal
- Capital and operating costs are based on unescalated second quarter 2011 US Dollars

MARKETS

- Coal prices, market locations, and sales quantities used in this study are based on a market study by Shanxi Fenwei Consulting Co., Ltd. (Fenwei) for Mongolia Minerals.
- The marketing study assumes sales of PCI coal to Urumqi and thermal coal sales at seaborne prices at the port of Qinhuangdao.
- The expected product quality for Khotgor coal is shown in Table 1-1.

TABLE 1-1 CLEAN COAL PRODUCT QUALITY BASED ON TESTWORK
Mongolia Minerals Corporation – Khotgor Coal Project

PCI (Dry Basis)	Total	Lower Seam	Upper Seam
Tonnes, '000	105,959	65,913	40,045
Ash, wt%	10.66	11.11	9.91
Sulphur, wt%	0.38	0.38	0.39
Volatile Matter, wt%	26.21	25.84	26.82
GCV, kcal/kg	7,373	7,298	7,496
Thermal (Dry Basis)			
Tonnes, '000	230,437	161,787	68,649
Ash, wt%	21.76	21.61	22.12
Sulphur, wt%	0.34	0.32	0.39
Volatile Matter, wt%	22.92	22.84	23.13
GCV, kcal/kg	6,353	6,353	6,354

CASH FLOW ANALYSIS

Considering the Project on a stand-alone basis, and LOM average prices from the marketing study of \$107.97/t for PCI and \$97.51/t for thermal, the undiscounted pre-tax cash flow totals \$15.8 billion over the mine life, and simple payback occurs in 3.75 years.

The total cash cost is \$50.38/t of clean coal. The mine life capital unit cost is \$3.33/t of clean coal, for a total production cost of \$53.71/t of clean coal. Average annual coal production during operation is 9.0 million tpa of raw coal with a nominal 6.7 million tpa of clean coal.

The pre-tax Net Present Value (NPV) at an 8% discount rate is \$2.53 billion, and the pre-tax Internal Rate of Return (IRR) is 30.0%.

Using current 2011 un-escalated prices for the LOM from the independent market study of \$54.53/t for PCI and \$53.85/t for thermal, the undiscounted pre-tax cash flow totals \$2.8 billion over the mine life, and simple payback occurs in ten years.

The total cash cost in this scenario is \$42.41/t of clean coal. The mine life capital unit cost is \$3.33/t of clean coal, for a total production cost of \$45.74/t of clean coal.

The pre-tax NPV at an 8% discount rate is \$70.2 million, and the pre-tax IRR is 8.9%.

SENSITIVITY ANALYSIS

Project risks can be identified in both economic and non-economic terms. Key economic risks were determined to be coal price, exchange rate, operating costs, and capital costs. Cash flow sensitivities to these parameters are shown in Figure 1-1 and Table 1-4.

NPV sensitivity over the base case has been calculated for -20% to +20% variations on coal price, capital costs, operating costs, and exchange rate.

TABLE 1-6 KHOTGOR RESOURCES BY CLASSIFICATION
Mongolia Minerals Inc. - Khotgor Coal Project

Block	Seam	'000 Tonnes				Allocation (%)		
		Meas	Ind	Total M+I	Inf	Meas	Ind	Inf
L_12474A	U1	12,886	1,583	14,469	0	89.1	10.9	0.0
L_12474A	U2	30,162	3,003	33,165	0	90.9	9.1	0.0
L_12474A	U3	52,183	7,760	59,943	0	87.1	12.9	0.0
L_12474A	U4	34,697	1,716	36,413	0	95.3	4.7	0.0
L_12474A	M	13,423	2,890	16,313	141	81.6	17.6	0.9
L_12474A	L1	17,553	2,341	19,894	64	87.9	11.7	0.3
L_12474A	L2	75,934	9,502	85,436	288	88.6	11.1	0.3
L_12474A	L3	101,801	23,406	125,207	832	80.8	18.6	0.7
L_12474A	L4	60,267	12,231	72,498	528	82.5	16.7	0.7
L_12474	Total	398,905	64,433	463,338	1,853	85.8	13.9	0.4
L_16830X	U1	2,869	1,120	3,989	0	71.9	28.1	0.0
L_16830X	U2	3,569	1,285	4,854	0	73.5	26.5	0.0
L_16830X	U3	8,911	3,590	12,501	0	71.3	28.7	0.0
L_16830X	U4	1,753	771	2,524	0	69.5	30.5	0.0
L_16830X	M	1,774	702	2,476	72	69.6	27.5	2.8
L_16830X	L1	6,763	243	7,006	24	96.2	3.5	0.3
L_16830X	L2	19,012	2,235	21,247	235	88.5	10.4	1.1
L_16830X	L3	29,474	5,210	34,684	509	83.8	14.8	1.4
L_16830X	L4	15,694	2,919	18,613	311	82.9	15.4	1.6
L_16830X	Total	89,819	18,075	107,894	1,149	82.4	16.6	1.1
TOTAL	U1	15,755	2,703	18,458	0	85.4	14.6	0.0
TOTAL	U2	33,731	4,288	38,019	0	88.7	11.3	0.0
TOTAL	U3	61,093	11,350	72,443	0	84.3	15.7	0.0
TOTAL	U4	36,450	2,487	38,937	0	93.6	6.4	0.0
TOTAL	M	15,198	3,592	18,790	212	80.0	18.9	1.1
TOTAL	L1	24,315	2,584	26,899	87	90.1	9.6	0.3
TOTAL	L2	94,945	11,737	106,682	523	88.6	10.9	0.5
TOTAL	L3	131,275	28,616	159,891	1,341	81.4	17.7	0.8
TOTAL	L4	75,961	15,150	91,111	839	82.6	16.5	0.9
TOTAL	Total	488,724	82,507	571,231	3,002	85.1	14.4	0.5

HIGHER PRODUCTION RATE

An expanded case with a higher production rate of 20 million tpa was investigated, and a cash flow projection has been generated from the LOM production schedule and capital and operating cost estimates, which is summarized in Table 22-3. A summary of the key criteria is provided below.

PHYSICALS

- A production rate of 20 million tpa of raw coal to the wash plant
- A mining rate of a maximum of 455,000 BCM per day of total material
- An average mining rate of 230,00 BCM per day of total material
- Mine life of 23 years, production assumed to commence in 2015
- Wash plant recoveries of:
 - Upper Seam to PCI product: 28%
 - Lower Seam to PCI product: 22%
 - Upper Seam to thermal product: 48%
 - Lower Seam to thermal product: 54%
- Capital and operating costs are based on second quarter 2011 US Dollars

REVENUE

- A LOM average price of \$106.40/t for pulverized coal injection (PCI) coal and \$95.90/t for thermal coal, based on the independent marketing study
- A transportation cost of \$10.70/t of clean coal from the mine by rail to the Mongolia/China border
- A royalty of 5% with up to an additional 3% based on a sliding scale and the benchmarked coal price set by the Mongolian government
- Customs fees of \$2.90/t of coal

COSTS

- Pre-production capital of \$1.57 billion (excluding working capital of \$200 million)
- Operating cost of an average of \$9.49/t of raw coal \$12.49/t of clean coal

CASH FLOW ANALYSIS

Considering the Project on a stand-alone basis, the undiscounted pre-tax cash flow totals \$15.8 billion over the mine life, and simple payback occurs in 3.16 years.

The total cash cost is \$45.78/t of coal. The mine life capital unit cost is \$6.42/t, for a total production cost of \$52.20/t. Average annual coal production during operation is 20 million tpa of raw coal and 15.2 million tpa of clean coal.

The NPV at an 8% discount rate is \$4.91 billion, and the IRR is 31.9%.

The expanded scenario (20 million tpa) yields a slightly shorter payback period with lower cash costs and a higher NPV, but requires a significantly higher pre-production capital of \$1.77 billion. Of the \$1.77 billion of capital, \$750 million was intended for the construction of a railway line to the Dayan border pass in western Mongolia to handle the increased production rate at a lower transport cost of \$10.7/tonne.



THIS IS EXHIBIT " 5 "
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2017
Maureen Schappert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

February 28, 2013

Market Study Updating on Khotgor Project, Mongolia

Prepared for

MONGOLIA MINERALS CORPORATION (MMC)

By

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Statement

This report contains a “*statement*” which is based on the beliefs of, estimates made by and available information of Shanxi Fenwei Energy Consulting Co., Ltd. (Party A), and is subject to certain risks or uncertainties that could cause actual results to differ substantively from those projected. We use the words such as “predict”, “believe”, “estimate”, “may”, “possible”, “will”, “expect”, “can”, “should”, “would”, “could”, “appear”, “based on”, “intend”, “potential” or other similar expressions or words to make any forward-looking statements which include the information regarding market study, supply, demand and price on Khotgor project of Mongolian Minerals Corporation (MMC, Party B). We believe such statements are reasonable by drawing from analyses on the existing documents; however, undue reliance should not be placed on them since they are results of our estimates. In actual operational process, forecast of Party A may be subject to changes owing to the following factors:

- The actual quality data of Khotgor coal is some different from information in Party B’s hand;
- Changes in China’s policies will directly or indirectly impact the supply and demand of Khotgor coal products in Chinese market;
- Khotgor coal price will be influenced by coal supply and demand in both China and abroad.

By making forward-looking statements, we assume no obligation to, nor may anyone expect us to, update or revise those statements because of new information and future events, unless otherwise being expressly instructed by Party B to do so.

Furthermore, we use the phrases such as “we judge”, “we assess” and “we estimate” as well as and probabilistic terms such as “probably” and “likely” to make analytical assessments and judgments. Such statements are not facts, proofs, or common views but generally based on collected information, which is often incomplete or fragmentary.

Some assessments are built on previous experiences. In no case shall the assessments and judgments imply that we have “hard evidence” that shows something to be a fact, or that decisively links two items or issues.

In addition to conveying judgments rather than facts, Party A’s estimative languages also express 1) its assessed likelihood or probability of an event; and 2) the level of confidence it ascribes to the judgment.

In order to make judgments rather than solid facts, Party A adopts different phases and words to express probability of varied levels. “likely”, “should”, “must” or “highly possible” represents higher probability; “unlikely” or “will hardly” shows smaller probability; “seems” or “as if” means that Party A lacks of adequate, complete or specific evidence to determine possibility of an event’s occurrence. “We cannot deny”, “we have to admit” or “we need to consider” indicates that the event is worth of mentioning despite of its smaller possibility.

The product price and the relevant financial items in this report are expressed in US Dollars. The exchange rate between US Dollars and Chinese RMB Yuan we adopted is 1:6.30.

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Abstract

We conducted investigations, studies and analyses of the target markets in China for Khotgor PCI and thermal coal by referring to their coal qualities provided by Mongolian Minerals Corporation (MMC hereinafter) as well as the distance and transport cost from Khotgor to Hongshanzui Border Crossing in Xinjiang, Khotgor to Ceke Border Crossing in Inner Mongolia, and Khotgor to Takeshiken Border Crossing, Xinjiang. In addition, the transportation means, distance and cost from Khotgor to target market in Bayi Steel (Urumqi, Xinjiang), Jiuquan Iron & Steel Group (Jiayuguan, Western Gansu), QHD port and Chengdu (in Sichuan).

Based on such assumption and our investigations, we analyzed and forecasted transport routes, transport cost and sales price of Khotgor's PCI and thermal coal in China's different regions in 2013, 2017 and afterwards in this report. All prices submitted in this report include VAT.

➤ Khotgor PCI

It is bituminous PCI with low ash, low sulfur, high calorific value and medium-high volatility. Its target markets will be in China's Xinjiang Uyghur Autonomous Region and western Gansu Province. Bayi Group, a large iron & steel corporation, is located in Urumqi, Xinjiang; while Jiuquan Iron & Steel Group is in Jiayuguan City of western Gansu (abbreviated as JISCO hereinafter). In 2012, Bayi Group contributed 9.21Mt of pig iron which consumed 1.4Mt of PCI, of which 1.33 Mt was bituminous coal. JISCO Headquarters produced 5.81 Mt of pig iron by consuming 0.95 Mt of PCI coal in 2012, which included 0.36 Mt of bituminous PCI.

Thanks to its large-scale investment and construction, Xinjiang is planning lots of steel programs. Table I shows our prediction of the PCI demand in Xinjiang and western Gansu before 2020.

Table I PCI Demand in Xinjiang and Western Gansu before 2020

Item	Xinjiang			Western Gansu		
	2013E	2015E	2020E	2013E	2015E	2020E
Pig iron output (Mt)	15.69	22.36	32.41	8.04	9.67	12.12
PCI coal demand (Mt)	2.51	3.81	6.14	1.34	1.68	2.21
Bituminous PCI demand (Mt)	2.39	3.67	5.80	0.54	0.72	1.01

Source: Fenwei Energy

Xinjiang has no much PCI coal resources or very little, as the coal extracted locally has high volatile matter. Western Gansu has no PCI coal resources at all. However, mainland of China does not lack of PCI in both anthracite and bituminous coal. Khotgor bituminous PCI cannot compete with anthracite PCI due to its quality. Khotgor PCI will occupy a large market shares in Xinjiang, Western Gansu and south China potentially.

➤ **Khotgor Thermal Coal**

At present, the opencast coal mines, being constructed in Zhundong, Hami and other areas in Xinjiang Autonomous Region, are mainly producing thermal coal. It will be in excessive supply and at low production cost, which is making Khotgor thermal coal noncompetitive in this region.

With small coal output, western Gansu has to import thermal coal from other regions, especially from Hami of Xinjiang due to short distance. 16.00 Mt of thermal coal was transported into western Gansu in 2012. With thermal coal consumption continuously rising in this area, the gap between its supply and demand will be widened, which will create larger market space for Khotgor thermal coal.

China will keep economic development steadily, which will back up the rising momentum in coal demand. In addition to occupying a market share in western Gansu, China, MMC can also deliver its thermal coal by rail to Qinhuangdao Port (QHD hereinafter) and to Chengdu, Sichuan in southwest China. QHD Port is a main thermal coal terminal market, where it can be shipped to the power plants in the south of China or to Korea, Japan and Taiwan.

With Xinjiang's rail transport capacity greatly enhanced after 2017, it will be more convenient to transport Khotgor coal products to inner China. Mongolia is now planning to build a railway running from east to west. It is predicted that it will have completed the railway line from Ulaangom to Nariin by 2017. At that time, Khotgor coal can be railed firstly from Ulaangom to Shivee Khuren Border (opposite Ceke Border in Inner Mongolia, China) and finally to JISCO in Jiayuguan City of Gansu Province or QHD. After Bei-Fu-Zhun railway complete construction by 2017, Khotgor coal can be transported to Bulgan border (Mongolia) and Takeshiken Border (China), passing Fuyun, Hami, and then delivered to JISCO. The full Freight is evaluated as USD69.2/t in 2017. The freights will be USD16.63/t and USD18.11/t less than that passing through China's Hongshanzui Border Crossing in Xinjiang respectively, hence significantly strengthening the competitiveness of Khotgor coal products in China.

➤ **Summary**

Xinjiang and western Gansu, with small PCI coal output, will see their demand for PCI coal on a constant rise, which presages a bright market prospect for Khotgor PCI in these two areas.

Khotgor thermal coal can occupy a large market share in western Gansu after 2017. In addition, Khotgor thermal coal has great potential markets in Qinhuangdao, Chengdu of Sichuan, and other south western regions. For the high-quality thermal coal, if MMC has low production cost on Khotgor Project and able to afford the relatively high transport and intermediary costs, it is available to sell thermal coal in these areas.

1.5 Khotgor PCI Competitiveness in Xinjiang Market

1.5.1 Comparison of Coal Quality

The bituminous PCI consumed by Bayi Group is mainly from Liuhuangu. In comparison with it, Khotgor PCI coal is 2.24% lower in ash content, 0.59% higher in volatility, 5.56MJ/kg higher in calorific value and 0.28% higher in sulfur content. Volatility and calorific value is the most important indices influencing PCI coal quality. In a comprehensive view, Khotgor PCI is slightly inferior to Liuhuangu PCI in its higher volatility but superior to the latter in terms of calorific value, thus it is a better choice. When comparing with Changji bituminous PCI, Khotgor PCI has lower ash content by 4.18% and lower volatility by 4.66%, but higher calorific value by 6.69MJ/kg; it owns more advantages. Therefore, in terms of coal quality, Khotgor PCI can fully satisfy Bayi Group's requirements and much better than the bituminous PCI used by Bayi Group at present.

1.5.2 Comparison of Competitiveness

➤ Transport Conditions

The transport distance from Khotgor to Bayi Steel, Urumqi is 1304 km currently. The customs clearance, road and rail transports spend USD67.71/t in total. In contrast, only 50 km from Liuhuangu to Bayi Steel, 40 km from Changji to Bayi Steel, and the transport cost will lower by USD66.21/t and USD66.72/t for Liuhuangu PCI. The transport cost from Khotgor to Bayi Steel, Urumqi will drop USD15.59/t by freight in 2017, but still USD50.26/t and USD 50.77/t higher respectively.

If Khotgor PCI is transported to Takeshiken Border, the total cost will be USD 54.34/t, lower than current Hongshanzui Border route but higher than future Hongshanzui Border route. Extra fees for negotiation with Khushuut mine of MEC will be occurred. Therefore, in terms of transport cost, Khotgor PCI coal is confining its competitiveness.

However, a new market (Fuyun county) is blossoming, there are three new iron projects settled in Fuyun county. The full cost from Khotgor to Fuyun county should be USD35.88/t through Takeshiken Border Crossing. Kaiyuyuan Mining Co. (1.5Mt, put into operation in 2012), Jinhao Iron Industry (3.00Mt, in construction and will be complete in 2014) and Guoheng Foundry Co., Ltd. (1.00Mt, in construction and will be complete in 2014). PCI demand in Fuyun County in 2017 should be 0.88Mt (The PCI Rate is assumed to be 160g/t) or more.

➤ Influence of Coal Quality on Khotgor PCI Competitiveness

At present, the PCI consumed in Bayi Group is bituminous PCI with volatile content of 25.59% from Liuhuangu and 31% of volatile matter from Changji. In terms of coal quality, Khotgor PCI is superior and ought to be required by Bayi Group. With Bayi Group PCI coal demand rising in the future and consuming 100% of bituminous PCI for pig iron production, Liuhuangu PCI supply will fail to satisfy such high demand. MMC will be able to provide stable and adequate supply with large output. In a word, Khotgor PCI will be highly competitive in Xinjiang area.

Table 3-30 Forecasts on Khotgor PCI Price at Takeshiken Border Crossing (Unit: USD/t)

Year	2017E	2018E	2019E	2020E
Khotgor PCI price at Ceke Border (Incl. VAT)	51.78	56.80	62.15	67.85

Source: Fenwei Energy

2.4 Competitiveness of Khotgor PCI in Gansu Market

2.4.1 Coal Quality Comparison

Table 3-31 shows coal quality in various places in Gansu Province vs. Khotgor PCI quality. We can see Khotgor PCI must be very popular in its quality indices in western Gansu.

Table 3-31 Khotgor PCI vs. Coal in various places in Gansu

Coal production areas	Mad %	Vd %	Qnet.ar MJ/kg	St.d %
Lanzhou City	1.01	37.04	27.21	0.72
Huating County	0.91	>45.00	20.93	<0.63
Jingyuan County	0.80	<35.06	23.00	<0.62
Khotgor	0.68	25.00	30.11	0.39

Source: www.sxcoal.com

2.4.2 Comparison of Competitiveness

➤ Transport Conditions

Coal transportation distance from Hami, Xinjiang to JISCO Headquarters is 569km and freight is USD9.38/t. The freight from Khotgor to JISCO Headquarters is USD87.31/t, which is USD77.92/t higher than freight from Hami to JISCO. Even though the Xinjiang transportation condition will be improved in 2017, the freight from Khotgor to JISCO is still USD57.46/t higher than the freight from Hami to JISCO. The transportation distance and freight to Khotgor coal is a big challenge. The full cost from Khotgor to Jiayuguan *via* Takeshiken Border Crossing in and after 2017 will be USD69.20/t, which is a little higher than *via* Hongshanzui Border USD66.85/t.

If Mongolia rail plan is implemented in 2017, the Khotgor coal can be shipped to JISCO *via* Ceke Border Crossing, Inner Mongolia. The freight will be USD22.66/t less than that *via* Hongshanzui Border. The Khotgor PCI will be more competitive.

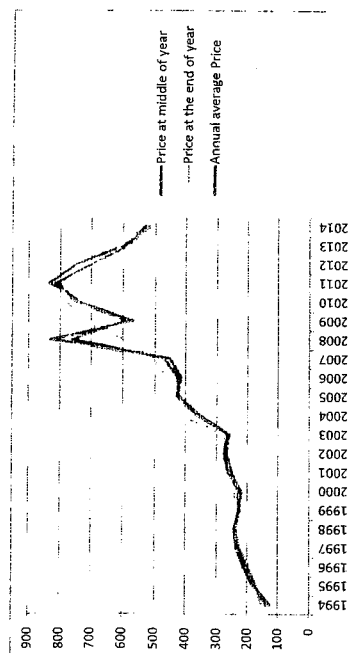
➤ Coal quality encouraged Khotgor PCI Competitiveness

Compared with bituminous PCI from Hami, Xinjiang and Gansu, the Khotgor PCI is low in moisture, ash and volatile contents. Along with the demand increasing and high quality requirement of bituminous PCI by blast furnaces for pig iron production and the wide gap of demand and the supply, Khotgor PCI with high heating value will be much popular in JISCO Headquarters.

Thermal coal price at QHD Port (RMB yuan/ton)

Unit (元): 28%~32% St, 1 (元): 1%~4% St, ar (kcal/kg): 5500;

Year	Price at middle of year	Price at the end of year	Annual average Price
1994	129	154	140
1995	182	174	176
1996	212	194	204
1997	235	225	230
1998	212	237	211
1999	227	217	225
2000	220	249	228
2001	251	286	263
2002	268	277	275
2003	259	275	263
2004	365	426	354
2005	430	412	421
2006	415	457	427
2007	452	510	470
2008	830	600	760
2009	570	730	591
2010	745	780	744
2011	835	800	814
2012	745	620	699
2013	600	615	582
2014	520	526	524



Mongolia Minerals Corporation
December 31, 2012
Impairment Assessment - Update

THIS IS EXHIBIT " 6 "
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2014
Taylor Schoppert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

Summary

At September 30, 2012, management assessed the impairment of the mining and exploration licenses in response to difficulties advancing its exploration program in 2012, Mongolia adopting a foreign investment law during the run up to the elections in June 2012, and the current financial resources available to the company. This assessment is attached as Appendix A. The assessment estimated coal price changes based on general market data, and management undertook to update a marketing study for the Khotgor project for this update. The conclusion of this impairment assessment was that five exploration licenses were considered impaired and were written off, resulting in a \$1 million charge to earnings.

New developments in Mongolia include the release of a draft minerals law and a commitment to cancel, or possibly renegotiate, tax treaties with Luxembourg and The Netherlands. It is management's view that neither of these developments substantially alters the risk profile of the business.

Incorporating the results of the updated Khotgor marketing studies, management concluded that the Khotgor and Dalan projects were not impaired. Further, there was no change in the status of other licenses deemed unimpaired at September 30, 2012 and there is no impairment at this time. A summary of license book values follows:

License	(\$ 000s)	Book value
MV-012474, XV-016830 - Khotgor		\$ 46,626.1
MV-014492 - Dalan		\$ 7,076.3
MV-013132, MV-009517 - Powerland		\$ 7,294.7
XV-015229		\$ -
XV-014434		\$ -
XV-014951		\$ -
XV-011590		\$ -
XV-008596		\$ -
XV-011615		\$ 29.7
XV-011694		\$ 134.1
XV-012114		\$ 162.7
XV-014883		\$ 253.4
		\$ 61,577.0

Khotgor (MV-012474, XV-016830)

Management engaged Fenwei Energy to update the two marketing studies to reflect current market conditions. The reports were completed and accepted by management in February 2013. The reports indicated that PCI and thermal coal prices in target markets have declined 7% and 15% respectively. Transportation costs in China have also increased. Anticipated coal prices at the Mongolia/Chinese

border - considering market prices changes, updated transportation costs and attendant differences in Chinese VAT – have declined 18% and 30% for PCI and thermal coal, respectively.

Mongolia also changed its royalty calculations in late 2012. Previously, royalty rates were applied against benchmark prices posted by the government, which were higher than net backs received by producers. This had the effect of creating higher effective royalty rates – between 17% and 22% in the PEAs. Mongolia changed the regime such that the royalty rates are applied against invoice amount. Royalties now range between 5% and 10% of prices depending on value and whether the product was upgraded.

The net effect of price, transportation, Chinese VAT and Mongolian royalties was to reduce average netback prices at the mine gate by 13%.

Management updated the nine-million tonne per annum Khotgor PEA model for the current view of prices, transportation costs, Chinese VAT and Mongolian Royalties. The 20-million tonne per annum PEA model was not updated because this model returns higher net present values on an absolute value basis. Accordingly, this methodology is a conservative view to value.

The impairment model for Khotgor assumes different scenarios for project timelines. Project timelines include delays of up to 5 years from the current schedule, with the largest weighting assigned to a two-year delay. Timing scenarios and weights are not changed in this update.

Probabilities for scenarios were determined to be as follows:

Schedule		(Production in:)
Model	0%	(3 years)
Delay 2 years	70%	(5 years)
Delay 3 years	20%	(6 years)
Delay 5 years	10%	(8 years)

The probabilities assigned to various delay scenarios are viewed by management as reasonable.

The resulting probability-weighted net present values across discount rates of 15.0%, 17.5%, and 20.0% are shown below. The results are in excess of the book value of the licenses and no impairment is indicated.

Discount rate	15.0%	17.5%	20.0%
Net present value (\$ 000s)	\$ 443.3	\$ 274.2	\$ 161.5

Dalan (MV-014492)

Management did not update the marketing study for the Dalan project due to cost, current priorities vis-à-vis Khotgor, and favourable economics.

The impairment model for Dalan assumes different scenarios for price changes and project timelines. Project timelines include delays of up to 5 years from the current schedule, with the largest weighting assigned to a two-year delay. Timing scenarios and weights are not changed in this update.

With respect to pricing scenarios, using the 30% decrease in thermal coal prices from the Khotgor marketing studies at the Mongolia/Chinese border and revised royalty rates of 6-7% rather than 17% equates to a 21% decrease in coal prices in the PEA model. Accordingly, management assigned the highest probability to a scenario with a 20% price decline. Management also assumed scenarios with a 30% price decline and a 10% price decline. The scenario with a 30% price decline was weighted more heavily due to the plan to sell run-of-mine coal.

Probabilities for scenarios were determined to be as follows:

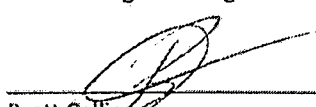
Prices		Schedule		(Production in:)
Model	0%	Model	10%	(3 years)
Down 10%	20%	Delay 2 years	60%	(5 years)
Down 20%	50%	Delay 3 years	20%	(6 years)
Down 30%	30%	Delay 5 years	10%	(8 years)

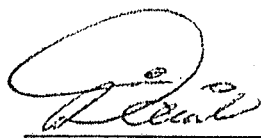
The probabilities assigned to various pricing and delay scenarios are viewed by management as reasonable.

The resulting probability-weighted net present values across discount rates of 15.0%, 17.5%, and 20.0% are shown below. The results are in excess of the book value of the license and no impairment is indicated.

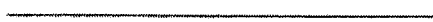
Discount rate	15.0%	17.5%	20.0%
Net present value (\$ 000s)	\$ 73.4	\$ 55.1	\$ 41.3

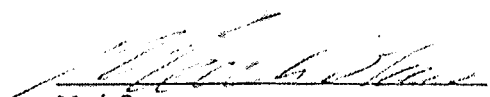
Acknowledged and agreed March 16, 2013


Brett Collins


Cristobal G. David


Louise Michaud


Denis Lehoux


Mark Gow


Bill Foster

With respect to pricing scenarios, using the 30% decrease in thermal coal prices from the Khotgor marketing studies at the Mongolia/Chinese border and revised royalty rates of 6-7% rather than 17% equates to a 21% decrease in coal prices in the PEA model. Accordingly, management assigned the highest probability to a scenario with a 20% price decline. Management also assumed scenarios with a 30% price decline and a 10% price decline. The scenario with a 30% price decline was weighted more heavily due to the plan to sell run-of-mine coal.

Probabilities for scenarios were determined to be as follows:

Prices		Schedule		(Production in:)
Model	0%	Model	10%	(3 years)
Down 10%	20%	Delay 2 years	60%	(5 years)
Down 20%	50%	Delay 3 years	20%	(6 years)
Down 30%	30%	Delay 5 years	10%	(8 years)

The probabilities assigned to various pricing and delay scenarios are viewed by management as reasonable.

The resulting probability-weighted net present values across discount rates of 15.0%, 17.5%, and 20.0% are shown below. The results are in excess of the book value of the license and no impairment is indicated.

Discount rate	15.0%	17.5%	20.0%
Net present value (\$ 000s)	\$ 73.4	\$ 55.1	\$ 41.3

Acknowledged and agreed March 16, 2013

Brett Collins

Louise Michaud

Mark Gow

Cris David

Denis Lehoux

Bill Foster

Appendix A

September 30, 2012

Impairment Assessment

Summary

Management has assessed the impairment of the mining and exploration licenses in response to difficulties advancing its exploration program in 2012, Mongolia adopting a foreign investment law during the run up to the elections in June 2012, and the current financial resources available to the company.

The management group, consisting of Bill Foster, Denis Lehoux, Brett Collins, Louise Michaud, Cris David and Mark Gow, met on a number of occasions to discuss various scenarios and probabilities.

Management concluded that the Khotgor and Dalan projects were not impaired. Certain exploration licenses with a value of \$1 million were considered impaired and are to be written off. Other mining and exploration licenses were not considered impaired. A summary follows:

License	(\$ 000s)	Book value	Impairment	New book value
MV-012474, XV-016830 - Khotgor		\$ 45,764.8	\$ -	\$ 45,764.8
MV-014492 - Dalan		\$ 6,948.6	\$ -	\$ 6,948.6
MV-013132, MV-009517 - Powerland		\$ 7,352.6	\$ -	\$ 7,352.6
XV-015229		\$ 103.8	\$ 103.8	\$ -
XV-014434		\$ 79.6	\$ 79.6	\$ -
XV-014951		\$ 254.8	\$ 254.8	\$ -
XV-011590		\$ 38.8	\$ 38.8	\$ -
XV-008596		\$ 483.2	\$ 483.2	\$ -
XV-011615		\$ 26.5	\$ -	\$ 26.5
XV-011694		\$ 127.1	\$ -	\$ 127.1
XV-012114		\$ 157.4	\$ -	\$ 157.4
XV-014883		\$ 246.5	\$ -	\$ 246.5
		\$ 61,583.7	\$ 960.2	\$ 60,623.5

Mining licenses

Mining licenses are characterized by longer terms to expiry. The Khotgor and Dalan projects have established resources. The Powerland project does not have established resources.

Khotgor (MV-012474, XV-016830)

The two Khotgor licenses constitute a large land area. A NI 43-101 Technical Report has been completed for the project, which is the main project the company is advancing. The coal can be cleaned to produce a high-quality thermal coal and PCI. Management intends to continue exploration work on these licenses and to advance a feasibility study. The book value of the two licenses that make up the Khotgor project is \$45.8 million.

Two preliminary economic assessments (PEA) accompanying the resource report supports a view to value in use. However, there are few market precedent transactions, or a lack of transparency into any transactions, which makes an estimate of fair value difficult.

The two PEAs assume annual raw coal processing rates of 9 million and 20 million tonnes. Management assessed the probability of proceeding with the 9-million-tonne case at 60% and the 20-million-tonne case at 40%. In addition, management sensitized the net present values of the PEAs as follows:

- Coal prices in the model were reduced 10%, 20%, and 30% over the life of the project to reflect the risk that the current softening of coal prices may be a longer-term trend. Fenwei, the consultancy that prepared the marketing study for the Khotgor project, offered the view that near-term prices would be down 15% from those in the PEAs.
- Project development was delayed over a range of years to reflect the risk associated with potential delays associated with government approvals, funding, and project priority.

Probabilities associated with different outcomes were determined to be as follows:

Prices		Schedule		(Production in:)
Model	50%	Model	0%	(3 years)
Down 10%	5%	Delay 2 years	70%	(5 years)
Down 20%	15%	Delay 3 years	20%	(6 years)
Down 30%	30%	Delay 5 years	10%	(8 years)

The probabilities assigned to various pricing and delay scenarios are viewed by management as reasonable.

The resulting probability-weighted net present values across discount rates of 15.0%, 17.5%, and 20.0% are shown below. The results are in excess of the book value of the licenses and no impairment is indicated.

Discount rate	15.0%	17.5%	20.0%
Net present value (\$ 000s)	\$ 515.9	\$ 303.6	\$ 160.1

Net present values are presented over a number of discount rates to judge overall risk. Two factors tend to support a higher discount rate. One, there is a heightened political risk in Mongolia, including the potential impacts of the new foreign investment law. Two, the project does not have reserves associated with it. While management is comfortable with coal quantities and qualities, a feasibility study is not complete, which increases risk associated with costs in the PEAs. This impairment analysis excludes any recent coal discoveries on the licenses, which are outside of the scope of the resource reports.

Dalan (MV-014492)

A NI 43-101 Technical Report has been completed for the Dalan project, which is smaller than the Khotgor project. The coal is a middling thermal coal that will not have to be washed. Management intends to continue exploration work on this license and to advance a pre-feasibility study. The book value of the Dalan license is \$6.9 million.

The PEA accompanying the resource report supports a view to value in use. However, there are few market precedent transactions, or a lack of transparency into any transactions, which makes an estimate of fair value difficult.

Utilizing the 2 million-tonne-per-year PEA prepared by the resource engineers, management sensitized the net present values of the PEA as follows:

- Coal prices in the model were reduced 10%, 20% and 30% over the life of the project to reflect the risk that the current softening of coal prices may be a longer-term trend.
- Project development was delayed over a range of years to reflect the risk associated with potential delays associated with government approvals, funding, and project priority.

Probabilities associated with price outcomes are the same as those for Khotgor. Probabilities associated with delays were changed slightly to reflect that the Dalan project is capable of proceeding more quickly due to its location vis-à-vis infrastructure and that a wash plant is not contemplated in the PEA. Probabilities were determined to be as follows:

Prices		Schedule		(Production in:)
Model	50%	Model	10%	(3 years)
Down 10%	5%	Delay 2 years	60%	(5 years)
Down 20%	15%	Delay 3 years	20%	(6 years)
Down 30%	30%	Delay 5 years	10%	(8 years)

The probabilities assigned to various pricing and delay scenarios are viewed by management as reasonable.

The resulting probability-weighted net present values across discount rates of 15.0%, 17.5%, and 20.0% are shown below. The results are in excess of the book value of the licenses and no impairment is indicated.

Discount rate	15.0%	17.5%	20.0%
Net present value (\$ 000s)	\$ 94.9	\$ 72.5	\$ 55.7

Powerland (MV-013132, MV-009517)

The two Powerland licenses constitute a large land area. While resources have not been fully established, some drilling has been conducted that indicate a number of thin seams exist on the license. Initial views are that the coal is a low-quality thermal coal. Coal markets are likely some distance away or sales would depend on the development of coal-fired power plants in the vicinity. Any development of Powerland would likely be placed behind Khotgor and Dalan.

Management intends to conduct further exploration work on these licenses to determine whether reserves exist and better determine coal quality should sufficient funding be available. Management would consider selling the licenses if insufficient funding is available; however, the company has not advanced any negotiations to the point that a sale is foreseeable.

The absence of coal resources makes a value in use difficult to assess, and there are few market precedent transactions, or a lack of transparency into any transactions, which makes an estimate of fair

value difficult. Accordingly, it is not determinable that impairment is indicated and no adjustment to book value will be made.

Exploration licenses

Exploration licenses are characterized by a lack of resource assessments and strict timelines to determine resources and convert the licenses to mining licenses. There appears to be a lack of precedent transactions in the current market for licenses in Mongolia, or a lack of transparency of any transactions, which makes an estimate of fair value difficult.

The company has 10 exploration licenses, of which XV-016830 was addressed above.

Licenses considered impaired:

License #	Expiry	Book value	Notes
XV-015229	Oct 2018	\$ 103,849	Inaccessible: intent is to be sold or returned to government by September 2013
XV-014434	Nov 2017	\$ 79,577	Inaccessible: intent is to be sold or returned to government by October 2013
XV-014951	Jun 2018	\$ 254,818	Inaccessible: intent is to be sold or returned to government by May 2013
XV-011590	Mar 2015	\$ 38,606	Alluvial deposit with no indications of minerals and no intent to drill: intent is to be sold or returned to government by February 2013
XV-008596	Oct 2013	\$ 483,248	Some drilling completed, expiry imminent

Management has assessed these licenses as having minimal value and they will be written down to zero value due to the following factors, which are not necessarily mutually exclusive:

- The poor mineralization demonstrated at this time.
- The inaccessibility of 3 of the sites.
- The short remaining life of 2 of the licenses, which affects the company's or any purchaser's ability to complete resource assessments.
- The licenses have a low priority given the funding situation and the primacy of other licenses held by the company.
- The scope and intent of the foreign investment law remain ill defined.

Licenses not considered impaired:

License #	Expiry	Book value	Notes
XV-011615	Mar 2015	\$ 26,537	Two seasons remain to conduct exploration
XV-011694	Apr 2015	\$ 127,073	Two seasons remain to conduct exploration
XV-012114	Oct 2015	\$ 157,362	Three seasons remain to conduct exploration
XV-014883	May 2018	\$ 246,478	Five seasons remain to conduct exploration

Exploration work is insufficient to conclude whether impairment exists based on mineralization. Management intends to conduct exploration work on these licenses if funding is available. The absence of resources makes a value in use difficult to assess, and there are few market precedent transactions, or a lack of transparency into any transactions, which makes an estimate of fair value difficult.

Accordingly, it is not determinable that impairment is indicated and no adjustment to book value will be made.

Acknowledged and agreed December 4, 2012

Brett Collins

Cris David

Louise Michaud

Denis Lehoux

Mark Gow

Bill Foster

THIS IS EXHIBIT " 7 "
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2014
Wayne Schoppert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA



MONGOLIA MINERALS CORPORATION

TECHNICAL REPORT ON THE DALAN PROJECT, DORNOGOBI PROVINCE, MONGOLIA

NI 43-101 Report

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August 15, 2011

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guidance to feasibility level designs and estimates. Estimated cost is \$200,000 for geotechnical investigations and a report.

6. Carry out hydrogeological investigations to characterize the potential water inflows both in terms of quantity and quality that will provide guidance to feasibility level designs and estimates. Estimated cost is \$100,000 for hydrological investigations and a water management plan.

ECONOMIC ANALYSIS

A pre-tax cash flow projection has been generated from the life of mine (LOM) production schedule and capital and operating cost estimates, and is summarized in Table 1-1. A summary of the key criteria is provided below.

ECONOMIC CRITERIA

REVENUE

- A production rate of 5,700 tpd of coal
- A mining rate of a maximum of 35,900 tpd of total material
- Mine life of 14 years
- An average price of \$50.28/t of coal Free-On-Rail (FOR)

COSTS

- Pre-production capital of \$70 million
- Operating cost of an average of \$10.19/t of coal
- A royalty of 5% with up to an additional 5% based on a sliding scale and the benchmarked coal price set by the Mongolian government
- Customs fees of \$3.40/t of coal

CASH FLOW ANALYSIS

Considering the Project on a stand-alone basis, the undiscounted pre-tax cash flow totals \$717 million over the mine life, and simple payback occurs in 19 months from the start of production.

The total cash cost is \$22.30/t of coal. The mine life capital unit cost is \$2.40/t, for a total production cost of \$24.70/t. Average annual coal production during operation is 2 million tpa.

The Net Present Value (NPV) at an 8% discount rate is \$320 million, and the Internal Rate of Return (IRR) is 65%.

SENSITIVITY ANALYSIS

Project risks can be identified in both economic and non-economic terms. Key economic risks were determined to be coal price, exchange rate, operating costs, and capital costs. Cash flow sensitivities to these parameters are shown in Table 1-2 and Figure 1-1.

NPV sensitivity over the base case has been calculated for -20% to +20% variations on capital costs, operating costs, and exchange rate. NPV sensitivity over the base case has been calculated for -40% to +40% variations on coal price.

A conservative case was investigated with a 1 million tpa production scenario. This yields a 28 year mine life, an operating cost of \$13.49/t coal, and a cash cost of \$26.05/t. The net cash flow for the 1 million tpa scenario is \$673 million, with a payback period of 2.9 years. The NPV at 8% is \$180 million and the IRR is 37.2%.

The base case scenario yields a shorter payback period with lower cash costs and a higher NPV.

TECHNICAL SUMMARY

PROPERTY DESCRIPTION AND LOCATION

The Dalan property consists of a single mining licence covering 271.94 ha located in Dalanjargalan Soum, Dornogobi Aimag, approximately 285 km southeast of Ulaan Baatar, Mongolia. The project is located within 1:100,000 scale L-49-62 topographic map sheet. Licence 14492A is centred at approximately 46°08' N Latitude and 108°57' E Longitude.

LAND TENURE

On June 10, 2010, Mongolia Minerals entered into an agreement with a private vendor, Mr. Chimed, whereby it could acquire all the issued and outstanding shares of MCGT LLC, a limited liability company holding three properties in Mongolia (Dalan 14992A, Tsagaan US 8596A, and Khotgor 12474A). The purchase price for the properties, including Dalan, was US\$17,000,000. Mongolia Minerals held all the issued shares of a joint mining and development corporation formed to develop the Dalan property (CGBEM) until all the conditions of the purchase have been met at which time Mongolia Minerals transferred to the Vendor the required number of shares in the joint mining and development corporation. On December 15, 2010 this transfer occurred in which the Vendor, Mr. Enkhtaivan Chimed, was issued 33% of the outstanding shares in CGBEM.

SITE INFRASTRUCTURE

There is no permanent infrastructure on the subject licence. The Trans-Mongolian railway station #25 (Olon Ovoo) is 23 km by dirt road from the site. From there, it is 370 km by rail to the Chinese border.

TABLE 1-3 DALAN MEASURED RESOURCES
Mongolia Minerals Corporation - Dalan Project

Seam	Overburden (kBCM)	Burden Interburden (kBCM)	Total Burden (kBCM)	Tonnes (k tonnes)	Thickness (m)	Area (ha)	S.G.	Ash (%)	C.V. (kcal/kg)	Moisture (%)	Sulphur (%)	Volatile (%)	Inc. Rat.	Strip Ratio
T1	7,016	0	7,016	92	0.21	26.72	1.63	57.32	2,877	1.45	3.19	18.93	76.24	76.24
T2	254	4,351	4,605	243	0.51	33.95	1.39	27.18	5,304	2.08	3.82	32.32	18.96	34.70
U1	7,132	7,943	15,075	505	0.33	85.31	1.82	46.57	3,557	4.38	0.83	16.04	29.85	31.78
U2	3,293	208	3,500	1,297	0.72	96.66	1.86	64.36	2,219	3.34	0.55	12.32	2.70	14.13
U3	113	1,595	1,708	2,162	1.49	94.68	1.53	36.04	4,644	3.86	1.57	22.61	0.79	7.42
U4	105	669	774	2,951	1.97	96.97	1.55	24.95	5,665	3.15	1.06	28.33	0.26	4.51
U5	371	2,212	2,582	1,042	0.60	108.79	1.60	25.29	5,556	4.50	1.12	32.43	2.48	4.25
U6	95	571	666	3,610	1.78	111.92	1.81	47.83	3,962	4.34	1.49	20.16	0.18	3.02
U7	367	1,650	2,017	1,819	0.99	116.95	1.58	43.82	4,614	2.77	1.79	18.63	1.11	2.77
M1	6,914	11,650	18,564	2,749	1.01	161.57	1.68	34.59	4,774	3.83	2.21	28.53	6.75	3.43
M2	487	363	850	1,363	0.58	138.70	1.68	37.20	4,616	3.75	2.29	27.30	0.62	3.22
M3	61	741	803	2,459	0.94	152.42	1.72	38.26	4,602	3.66	2.04	25.91	0.33	2.87
M4	78	693	771	2,931	1.17	155.44	1.62	30.46	5,208	3.17	1.47	28.89	0.26	2.54
M5	69	680	750	2,809	1.12	158.16	1.59	29.79	5,238	3.24	1.47	29.22	0.27	2.29
L1	224	14,667	14,891	1,378	0.51	166.68	1.62	31.42	5,012	3.35	2.92	28.00	10.81	2.72
L2	27	1,645	1,672	1,700	0.61	172.20	1.62	36.31	4,603	3.25	2.71	26.06	0.98	2.62
L3	5	259	264	3,054	1.07	169.80	1.69	37.90	4,581	2.93	2.76	25.04	0.09	2.38
L4	2	425	427	1,275	0.51	156.55	1.60	36.32	4,750	3.32	3.51	26.21	0.33	2.30
Total	26,615	50,321	76,935	33,438			1.65	36.75	4,694	3.49	1.88	25.29		2.30

Notes:

1. CIM definitions were followed for mineral resources.
2. Resources are in-situ, before seam dilution.
3. S.G. – specific gravity; C.V. – calorific value; Inc. Rat. – incremental stripping ratio.
4. Numbers may not add due to rounding.

TABLE 1-4 DALAN RESOURCES - POTENTIALLY MINEABLE
Mongolia Minerals Corporation - Dalan Project

Area	Seam	Overburden (kBCM)	Burden Interburden (kBCM)	Total Burden (kBCM)	Tonnes (k tonnes)	S.G.	Ash (%)	C.V. (kcal/kg)	Moisture (%)	Sulphur (%)	Volatile (%)	Inc. Rat.	Strip Ratio
N3		1,120	1,098	2,218	1,302	1.71	38.66	4,441	3.94	2.03	27.34		1.70
N4		1,761	1,520	3,281	1,298	1.71	39.07	4,421	3.87	2.02	27.06		2.53
N5		1,466	1,643	3,109	832	1.72	41.20	4,234	3.27	2.21	24.85		3.74
N6		1,475	1,619	3,094	1,155	1.76	45.61	3,861	3.10	1.97	20.57		2.68
C1		767	1,118	1,885	1,135	1.70	39.40	4,348	3.56	1.75	26.12		1.66
C2		677	1,400	2,077	1,703	1.71	39.43	4,418	3.58	1.81	26.28		1.22
C3		489	1,549	2,039	2,065	1.71	39.22	4,487	3.65	1.86	25.78		0.99
C4		594	1,741	2,335	2,526	1.72	40.18	4,429	3.52	1.87	24.64		0.92
C5		621	1,930	2,551	2,572	1.74	43.40	4,198	3.26	1.83	22.14		0.99
C6		1,515	1,985	3,500	2,135	1.79	47.78	3,837	3.04	1.69	19.31		1.64
S1		1,397	1,752	3,149	1,886	1.70	40.59	4,280	3.35	1.49	23.86		1.67
S2		1,155	2,145	3,300	2,429	1.70	39.83	4,343	3.24	1.58	24.50		1.36
S3		1,354	1,894	3,248	2,303	1.70	39.74	4,382	3.28	1.57	24.84		1.41
S4		1,469	1,891	3,360	2,200	1.70	39.64	4,485	3.63	1.56	25.19		1.53
S5		1,467	1,728	3,195	1,642	1.73	43.87	4,270	3.72	1.38	23.14		1.95
S6		1,652	1,296	2,948	837	1.82	54.73	3,554	3.26	1.18	17.86		3.52
Total by Area		18,979	26,310	45,290	28,020	1.72	41.61	4,282	3.44	1.72	24.03		1.62
UM		9,581	3,533	13,114	8,867	1.65	38.37	4,603	3.75	1.23	23.53	1.48	1.48
UD		126	0	126	998	2.30	88.82	392	2.49	0.47	5.48	0.13	1.34
MM		7,992	10,447	18,439	10,888	1.65	33.30	4,951	3.52	1.83	28.31	1.69	1.53
MD		42	0	42	1,432	2.30	88.82	392	2.49	0.47	5.48	0.03	1.43
LM		207	12,330	12,537	5,023	1.63	34.86	4,774	3.35	3.15	27.60	2.50	1.63
LD		224	0	224	812	2.30	88.82	392	2.49	0.47	5.48	0.28	1.59
Unass		808	0	808	0	2.30	-	-	-	-	-	-	1.62
Total by Seam		18,979	26,310	45,290	28,020	1.72	41.61	4,282	3.44	1.72	24.03		1.62

Notes:

1. Includes seam dilution.
2. S.G. - specific gravity; C.V. - calorific value; Inc. Rat. - incremental stripping ratio.
3. Numbers may not add due to rounding.

A conservative case was investigated with a 1 million tpa production scenario. This yields a 28 year mine life, an operating cost of \$13.49/t coal, and a cash cost of \$26.05/t. The net cash flow for the 1 million tpa scenario is \$673 million, with a payback period of 2.9 years. The NPV at 8% is \$180 million and the IRR is 37.2%.

The base case scenario (2 million tpa) yields a shorter payback period with lower cash costs and a higher NPV.

Mongolian Coal Market Review for Mongolia Minerals Corporation

November 2014

Wood Mackenzie
coal consulting



THIS IS EXHIBIT " 0

referred to in the Affidavit of

William J. Foster

Sworn before me this 13th

day of June A.D. 2014

Yvonne Schaeffer

NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

Strategy with substance

Mongolian Coal Market Review >

Mongolia is a supply growth area for metallurgical and thermal coals with a number of mines and advanced projects. The bulk of production from this region will be exported for consumption in China's massive coal market since there is limited demand for the coal domestically. As such, Mongolia is considered an attractive area for investment by many international mining companies and there are plans for roads, rail and other infrastructure.

MMC have interests in two coal assets in Mongolia; a project in Khotgor in Western Mongolia, and one at Dalan in East Central Mongolia.

Mongolia Minerals wishes to understand the market for product from their projects at Dalan.

Our analysis will address the following areas:

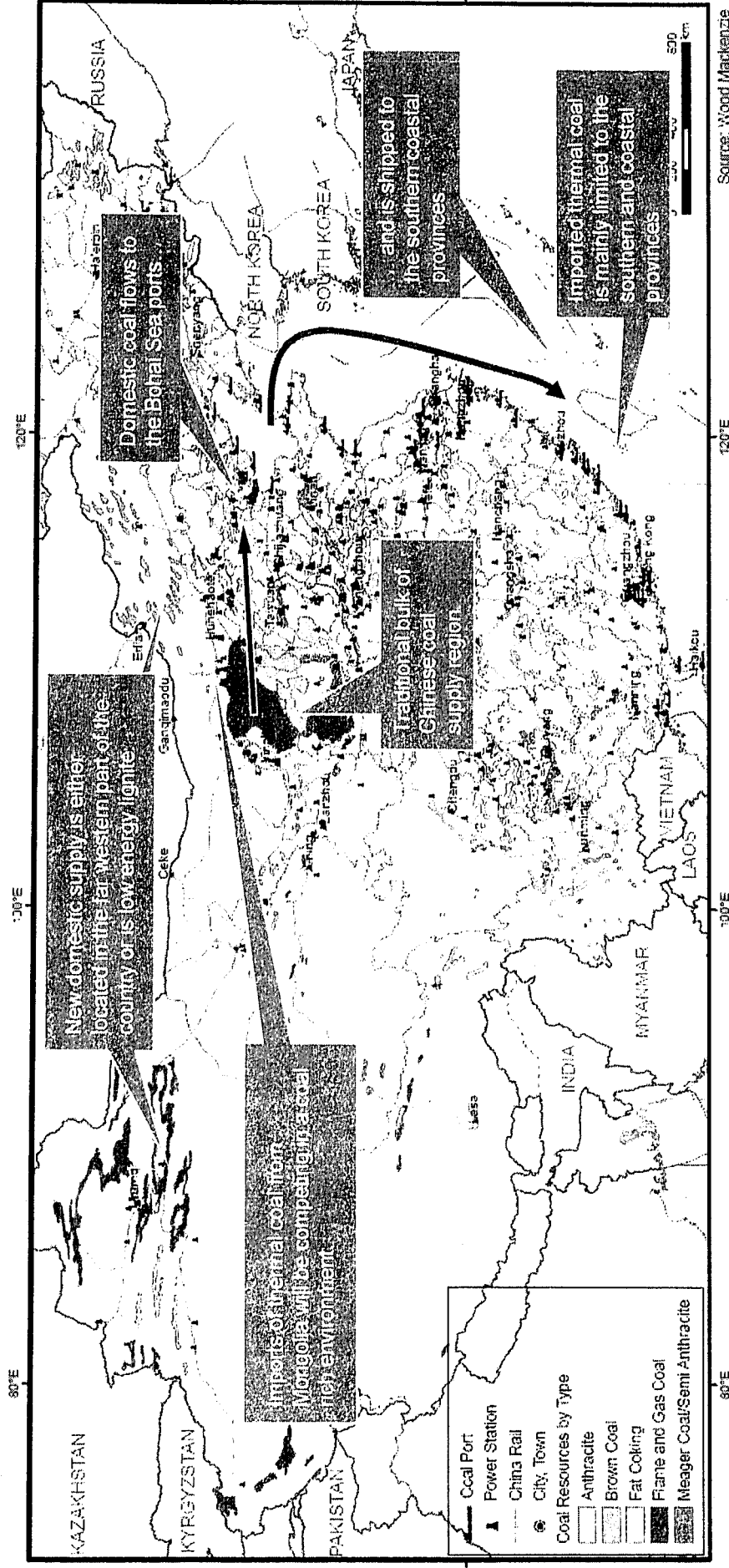
China's coal market

Supply chains

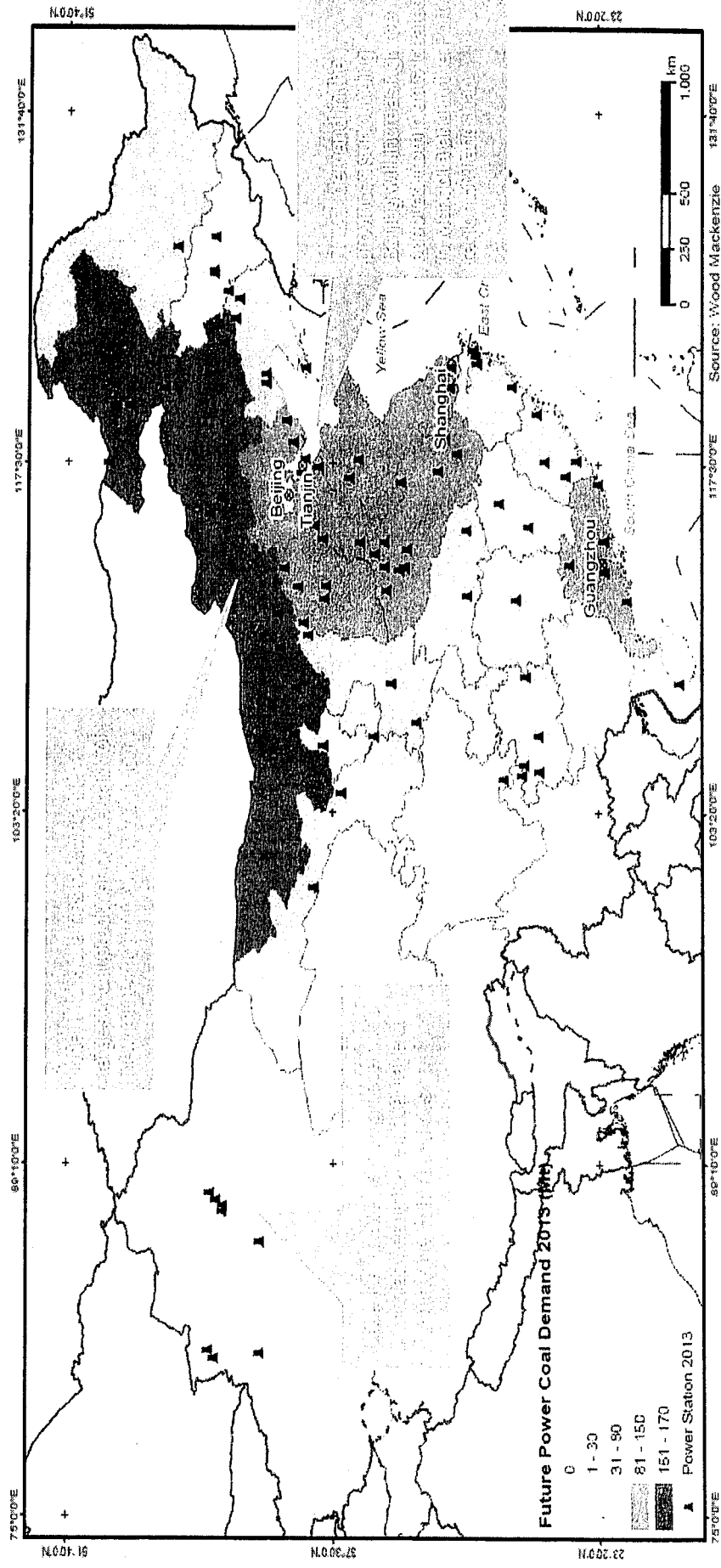
Competitiveness of Mongolian coal

Review of relevant regulations

Executive Summary – China is a massive thermal coal market, dominated by supply from Shanxi and Inner Mongolia...



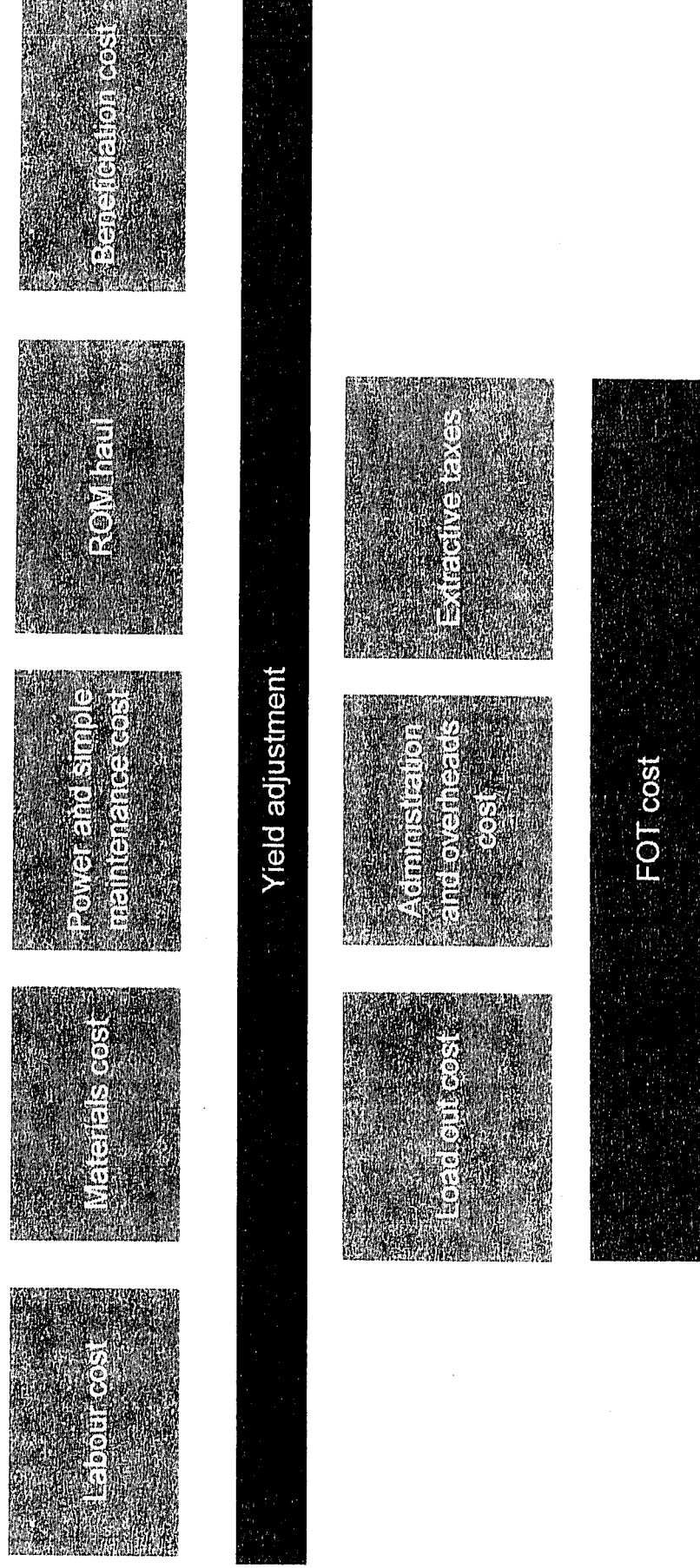
...and while demand for thermal coal is spread throughout the country, the eastern and central provinces have the highest growth profile.



Contents

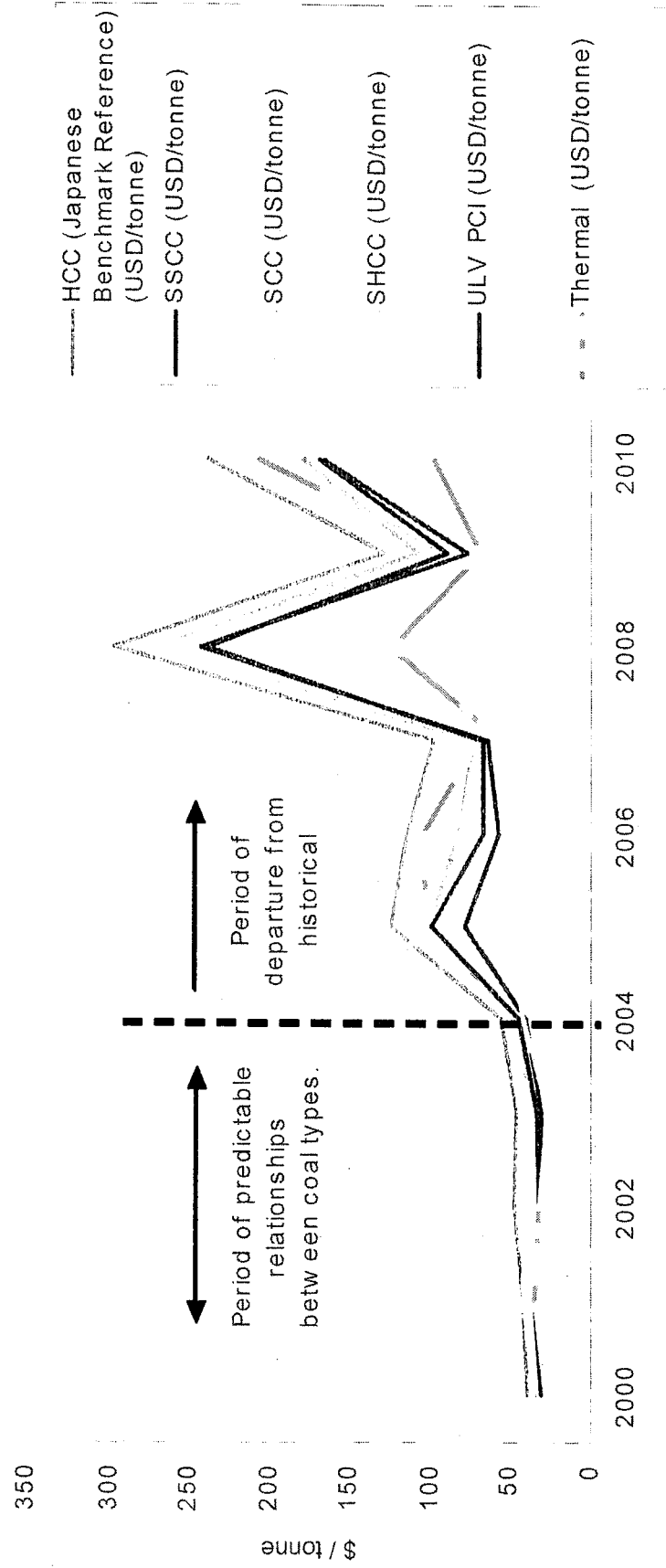
1	Introduction
2	Mongolia overview
3	Demand and supply
4	Transport and Logistics
5	Cost competitiveness
6	Conclusion

Chinese mine cost modelling is built up from first principles to an FOT cost



Price history

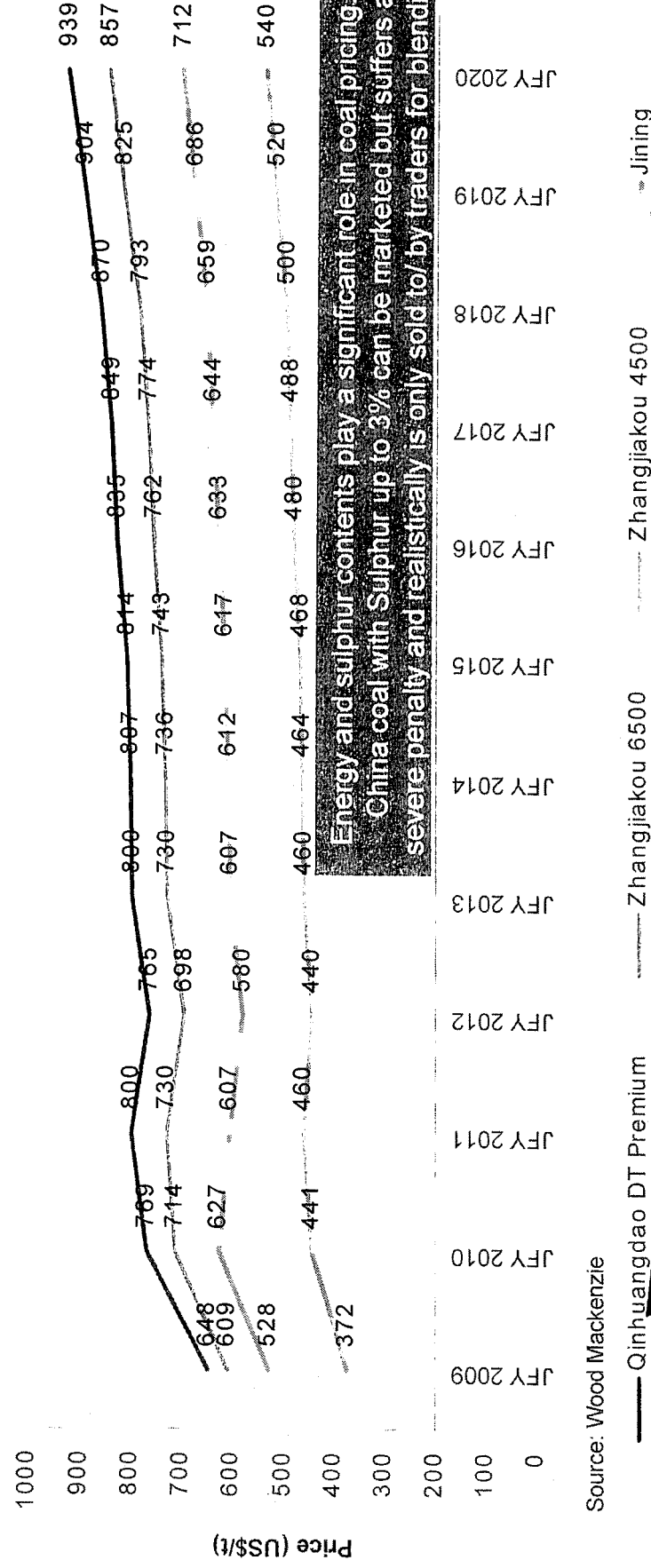
Seaborne coal price history – 2000 to 2010



Source: Energy Publishing, Wood Mackenzie Coal Market Service

Forward pricing for thermal brands – regions have differing energy bases due to traditional supply

Forecast coal prices (RMB/t excluding VAT), nominal



Energy and sulphur contents play a significant role in coal pricing. In China coal with Sulphur up to 3% can be marketed but suffers a severe penalty and realistically is only sold to/by traders for blending.

Source: Wood Mackenzie

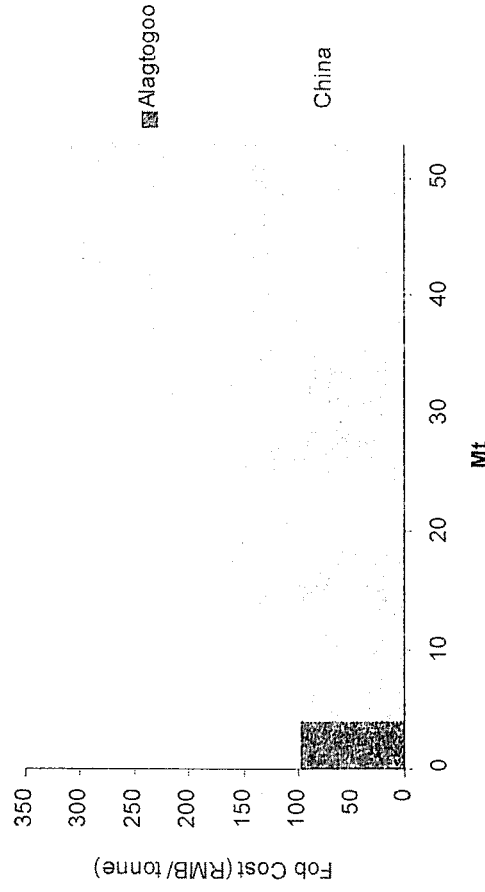
— Qinhuangdao DT Premium — Zhangjiakou 6500 — Jining

Tangshan region – 5,800kcal/kg nar

Jining region – 5,300kcal/kg nar

Low mining costs currently establish a competitive position for Mongolian thermal coals on an FOT basis...

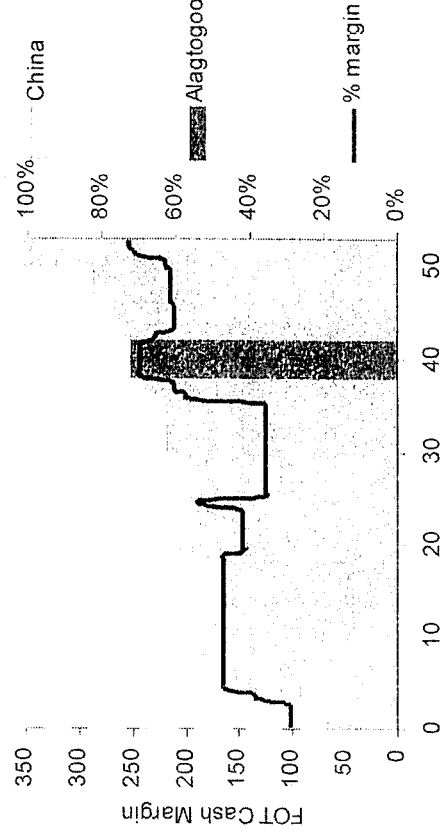
2011 FOT by supply country



Source: Wood Mackenzie

On an FOT basis, Alagotogo coal is highly competitive versus Chinese supply to the TMR. This is because most of the Chinese supply is sourced from underground operations. We have used US\$21/t as the FOB cost for Dalan converted to RMB 137.8 at a rate of 6.56RMB/US\$.

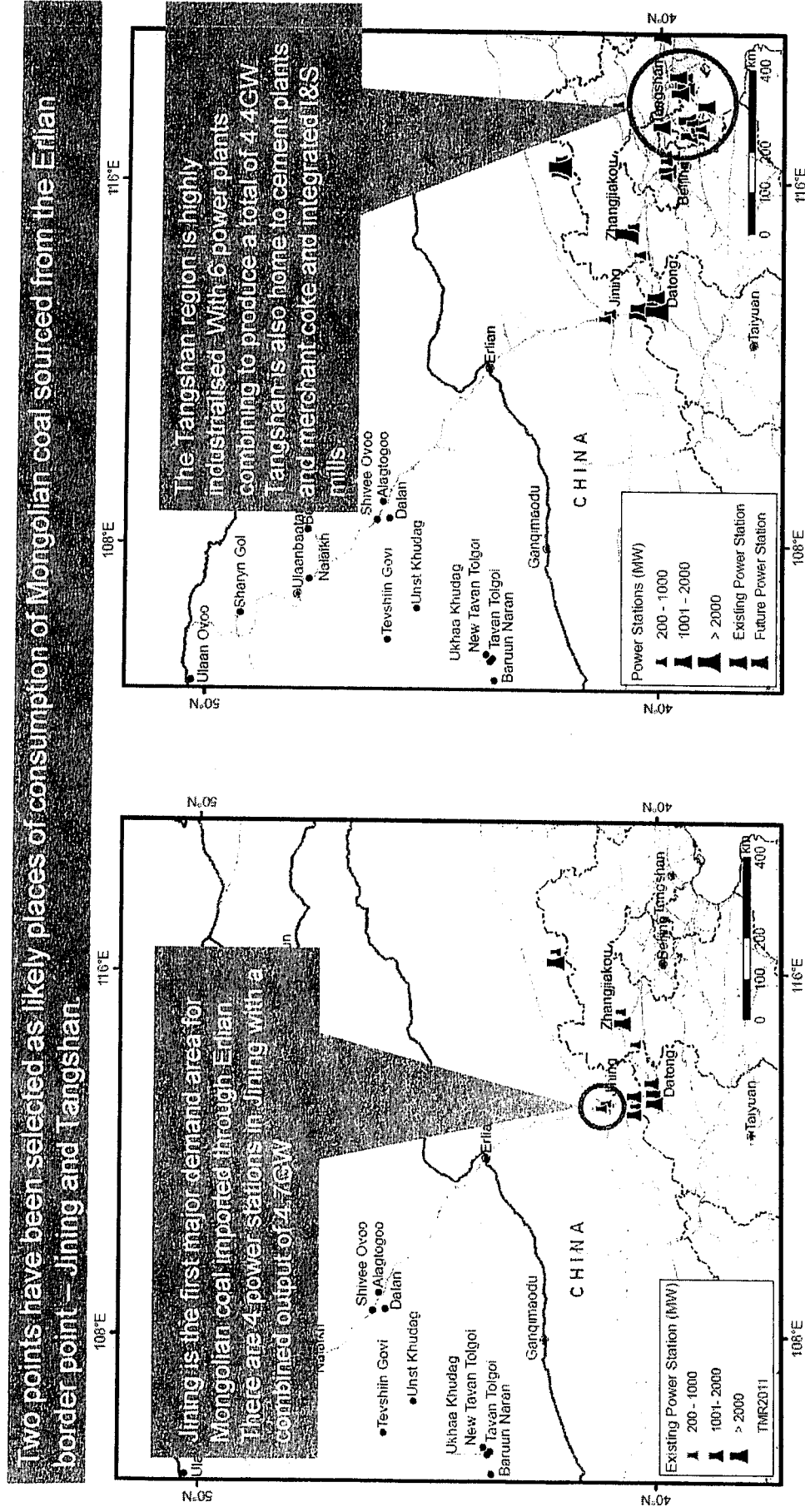
2020 FOT by supply country



Source: Wood Mackenzie

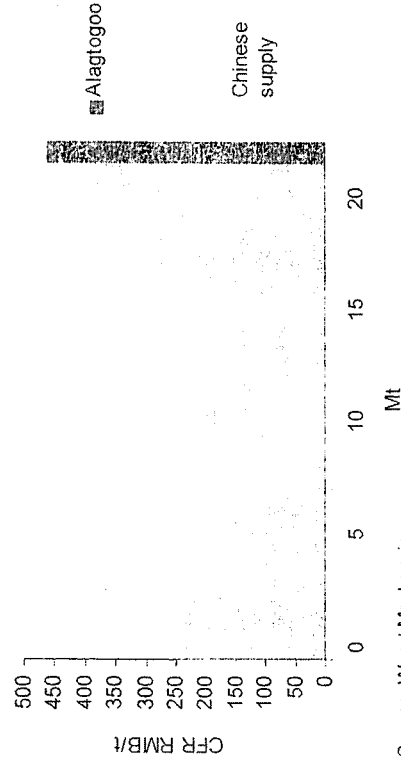
And Mongolian supply is still competitive in the future, even against new open cut supply out of the Xilinhaote area in Inner Mongolia. We have escalated Dalan's mining cost using the same factors for Chinese operations.

But delivered costs are the main comparison points for buyers...



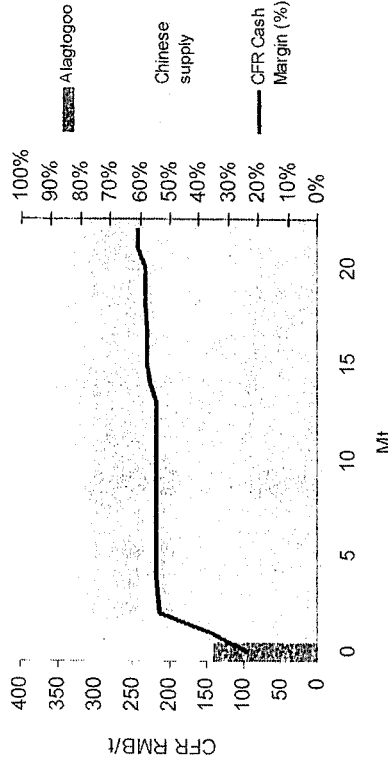
...on an energy adjusted basis Alagtogoo coal is at the top end of the cost curve in Jining today...

2011 CFR by supply country – energy adjusted



Currently, on a CFR basis, Alagtogoo coal sits at the top end of the cost curve. This is due to the coal being trucked for large parts of the route. Alagtogoo coal is estimated at being around RMB78/t more expensive than the cheapest coal available.

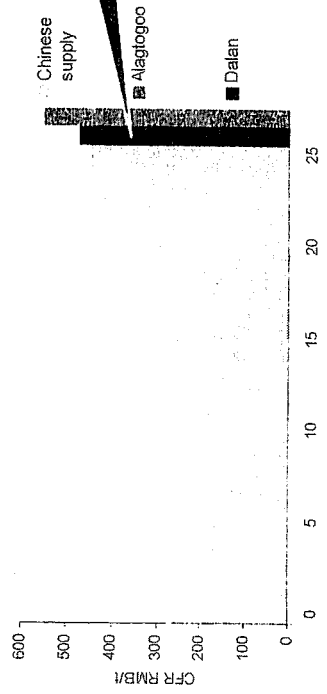
2011 CFR margin – energy adjusted to 5,300kcal/kg



Even though Alagtogoo coal is the most expensive on the curve should it be sold CFR in Jining at today's prices (on an energy adjusted basis) it would receive a 23% margin. The low margin Chinese supply is from the Xilongtuo region which produces 3,500kcal/kg coal and is penalised on energy adjustment.

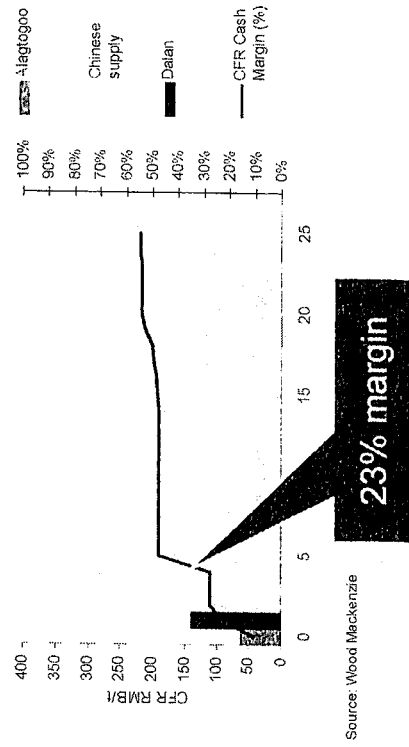
...in 2015 Dalan may be either trucked or railed through Mongolia
 – effecting delivered costs markedly...

2015 Trucked – energy adjusted CFR



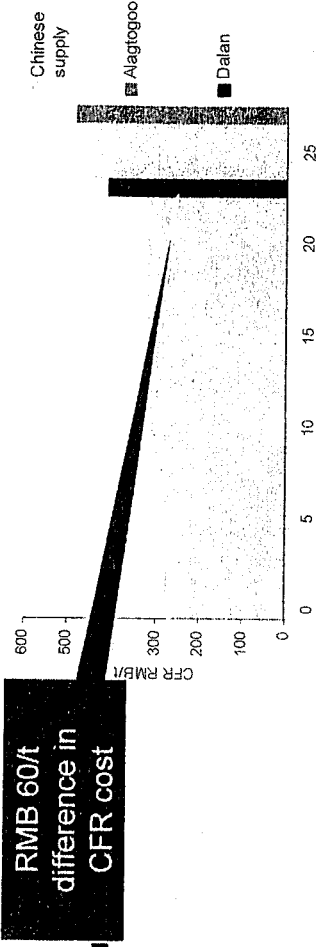
Source: Wood Mackenzie

2015 Trucked – energy adjusted CFR - margin



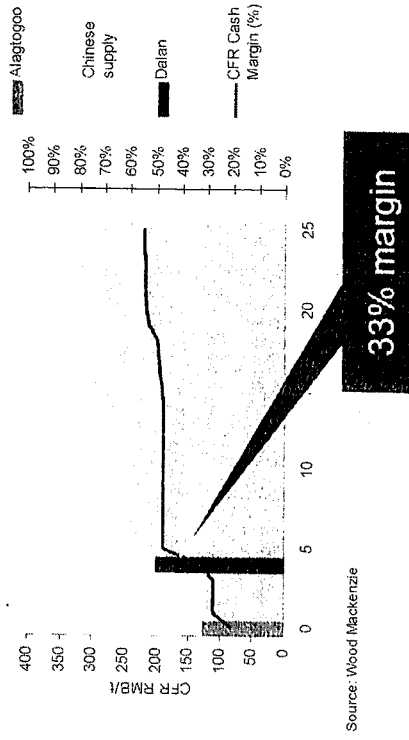
Source: Wood Mackenzie

2015 Railed – energy adjusted CFR



Source: Wood Mackenzie

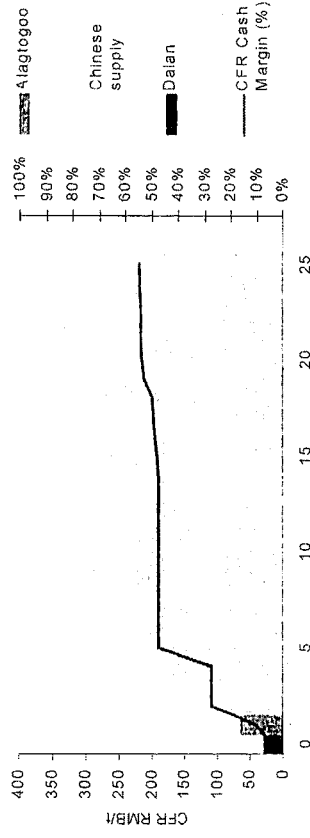
2015 Railed – energy adjusted CFR - margin



Source: Wood Mackenzie

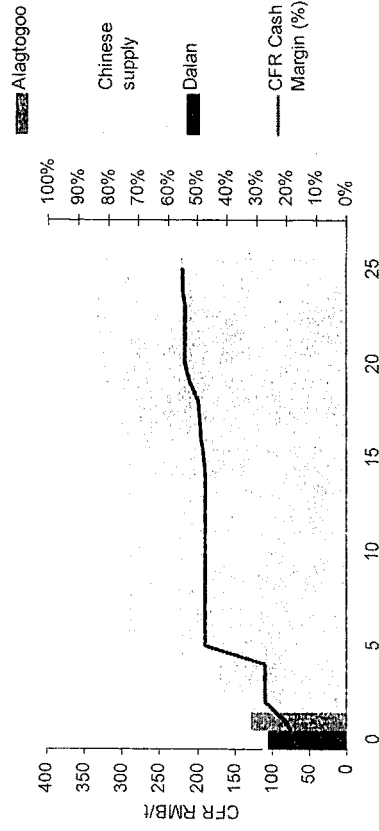
...and reducing the coals energy to 4,300kcal/kg affects the margin...

4,300 - 2015 Trucked – energy adjusted CFR - margin



Source: Wood Mackenzie

4,300 - 2015 Railed – energy adjusted CFR - margin



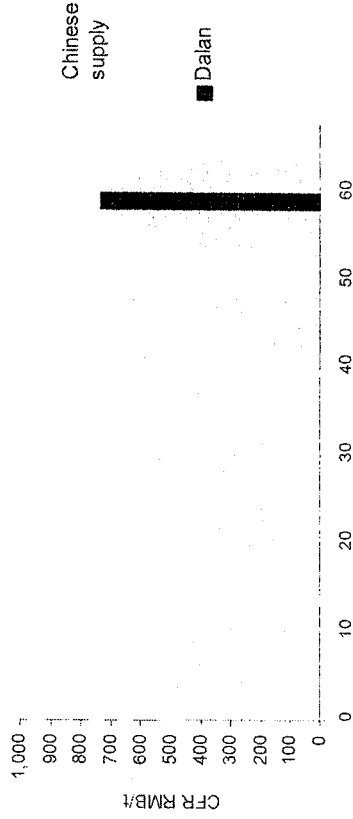
Source: Wood Mackenzie

An energy content of 4,300kcal/kg and trucking the coal to the Mongolian border reduces the margin to 5%

While railroading the coal raises the margin to 17% Dalian coal is still the most expensive product available in the TMR under these conditions

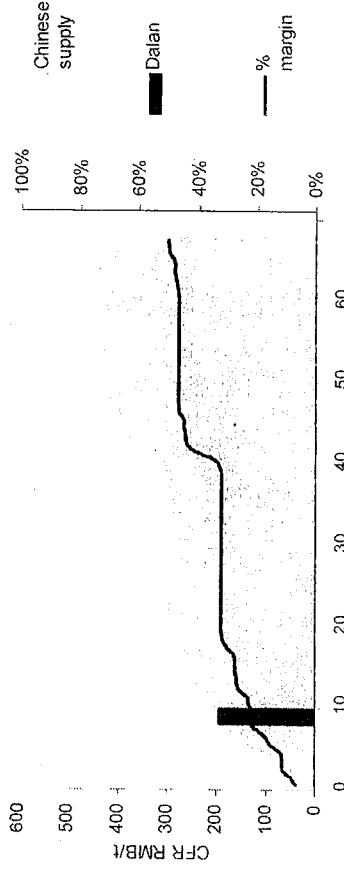
No Mongolian coal is supplied to Tangshan at the current time, although, by 2020 we expect around 1Mt will be consumed.

2020 CFR by supply country



Source: Wood Mackenzie

2020 CFR margin – price adjusted to 5,800kcal/kg



Source: Wood Mackenzie

While a longer haul than Jining, supply from Dalan is not at the top of the CFR curve in 2020 being more competitive than some supply from Hebei and Shanxi provinces

Coal prices in the Tangshan region are based on an energy of 5,800kcal/kg net. Based on that energy adjustment, 5,300kcal/kg supply from Dalan, will have a 21% margin on a CFR basis and a 3% margin at 4,300kcal/kg basis

Contents

1	Introduction
2	Mongolia overview
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Cost of transportation remains the key issue for supply from Dalan to China.

- › Supply from Dalan has low mining costs and is highly competitive with Chinese supply.
- › While ensuring continued low mining costs throughout mine life must therefore be a priority for MMC, Dalan is constrained by the transportation network between mine gate and consumer.
- › Accessing the currently stretched rail system will lower CFR costs in the future but even with rail access to Chinese consumers the operation will still sit at the higher end of the cost curve.
- › Like all foreign companies, penetrating the Chinese market will require careful handling of relationships.

SWOT analysis – Dalan mine

Strengths

- Low mining costs
- Higher energy coal than new supply from Inner Mongolia
- Demand growth in the TMR

Threats

- Development of cheap supply in Inner Mongolia
- Market access

LOGIN

CAPITAL MARKETS

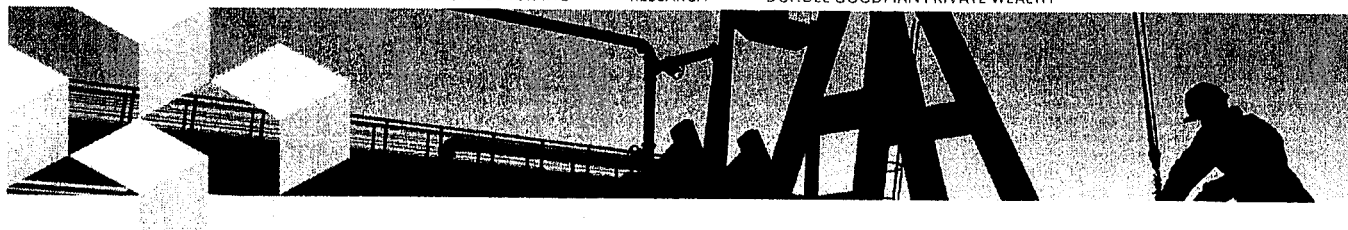
ABOUT US

INVESTMENT BANKING

SALES AND TRADING

RESEARCH

DUNDEE GOODMAN PRIVATE WEALTH



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About Us

Bringing focus, industry intelligence and innovative ideas to our clients

Dundee Capital Markets is resources and real estate. They define who we are. They are where we invest in people and knowledge. They are at the core of our DNA.

As an independent investment bank, we can focus our intelligence, energy and passion in the sectors we know best, delivering critical insights, trusted advice, exceptional value and, most important, innovative ideas to corporate, institutional and retail clients.

We are a full-service investment dealer through our affiliates [Dundee Securities Ltd.](#), [Dundee Securities Inc.](#) and [Dundee Securities Europe LLP](#), with offices in Toronto, Montreal, Vancouver, Calgary and London UK. Our principal businesses include investment banking, institutional sales and trading, research, private client financial advisory and management of investment products. Our services also include fixed income, foreign exchange, principal and other trading activity services.

We concentrate on sectors where we know we add unique value to our client:

- Mining
- Energy
- Real Estate
- Fertilizer and Agriculture

Our focus, our people

Dundee is built around the unique strengths of our people, a team of leading professionals in their fields. Our reputation – in Canada and internationally – is based on the specialized technical expertise and investment experience they bring to our clients. Their knowledge of Mining, Energy, Real Estate, Fertilizer and Agriculture businesses means value-added insight and understanding of the impact of market economics, world trends and investment opportunities in these sectors.

Our professionals do more than identify investment opportunities, they qualify them with intelligence and due diligence that only people with industry experience and contacts can offer.

Our people are dedicated to helping clients protect and grow their investments in sectors that are complex and often volatile; constantly exposed to economic, environmental, geographic, social and political risk factors. We guide clients through uncertainty, developing strategies that mitigate the impact and risk of unpredictable external forces.

As we grow we will continue to demonstrate thought leadership based on real world experience. We will continue to be an organization not afraid to go against conventional thinking. This approach has served our clients well. Being strategic, open-minded and creative has also drawn some of the best minds in the investment industry to our research, investment banking, retail, sales and trading teams.

We are a financially large independent investment bank, with a strong parent company, Dundee Corporation. We work together with Dundee Corporation's experienced investment teams specializing in the very same sectors we do to bring unique opportunities to our clients.

A proud history, depth of experience, an impressive track record and exceptional intellectual capital are among the many important characteristics that define us. We are proud of where we have come from and are looking forward with great enthusiasm to our future as the new Dundee Capital Markets.

THIS IS EXHIBIT " 9 " referred to in the Affidavit of

William J. Foster

Sworn before me this 13th day of June A.D. 2014

Taylor Schappert

NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

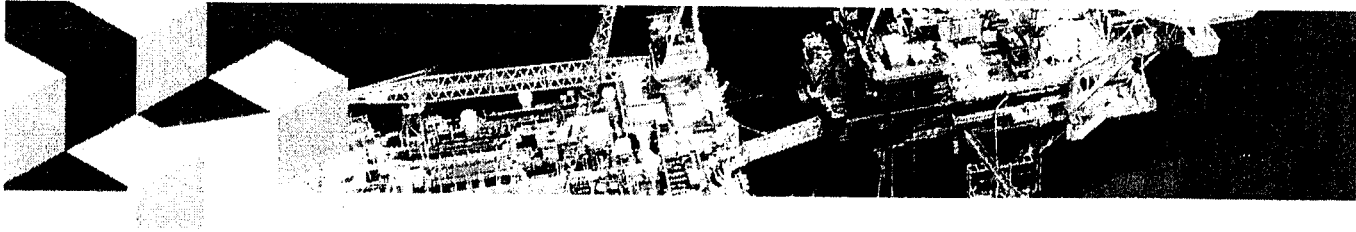
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DUNDEE CAPITAL MARKETS

ABOUT US INVESTMENT BANKING SALES AND TRADING RESEARCH DUNDEE GOODMAN PRIVATE WEALTH



Investment Banking

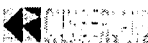
- Equity Capital Markets
- Mining
- Energy
- Real Estate

Investment Banking > Mining

Mining

Dundee Capital Markets provides a wide range of financial and M&A advisory services and is recognized as a leader in the mining sector. The Mining Investment Banking team has significant experience in assisting its clients raise equity and debt capital through initial public offerings, bought deals and private placements. In addition, Dundee Capital Markets has extensive expertise in providing clients with advisory services related to acquisitions and divestitures, takeover defences, valuations and fairness opinions. As an affiliate of Dundee Corporation and with offices in Toronto, Montreal, Calgary, Vancouver and London England, Dundee Capital Markets has unparalleled insight into emerging stories and proprietary intelligence.

Mergers and Acquisitions

 AURELIAN		
\$880,000,000	\$700,000,000	\$1,200,000,000
Sale to Kinross Gold	Sale to Agnico-Eagle Mines	Sale to Coeur d'Alene Mines
Financial Advisor	Financial Advisor	Financial Advisor
2008	2007	2007

Financings

 ALLIED GOLD CORP.	 Canada Lithium Corp.	 SIBYAN MINERALS INC.
\$150,500,000	\$27,556,000	\$10,499,914
Common Equity	Convertible Debentures	Common Equity
Lead Manager	Co-Lead Manager	Lead Manager
2013	2013	2013

**MONGOLIA MINERALS CORPORATION
COMMON SHARES**

List of Registered Holders - As of 11-Jun-2014

THIS IS EXHIBIT " 10
referred to in the Affidavit of
William J. Foster

Sworn before me this 13th
day of June 2014

Wayne Schaefer
75,000
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

0899014 BC LTD C/O BELLOTI GOODMAN CAPITAL INC [REDACTED]	50,000	2253549 ONTARIO INC [REDACTED]	75,000
2253549 ONTARIO LTD [REDACTED]	500,000	621785 ONTARIO INC [REDACTED]	1,282,500
JAMILA ADAM HAMAD AL BALUSHI [REDACTED]	15,000	THEODOROS ANEZIRIS [REDACTED]	256,758
AURA OIL HOLDINGS LTD [REDACTED]	1,500,000	BANSCO & CO ITF EDGEHILL MULTI-STRATEGY MASTER FUND LTD A/C #78200064 [REDACTED]	1,835,715
BARBARA GRIFFITHS IN HER CAPACITY AS THE SOLE TRUSTEE OF THE BRADLEY GRIFFITHS BDG TRUST [REDACTED]	17,178,572	JAMES KENNETH BARBER [REDACTED]	9,411
WILLIAM PETER BARBER [REDACTED]	29,412	FRANK BELLOTTI [REDACTED]	241,667
RACHEL BELLOTTI [REDACTED]	250,000	ROCKY BELLOTTI [REDACTED]	250,000
ROSE BELLOTTI [REDACTED]	2,375,000	BMO NESBITT BURNS INC ITF ABSOLUTE RESOURCE COMPANY LP A/C #402-20141-22 [REDACTED]	715,000



VALIANT TRUST

Canadian V [REDACTED]

**List of Registered Holders of
MONGOLIA MINERALS CORPORATION**

COMMON SHARES

*The undersigned hereby certifies that the
attached list is a true and correct copy of the List
of Registered Holders for the above referenced
Issue as of 11-Jun-2014*

X _____

Signed by: _____



MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

BMO NESBITT BURNS ITF ELISABETH IOZZO A/C #710-35894-25 [REDACTED]	200,000	BMO NESBITT BURNS ITF JEAN IOZZO A/C #710-35815-21 [REDACTED]	200,000
BMO NESBITT BURNS ITF WATERMARK BENEFIT CONSULTING INC A/C # 710-36830-12 [REDACTED]	400,000	PAUL WALLACE BRANNAN [REDACTED]	71,427
BRANT INVESTMENTS LIMITED ITF RBC GLOBAL ENERGY FUND A/C #011670001 [REDACTED]	3,572,000	BRANT INVESTMENTS LIMITED ITF RBC GLOBAL ENERGY FUND A/C #011670001 [REDACTED]	800,000
BRANT INVESTMENTS LIMITED ITF RBC GLOBAL RESOURCES FUND A/C #011771024 [REDACTED]	3,520,000	BRANT INVESTMENTS LTD RT TAX C/O CA DELANEY CAPITAL MANAGEMENT LTD [REDACTED]	358,000
BROUGHTON LIMITED [REDACTED]	714,286	CLAYTON BROWN [REDACTED]	50,000
NANCY BURKE [REDACTED]	500,000	CALDWELL MANAGEMENT AG CALDWELL & PARTNERS [REDACTED]	8,571,428
CANACCORD GENUITY CORP [REDACTED]	1,268,000	CANACCORD GENUITY CORP [REDACTED]	1,420,000
CANACCORD GENUITY CORP ITF A/C # 65B-628E-1 [REDACTED]	100,000	CANACCORD GENUITY CORP ITF BRUCE MCDONALD A/C #135-456A-1 [REDACTED]	1,142,857

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

CANACCORD GENUITY CORP ITF CENTRE CITY CAPITAL LIMITED A/C #41E090E1 [REDACTED]	50,000	CANACCORD GENUITY CORP ITF DAVID GHERMEZIAN A/C #65B-392E-1 [REDACTED]	125,000
CANACCORD GENUITY CORP ITF HIRST INVESTMENT CORPORATION A/C # 13D-780A-1 [REDACTED]	642,857	CANACCORD GENUITY CORP ITF JILL MORGAN A/C #13E-033A-1 [REDACTED]	235,714
CANACCORD GENUITY CORP ITF JOHN ESTEIREIRO A/C #130-318A-1 [REDACTED]	642,857	CANACCORD GENUITY CORP ITF JOHN ZAOZIRNY A/C #13E-341E-5 [REDACTED]	50,000
CANACCORD GENUITY CORP ITF KENDALL MATHESON [REDACTED]	50,000	CANACCORD GENUITY CORP ITF MARKUS FELDERER [REDACTED]	142,869
CANACCORD GENUITY CORP ITF MAUREEN KADO A/C #13D-319A-1 [REDACTED]	300,000	CANACCORD GENUITY CORP ITF PETER DUNLOP A/C #13B-995E-1 [REDACTED]	100,000
CANACCORD GENUITY CORP ITF RC CAPITAL INC A/C #132-667A-1 [REDACTED]	628,570	CANACCORD GENUITY CORP ITF SCOTT WIGLE A/C #13A-347E-2 [REDACTED]	40,000
CANACCORD GENUITY CORP ITF SCOTT WIGLE A/C #13A347E2 [REDACTED]	40,000	CANACCORD GENUITY CORP ITF TIM HUGHES A/C #133-838E-8 [REDACTED]	40,000
CANACCORD GENUITY CORP ITF TIM HUGHES A/C #133838E8 [REDACTED]	40,000	DAVID CARTWRIGHT [REDACTED]	11,764

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

CD PRIVATE EQUITY NATURAL RESOURCES FUND LTD	800,000	CEF (CAPITAL MARKETS) LIMITED	2,857,143
[REDACTED]		[REDACTED]	
CHRIS CELEBRE	5,882	ANGELA CHIU	142,500
[REDACTED]		[REDACTED]	
BESSIE CHRISTOPOULOS	25,000	CONSTANTIN CHRISTOPOULOS	25,000
[REDACTED]		[REDACTED]	
NICK CHRISTOPOULOS	309,176	NICK CHRISTOPOULOS	347,058
[REDACTED]		[REDACTED]	
CIBC WORLD MARKETS INC ITF A/C # 515-00122	8,571,429	BRETT ANTHONY COLLINS	662,320
[REDACTED]		[REDACTED]	
CORECAP INC C/O EUROGLOBAL CAPITAL PARTNERS INC	35,000	SHAYNE CORSON	200,000
[REDACTED]		[REDACTED]	
COURTHILL FOUNDATION	200,000	DARIAN YIP A/C XC2-8312-C	143,143
[REDACTED]		[REDACTED]	
ED DASILVA	60,000	CRISTOBAL G DAVID	359,960
[REDACTED]		[REDACTED]	

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

DEDUCE INTERNATIONAL MARKETS INC [REDACTED]	1,800,000	JOANNA HEATHER DIAMOND [REDACTED]	124,647
WILLIAM DIVINE [REDACTED]	22,500	VICTORIA DONAHUE [REDACTED]	100,000
DUNDEE CORPORATION [REDACTED]	8,000,000	DUNDEE GLOBAL RESOURCE LP [REDACTED]	12,099,999
DUNDEE GLOBAL RESOURCE LP [REDACTED]	1,400,000	TOM ENGLISH [REDACTED]	571,429
WILLIAM ENGLISH [REDACTED]	150,000	JASON FEDIUK [REDACTED]	285,714
FGU HOLDINGS CORPORATION [REDACTED]	3,395,418	FIDELITY CLEARING CANADA ULC ITF DEW INVENTORY [REDACTED]	215,000
ALBERT FOLINO [REDACTED]	35,294	WILLIAM J FOSTER [REDACTED]	8,094,160
WILLIAM JOHN FOSTER [REDACTED]	2,200,000	ZHIKANG GAN [REDACTED]	137,143



MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

SUNNY GAWRI	23,529	KOSTAS GIANNIKOS	52,470
[REDACTED]			
SAYYED JAHANZAIB GILLANI	25,000	GMP SECURITIES LP ITF DOMINION FIDUCIARY NOMINEES LIMITED	500,000
[REDACTED]			
GMP SECURITIES LP ITF EOSPHOROS ASSET MANAGEMENT FUND I LP	30,743	TARVINDER GOSAL	120,000
[REDACTED]			
JENNIFER GOUVEIA	78,647	BRUCE B GOW	20,000
[REDACTED]			
CATHLEEN GOW	24,000	LEONARD B GOW	20,000
[REDACTED]			
MARK D GOW	1,035,000	BARBARA GRIFFITHS	5,000,000
[REDACTED]			
ED GRUSCYK	2,941	GUNDYCO ITF A/C #515-0001427	1,428,500
[REDACTED]			
GUNDYCO ITF IAN SHAW & JO-ANNE SHAW	212,857	GUNDYCO ITF JOHN MEALIA A/C # 410-32026-20	160,000
[REDACTED]			

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

GUNDYCO ITF MMCAP A/C #515001427	300,000	GUNDYCO ITF PETER HICKS	300,000
[REDACTED]			
GUNDYCO ITF PRAXIS INVESTMENTS LTD	100,000	HAYWOOD SECURITIES INC	822,142
[REDACTED]			
HAYWOOD SECURITIES INC ITF BOLDER INVESTMENT PARTNERS LTD	92,100	HAYWOOD SECURITIES INC ITF PERFORMANCE DIVERSIFIED FUND	584,115
[REDACTED]			
HAYWOOD SECURITIES INC ITF ZAHRA AHAMED	500,000	INVESTOR COMPANY ITF A/C #31W899A	10,000
[REDACTED]			
INVESTOR COMPANY ITF AC #31W898A	10,000	INVESTOR COMPANY ITF EGGERTSON INVESTMENT CORP A/C #7X3634A	228,571
[REDACTED]			
INVESTOR COMPANY ITF SANOVEST HOLDINGS LTD A/C #5J5063E6R6824	1,500,000	JAYVEE & CO	15,164,286
[REDACTED]			
JAYVEE & CO ITF LIBRA FUND II (LUXEMBOURG) S A R L	800,000	JHS ASSOCIATES LIMITED	428,571
[REDACTED]			
CLIVE JOHNSON	1,000,000	JADINE CANDACE KENNELLY	50,000
[REDACTED]			

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

PAUL KERR [REDACTED]	88,235	VAHAN KOLOLIAN [REDACTED]	150,000
JEFFREY YIK FEI LAU [REDACTED]	1,714,286	TSZ CHEONG LAU [REDACTED]	25,714
NORMAND LEHOUX [REDACTED]	132,352	JASON LEUNG [REDACTED]	25,714
LOGANI LIMITED [REDACTED]	680,000	JEFF LORENZ [REDACTED]	5,882
JENNY LOUIZOS [REDACTED]	117,647	DAVID MACLACHLAN [REDACTED]	17,647
MACQUARIE PRIVATE WEALTH INC ITF A/C #315-203A-1 [REDACTED]	30,000	MACQUARIE PRIVATE WEALTH INC ITF A/C #315-205A-1 [REDACTED]	10,000
MACQUARIE PRIVATE WEALTH ITF SHELDON INWENTASH A/C #298-994E-1 [REDACTED]	300,000	ELAINE MA [REDACTED]	34,286
DOLORES MARCIANO [REDACTED]	8,823	LUIGI MARCIANO [REDACTED]	8,823

MONGOLIA MINERALS CORPORATION
COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

MARC MEREAL [REDACTED]	20,000	DENNIS MILLAR [REDACTED]	60,000
MUSE GLOBAL MASTER FUND LTD [REDACTED]	571,428	NBCN INC [REDACTED]	200,000
NBCN INC ITF A/C #27C029A [REDACTED]	71,500	NBCN INC ITF A/C #27C104A [REDACTED]	71,500
NBCN INC ITF A/C #27C598A [REDACTED]	71,500	NBCN INC ITF A/C #27C610A [REDACTED]	71,500
NBCN INC ITF A/C #4H5021A [REDACTED]	85,714	NBCN INC ITF A/C #4H5023E [REDACTED]	231,429
NBCN INC ITF ANDREW DEER A/C #4HE008E [REDACTED]	20,000	NBCN INC ITF BAYAR MUSTAFA KHAN A/C #4H4924E [REDACTED]	145,714
NBCN INC ITF BG GP INC A/C #41SEJGA [REDACTED]	2,350,000	NBCN INC ITF BRANDON DEEB A/C #4HE104E [REDACTED]	20,000
NBCN INC ITF CORCOAL TRADING PTY LTD A/C #4H5116A [REDACTED]	1,000,000	NBCN INC ITF DENIS LEHOUX A/C #4H-6179-A [REDACTED]	1,035,000

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

NBCN INC ITF EHTESHAM PARVEZ A/C #4H5021A	42,857	NBCN INC ITF HAMPTON SECURITIES LIMITED A/C #YS4VFT0	2,166,666
NBCN INC ITF JAMEEL AKHRASS A/C #4H5033E	2,142,857	NBCN INC ITF JEFFERY WALLANS A/C #4H3937E	166,000
NBCN INC ITF KISHWAR SULTANTA & SHOEB KHAN A/C #4H5024E	57,142	NBCN INC ITF MICHAEL J DEEB A/C #4HE348E	60,000
NBCN INC ITF MOHAMAD EL KADI A/C #4H5026E	1,142,858	NBCN INC ITF NABIL LAHHAM A/C #4H509E	2,142,858
NBCN INC ITF NASSER AL GHURAIR A/C #4H4919E	428,571	NBCN INC ITF NASSER AL GHURAIR A/C #4HD055E	857,143
NBCN INC ITF OAKTOWN HOLDINGS A/C #4HE109E	100,000	NBCN INC ITF PAUL IHNAT A/C #4H5176E	28,571
NBCN INC ITF SEMAAN ANTANOS SEMAAN A/C #4H5032A	1,428,571	NBCN INC ITF TRIPLE FIVE LIMITED A/C #4H4760E	1,000,000
NBCN INC ITF TRIPLE FIVE LIMITED A/C #34H4760E	4,999,998	NBCN ITF OAKTOWN HOLDINGS INC A/C #4HE191E	500,000

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

NBCN ITF TRIPLE FIVE LIMITED	734,000	NESBITT BURNS ITF PARKWOOD LIMITED PARTNERSHIP FUND A/C #402-21278-25	772,285
[REDACTED]			
NESBITT BURNS ITF SAMARA FUND LTD A/C #402-21276-27	125,000	FORD NICHOLSON	1,000,000
[REDACTED]			
PALODURO INVESTMENTS INC	19,666,667	PARVEZ TYAB IN HIS CAPACITY AS THE SOLE TTEE OF THE PARVEZ TYAB FAM TR	1,500,000
[REDACTED]			
RICHARD PATRICIO	10,000	MARIO PELLICORE	25,000
[REDACTED]			
PETROLEUM CHARITIES INC	25,000	WANG QIUTAO	200,000
[REDACTED]			
RAVENSDEN ALTERNATIVE GROUP	5,485,714	RBC DEXIA INVESTOR SERVICES TRUST ITF A/C #110-455-222	1,280,000
[REDACTED]			
RBC DOMINION SECURITIES INC ITF ALFAM PROPERTIES CORP	416,000	RBC DOMINION SECURITIES ITF A/C # 475-80556-20	817,000
[REDACTED]			
DAVID ROGERS	30,000	ROYTOR & CO FOR THE ACCOUNT OF STATE STREET #ALMA	72,319
[REDACTED]			

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

ROYTOR & CO ITF A/C #080001540004	1,750,000	ROYTOR & CO ITF DYNAMIC RESOURCE FUND	1,600,000
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
ROYTOR & CO ITF IA CLARINGTON GLOBAL TACTICAL INCOME FUND A/C #T13024081	250,000	ROYTOR & CO ITF VALUE PRESERVATION FUND PCC LTD IN RESPECT OF CELL B	714,286
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
SALIDA STRATEGIC GROWTH FUND SARL	14,244,072	LORNE SAMUEL	1,071,429
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
ARASHDEEP SANDHU	25,000	ARASHDEEP SANDHU	125,000
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
SCOTIA CAPITAL INC ITF JENNIFER CIUPA	50,000	SCOTIA CAPITAL ITF ALPHA NORTH OFFSHORE INC A/C #40300733	1,714,286
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
SCOTIA CAPITAL ITF ALPHANORTH OFFSHORE INC A/C #40300733	340,000	SCOTIA CAPITAL ITF VALUE PRESERVATION FUND IN RESPECT OF CELL B A/C #40300836	60,000
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
SCOTIA MCLEOD ITF GRAHAM STANLEY A/C #444-91001-24	570,000	SCOTIA MCLEOD ITF JEFFREY FULLER A/C #425-56715-15	570,000
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
SANDRA SETTERFIELD	8,823	SCOTT SETTERFIELD	8,823
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

MICHAEL SMERALDO	2,941	JEFFREY D SMITH	15,000
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ST PETER PORT CAPITAL LIMITED	3,029,000	BEATA SZCZESNA	15,000
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TALLY CAPITAL LTD	2,350,000	THE GOODMAN FAMILY FOUNDATION	1,660,887
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THE MAGNUM PARTNERSHIP	1,166,667	DOUG THOMPSON	1,166,667
------------------------	-----------	---------------	-----------

COSTA TSAKIRIS	999,999	DAVID TSUBOUCHI	1,600,000
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ELAINE TSUBOUCHI	712,500	VALIANCE SPECIAL OPPORTUNITIES CO-INVESTMENT MASTER FUND L	1,600,000
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DAVID K VICKERMAN	100,000	SCOTT WILSON	11,765
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MONGOLIA MINERALS CORPORATION

COMMON SHARES

List of Registered Holders - As of 11-Jun-2014

TOTAL HOLDINGS BY CANADIAN RESIDENT 20,400,765

TOTAL HOLDINGS BY UNITED STATES RESIDENT 428,571

TOTAL HOLDINGS BY OTHER COUNTRY RESIDENT 33,103,244

TOTAL HOLDINGS 235,932,580

TOTAL NUMBER OF CANADIAN RESIDENTS 192

TOTAL NUMBER OF UNITED STATES RESIDENTS 1

TOTAL NUMBER OF OTHER COUNTRY RESIDENTS 13

TOTAL NUMBER OF RESIDENTS 206



THE WORLD BANK GROUP IN MONGOLIA

THIS IS EXHIBIT " 11 "
referred to in the Affidavit of
William J. Foster

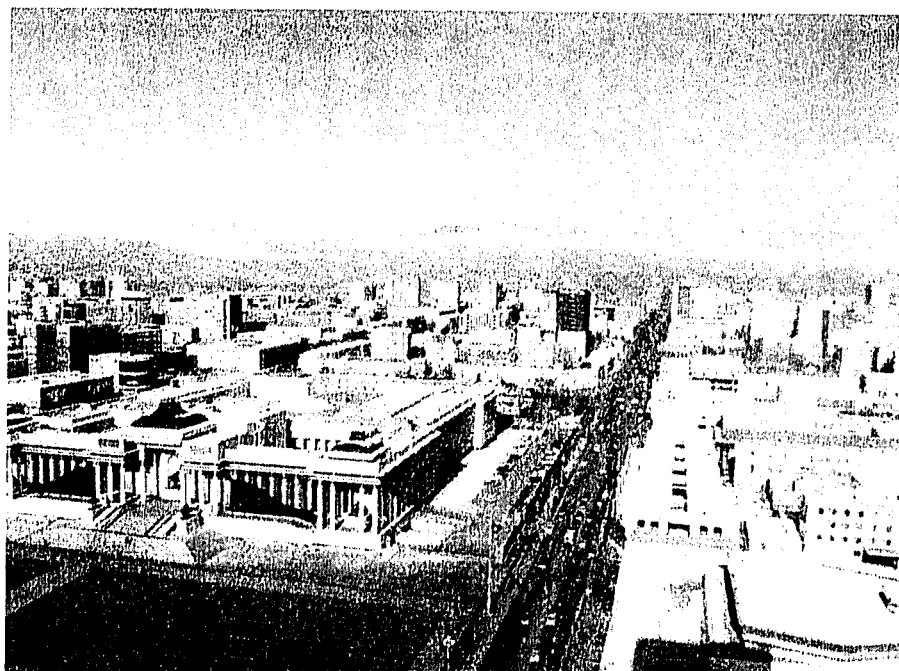
Sworn before me this 13th

day of Jul A.D. 2014

Yvonne Schappert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

Mongolia Economic Update

November 2013



This Economic Update assesses recent economic developments and policies in Mongolia. The Update was prepared by a team comprising Altantsetseg Shiilegmaa (Economist), Khandtsooj Gombosuren (Consultant) and Davaadalai Batsuuri (Consultant), led by Taehyun Lee (Senior Country Economist for Mongolia) under the overall guidance of Chorching Goh (Lead Economist for Mongolia, China and Korea). Contributions were gratefully received from Zahid Hasnain, Marius Vismantas, Andrey Milyutin, Jigjidmaa Dugeree, Trang Van Nguyen, Juan Feng and Young Hwan Cha. This Economic Update also greatly benefited from advice and contributions from Coralie Gevers (Country Manager) and Deepak K Mishra (Lead Economist for Economic Policy). Copies can be downloaded from <http://www.worldbank.org.mn>. For further information, comments and questions, please contact Tina Puntsag (tpuntsag@worldbank.org).

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Acronyms and Abbreviations

BoM	Bank of Mongolia
CPI	Consumer Price Index
DBM	Development Bank Mongolia
EAP	East Asia and Pacific
FX	Foreign Currency
FSL	Fiscal Stability Law
GDP	Gross Domestic Product
HDF	Human Development Fund
LFS	Labor Force Survey
LHS	Left hand side
MFA	Mongolian Financial Association
MNT	Mongolia Togrog
MoF	Ministry of Finance
MoM	Month-on-month
MMA	Moving month average
Mt	Metric ton
NPL	Non-Performing Loan
NSO	National Statistics office
OT	Oyu Tolgoi
RHS	Right hand side
QoQ	Quarter-on-quarter
Yoy	Year-on-year

Executive Summary

In 2013, the Mongolian economy is expected to maintain double digit growth thanks to the start of copper production of the Oyu Tolgoi (OT) mine and expansionary economic policies. Yet, the economy is facing a significant challenge from growing balance of payments pressures as the FDI inflow declines and the mineral exports remain weak. A substantial balance of payments imbalance stems from a weakening minerals market but also largely reflects the consequences of pro-cyclical economic management over the last two years. Mongolia may also face a downside risk from an uncertain global economic environment and further dampening of minerals market. Macro-economic and financial vulnerabilities are growing due to continuous expansionary fiscal and monetary policies reflected in significant off-budget spending and rapid credit growth. The Government took a series of positive measures in recent months to address the challenges including the adoption of the new Investment Law, announcement of a fiscal consolidation plan, and subsequent amendment of the 2013 budget to tighten budget spending. Yet, further efforts are needed to shift the growth-oriented economic policies toward economic stability and rebuilding macro-economic policy buffers, in light of uncertain prospects in the external environment and the balance of payments situation.

Real Sector Development

The Mongolian economy will likely show another double digit growth in 2013 but is exposed to downside risks. The economy is expected to maintain double digit growth in 2013, due to expansionary fiscal and monetary policies and the increasing mineral production from the OT mine. Robust performance in agricultural production and strong expansion in construction led the growth so far. The World Bank is revising its baseline growth forecast for 2013 to 12.5 percent from its previous forecast (13 percent) of the April Economic Update, reflecting the softer growth in China than we had previously projected in April and lower-than-expected pace of recovery in mining. Economic growth is expected to remain in double digits in 2014, led by an expected ramp-up of mineral production from the OT mine. However, the economic prospect is subject to downside risks from uncertain external environment and the continuation of expansionary economic policies amidst the growing balance of payments imbalances.

Inflation

Inflation remains at a single digit level but shows growing inflationary pressure in recent months. The national headline inflation picked up to 9.4 percent in August and further to 9.9 percent in September on year-on-year basis, after a steady downward trend earlier this year. The Bank of Mongolia has been containing inflation at single digit level by curbing prices with the Price Stabilization Program. However, a sliding exchange rate in recent months has been putting increasing pressure on the cost of imported goods, making it difficult for suppliers to keep sales prices in check. Given the recent exchange rate trends and pressures from expansionary macro-economic policies, the monetary authorities will likely face increasing difficulties keeping inflation at single-digit level.

Fiscal Development and Outlook

Rising off-budget spending remains a concern as large portion of the Chinggis bond proceeds have been used to finance public investment projects outside the budget, mainly through the Development Bank of Mongolia (DBM). The Government spent about \$0.7 billion – equivalent to around 6 percent of GDP – of the bond proceeds through September and will likely spend another \$ 0.2-0.3 billion in the remainder of the year. The DBM has become the main financier of off-budget spending since 2012 and its total off-budget spending will likely reach 10 percent of GDP in 2013 including the Chinggis bond projects. In spite of the large fiscal burden and likely macro-economic impact of the off-budget spending, no official reports have been released on the disbursement of the Chinggis bond proceeds and the operations of the DBM in 2013, raising another concern on the transparency and efficiency of the off-budget projects.

The fiscal consolidation plan is a positive step toward more sustainable fiscal path, however the fiscal policy remains highly expansionary in 2013 due to the large off-budget spending. The execution of official budget spending – which excludes the spending by the DBM – has been cautious reflecting the revenue stream weaker than the budget projections. In this light, the budgetary authorities announced a fiscal consolidation plan to meet the structural deficit ceiling of 2 percent of GDP of the Fiscal Stability Law (FSL) and subsequently amended the 2013 budget to cut budget spending by 11 percent. However, the large off-budget public investment (equivalent to 10 percent of GDP) will put fiscal policy in a highly expansionary path, pushing the fiscal deficit including the off-budget spending to over 12 percent of GDP. Government spending is projected to reach over 47 percent of GDP in 2013, a jump from 36.6 percent in 2010.

Monetary and Banking Sector

The monetary authorities have embarked on monetary easing programs in 2013 to offset the slowing credit growth early this year. The monetary easing has been carried out through policy lending programs on discounted terms: (i) provision of discounted loans of MNT 718 billion to select industries under Price Stabilization Program to address supply side constraints on prices; (ii) liquidity injection of MNT 900 billion to banks in the form of one-year deposits since March in order to counter slowing credit growth; and (iii) additional construction and housing development programs including MNT 1.1 trillion of low-interest rate mortgage lending and MNT 430 billion for construction companies since June. Reflecting the policy lending programs, the outstanding central bank loan to commercial banks jumped by MNT 3.4 trillion (20 percent of GDP) since November 2012 when the Price Stabilization Program had been launched.

Loose monetary policy has led to accelerating credit growth in recent months, particularly in construction and housing sector. Private sector credit growth rose from 23.9 percent in January to 48 percent in September. Due to the rapid credit growth, the loan to deposit ratio picked up to 128 percent, from 99 percent at the end of 2012. The credit growth has been concentrated on the construction industry. The growth of bank loans to construction sector picked up to 67.7 percent in the second quarter from a year ago and its share of total bank loan also rose to 37.7 percent. Around 60 percent of the liquidity provided by monetary easing programs has been used to support the construction and housing sectors.

The recent acceleration of credit growth needs close attention from the monetary authorities. The monetary easing contributed to maintaining double digit economic growth and revamped credit growth amidst the declining FDI inflows. However, the recent economic indicators suggest that the rapid acceleration of credit growth in recent months has begun to exacerbate external and internal imbalances, reflected in the recent volatile exchange rate movement and rising inflation. The banking sector is increasingly vulnerable to a possible economic downturn amidst the rising credit growth, particularly given the concentration of credit growth on construction sector. The prudential regulatory forbearance given to various policy loans will likely add to growing vulnerability of banking sector as it will increase moral hazard and reduce the transparency of banking system.

External Sector

Mounting balance of payments pressures pose a significant challenge to the economy as FDI inflows decline and mineral exports remain weak. While the weakening global minerals market weighs on mineral exports, the import demand – that had more than doubled in 2011 amidst the large FDI inflows – remains substantial due to domestic aggregate demand far exceeding the supply capacity of domestic industries. Expansionary fiscal and monetary policies also have been intensifying the balance of payments pressure by stimulating domestic demand over the last three years. Foreign capital inflows declined reflecting the growing concerns over the investment regime and the completion of the investment in the OT mine. Declining capital inflows amidst the large current account deficit creates a large external financing gap, which will be equivalent to around 10 percent of GDP. The growing balance of payments pressures have been reflected in the international reserves and foreign exchange market. The local currency's value has been under growing pressure from the deteriorating external position and it experienced volatile fluctuations since July.

Recent volatile exchange rate fluctuations underscore the importance of proper economic policies to address mounting balance of payments pressure and to attract new capital inflows. The foreign exchange market does not have the significant risk of abrupt capital flight due to limited short-term borrowing and foreign portfolio investment, but it became vulnerable to "headline risk" that could be triggered by a series of negative news stories. The recent adoption of the new Investment Law will likely provide a positive momentum to improve the fragile market sentiment. The composition of the current foreign assets and liabilities shows no likelihood of significant adverse impacts from the capital reversal that recently affected several other emerging economies in the region. As of June 2013, outstanding foreign direct investment stood at \$15 billion. Outstanding foreign portfolio investment in Mongolia was only \$2.7 billion, most of which was long-term bond investment.

Overall Assessment and Policy Recommendations

The current loose economic policies are not sustainable given the mounting balance of payments pressure and will undermine macro-economic stability going forward. The Government has recently taken a series of positive measures to address increasing external imbalances and financing gap of the budget. Yet, under the current

economic policy framework, the large balance of payments pressure will unlikely ease significantly in the near future, given the persistent large import demands and uncertain prospects of minerals market recovery. Compared with peer countries in the region, Mongolia's economic management has been highly expansionary and resulted in larger current account deficit and higher inflation (Box 9). If the current expansionary and loose economic policies were to continue, growing balance of payments pressure would likely become unsustainable and may lead to a harsh economic adjustment process in the medium term.

The downside risk will likely be exacerbated if the Mongolian economy faces growing headwinds from an unfavorable global economic environment. A rebalancing of the Chinese economy from the investment-led growth to more consumption-based growth could further dampen China's growth. In advanced economies, the likely tapering of the aggressive quantitative easing would weaken capital inflows to emerging economies and raise borrowing costs. The global minerals market will also likely remain weak in the near future amidst the abundant supplies and growing competition among exporters of major minerals. Under the current policies, policy buffers to cope with these possible external shocks will likely be highly limited amidst the growing balance of payments pressure, increasing fiscal deficits and public debt, and rising inflation.

- **In light of the growing external imbalances and uncertain global environment, the growth-oriented economic policies need to be tightened toward economic stability.** Priorities of macro-economic management need to lie in: (i) easing the balance of payments pressures from domestic factors; (ii) addressing potential macro-economic and financial risks stemming from expansionary policies; (iii) replenishing policy buffers to maintain sustainable and stable growth in the long term.
- **Fiscal policy should be further tightened and start rebuilding fiscal space.** The recent announcement of tightening spending is a noticeable progress; yet significant off-budget spending remains uncontrolled. A priority is to recognize the off-budget spending as part of the budget and put it under the control of the FSL. Then the consolidated budget should adhere to the rules of the FSL based on realistic revenue assumptions and rational spending plans. A medium term fiscal consolidation strategy would provide a good anchor to reduce the consolidated fiscal deficit including the off-budget spending to the 2 percent ceiling of the FSL in a targeted year. In the longer-term, fiscal policy needs to start building policy buffers for precautionary purpose. The sovereign wealth fund legislation currently under development would provide a good institutional foundation.
- **Fiscal policy should focus more on “spending well”.** The pace of scaling up infrastructure spending needs to be adjusted to the Government's planning and implementation capacity and the economy's absorptive capacity. A proper medium-term public investment plan is needed to guide the national development strategy on a sustainable fiscal path. In a country at an early development stage, everything looks important but prioritization is essential for successful long-term development given limited fiscal resources.
- **Monetary policy should be adjusted toward economic and financial stability.** The rapid credit growth and growing external and internal imbalances in recent months underscore the needs to re-assess the macro-economic impact of monetary easing and to curb the rapid growth of credit. There are recent indications that the monetary authorities are assessing the current situation, yet the monetary easing will remain in a substantial scale given the likely continuation of large policy lending programs. The policy lending programs needs to be phased out and they should be implemented through the budget if they are considered necessary.
- **Supervision and monitoring of the banking system should be strengthened.** Good progress was made early this year in strengthening capital adequacy and establishing the Deposit Insurance Corporation. To prevent rapid credit growth from raising financial sector vulnerability, further strengthening of the regulatory and supervisory framework is needed, especially in the capital adequacy of systemically important banks and the prudence of lending practices and internal controls. Heightened monitoring is needed of the construction and housing sectors, given their recent rapid credit growth. The prudential regulatory forbearance given to the policy loans needs to be terminated as it could exacerbate the credit risk placed onto the banking system.
- **Continuous improvement of investment climate is important.** The recent adoption of the new Investment Law will help to build investors' confidence by providing a more business friendly environment to foreign and domestic investors. Continuous improvements in investment-related regulations and consistent policy implementation would further this positive momentum.

External Sector

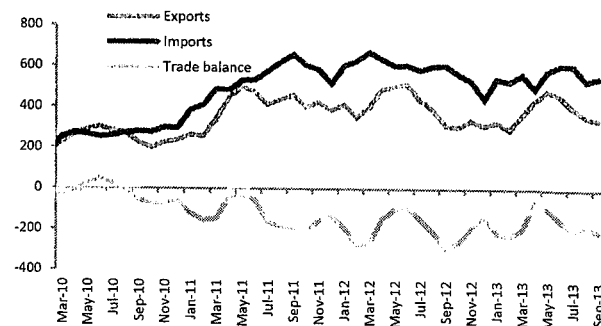
Amidst the weak global minerals market and strong domestic demand, a large trade deficit continues in 2013, following a record deficit of \$2.4 billion (23 percent of GDP) in 2012. The trade deficit for the first nine months reached \$1.72 billion, slight down from \$2.0 billion a year ago. (Figure 42) While the weakening global minerals market weighs on mineral exports, the import demand – that had more than doubled in 2011 thanks to large FDI inflow – remains large due to domestic aggregate demand far exceeding the capacity of domestic industry. Total imports currently stand at 1.6 times the total exports.

Total exports for the first nine months dropped by 4.1 percent from a year ago, reaching \$3.1 billion. A significant drop in coal exports was a main driver behind the weakening exports while other major export commodities displayed relatively robust performance.

- **Coal exports – that accounted for 43 percent of total exports in 2012 – declined by 45.3 percent from a year ago, down to \$783 million from \$1,432 million (Figure 43).** The decline in coal exports was mainly driven by a sharp drop in coal exports to China which had absorbed 98.5 percent of Mongolia's coal exports in 2012.
- **Abundant coal supplies in China and growing competition with other major coal exporting countries put heavy pressures on both coal prices and volumes.** Despite Mongolia's significant geographic advantage to the major coal market compared to competitors, the lack of cost-efficient transport and shipment systems constrains the competitiveness of Mongolian coal in China. Reflecting the unfavorable coal market situation, the coal export volume for the first nine months dropped by 20.4 percent, to 11.3 million tons from 14.3 million tons a year ago. The realized unit sales price of coal export per ton between January and September also fell by 31.4 percent (Figure 44).

Figure 42. Large trade deficit continues

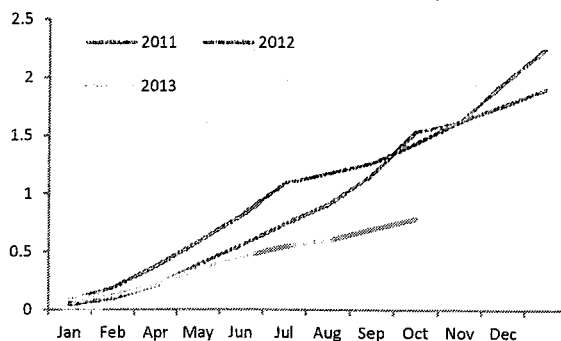
Total Exports and Imports (3 month moving average, seasonally adjusted, \$ billion)



Source: NSO, WB staff estimates

Figure 43. Coal Export declined significantly

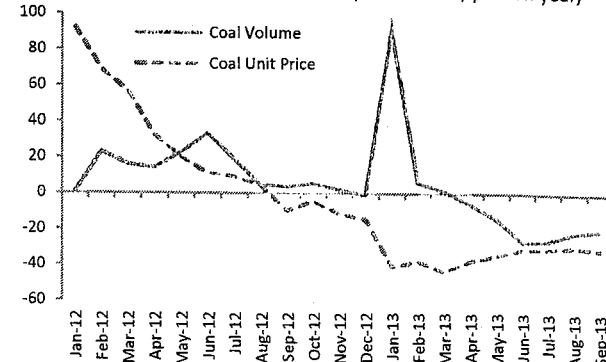
Annual Coal Export Trend (\$ in billions, Year to Date)



Source: BoM, World Bank staff estimates

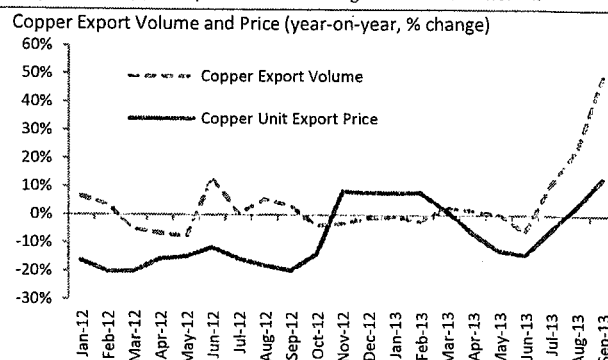
Figure 44. Coal export volume and price have dropped

% Change in Coal Volume and Unit Price (Year to Date, year-on-year)



- **Copper exports** – that accounted for 19 percent of total exports in 2012 – increased by 8.4 percent (yoy) for the first nine months after a decline of 13 percent in 2012. After contractions for three consecutive months, copper export growth turned positive in July and accelerated to 27.1 percent in August and 68.9 percent in September as the Oyu Tolgoi mine started shipping its copper concentrates from July. Copper export volume growth picked up from 10.8 percent in July to 49.4 percent in September (Figure 45). The copper export volume is likely to pick up in the coming months as the Oyu Tolgoi mine is expected to increase its production and export going forward.
- **Non-mineral exports**¹⁰ – that accounted for 8 percent of exports in 2012 – displayed a robust growth of 32.3 percent for the first nine months thanks to strong exports of cashmere products. Growth of cashmere product exports picked up to 29.1 percent from 10.2 percent in 2012. Textile exports including cashmere, leather, wool and hide products rose by 26.1 percent, a significant rise from a 5.8 percent decline in 2012. For the first nine months, the non-mineral exports accounted for 12 percent of total exports and cashmere product accounted for 48 percent of total non-mineral exports.

Figure 45. Copper export has been rising fast in recent months



Total imports declined by 8.0 percent for the first nine months, falling to \$4.8 billion from \$5.2 billion a year ago. Total imports have been slowing down since 2012 as the mining investment related imports dropped due to the completion of large investments in the Oyu Tolgoi mine. Despite the slowdown since 2012, strong import demand persists exceeding the total exports by 1.6 times in 2013 after it had doubled in 2011 buoyed by the significant foreign direct investment and expansionary fiscal policy.

- **The slowdown of imports was most prominent in machinery and equipment imports that account for a quarter of total imports, reflecting slower domestic investment demand including the completion of the first phase of the OT mine.** Machinery and equipment imports dropped by 17.8 percent through September from a year ago following a 7.3 percent decline in 2012.
- **Imports of food and basic construction materials grew robustly.** Basic construction materials (e.g., cement and red bricks) rose by 11.4 percent in August from a year ago. It reflects the strong demands in road and buildings driven by the strong construction activities in public infrastructure and residential buildings. Food product imports – that account for 6 percent of total imports – also grew at 7.3 percent from a year ago.

¹⁰ Our definition of non-mineral export excludes gold materials that are regarded as non-mineral export in the NSO bulletin. According to the NSO classification, non-mineral export (including gold materials) accounted for 19.9 percent of total exports, up from 10.8 percent in 2012.

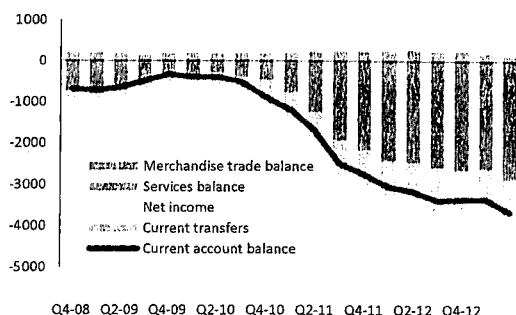
The current account had a \$2.4 billion deficit for the first eight months of 2013 due to large trade deficit and continuous deficits in service and income accounts. (Figure 46) In addition to the large trade deficit, the service account balance and the income account balance recorded continuous deficits. The service account balance recorded a deficit of \$0.9 billion mainly due to a deficit in railway freight services. The income balance also recorded a deficit of \$0.6 billion due to increasing deficits in compensation to employees and investment income.

The current account deficit remained close to last year's level, but foreign capital inflows significantly declined in 2013, putting the balance of payments into a large imbalance. The total financial and capital account recorded a net inflow of \$1.3 billion for the first eight months, only 51 percent of the net capital inflow a year ago. The lack of capital inflow led to an external financing gap of \$1.1 billion in the balance of payments, putting pressure on local currency value and foreign exchange reserves.

The large decline in foreign capital inflows occurred in both FDI and portfolio investments. (Figure 47) The net foreign direct investment (FDI) for the first eight months in 2013 reached \$1.8 billion, only 53 percent of the level between January and August last year. At the current trend, the annual FDI inflow is expected to be only around a half of the FDI levels of the last two years: \$4.6 billion in 2011 and \$4.4 billion in 2012. The portfolio investment in 2013 recorded a net outflow of \$22 million for the first eight months of the year. In 2012, the net portfolio investment inflow recorded \$2.3 billion due to a series of external bond issues by a private mining company (\$0.6 billion), the Development Bank of Mongolia (\$580 million) and the sovereign bond (\$1.5 billion).

Figure 46. Current account deficit remains significant...

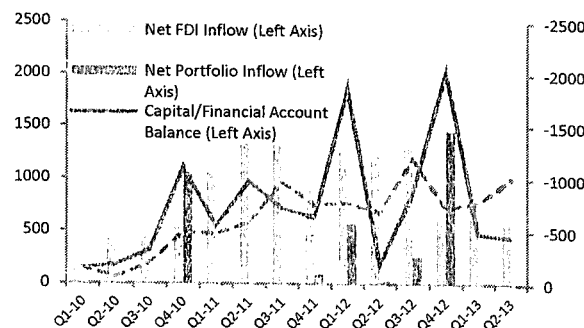
Current Account Balance (\$ million, 12 month rolling-sum)



Source: BoM, World Bank staff estimates

Figure 47. ...but the capital inflow has been declining...

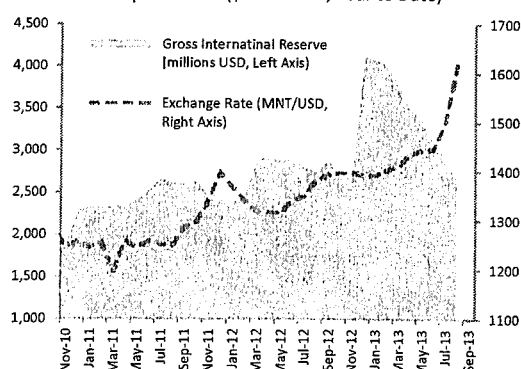
Quarterly Trend of Balance of Payments (\$ billion)



Growing external imbalances have been translated into pressures on the foreign exchange market and international reserves. (Figure 48) The exchange rate has been on a moderately depreciating trend throughout the year until June. The local currency value against the U.S. dollar depreciated 7.7 percent between January and June. The depreciation accelerated from July – the currency value dropped by 10.4 percent between July and September due to deteriorating market sentiment over the balance of payments prospects.

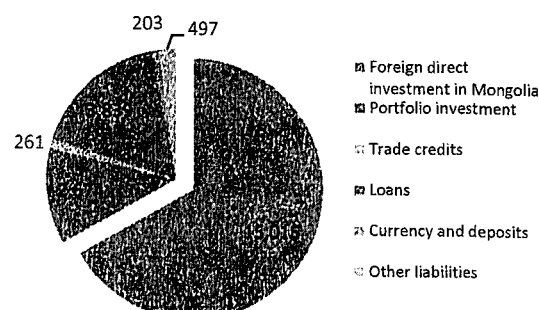
The international reserve level steadily declined reflecting the growing balance of payments deficits. The gross reserve level peaked at \$4,125 million at the end of 2012 due to the proceeds of the Chinggis bond (\$1.5 billion). Since then, the reserve level steadily declined throughout the year, dropping to \$2,679 million in September 2013. Despite the downward trend, the international reserve level is adequate for precautionary purposes: the gross reserve level is equivalent to about four month's import.

Figure 48. International reserve level has been declining
Annual Coal Export Trend (\$ in billions, Year to Date)



Source: BoM, World Bank staff estimates

Figure 49. Short-term foreign capital remains low
Outstanding Foreign Investment Position (June 2013, \$ million)



With the composition of Mongolia's current foreign assets and liabilities, there is no likelihood of significant adverse impacts from capital reversal that recently affected several other emerging economies in the region. As of June 2013, outstanding foreign direct investment stood at \$15 billion (Figure 49). Outstanding foreign portfolio investment in Mongolia was only \$2.7 billion, most of which was long-term bond investments including the \$1.5 billion of Chinggis bonds and \$580 million of DBM bonds that were issued last year. Existing foreign loans are also mostly long-term liabilities, and short-term loans accounted for only 9 percent (\$347 million) of total foreign loans (\$3.9 billion) as most of external loans are concentrated on concessional lending to the government.

Recent sharp exchange rate fluctuations show the fragility of market sentiment. The value of local currency plunged by 9 percent over two weeks between late August and early September. The recent volatility reflects the underlying market forces from the large external imbalances, yet it was also driven by deteriorating confidence in the strength of local currency. Large external imbalances from the trade deficit and declining capital inflows due to a drop in FDI have put continuous pressure on the local currency value throughout the year. Expansionary fiscal and monetary policies have added to the pressure on the balance of payments by providing excessive stimulus to the economy. The prolonged debate over OT issues and remaining high uncertainty over the regulatory framework for foreign investment further weakened the market sentiment.

The recent episodes in foreign exchange market underscore the importance of sound policies to address balance of payments pressures and to attract new capital inflows. The foreign exchange market does not have the significant risk of abrupt foreign capital flight due to limited short-term borrowing and foreign portfolio investment, but the market is vulnerable to headline risks that could be triggered by a series of negative news. In this light, structural changes in macro-economic policy management and the investment regime are important to prevent avoid future currency fluctuations.

Against this backdrop, the recent adoption of the new Investment Law will likely send a positive signal to the market and will help stabilize the market sentiment. The new Investment Law aims at providing a level playing ground to both foreign and domestic investors and ensuring stability of investment over the medium (Box 7). Continuous improvement in related legal environment in the coming months would help further the positive momentum provided by the adoption of the new Investment Law.

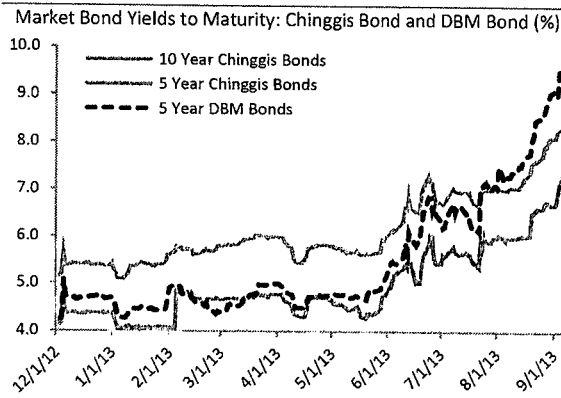
Sound macro-economic policies are critical to address the underlying causes of the balance of payments pressure. While continuous improvements of the investment environment including the recent

adoption of the Investment Law will help attract foreign investment going forward, it would take some time for foreign investors to adjust their investment plans and commit to new investments in Mongolia. Meanwhile the strong aggregate demand fueled by the expansionary fiscal policies and monetary easing would likely continue to stimulate imports in excess of exports; a large current account deficit would likely continue despite the increased exports from OT mine unless the strong aggregate demand is eased. In this regard, macro-economic policies need to be adjusted to address the rising current account deficit.

The Mongolian authorities also need to pay close attention to how the international financial market views Mongolia's economic and political developments. A good indicator is the secondary market bond yields of the Chinggis bonds and the DBM bonds. The Chinggis bonds were issued in December 2012; a \$500 million of five-year bonds at 4.125 percent and a \$1 billion as ten-year bonds at 5.125 percent. The five-year DBM bonds of \$580 million were issued in March 2013 at 5.75 percent.

The sovereign bond market yields followed a steady upward trend throughout the year and began to accelerate in mid-June, reflecting growing concern on the fiscal strength and the economic prospects. The yield to maturity of the 10 year Chinggis bond peaked at over 8.1 percent on Sep 9 amidst the rapid depreciation of exchange rate. It began stabilizing since mid-September following a series of positive news including the stabilizing exchange rate and the announcements of the adoption of the new Investment Law and the fiscal consolidation plan for 2013 and 2014.

Figure 50. The sovereign bond yields have been volatile



The market acceptance of the sovereign bonds means that Mongolia is now a part of the global financial market. The volatile fluctuation of the bond yields indicates that the global financial market is monitoring Mongolia's economic development and the sustainability of its economic policies. Higher sovereign bond yields also indicate that future sovereign external financing may not come in the favorable terms that we saw in late 2012 when the emerging bond market experienced an extra-ordinary boom due to surging global liquidity and the growing tendency of hunting for higher yields by international investors amidst the aggressive quantitative easing in the US.

A series of comments from international credit rating agencies¹¹ could provide useful indications on what has been driving sovereign bond yields fluctuation from international investors' perspective. All the credit rating agencies have agreed that Mongolia has a great growth potential thanks to the vast mineral resources. Yet, the key risk factors that are commonly pointed out by various international credit rating agencies are worth attention. They include: (i) the vulnerability of the economy to the boom-bust cycle caused by the volatile global minerals market cycle; (ii) the growing external imbalances exacerbated by the expansionary macro-economic policies; (iii) pro-cyclical fiscal policy based on off-budget spending and debt financing despite the fiscal disciplines of the Fiscal Stability Law; (iv) unpredictable investment regime; and (v) banking sector vulnerability and transparency in light of rapid credit growth and the recent Savings Bank event.

¹¹ Moody's (September 5), S&P (May 15), Fitch (July 29)

Box 7. Key Features of the New Investment Law

Investment sentiment over Mongolia has been deteriorating since 2012, especially after the adoption of the Law on Foreign Investment in entities operating in strategic sectors (May 2012) known as SEFIL and amidst the uncertainties over negotiations on the OT agreement. As the foreign investment declined noticeably in 2013, the Government of Mongolia recognized the importance of revamping the investor confidence by improving the investment regulation and started working on a new investment law that would replace SEFIL and outdated Law on Foreign Investment (1993). The preparation of the law underwent rigorous consultation process with investors and under technical advice from international financial institutions including the World Bank Group and the IMF.

The Investment law intends to protect legal rights and interests and to stabilize tax environment to both foreign and domestic investors. Key features of the law include:

- **Streamlining of investment approval process.** The law replaced the SEFIL and streamlined the investment approval or registration process. The definition of strategic sectors was taken out of the law. Private foreign investors are not required to get approval from the government or the Parliament but only have to be registered to a state agency.
- **Investment by foreign government owned legal entities.** A special process is required if a foreign government owns 33 percent or higher shares of an investor. For those investments, an application should be made to a state agency, which will be reviewed for its possible impact on (i) national security, (ii) competition in the market, (iii) government budget and other policies. The decision has to be made by the state agency with 45 days after application.
- **Tax stabilization.** The law introduces tax stabilization clauses for four types of taxes: CIT, Customs tax, VAT and royalties. For the purpose of tax stabilization, stabilization certificates will be issued to investments that meet certain criteria, .e.g. investments that will create new vacancies or introduce new technologies for example. The tax stabilization will ensure the four tax rates will not be raised for the duration of the certificate but the investors with the certificates will be able to benefit from tax rate reduction. The duration of stabilization certificates varies by sectors, sizes of investment and locations divided into five regions. Mining, heavy industry and infrastructure sectors will get the tax stabilization up to 18 years depending on the size of investment (from MNT 30 billion), and regions. Investment in other sectors will get the tax stabilization up to 15 years depending on the size of investment (from MNT 10 billion), the and regions. The duration of tax stabilization will be 1.5 times longer for investments that meet certain criteria, for instance an investment that will produce import substitute or export oriented products or an investment over MNT 500 billion.
- **Tax and non-tax incentives.** Tax exemptions and incentives will be provided but the details of tax incentives will be further stipulated by related tax laws. Imported technical equipment may be exempted from the customs duty and VAT rate, may be zero-rated during the construction works. Non-tax incentives will also be provided by the related legislations.
- **Investment contract and protection.** The Government of Mongolia shall conclude an investment contract with the investor who is to invest more than MNT 500 billion at the investor's request with the purpose of stabilizing the environment of business activities. The Law also includes almost all standard investor guarantees and is in this respect more elaborated than the Law on Foreign Investment (1993). In addition it does establish a right to international and domestic arbitration.

The law is a positive progress from the SEFIL as it significantly streamlined the process and provides a stable environment in terms of tax burden and investor protection. Continuous and consistent improvement in ensuing investment related legislations would help add to the positive momentum provided by the new Investment Law.

Source: The World Bank staff

Box 8. Mongolia advances in its ease of doing business rank in the Doing Business 2014 report

Overview of Doing Business Report. *Doing Business* is one of the four flagship reports of the World Bank Group that began in 2003 with the publication of *Doing Business 2004*. *Doing Business* focuses on regulations applying to small and medium-size domestic enterprises in 11 areas of their life cycle: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and employing workers.

These areas are covered by two types of indicators. The first type indicators measure the complexity and cost of regulatory processes—assessing the efficiency with which a local entrepreneur can complete a common transaction, such as incorporating a company or getting an electricity connection, while complying with all relevant rules and regulations. Second type indicators measure the strength of legal institutions—assessing specific features of local business laws such as those relating to protecting investors or getting credit. In both these examples, a higher score is assigned for features providing stronger protections of investors or secured lenders.

Ten topics are included in the aggregate ranking on the ease of doing business. The ease of doing business index ranks economies from 1 to 189. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the ten topics included in the index in *Doing Business 2014*.

Mongolia is ranked the 76th of the ease of doing business ranking among 189 countries in Doing Business 2014 report, an improvement by four ranks from the 2013 report. The report recognized three regulatory reforms Mongolia made to make business easier between June 2 2012 and June 1 2013: (i) starting a business, (ii) dealing with construction permits, and (iii) Getting electricity. . Mongolia made starting a business easier by eliminating the requirement to get company statutes and charters notarized as well as the requirement to register a new company with the local tax office. And it made dealing with construction permits easier by eliminating the requirement for a technical review of the building plans by the state for low- and medium-risk construction projects. In addition, Mongolia made getting electricity easier by increasing the efficiency of the utility's internal processes, enforcing time limits at different stages of the connection process, and eliminating the fees for testing the installation.

Thanks to the three business regulatory reforms, Mongolia's distance to frontier indicator for Mongolia also improved from 60.2 to 61.6. The distance to frontier measure, introduced in *Doing Business 2012*, assesses how much the regulatory environment for local entrepreneurs improves in absolute terms by showing the distance of each economy to the "frontier," which represents the best performance observed on each of the *Doing Business* indicators across all economies since 2003 or the first year in which data for the indicator were collected. The measure is normalized to range between 0 and 100, with 100 representing the frontier.

Singapore has the highest global ranking on the ease of doing business, followed by Hong Kong SAR, China. New Zealand, Malaysia, and the Republic of Korea are also among the top 10. The Philippines is among the global top 10 improvers this year—the economies making the biggest improvement in business regulation over the past year. Among the 25 economies in East Asia and Pacific region, Vietnam and China implemented most business regulatory reforms. Vietnam implemented the most number of reforms in the region with 21 reforms during this period, followed by China with 18. Fifteen of 25 economies in East Asia and the Pacific implemented at least one regulatory reform making it easier to do business in the year from June 2, 2012, to June 1, 2013—25 reforms in total. China is among the 20 economies worldwide that have narrowed the gap with global good practices the most since 2005. The Lao People's Democratic Republic, Timor-Leste, Malaysia, Cambodia, and the Solomon Islands are among the top 50 narrowing this gap the most.

Source: Doing Business 2014, The World Bank Group (Oct 2013)

MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation
("Corporation") held by telephone on Monday, January
21st, 2013 at 10:00 a.m.

Present: Michael Parrett
Frank Bellotti
Robert Cross
Bill Foster
Owen Ryan
Murray Sinclair

Regrets: Ned Goodman

Also present by
invitation: Mark Gow
Frank Turner, Osler

THIS IS EXHIBIT " 12th "
referred to in the Affidavit of
Joe William J. Foster
Sworn before me this 13th
day of Feb A.D. 2013
Joyce Schappert
NOTARY PUBLIC / COMMISSAIRE FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

1. Call to Order

Mr. Parrett called the meeting to order at 10:00 a.m. and with the consent of the meeting, Mark Gow acted as Secretary. It was acknowledged that the notice of meeting had been duly provided to all directors of the Corporation in accordance with the by-laws.

2. Minutes

Consideration of the minutes of the meeting of the Board of Directors of November 14, 2012 were deferred to a future meeting.

3. Transaction with Mr. Enkhtaivan

Mr. Foster noted that he and Mr. Parrett were recently in Toronto and finalized all major details with respect to the share exchange agreement with Mr. Enkhtaivan. The signed agreements are in possession of counsel pending the finalization of minor details. The transaction must be approved by the Mongolian government under the new foreign investment law.

4. Updates

Mr. Foster provided a brief update on outstanding matters, including:

- The new foreign investment law including regulations still have not been published; continuing negative commentary from industry and certain embassies; declining direct foreign investment; more conciliatory rhetoric from some government officials, and; view that some changes are expected such as increasing the threshold of transactions requiring approval.
- The new draft of the minerals law including the law is a completely new regulatory regime; provision for state ownership in most resource plays; considerable negative commentary from business groups; prohibition of any license transfers until new law is adopted, and; draft regulations have not been published.
- Detailed environmental impact assessment will be defended before government in meeting expected to be scheduled shortly.

- Management team in Mongolia to travel to local soum to gain approval for Khotgor environmental protection and land use plans, and that management expects to commit to some spending on community projects (school renovations, for example) to maintain local support.
- Appeal by Mrs. Bolormaa to the Chief Justice of the Supreme Court, and that ruling is expected with one week.

A discussion ensued, including:

- Current coal markets and coal prices.
- Updates by Fenwei of marketing studies for Khtogor and Dalan prices for use in preliminary economic assessments and for assessment of asset impairment.
- Coal sales prices from Mongolia to China and recent concerns expressed by the Mongolian government.
- Reduced exploration activity in Mongolia, movement of rigs out of Mongolia and effect on drilling costs, and number of rigs reserved for upcoming drilling season.

5. Cash Position and 2013 Work Plans

Mr. Gow provided a financial update including results for the year to date, current cash position, and actual spending against the July 2012 – June 2013 plan.

A discussion ensued, including:

- Plans to be implemented should additional funding not be secured in a timely fashion.
- Work required on licenses MV-012472 and XV-016830 to maintain them in good standing.
- Need to raise \$30 million to effect 2013 full-year work plan including exploration work and feasibility study at Khotgor, pipeline pre-feasibility study, and other spending.
- Signs of recovery in United States and benefits that may accrue to coal, oil and gas, and copper resource plays.
- Pre-feasibility study planned for slurry pipeline project, and potential for another pipeline project for power plant near Ulaanbaatar.
- Past financing efforts and results, and view of current shareholders of desire for liquidity event.
- Secondary goal of listing the Corporation on a public market was to discourage the Mongolian government from the declaring Khotgor a strategic deposit.
- Merits of listing on public market prior to raising financing or vice versa.
- Merits of a discount rights offering to encourage existing shareholders to participate, and extension of any such offering to Mr. Enkhtaivan.

6. Other Financing Sources

Mr. Foster updated the Board regarding alternative sources of financing. TaiXi still expresses interest and continues to attempt to gain internal Chinese government approvals to proceed. Mr. Foster will travel to meet with the company in February as the size and strategic nature of the potential investment is appealing to the Corporation.

Mr. Foster advised that interest in the Powerland licenses has fallen off after the interested party learned there were no indications of metallurgical coal. Interest in the Dalan license has not been terminated but has not advanced recently. Mr. Foster added that any sale of licenses would be delayed in light of the Mongolian government's moratorium on license transfers until passing of the new minerals law.

Mr. Dominic Yen reported a list of targets that he will visit on a trip to China to commence in about one week. Mr. Foster advised that Mr. Yen's efforts are at the early stages and it is expected it will take some time to nurture interest.

Mr. Foster noted that discussions continue with Korea Coal, owners of the license within the boundaries of license XV-016830. Korea Coal stated they conducted an exploration program in 2012, which identified the same seam that the Corporation had discovered in 2011 and a second, deeper seam, and they had indications of a significant presence of metallurgical coal. Mr. Foster added that Korea Coal plans to prepare a JORC resource report, and seemed to appreciate the location of the properties supports some form of collaborative development. Mr. Foster stated that he expected discussions to continue and sharing of technical data would occur at the appropriate time.

7. Potential Reverse Takeover Transaction

Mr. Parrett provided an update of discussions with Mr. Goodman and related efforts to date to identify a listed public company that would be a reverse takeover candidate. The Corporation passed on the first candidate due to anticipated difficulties completing satisfactory due diligence. A second candidate has been identified, which is a capital-pool corporation owned by Mark Goodman, son of Mr. Goodman. It is anticipated that the second candidate has few potential legacy issues, though it does not have a substantial cash reserve and a financing would have to occur either in advance of, or in conjunction with, any transaction.

A discussion ensued, including:

- Make-up of the first group of investors in the Corporation and any expectations of a liquidity event.
- Impact of highly discounted rights offering on early investors, including founders.
- Anticipated benefit of being a public company to buttress any efforts by the Mongolian government to declare Khotgor a strategic deposit.
- Difficulties of conducting a reverse takeover transaction with a related party.
- Relative importance and merits of listing the Corporation to raise financing, and necessity to pursue funding as the first priority and listing the Corporation as the second priority.
- Mr. Enkhtaivan's rights in an anticipated transaction and any difficulties that could arise.

8. Letter of Intent with Takeover Candidate

The letter of intent with the second takeover candidate was discussed. Management was directed not to sign the letter of intent at this time pending further consideration of the arm's length issue and the limited amount of time the candidate has to complete a qualifying transaction.

9. Ability to Transfer to TSX from TSX-V After a Reverse Takeover

10. Independent Committee

The Board discussed the apparent options to finance the company and effect a listing on an exchange and whether an independent committee should be formed to consider alternatives. The mandate of any committee was discussed and would include consideration of the current proposal and to develop alternatives for the Board to consider. Upon a motion duly made, seconded and discussed IT WAS RESOLVED THAT Messrs. Parrett, Cross, Ryan and Foster will form an independent committee to consider the proposal to enter a reverse takeover transaction with the second candidate and to develop alternative arrangements for consideration of the Board be approved. It was further RESOLVED THAT the independent committee would be given the authority to engage the financial and legal advisors the independent committee felt necessary to accomplish its mandate.

11. Other Business

There were no other matters to discuss.

12. In-Camera Session

No in-camera sessions of the board were considered necessary.

13. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 11:30 a.m.

On behalf of the Board of Directors:



Michael Parrett, Chair



Mark Gow, Recording Secretary

**MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation
("Corporation") held on Thursday, March 28th, 2013 at
10:30 a.m. at the offices of the Corporation in Calgary.**

Present: Michael Parrett
Frank Bellotti
Robert Cross
Bill Foster
Ned Goodman
Owen Ryan
Murray Sinclair

**Also present by
invitation:** Mark Gow
Frank Turner, Osler

1. Call to Order

Mr. Parrett called the meeting to order at 10:30 a.m. and with the consent of the meeting, Mark Gow acted as Secretary. It was acknowledged that the notice of meeting had been duly provided to all directors of the Corporation in accordance with the by-laws, or waived by attendance.

2. Minutes

The minutes of the meetings of the Board of Directors of November 14, 2012, January 21, 2013 and February 12, 2013, having been distributed in advance of the meeting, were tabled for approval. A minor amendment to the minutes of the February 12, 2013 meeting was agreed upon. Upon a motion duly made, seconded and discussed IT WAS RESOLVED THAT the minutes of the Board meetings of November 14, 2012, January 21, 2013 and February 12, 2013, as amended, are confirmed and approved.

3. Legal and Political Updates

Mr. Foster provided updates on a number of matters, including:

- License XV-016830 – The litigant Bolormaa, who lost her challenge to overturn the sale of the license to Mr. Erdenetsogt (the vendor of the license to the Corporation), has launched an action against MRAM claiming the department acted improperly when it transferred the license between two companies owned by Mr. Erdenetsogt. Mr. Erdenetsogt's company, Winter Blossom, is an intervener in the matter and is being represented by Mongol Advocates, who will monitor the case to ensure the interests of the Corporation are considered by the court.
- Draft minerals law – The draft minerals law, which is sponsored by the President of Mongolia, was released for public comment in late December 2012. The law proposes significant changes to the current law in many areas, including minimum expenditures, license transfers, environmental protection, mine closure, public and local government input, and Mongolian ownership. A new law is expected to be introduced into the Mongolian parliament after the presidential elections in June 2013.
- Foreign investment law – The law was passed by the Mongolian parliament in May 2012 and regulations are not yet available. The government has created the government department – the Foreign Investment Review and Regulation Department (FIRRD) – to administer the law. There has been some consultation with industry and other groups about the law, and the government has

received considerable negative feedback. This is evident by a sharp drop in direct foreign investment in Mongolia since the passage of the law. There are some press reports that changes to the law are forthcoming, but no official statements have been made by the government.

- **Presidential elections** – Elections are scheduled for late June 2013. The incumbent president is a member of the Democratic Party. The president controls the draft minerals law and the anti-corruption agency, and the president can veto parliamentary laws if the vote is less than two-thirds of the members of parliament. This is an important power since the Democratic Party is a minority government ruling through a coalition. The current expectation of contacts in Mongolia is that the Democratic Party candidate will be reelected to the presidency in June.

A discussion ensued of important messages to include in financing road show presentations, including some positive developments in Mongolia and that South Gobi is producing again following numerous difficulties they have experienced over the last several months.

4. Pipeline Prefeasibility Study

Mr. Foster provided an update about the pipeline opportunity in Mongolia. Following a meeting with the Mongolian Minister of Economic Development in October 2012, the Corporation agreed to prepare prefeasibility studies for two potential projects: coal movement from Tavan Tolgoi to the Chinese border and coal movement from Baganuur mine to a proposed coal-fired power plant near Ulaanbaatar. A trip is planned for Mr. Foster and a representative of Brass Engineering to join Mr. Enkhtaivan for a meeting with the minister in April 2013. The goal is to be granted an exclusive license for pipelines to transport coal. The minister is authorized to negotiate with the Corporation directly, or to tender the proposed work. In the latter case, it is expected the Corporation will be allowed to participate in the tender.

5. Private Placement Update

Mr. Foster provided an update about the advancement of the private placement to raise up to \$35 million. Messrs. Foster and Gow met with representatives of Dundee on March 14 and reviewed the company, its projects and its present financial position. Several documents have been provided, as well as an expected use of proceeds that should see the Corporation financed through the first quarter of 2014. The Corporation is waiting on a term sheet for the financing. Mr. Foster also reported that Dundee and Canaccord have discussed Canaccord's role in the financing. Mr. Foster stated that all parties are aware of the need for financing to be available in April 2013.

6. Budget Scenarios 2013

Mr. Foster discussed three budget scenarios for 2013, which covered a range of activities that could be undertaken at various levels of financing. He added that a shutdown scenario has been reviewed should financing not be available.

As discussion ensued, including:

- Potential timing for the shutdown scenario and anticipated cash spending.
- Current monthly cash spending, major areas of fluctuation in spending, and major upcoming expenditures.
- Current anticipated timing to complete a private placement and need for \$7 million to bridge to close of the financing.
- Consequences of not completing the resource assessment on license MV-012474 in 2013.

- Whether difficulties experienced is indicative of concerted effort to take away licenses, or otherwise cause the Corporation to lose them, as the size of the resource discovered becomes more widely known.
- Potential sale of Powerland and Dalan, lack of progress with parties who had expressed some interest in the properties, and difficulties expected in light of the current moratorium on the transfer of licenses.
- Spending required to advance work on license MV-012474.
- View that work on license XV-016830 could be delayed, other than minimum required expenditures, if necessary and implications of any delay.

7. Operating Plans for 2013

Mr. Foster outlined operating priorities in 2013, which include:

- Engaging local people and governments in the Khotgor area to maintain the positive momentum and support the Corporation has enjoyed.
- Advance discussions with Korean Coal to explore an investment of cash into the Corporation and a transfer of the license to the Corporation.
- Advance the pipeline opportunity.
- Closely monitor the various railway studies announced by the Mongolian government.
- Attain a listing on the TSX-V and ultimately the TSX.
- Maintain contact with TaiXi who is still interested in the company and represents a potential important future partner.

8. Update Mr. Enkhtaivan Transaction

Mr. Foster noted that the share exchange transaction with Mr. Enkhtaivan was complete and that closing is dependent on approval of the Mongolian government under the foreign investment law. A discussion ensued about the overall positive relationship and improved communication with Mr. Enkhtaivan.

9. RTO Update

Mr. Foster provided an update on advancement of the reverse takeover transaction with Focused Capital, noting that Focused Capital has issued a press release about a possible arrangement; a timetable has been established; due diligence lists have been exchanged; and the Corporation is awaiting comments from Focused Capital on the draft definitive agreement.

10. Report of the Audit Committee

Mr. Parrett noted that the Audit Committee had met earlier this morning and considered the year-end financial statements, management's discussion and analysis, and the report of the auditor. He noted that all members of the Audit Committee had been present and provided their comments on the materials discussed. Mr. Parrett summarized a number of matters of significance, including:

- The comprehensive loss of the Corporation for 2012.
- There were complex foreign currency issues given the three currencies involved, including the approximately \$3 million adjustment in the third quarter.
- The extensive disclosures related to the going concern matter, various developments involving the Corporation's licenses, and subsequent events.
- Disclosures in the management's discussion and analysis.
- The absence of typical public company listing of risk factors in the management's discussion and analysis, noting that these disclosures would be included in any exchange listing documentation.

- PwC confirmed that the firm had conducted enough work to support a reverse takeover transaction in light of current regulatory issues regarding companies operating in emerging markets.
- PwC provided the Audit Committee with the results of the firm's work on fraud and corruption, noting that the results were generally good but that PwC recommends more training and documentation of procedures.
- The level of preparedness of management and the Corporation for becoming a reporting public issuer, particularly in regards to internal controls and additional effort required, noting that some work needs to be done by Management and this work will be monitored by the Audit Committee.
- The Audit Committee had assessed the work of the auditor, including taking feedback from management, and concluded that the work of the auditor has been very good.
- The Audit Committee had met in-camera with the auditor and that the auditor was prepared to sign their audit opinion on the financial statements. The audit opinion would be unqualified but would include an 'emphasis of matter', which is typical given the Corporations going concern issue.
- The Audit Committee agreed to recommend approval of the consolidated financial statements and management's discussion and analysis for 2012, and recommends that PwC be appointed as auditors for the current 2013 year.

Upon a motion duly made, seconded and discussed IT WAS RESOLVED THAT the 2012 consolidated financial statements and management's discussion and analysis are approved.

11. Other Matters

Mr. Foster noted that a new safety manager, a required staff position in Mongolia, was hired and the desire is to grant the employee options in line with other managers in the country. The board of directors of the Corporation has decided that it is in the best interest of the Corporation to grant stock options to purchase common shares of the Corporation to certain employees of the Corporation. Upon a motion duly made, seconded and discussed, IT WAS RESOLVED THAT stock options are hereby granted to Tuya Gerel to purchase 20,000 common shares at an exercise price of \$0.85 per common share, and the stock options shall vest in equal number on each March 4, 2014, 2015, and 2016, expire on the tenth anniversary of the date hereof, and otherwise be subject to the terms and conditions of any stock option plan implemented by the Corporation. IT WAS FURTHER RESOLVED THAT any director or officer of the Corporation be and is hereby authorized and directed to execute and deliver, for and on behalf of the Corporation, an option certificate, with execution thereof by such director or officer to constitute conclusive evidence as to the approval of all such terms and conditions.

Mr. Gow noted that Mr. Sinclair, as a recent appointee to the board of directors, is entitled to the benefits of the same indemnity agreement with the Corporation as established for other directors. The board of directors of the Corporation has decided that it is in the best interest of the Corporation to extend the indemnity agreement approved by the board of directors to Mr. Murray Sinclair. Upon a motion duly made, seconded and discussed, IT WAS RESOLVED THAT the Corporation enter into the indemnity agreement with Mr. Murray Sinclair. IT WAS FURTHER RESOLVED THAT any director or officer of the Corporation be and is hereby authorized and directed to execute and deliver, for and on behalf of the Corporation, an indemnity agreement, with execution thereof by such director or officer to constitute conclusive evidence as to the approval of all such terms and conditions.

Mr. Parrett noted that Mr. Enkhtaivan is entitled to appoint a board member under the terms of the share exchange agreement between the Corporation and Mr. Enkhtaivan. The candidate put forward is Mr. Erdemmanlai Nergui. The Corporation commissioned a background check on the candidate by Good

Governance Group, the results of which were favourable. A discussion ensued, including the impressions of Messrs. Parrett and Foster from their meeting with Mr. Erdemmanlai; the benefits of a Mongolian with strong local and business experience as a member of the board; and the merits of inviting Mr. Erdemmanlai to the board in advance of the timing contemplated in the share exchange agreement. Management was asked to invite Mr. Erdemmanlai to Canada in order to meet as many board members as possible.

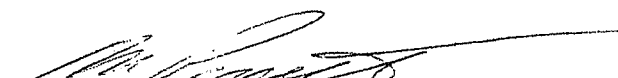
12. In-Camera Sessions

An in-camera session of the board was held without management being present. There were no matters to be reported upon.

13. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 12:00 noon.

On behalf of the Board of Directors:


Michael Parrett, Chair


Mark Gow, Recording Secretary

SCHEDULE TO THE BOARD MEETING MINUTES OF March 28, 2013

BRING FORWARD LIST

Complete registration of license XV-016830 in name of subsidiary of
CGBEM

Foster

**MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation
("Corporation") held at the offices of the Corporation on
Monday, May 13th, 2013 at 10:30 a.m.**

Present: Michael Parrett
Frank Bellotti
Robert Cross
Bill Foster
Owen Ryan
Murray Sinclair

Regrets Ned Goodman

**Also present by
invitation:** Mark Gow

1. Call to Order

Mr. Parrett called the meeting to order at 10:30 a.m. It was acknowledged that the notice of meeting had been duly provided to all directors of the Corporation in accordance with the by-laws, or waived by attendance. With a quorum being present, the meeting was declared to be duly called and constituted for the transaction of business. With the consent of the meeting, Mark Gow acted as Secretary.

2. Minutes

The minutes of the meetings of the Board of Directors of March 28, 2013, April 12, 2013 and May 3, 2013 having been distributed in advance of the meeting, were tabled for approval. Upon a motion duly made, seconded and discussed IT WAS RESOLVED THAT the minutes of the Board meetings of March 28, 2013, April 12, 2013 and May 3, 2013 are confirmed and approved.

3. Legal and Political Updates

Mr. Foster stated that legal matters involving license XV-016830 are now fully resolved and that Winter Blossom LLC, the legal entity holding the license, was now an indirect wholly-owned subsidiary of CGBEM. He added that management continues to monitor the lawsuit between MRAM and Mrs. Bolormaa, which is scheduled to be heard May 21, 2013.

Mr. Foster noted that regulations for the foreign investment law were issued March 2, 2013 but were not made public until early May. He noted that the regulations now provide for cabinet approval, rather than parliamentary approval, of transactions involving non-state-owned enterprises, and that little clarification of the law and its requirements was provided. Mr. Foster noted that the Foreign Investment Review and Regulations Department (FIRRD) is now accepting applications under the law and that management started to prepare submissions. He noted the regulations outline a 67-day process for the government of Mongolia to consider applications. Mr. Foster commented that rumors persist that the government of Mongolia is considering amendments to the foreign investment law such that the law would only apply to state-owned enterprises and it was anticipated that the amendments would be made public between the presidential elections (June) and the Naadam holiday (July).

Mr. Foster stated that the detailed environmental impact assessment for license MV-012474 was approved and drilling has started. He also noted that, under the forest and rivers law, the government of Mongolia required the return of two portions of the license due to the suspected presence of rivers. The Corporation agreed to turn back the affected portions of the license, about 10% of the license area, to attain approvals. However, management is working on a strategy to have the northwest parcel returned. Upon a motion duly made, seconded and discussed **IT WAS RESOLVED THAT** the Board ratifies and approves the return of the parcels to the Mongolian government.

Mr. Foster confirmed that the Special Protected Area within license XV-016830 is being returned to the government of Mongolia. He added that the Corporation continues to seek final approvals to resume exploration drilling, having obtained the governor's approval and attempting to obtain the opinion of the council of Bagh #2. Mr. Foster noted that Bagh #2 is the home of the protest movement experienced last year. He added that the staff of CGBEM has worked hard to generate local support for the Corporation, approximately 30 locals have been hired for the exploration season, and the Corporation will be spending some capital as part of its social responsibility contract in the area.

4. Drilling Activity and Feasibility Study Update

Mr. Foster stated that three drilling rigs have been mobilized and two are now drilling on license MV-012474. He also stated the Golder Associates is conducting the feasibility study and some of its work will be completed when the drilling results for 2013 are known. It is expected the feasibility study will be completed by June 2014.

A discussion ensued, including:

- Planned drilling and sequencing for licenses MV-012474 and XV-016830.
- One objective for the drilling is to determine available space for mining infrastructure.
- Ability to speed up drilling if required.

5. Pipeline Opportunity Update

Mr. Foster stated he met with the Minister of Economic Development in Mongolia on April 27, 2013 and presented two pre-feasibility studies. He noted that they discussed a number of matters and issues, including the difficulty to compete against subsidized rail transportation over short distances, inability to use aquifers for commercial purposes, and potential to use discharge water from Ulaanbaatar. Mr. Foster said that the relevant pre-feasibility study would be updated to consider the use of discharge water, which will be presented to the Minister at a later date with the view to securing an exclusive operating license.

A discussion ensued, including the status of the Tavan Tolgoi project, selection of consortium, and focus on metallurgical coal.

6. Cancellation of Reverse Takeover Transaction

Mr. Foster confirmed that, following discussions with both investment bankers (Dundee and Canaccord), the decision was made to cancel the proposed reverse-takeover transaction with Focused Capital. The bankers suggested the Corporation reconsider the transaction due to poor capital market conditions. He noted that the members of the board agreed with this course of action during an informal update on April 25, 2013.

A discussion ensued, including Mr. Foster providing feedback from six investors that he had spoken to about the matter who indicated their support to cancel the reverse takeover transaction.

7. Financing Update

Mr. Foster stated the term sheet for the financing was proceeding through negotiation of final matters, including limiting the quantum of legal fees and payment of interest.

A discussion ensued, including:

- Relative merits of negotiating terms that may ultimately be difficult to sell in current capital markets.
- Risk of losing lead order.
- Schedule to close financing.
- Means by which to make the deal available to all existing shareholders, and whether any proration should be considered.
- Relative merits of lowering the minimum to be raised under the financing.

8. Report of the Audit Committee

Mr. Parrett noted that the Audit Committee had met earlier this morning and considered the first quarter financial statements and the report of the auditor. He noted that all members of the Audit Committee had been present and provided their comments on the materials discussed. Mr. Parrett summarized a number of matters of significance, including:

- Nature of work by PwC.
- Results of operations during a quarter with a relatively low level of activity, assets, working capital and current cash balance.
- The extensive disclosures related to the going concern matter, various developments involving the Corporation's licenses, and subsequent events.
- The Committee's discussion with management regarding the financial capability in Mongolia, and any retention issues with the controller.
- The Audit Committee had met in-camera with the auditor and that the auditor was prepared to sign their review opinion on the financial statements.
- The Audit Committee agreed to recommend approval of the first quarter 2013 unaudited interim consolidated financial statements.

Upon a motion duly made, seconded and discussed IT WAS RESOLVED THAT the first quarter 2013 interim consolidated financial statements are approved.

9. Other Business

Mr. Foster stated that Dundee, as part of the financing negotiations, wants to reduce the exercise price of its 8,000,000 warrants from \$1.25 to \$0.60, and that the accommodation would be the subject of a separate agreement.

A discussion ensued, including:

- Dundee's commitment to a sizable lead order, including advancing \$7.5 million before final closing of the financing.
- Relative merits of re-pricing other warrants.

Upon a motion duly made, seconded and discussed, and with Messrs. Bellotti and Sinclair declaring their conflict of interest and abstaining, IT WAS RESOLVED THAT the 8,000,000 warrants issued to Dundee Corporation would be amended such that the exercise price of the warrants would be \$0.60.

10. In-Camera Session

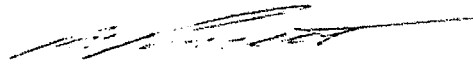
The Board met in-camera without members of management being present. There were no matters to be reported upon.

Mr. Foster left the meeting and the Board met in-camera. There were no matters to be reported upon.

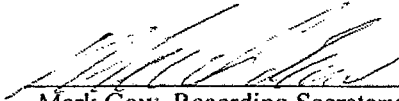
11. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 11:45 a.m.

On behalf of the Board of Directors:



Michael Parrett, Chair



Mark Gow, Recording Secretary

**MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation
("Corporation") held by telephone on Tuesday, June 4th,
2013 at 8:30 a.m.**

Present: Michael Parrett
Frank Bellotti
Robert Cross
Bill Foster
Owen Ryan

Regrets: Ned Goodman

**Also present by
invitation:** Mark Gow
Denis Lehoux
Frank Turner, Osler
David Anderson, Dundee

1. Call to Order

Mr. Parrett called the meeting to order at 8:30 a.m. It was acknowledged that the notice of meeting had been duly provided to all directors of the Corporation in accordance with the by-laws, or waived by attendance. With a quorum being present, the meeting was declared to be duly called and constituted for the transaction of business. With the consent of the meeting, Mark Gow acted as Secretary.

2. Minutes

Consideration of the minutes of the meeting of the Board of Directors of May 13, 2013 was deferred to a future meeting.

3. Financing Update

Mr. Foster provided a timing perspective of the negotiations for the current financing, including an initial term sheet distributed March 20, 2013; an agreement with Mr. Anderson of Dundee in mid-April; an amended agreement with Mr. Murray John of Dundee in late April / early May; and a further change to the terms of the financing following a Dundee board meeting on May 13, 2013. He noted that communication with Dundee has been poor throughout the process, and it has been unclear who has been the decision maker within the Dundee organization. Mr. Foster has concluded that Mr. Goodman is the decision maker and that, as a result, it has been difficult to obtain timely feedback during negotiations.

Mr. Foster noted that the proposed terms of the financing continue to shift and that the current convertible debt proposal includes a conversion price of \$0.20, a full warrant with an exercise price of \$0.30, Dundee to invest up to \$20 million, exercise price of existing warrants held by Dundee to be changed to \$0.30, a 1:4 rights offering to current shareholders, and an undisclosed arrangement regarding a possible transfer of shares from the founders to Dundee for no consideration.

4. Operations Update

Mr. Foster provided an update of operations, including:

- Drilling, which commenced in May, was proceeding well and on plan.
- A social responsibility contract has been signed, including signatories from Bagh #2 which is the home of the protesters that interfered with drilling last year.
- Discussions with Golder Associates for the feasibility study continue. The study has technically started but management continues to slow the process until funding certainty is available.
- Efforts to conclude permitting for exploration on license XV-016830 continue and approvals are expected within a few weeks.
- Presidential elections are in late June 2013 and the current president is the front runner in the polls. Other candidates appear to be less friendly to mining.

5. Financing Discussion

A discussion about the current financing ensued.

In response to a question, Mr. Cross noted he has spoken to Mr. Anderson and that the founders had not reached an agreement with Dundee. He confirmed that an agreement to transfer stock of the founders to Dundee is a condition of the financing arrangement. Mr. Cross needs to discuss the matter with Mr. Bellotti and Mrs. Griffiths.

In response to a question, Mr. Gow confirmed that Dundee's investment in the Corporation was through Dundee Corporation, Dundee Global Resource LP, and Ravensden Alternative Group, and that it did not appear that any shares were held personally by Mr. Goodman. Mr. Gow added that he is aware that Ned Goodman Investment Council Ltd., Corecap, and, to a lesser extent, Bellotti Goodman Capital were shareholders of the Corporation.

David Anderson joined the meeting.

Mr. Anderson noted he had had discussions with Mr. Goodman about the terms of the financing over the last few days and summarized the terms as follows:

- Dundee was prepared to advance \$2 million this week, which would be part of its initial \$7.5 million investment.
- Dundee was prepared to backstop a \$12.5 million, 1:4 rights offering to shareholders.
- Financing would be by way of a secured convertible debenture bearing 12% interest, convertible into units at \$0.20 per unit; each unit consisting of a share and a full warrant with an exercise price of \$0.30.
- The financing would raise at least another \$10 million from investors.
- Dundee requires 40 million shares to be transferred to it by the founders.
- Dundee requires its existing warrants to be amended so that the exercise price is reduced to \$0.30.
- Dundee requires the approval of its board of directors.

Mr. Anderson added that the first \$20 million should be enough capital to fund activities in 2013, and that Mr. John wants to see the Corporation complete its drilling program at Khotgor, finish its feasibility study, and pursue an initial public offering in the fall of 2014.

In response to a question, Mr. Anderson acknowledged that the Dundee organization has not met established timelines throughout the process to advance negotiations and indicated Mr. Goodman to approach his board for approvals as early as this evening.

In response to a question, Mr. Gow noted that, assuming the funding proceeds as noted and conversion of all dilutive securities except Mr. Enkhtaivan's preferred shares, Dundee's pro forma ownership of the Corporation would increase from 14% to 41% and that the pro forma ownership could increase to 61% if Dundee backstopped the full \$12.5 million rights offering.

In response to a question, Mr. Anderson agreed that the process will now move into the summer months; however, the first \$20 million of funding is from Dundee and from existing shareholders through rights offering that can be completed by mid-July. He added that he felt the next level of funding could be completed by the end of July, and that Dundee was aware of investors who were interested in the financing proposal.

It was noted that expectations of an earlier financing proposal were very accurate and that investors were now somewhat conditioned to a proposal that had changed significantly. In response, Mr. Anderson agreed the earlier leak of information was unfortunate and that the Corporation was going to have to disclose the current proposed financing terms with investors, adding that the number of people with knowledge of the current proposal is limited.

The Board informed that Dundee has placed the Corporation and its management in a very tough position with its conduct, especially considering the proposed financing was first discussed over three months ago.

Mr. Anderson left the meeting.

Mr. Turner joined the meeting.

A discussion about the current financing and how it may affect Mr. Enkhtaivan ensued, including:

- Dilutive impact to Mr. Enkhtaivan should he not participate.
- Mr. Enkhtaivan has been notified a financing is occurring, and that Mr. Turner has contacted Mr. Enkhtaivan's Canadian legal counsel.
- Potential problems or other ramifications in Mongolia should Mr. Enkhtaivan not be accepting of the proposed financing arrangement.
- Mr. Foster and members of the Board will schedule a time to have a discussion with Mr. Enkhtaivan.

A discussion about the arrangement for the founders to transfer shares to Dundee was discussed, including:

- Mr. Griffith's estate and Mrs. Griffiths are expected to participate.
- The reasonable expectation that these particular negotiations may slow down the process, understanding that Mrs. Griffiths will need to obtain her own independent professional advice.
- Mrs. Griffiths is aware of Dundee's earlier request but it has changed considerably.
- Mr. Cross's enquiry whether the Corporation would come forward in some fashion to recognize the sacrifice of the founders, and the anticipated shareholder response to any such accommodation, perhaps through the issue of warrants.

A discussion about the terms of the newest financial proposal ensued, including:

- Valuation implicit in the newest proposed terms.
- Current poor state of financial markets and difficulty firms are experiencing to raise funds.
- Need to confirm valuation assumptions with Canaccord and Cormark, and to have Cormark review all of the proposed terms.

- Difficulty to test new terms in capital markets, which is compounded by the timing and conflicts with Dundee.
- Difficulty with material changes in terms in light of Dundee leaking a previous proposal.

Mr. Gow noted that the Corporation has \$2.2 million in cash at the present time. He added that, assuming the Corporation was to cease operations, there was approximately \$3.5 million of accrued obligations including contractual severance to employees and \$200,000 of statutory obligations.

A discussion of the response to Dundee ensued, including:

- Relative merits of delaying a response for a couple of days to test the capital market with previous proposal.
- Merits of indicating the Corporation's desire to proceed on the basis of the proposed terms but to continue to test the capital market until Dundee's approval process is complete.

[REDACTED]

It was agreed that a response to Dundee would be delayed 24 hours to allow some time to obtain the views of independent parties, and to allow some time for the founders to further consider their position.

Mr. Gow was asked to confirm in writing to the board the statutory requirements of the Corporation and its subsidiaries are met and will continue to be met.

The attending members of the Board were canvassed and a meeting was set for 3:00 p.m. Calgary time tomorrow, June 5, 2013.

Messrs. Cross and Bellotti left the meeting.

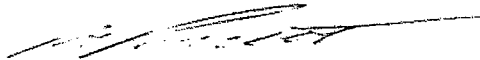
6. In-Camera Session

The remaining Board met in-camera without invited management being present. There were no matters to be reported upon.

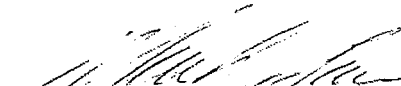
7. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 10:15 a.m.

On behalf of the Board of Directors:



Michael Parrett, Chair


Mark Gow, Recording Secretary

**MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation
("Corporation") held by telephone on Wednesday, June
5th, 2013 at 3:00 p.m.**

Present: Michael Parrett
Frank Bellotti
Robert Cross
Bill Foster
Owen Ryan

Regrets: Ned Goodman

**Also present by
invitation:** Mark Gow
Denis Lehoux
Frank Turner, Osler

1. Call to Order

Mr. Parrett called the meeting to order at 3:00 p.m. It was acknowledged that the notice of meeting had been duly provided to all directors of the Corporation in accordance with the by-laws, or waived by attendance. With a quorum being present, the meeting was declared to be duly called and constituted for the transaction of business. With the consent of the meeting, Mark Gow acted as Secretary.

2. Minutes

Consideration of the minutes of the meetings of the Board of Directors of May 13, 2013 and June 4, 2013 were deferred to a future meeting.

3. Financing Discussion

Those present outlined the results of their calls over the past 24 hours to shareholders, potential investors that had been contacted in the past, investment bankers and others in the capital markets business. Generally, most of those contacted expressed a lack of interest in the investment, both specifically to them and in general, having regard to the current capital market environment. While some interest was expressed, the process to engage the potential investor and close the financing would take a considerable period of time. Some expressed the fact that Dundee was willing to invest, though the terms are aggressive, was encouraging and the Corporation should take the minimum amount of funds necessary to avoid significant dilution.

The draft term sheet and table showing proforma shareholder statistics was discussed, including:

- The terms match the representations made by Mr. Anderson yesterday.
- The clarity of the wording of the rights offering.
- Customary terms missing from the term sheet that will have to be negotiated in the definitive documentation (i.e. governance matters).
- Dundee's pro forma ownership under various financing assumptions, and clarification regarding the warrant structure.

Management was requested to obtain outside advice that the dilution numbers in the term sheet and pro forma ownership are correct.

A discussion ensued about obtaining the right to prepay the obligation at the Corporation's discretion, including:

- In light of the fact that the Corporation has been put in a difficult position that it cannot generate alternative financing options and promised funding has not been provided, prepayment will allow the Corporation to refinance the debt if more favourable terms become available in capital markets.
- Prepayment has been requested in prior negotiations of this financing and has been declined.
- Prepayment rights tend to be common in secured debt financing such as this, though standard terms are more typical of an active, competitive market for financing.

After some discussion, it was felt that the Corporation could not realistically sell the licenses in Mongolia on a timely basis and realize value at or in excess of the valuation arrived at by Dundee.

The question as to whether Dundee should be asked for more time for the Corporation to provide an answer was discussed, including:

- The governance issues surrounding the involvement of Mr. Goodman, and Mr. Sinclair prior to his resignation from the Board.
- Relative merits and expectations of making additional enquiries into capital markets.
- Importance that all shareholders be able to participate given concerns over valuation and dilution.
- Concerns that further delays could jeopardize the current proposal.
- The need to continue to canvass alternatives while Dundee seeks internal approvals and definitive documents are prepared.

Mr. Parrett noted that Mr. Enkhtaivan and his counsel were fully engaged and that Messrs. Parrett, Cross, Foster and Turner will have a conference call with Mr. Enkhtaivan at 7:00 a.m. tomorrow. Mr. Parrett also noted the sacrifice of the founders and that their negotiations with Dundee continue.

Mr. Bellotti joined the meeting.

Mr. Cross left the meeting.

The size of the transaction was discussed, including:

- The current minimum and maximum of \$30 million and \$60 million respectively.
- The use of proceeds in the current investor presentation.
- Various budget scenarios and work plans in each scenario, and milestones that may allow the Corporation to raise additional funding on more favourable terms.
- Significant impact of potential dilution to existing shareholders.
- Opportunities to reduce drilling.

Upon a motion duly made, seconded and discussed, and with Mr. Bellotti declaring his conflict of interest and abstaining, IT WAS RESOLVED THAT management would proceed with Dundee in line with the current term sheet except that the capital raised will be capped at \$30 million and management will request the right to prepay the facility at its discretion.

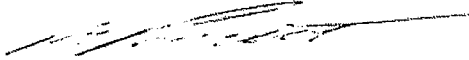
4. In-Camera Session

An in-camera session was not required.

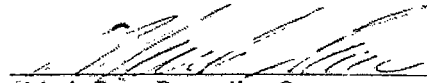
5. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 4:30 p.m.

On behalf of the Board of Directors:



Michael Parrett, Chair



Mark Gow, Recording Secretary

**MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation
("Corporation") held by telephone on Wednesday, June
12th, 2013 at 1:00 p.m.**

Present: Michael Parrett
Frank Bellotti
Robert Cross
Bill Foster
Owen Ryan

Regrets: Ned Goodman

Also present by invitation: **Mark Gow**
Frank Turner, Osler

1. Call to Order

Mr. Parrett called the meeting to order at 1:00 p.m. It was acknowledged that the notice of meeting had been duly provided to all directors of the Corporation in accordance with the by-laws, or waived by attendance. With a quorum being present, the meeting was declared to be duly called and constituted for the transaction of business. With the consent of the meeting, Mark Gow acted as Secretary.

2. Minutes

Consideration of the minutes of the meetings of the Board of Directors of May 13, 2013, June 4, 2013 and June 5, 2013 were deferred to a future meeting.

3. Financing Term Sheet

The current proposed term sheet from Dundee was distributed in advance of the meeting. Mr. Foster updated the board about discussions with Dundee over the last few days. Mr. Foster also stated that, while the term sheet in many respects was unchanged from the last version, the current term sheet excludes Dundee backstopping the \$12.5 million rights offering portion of the prior term sheet. Mr. Anderson at Dundee Securities indicated this was a result of some advice from Mr. Goodman's advisors, including his board.

[illegible]

- Security for the convertible debentures includes a guarantee of CGBEM, which will require Mr. Enkhtaivan's consent, and of B&F Mongolia.
- Re-pricing of the conversion price of the convertible debentures if the Corporation closes any financing on more favourable terms.
- Change in control put and anti-dilution rights, which are consistent with previous versions of the term sheet.
- Right of inspection for Dundee Resources and any holder of notes in excess of \$10 million.
- Right to appoint one-third of the board of directors of the Corporation including designating the chair of the resource committee of the board.
- An extensive list of covenants, events of default, and closing conditions.
- Registration rights for holders, which means the Corporation will have to prepare a prospectus for note holders if we proceed to an initial public offering.

A discussion ensued, including:

- Importance of spending cash in accordance with the budget provided with the term sheet, and the implications of spending over the plan or making expenditures not contemplated by the plan.
- Investors' reaction to spending clause and clarification that raising less than maximum proceeds and spending less than plan would not be an event of default.
- Activity level and spending of Corporation until funding is available.
- Merits of attempting to change the budget in term sheet and risk of further concessions being demanded by Dundee.
- Majority of debt holders can agree to change certain conditions of the convertible debentures.
- Status of the transfer of founders' shares to Dundee and conditions of those transfers, including transfers must be completed before next funding is advanced. Whether founders' shares could be offered to an alternative financing party, though available time may make such an option impractical.
- Efforts to explore alternative arrangements have been limited, though some initial interest has been expressed by Hampton Securities, CEF Capital, and Severstal.
- The continuing desire to offer the financing to current shareholders, and that a letter to shareholders would be completed once the term sheet had been agreed upon.

In response to a question, Mr. Foster stated that the financing arrangement, including the terms of the financing, transfer of founders' shares and dilution of Mr. Enkhtaivan and other shareholders, had been discussed with Mr. Enkhtaivan on more than one occasion and with his legal advisors. Mr. Foster noted he had Mr. Enkhtaivan's verbal agreement to the financing arrangement, and added that Mr. Enkhtaivan is not subject to transferring shares to Dundee and that Mr. Enkhtaivan's counsel has not raised any issues including at the opportunity of a conference call two days ago. It was noted that discussions with Mr. Enkhtaivan may have pre-dated changes to the security demanded by Dundee and that should be discussed with him. Mr. Foster noted a letter is ready to be sent to Mr. Enkhtaivan that will outline all the current terms, including the security requirements, and any issues under the Unanimous Shareholders Agreement.

Management was asked to provide information on the immediate term, and spending plans on drilling, feasibility study, and other activities between now and the anticipated close of the funding. Management was cautioned only to spend funds raised and not to spend on the anticipation of funding, and Mr. Gow was asked to provide information of cash spending since March 31, 2013 to date and a forecast of spending to July 31, 2013.

[REDACTED]

A discussion whether to accept the current term sheet ensued. Concerns were expressed about the lack of time to pursue a new arrangement, and the risk of further amendments to the term sheet in Dundee's favour.

Mr. Bellotti left the meeting.

Upon a motion duly made, seconded and discussed, IT WAS RESOLVED THAT management is authorized to accept the current term sheet presented by Dundee; management is authorized to sign the secured promissory note for \$2.5 million; management is directed to accept Dundee's filing of a registration statement regarding the promissory note; and management is authorized to sign the letter agreeing to the re-pricing of 8 million options with an exercise price of \$1.25 currently held by Dundee to an exercise price of \$0.30.

Mr. Parrett noted the sacrifice of the founders in coming to the current terms with Dundee and thanked them for their support of the Corporation.

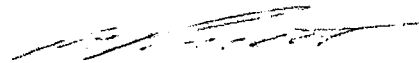
4. In-Camera Session

An in-camera session was not required.

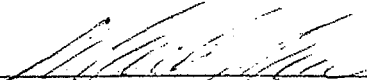
5. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 2:30 p.m.

On behalf of the Board of Directors:



Michael Parrett, Chair



Mark Gow, Recording Secretary

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**MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation
("Corporation") held by telephone on Thursday, June 20th,
2013 at 10:00 a.m.**

Present: Michael Parrett
Frank Bellotti
Bill Foster
Owen Ryan

Regrets: Robert Cross
Ned Goodman

**Also present by
invitation:** Mark Gow
Frank Turner, Osler

1. Call to Order

Mr. Parrett called the meeting to order at 10:00 a.m. It was acknowledged that the notice of meeting had been duly provided to all directors of the Corporation in accordance with the by-laws, or waived by attendance. With a quorum being present, the meeting was declared to be duly called and constituted for the transaction of business. With the consent of the meeting, Mark Gow acted as Secretary.

2. Minutes

Consideration of the minutes of the meetings of the Board of Directors of May 13, 2013, June 4, 2013, June 5, 2013, June 12, 2013, and June 18, 2013 were deferred to a future meeting.

3. Financing Discussion

Mr. Foster provided an update since the board meeting of June 18, 2013, including:

- Dundee has stopped all involvement with financing when Mr. Enkhtaivan's letter was received.
- Messrs. Anderson and John have been silent for the last 24 hours after being in daily contact with Mr. Foster.
- Further dialogue with Mr. Liotta was unproductive as his response was that Mr. Enkhtaivan was difficult to reach.
- Mr. Foster's email to Mr. Enkhtaivan, with copies to Mr. Enkhtaivan's niece and Mr. Liotta, wherein Mr. Foster outlined the Corporation's financial position and intent to cancel the drilling program.
- Mr. Enkhtaivan's niece was able to reach Mr. Enkhtaivan and a meeting in Ulaanbaatar has been set up for this coming Sunday. The Corporation will be represented by Messrs. Foster, Parrett and Cross. Messrs. Goodman, Anderson, and John have been invited to attend.

4. Independent Committee

Mr. Parrett noted the ongoing conflicts between the Corporation and Messrs. Goodman and Bellotti, and that the board has been advised to establish an independent committee the primary mandate of which is to develop alternative financing sources and structures along with continuing consideration of the Dundee

financing. Mr. Parrett noted that a proposed mandate for such a committee has been circulated to the board in advance of this meeting.

[REDACTED]

A discussion of the mandate ensued, and certain clauses were clarified to the satisfaction of the board. Mr. Cross has not raised any concerns about the mandate. Mr. Foster offered that he had discussed the need for such a committee and its mandate with Mr. Cross and that Mr. Cross agreed to sit on the committee if desired.

Upon a motion duly made, seconded and discussed, IT WAS RESOLVED THAT an independent committee of the board be established with the mandate distributed to the board prior to this meeting. IT WAS FURTHER RESOLVED THAT Messrs. Parrett, Cross, Ryan and Foster would be members of the independent committee.

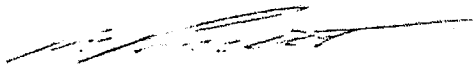
5. In-Camera Session

An in-camera session was not required.

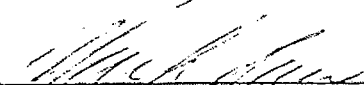
6. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 10:15 a.m.

On behalf of the Board of Directors:



Michael Parrett, Chair



Mark Gow, Recording Secretary

MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation
("Corporation") held by telephone on Thursday, September
19th, 2013 at 8:00 a.m.

Present: Michael Parrett
Frank Bellotti
Robert Cross
Bill Foster
Ned Goodman
Owen Ryan

Also present by
invitation: Mark Gow

Robert Anderson, Order

1. Call to Order

Mr. Parrett called the meeting to order. It was acknowledged that the notice of meeting had been duly provided to all directors of the Corporation in accordance with the by-laws, or waived by attendance. With a quorum being present, the meeting was declared to be duly called and constituted for the transaction of business. With the consent of the meeting, Mark Gow acted as Secretary.

Mr. Parrett noted that the Corporation's counsel has obtained a ruling that the meeting will be held in-camera with all proceedings being confidential and are protected by solicitor-client privilege.

2. Minutes

Consideration of the minutes of the meetings of the Board of Directors of May 13, 2013 and June 4, 5, 12, 18 and 20, 2013 were deferred to a future meeting.

3. Financing Update

Mr. Foster provided an update of current fund raising efforts, including:

- Summary of discussion with Hampton held on Tuesday, September 17 during which Hampton reported good progress but needs time to complete paperwork, including subscription agreements with two investors from Middle East with \$12 million.
- Review of current cash position with Mr. Deeb (Hampton) and Mr. David Anderson (Dundee).
- Summary of discussion with Mr. David Anderson (Dundee) about \$2.5 million bridge loan, which would allow Corporation to continue and pay bills until the end of November.
- Summary of discussion with Mr. Mark Goodman (Dundee) regarding discussion with Mr. David Anderson and Mr. Mark Goodman's response that bridge request would be discussed internally, and that Mr. David Anderson called stating a proposal would be forthcoming today.

4. Insurance and Trust Funds

Mr. Gow confirmed that D&O insurance policies have been extended to January 1, 2014 and that associated premiums have been paid. He also noted that \$240,000 has been placed in trust with Oslers to

cover payroll, D&O run-off policy premiums, and insurance deductible of \$25,000. He added that the corporation had less than \$40,000 in the bank, excluding the security for the corporate credit cards of \$30,000.

[REDACTED]

5. Next Steps in Absence of Immediate Funding

Mr. Parrett summarized the work of the Independent Committee over the last six months regarding financing the company. He noted the financial position of the Corporation and stated the directors must consider the next steps in light of the current situation.

- [REDACTED]
- [REDACTED]
- [REDACTED]
- Management has expressed some concern that there may be a reluctance to fund the Corporation in order to force bankruptcy under the view that the assets may be picked up more cheaply under a bankruptcy process.
- [REDACTED]
- [REDACTED]
- [REDACTED]

Mr. Goodman joined the meeting.

Mr. Anderson continued, noting that the draft letter to shareholders outlines a plan of arrangement that contemplates liquidation of assets should funding under a plan of arrangement be unsuccessful. He reiterated that the liquidation process would not allow any potential purchasers an unfair advantage over others, largely because of the process to be used will attempt to generate broad interest in the assets.

A discussion ensued, including whether sending the letter now would adversely affect the Hampton financing, and whether a straight-forward rights offering to shareholders should be considered.

Mr. Anderson provided the following:

- The draft letter if mailed to shareholders will adversely affect current fund-raising efforts.
- The Corporation is out of cash, and the proposal in the draft letter is meant to be a final effort to raise funds should the current financing fail or take too long to complete and bridge funding is not available.
- As a last appeal to shareholders, all other options that are immediately available should be considered.

Mr. Anderson left the meeting.

Mr. Foster summarized financing activities since early in 2013, including:

- Attempts to raise financing through Dundee and now Hampton.
- Requirement of the Corporation to spend cash during the process primarily to maintain license MV-012474.
- Commitments to Hampton financing are currently \$20+ million, and interest of another \$12 million for which Hampton is awaiting subscription agreements.
- Pulling the requisite paperwork together is taking Hampton longer than expected, and a close is expected in October.
- Month-end payrolls and D&O run-off insurance premiums are in trust, leaving the Corporation with approximately \$30,000 in the bank
- Mr. David Anderson (Dundee) has been fully updated as to the Corporation's available cash, and he was to discuss a \$2.5 million bridge loan with senior executives at Dundee.
- The same conversation was held with Mr. Mark Goodman (Dundee), who indicated Mr. David Anderson would call late September 18th with a proposal, which never occurred.
- A \$2.5 million bridge loan would allow Corporation to fund current expenditures and pay creditors until at least November 30, 2013.
- Hampton is expressing a high degree of confidence the financing will be successful.
- There is no commitment from CEF Capital (Mr. Warren Gilman) as expected, and Mr. David Anderson is coordinating with that investor.

In response to the question why a plan of arrangement is being considered, Mr. Foster advised that the Corporation has been attempting to raise financing for over six months, cash is running out, Dundee has been advised continually about the cash position of the Corporation, and that options need to be considered. The proposed plan of arrangement was part of the Corporation's contingency planning given the urgent financial situation of the Corporation, and that it was an option to be considered to attempt to achieve a number of objectives.

Mr. Goodman stated that Mr. David Anderson mentioned a bridge financing request to him but did not communicate the cash situation fully. Mr. Goodman stated he would see that Dundee provided a bridge loan proposal within 48 hours.

All agreed that the immediate priority of the Corporation is to finalized bridge financing to allow for the closing of the Hampton financing.

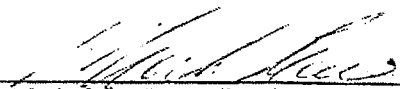
6. Adjournment

Upon a motion duly made, seconded and discussed IT WAS RESOLVED THAT the meeting would be adjourned until the morning of Saturday, September 21st.

On behalf of the Board of Directors:



Michael Parrett, Chair


Mark Gow, Recording Secretary

DIRECTORS of [REDACTED]
("Corporation") held by telephone on Saturday, September
21st, 2013 at 8:00 a.m.

Present: Michael Parrett
Frank Bellotti
Robert Cross
Bill Foster
Ned Goodman
Owen Ryan

**Also present by
invitation:** Mark Gow
Frank Turner, Osler

1. Call to Order

Mr. Parrett reconvened the meeting of September 19th and called the meeting to order at 8:00 a.m. With a quorum being present, the meeting was declared to be duly called and constituted for the transaction of business. With the consent of the meeting, Mark Gow acted as Secretary.

Mr. Parrett noted that the Corporation's counsel has joined this meeting and that the meeting will be held in-camera with counsel. Accordingly, the subject of the meeting and discussions are privileged and confidential, and are protected by solicitor-client privilege.

2. Minutes

Consideration of the minutes of the meetings of the Board of Directors of May 13, 2013 and June 4, 5, 12, 18 and 20, 2013 and September 19, 2013 were deferred to a future meeting.

3. Bridge Loan Financing

Mr. Foster advised that Mr. David Anderson (Dundee) stated Dundee was committed to a \$2.5 million bridge loan to mature November 30, 2013, and that the term sheet had been expected September 20, 2013. He added that Mr. Anderson stated the terms would be similar to the June 2013 promissory note except that there would likely be terms addressing board representation.

Mr. Goodman stated that the Corporation should expect a short-term bridge financing from Dundee in the amount of \$2.5 million, and that documentation would be sent Monday. He added that he had a conversation with Mr. Deeb at Hampton and confirmed the update Mr. Foster had provided last Thursday, including \$10 million to \$12 million had been lined up, Hampton was finalizing another \$10 million to \$12 million, Dundee was committed to \$10 million, and the close was taking additional time as much of the money being raised is from foreign investors.

4. Other Financing Matters

Options available to the Corporation should the Hampton financing not close were discussed, including:

• [REDACTED]

- [REDACTED]
- A reverse takeover transaction with a TSX-listed company with significant cash in the bank.

All agreed that Hampton should proceed with its fund-raising efforts.

5. Annual General Meeting

A discussion was held regarding the upcoming Annual General Meeting. All present directors agreed to stand for election at the Annual General Meeting. Upon a motion duly made, seconded and discussed IT WAS RESOLVED THAT:

- The Corporation is hereby authorized to hold an annual meeting of shareholders of the Corporation on Tuesday, October 15, 2013 at 9:00 a.m. Calgary time in Calgary, Alberta for the purposes of:
 - i. receiving the financial statements of the Corporation for the year ended December 31, 2012 and the report of the auditors thereon,
 - ii. electing the directors of the Corporation for the ensuing year,
 - iii. appointing the auditors of the Corporation for the ensuing year, and
 - iv. transacting such other business as may properly come before the meeting or any adjournment(s) thereof.
- The notice of an annual meeting of shareholders, the management information circular of the Corporation and the instrument of proxy to be sent to shareholders and used in connection with the meeting, substantially in the forms presented to the directors of the Corporation, are each authorized and approved, subject to such additions, deletions, amendments or modifications thereto as any director or officer of the Corporation determines to be necessary or desirable, in such committee's, director's or officer's sole discretion.
- The record date for the meeting shall be the mailing date of the meeting materials.
- Any director or officer of the Corporation is authorized, for and on behalf of the Corporation, to cause a copy of the meeting materials to be mailed to the shareholders and to the auditors and directors of the Corporation in accordance with applicable corporate and securities laws.
- Any director or officer of the Corporation is authorized and directed, for and on behalf of the Corporation, to negotiate, finalize, execute and deliver, or to cause to be negotiated, finalized, executed and delivered, all such further documents, agreements, authorizations, certificates or other instruments, with or without the corporate seal affixed, and to do or cause to be done any and all such further acts and things as such officer or director, in his sole discretion, determines to be necessary or desirable in connection with the meeting and the preparation, finalizing and mailing of the meeting materials.
- In accordance with By-Law No. 1 of the Corporation, as amended, the number of directors of the Corporation for the ensuing year shall be fixed at six (6), unless otherwise determined by resolution of the board of directors of the Corporation.
- Any director or officer of the Corporation is authorized and directed, for and on behalf of the Corporation, to negotiate, finalize, execute and deliver any and all such further documents, agreements, authorizations, elections or other instruments, and to take or cause to be taken any and all such further actions as such director or officer, in such director's or officer's sole discretion, may determine to be necessary or desirable in order to complete and give effect to the foregoing resolutions, such determination to be conclusively evidenced by such director's or officer's execution and delivery of any such document, agreement, authorization, election or other instrument or the taking of any such action.

- These resolutions may be executed in counterpart, by facsimile or otherwise, each of which when executed shall be deemed to be an original and each such counterpart together shall constitute one and the same instrument.

Mr. Gow was asked to seek an alternative, cost-effective venue for the meeting of shareholders, and the board agreed that the choice of venue will be determined by management.

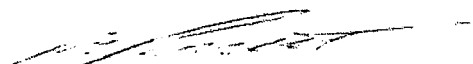
6. Other Matters

It was offered that the Corporation should consider changing its name to exclude "Mongolia" given the poor connotation in capital markets. It was agreed to address this matter in a future meeting and to commence developing alternative names for the Corporation.

7. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 8:45 a.m.

On behalf of the Board of Directors:



Michael Parrett, Chair



Mark Gow, Recording Secretary

**MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS of Mongolia Minerals Corporation**

to the Board of Directors of Mongolia Minerals Corporation. The Board of Directors of Mongolia Minerals Corporation is hereby notified that the meeting of the Board of Directors of Mongolia Minerals Corporation will be held on the 13th day of May, 2013 at 9:00 a.m. in the Conference Room of the Mongolia Minerals Corporation. The Board of Directors of Mongolia Minerals Corporation is hereby notified that the meeting of the Board of Directors of Mongolia Minerals Corporation will be held on the 13th day of May, 2013 at 9:00 a.m. in the Conference Room of the Mongolia Minerals Corporation. The Board of Directors of Mongolia Minerals Corporation is hereby notified that the meeting of the Board of Directors of Mongolia Minerals Corporation will be held on the 13th day of May, 2013 at 9:00 a.m. in the Conference Room of the Mongolia Minerals Corporation.

Bill Foster
Ned Goodman
Michael Parrett
Owen Ryan

**Also present by
invitation:**

Mark Gow
Frank Turner, Osler

1. Call to Order

Mr. Cross called the meeting to order at 9:00 a.m. It was acknowledged that notice of meeting has been waived by attendance and the meeting was declared to be duly called and constituted for the transaction of business. With the consent of the meeting, Mark Gow acted as Secretary.

2. Minutes

Consideration of the minutes of the meetings of the Board of Directors of May 13, 2013 and June 4, 5, 12, 18 and 20, 2013 and September 19 and 21, 2013 were deferred to a future meeting.

3. Financing Update

Mr. Foster advised that the current financing had not yet closed, adding the amount of financing was decreasing and the demands from the agents were increasing. He noted there were two outstanding matters. One, Hampton now asks for the ability to appoint two directors. An offer, in the context of a larger financing, was for Hampton to have the right to nominate one director. Two, Hampton asks for a prohibition on the Corporation raising additional funding within 120 days of closing. Mr. Foster noted that Hampton was threatening to hold up the financing if these demands were not met.

Mr. Foster noted the second request should not be agreed to because it would frustrate the board's ability to meet its obligations to shareholders, particularly in light of the financial position of the Corporation and the small amount of new capital being raised from the current financing.

A discussion ensued, including the need for financing within 120 days and alternatives that may be acceptable to Hampton.

It was agreed that Mr. Foster would respond to Hampton that the Corporation would be permitted to raise financing within the 120-day period provided it was not dilutive to the current financing.

4. Hampton's Request for Two Board Representatives

[REDACTED]

[REDACTED] He noted that the request was for two directors

[REDACTED] to this right

A discussion ensued, including:

- The number of shares controlled by Hampton and its group of Middle Eastern investors is approximately 15 million shares.
- New financing being raised by Hampton in current financing is approximately \$1.3 million of \$8 million of convertible notes to be issued.
- Granting such a right is not consistent with the Corporation's view of good governance principles.
- Whether a 'permanent' right to 'appoint' directors was permitted under corporate law and that, at any rate, the restrictive nature of such a right.
- Previous discussions with Hampton about board representation, including the right to nominate one director.
- The underperformance of Hampton during the current financing.

It was agreed that Mr. Foster would respond to Hampton that the right to nominate one board member would be extended to Hampton and this right would fall away if the Corporation becomes a public issuer.

Recognizing that Hampton was taking an extraordinarily strong position, Mr. Goodman indicated that he and or Dundee would be willing to step up for the small amount of new money being raised if Hampton did come through in the financing.

Upon a motion duly made, seconded and discussed IT WAS RESOLVED THAT the terms included in the most recent term sheet for the current financing are approved subject to modifications to alter the prohibition to raise new financing and the number and nature of Hampton's right to nominate a director.

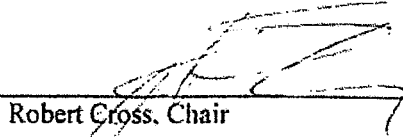
5. In-Camera Session

No in-camera session was held.

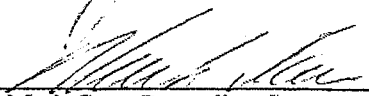
6. Termination

Given there was no other business for the meeting, on a motion duly made, seconded and approved, the meeting was terminated at approximately 9:45 a.m.

On behalf of the Board of Directors:



Robert Cross, Chair



Mark Gow, Recording Secretary

**MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS (the "Board") of Mongolia Minerals
Corporation ("Corporation") held by teleconference
on Friday, April 11, 2014 at 8:30 a.m. (MST)**

Present: Robert Cross
Frank Bellotti
Peter Deeb
William Foster
Michael Parrett
Owen Ryan

**Also present by
invitation:** Frank Turner, Osler

1. Call to Order

Mr. Cross acted as chair of the meeting. Mr. Cross called the meeting to order at 8:30 a.m. (Mountain Time) and with the consent of the meeting, Frank Turner acted as Secretary. It was acknowledged that the notice of meeting had been duly provided to all of the members of the Board in accordance with the Corporation's by-laws or waived by attendance. A quorum being present, the meeting was declared to be duly called and constituted for the transaction of business.

Mr. Foster advised that Mr. Ned Goodman was not available to join the call at this time as he was attending to another matter on an urgent basis. However, Mr. Goodman advised that he would be available to speak at 9:30 a.m. (Mountain Time). Mr. Cross indicated that the meeting should proceed and that those directors that were available could join the call with Mr. Goodman at 9:30 a.m. (Mountain Time).

2. Financial Position

At the commencement of the meeting, Mr. Parrett asked about the Corporation's current financial position. Mr. Foster advised that the Corporation had \$1.1 million in the bank as of this morning and \$250,000 in Trust with Osler, Hoskin & Harcourt LLP. Mr. Foster advised that these funds should be sufficient to see the Company through to the last half of May. Mr. Foster also advised that Messrs. Goodman and Anderson, acting in their capacity as representatives of Dundee Resources, had undertaken to fund the Corporation through to the end of the RTO process (being the proposed reverse take-over transaction between the Company and Ryan Gold).

3. KOMECO Transaction

Mr. Foster advised the Board on the Corporation's current arrangements with Korea Mongolia Energy Development Company ("KOMECO"). Mr. Foster advised that he had met personally with Mr. Ko In-Hyeon, the President of KOMECO in Vancouver. At the Vancouver meetings, a letter of intent was entered into. Mr. Foster indicated that the Corporation was taking the lead and driving the arrangements with KOMECO. In this regard Mr. Foster advised the Board that,

in addition to the executed letter of intent, the Corporation had provided KOMECO with a due diligence schedule, a due diligence request list (being information that the Corporation requires from KOMECO and its affiliates in order to evaluate the proposed transaction), our data room index and a commitment to provide a management presentation in one month's time. The due diligence schedule has been designed to run in concert with the RTO process noted above. Mr Foster further advised that he had commenced a dialogue with Canaccord regarding valuation support of the proposed transaction.

Mr. Foster expressed the view that KOMECO and its affiliates do not wish to operate their Mongolian assets and see value in combining their assets with the Corporation's Khotgor assets and allowing the Corporation to develop those assets. Mr. Foster also explained that the deal with KOMECO potentially comes with \$35-\$50 million in new financing from Shin Ha. However, such financing would only be available if we make substantial progress in finalizing the terms of a deal with KOMECO that would see KOMECO have some form of participation in the project going forward (assistance with government relations in Mongolia and South Korea, consultation regarding mine planning).

Discussion then ensued regarding the potential opportunity with KOMECO including consideration of KOMECO's motivation in selling. Mr. Deeb observed that KOMECO was a government-owned enterprise and accordingly, their principal concern would be avoiding an imprudent transaction that would damage the reputation of the officials involved. As such, their motivations would not be strictly commercial and the appetite for risk would be low. Mr. Ryan expressed the view that KOMECO should contribute some working capital to the project in order to fully realize the value of their investment.

There was further discussion as to whether the potential KOMECO transaction was conditional upon the Corporation achieving a public listing whether through an RTO or otherwise. Mr. Cross expressed the view that the Koreans were in fact looking for liquidity and as such the public vehicle was important to them; however, it may not be a requirement to the KOMECO deal that the Corporation be publicly listed at the time of closing, but instead that there be a line of sight to a public listing in the 12 to 18 months following closing. Mr. Deeb noted that the value of KOMECO's investment would be enhanced if the Corporation was allowed a period of time to do further work on its property and otherwise organize its affairs in advance of being publicly listed. Mr. Cross endorsed this view.

Mr. Deeb noted that as the Corporation was dealing with a government entity in Korea, the Corporation would be required to do the lion's share of the structuring of the transaction and driving the negotiations. To this end, he suggested that representatives of the Corporation, including board members, meet with the Koreans in the coming weeks with a view to both further defining the terms of the potential transaction with KOMECO but also for purposes of meeting with [Shin Ha] to attempt to confirm the availability of additional funding in the event that the KOMECO transaction can be completed. Mr. Foster noted that the schedule with KOMECO contemplated mutual management presentations in the coming weeks and perhaps there was an opportunity to have such meetings around those presentations.

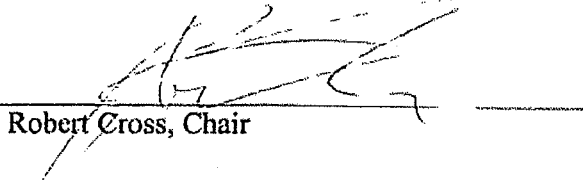
4. Sequencing of Transactions

Discussion then ensued with respect to how the potential KOMECO transaction and the potential RTO transaction with Ryan Gold should be sequenced. Mr. Cross expressed a view that

completion of the transaction with Ryan Gold was not, in any case, a certainty and suggested that the priority should be the KOMECO transaction with concurrent Shin Ha financing. It was observed that reaching an agreement with KOMECO and Shin Ha would greatly enhance the value of the Corporation which would be of assistance when settling the respective valuations that would need to occur as part of a transaction with Ryan Gold. Alternatively, if the KOMECO/[Shin Ha] transaction can be completed, the Corporation could back into a listed shell that did not have cash.

The meeting was then adjourned until such time as Mr. Goodman could dial-in.

On behalf of the Board of Directors:



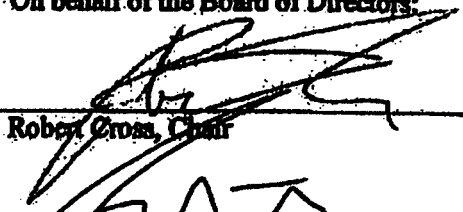
Robert Cross, Chair

Frank Turner, Recording Secretary

completion of the transaction with Ryan Gold was not, in any case, a certainty and suggested that the priority should be the KOMECO transaction with concurrent Shin Ha financing. It was observed that reaching an agreement with KOMECO and Shin Ha would greatly enhance the value of the Corporation which would be of assistance when settling the respective valuations that would need to occur as part of a transaction with Ryan Gold. Alternatively, if the KOMECO/Shin Ha transaction can be completed, the Corporation could back into a listed shell that did not have cash.

The meeting was then adjourned until such time as Mr. Goodman could dial-in.

On behalf of the Board of Directors:



Robert Cross, Chair

Frank Turner, Recording Secretary

[REDACTED]

[REDACTED]

[REDACTED]

From: Bill Foster
Sent: Thursday, June 20, 2013 1:13 PM
To: Bill Foster
Subject: note to file re \$7.5 Million advance from Dundee

On at least two occasions since May 15th, 2013 I expressed my concern to Anderson and Murray John of Dundee about the failure to get the promised \$7.5 Mil from them and both times I was told that Ned said to tell Bill he would get the money and not to worry.

I was distressed that we had put three drill rigs in the field to take advantage of the short Mongolia drill season and the committed funds were continually delayed because Dundee kept returning for more changes to the term sheet even after they had agreed to certain terms. Their demands were never ending and continually changing.

My view changed when I realized David was not the decision maker but it appeared Murray was. My view changed again when I realized Ned was required to make some pertinent final decisions.

Delays in decision making and demands for continual changes to the term sheet played havoc with our negotiating schedule to the point where we essentially ran out the clock for us to run an efficient operation and pay our bills.

David mentioned to me on a few occasions that Dundee did not handle the entire sequence very well and needed to get us on the road.

Bill Foster



(31025

[REDACTED]

From: Bill Foster
Sent: Monday, January 27, 2014 3:01 PM
To: Bill Foster
Subject: anderson discussion

Called Anderson today to find out Dundee's plan for get MMC in front of investment groups sooner than later. He was in Hong Kong at the time.

1. I asked him about CITIC Capital and he said he would engage with them while in HK
2. Asked about Warren Gilman and he said he would engage.
3. Asked if Dundee had a plan of engagement and he said they were working on it. Plan to have groups attending PDAC from Asia meet with us.
4. Asked about the Retention package for Staff and he said again Ned was behind it and wanted to discuss with me. Said Ned preferred the option route. I asked him if he and I could come to an agreement and get this done. He agreed.
5. Told him about my meeting with Brean Capital tomorrow.

Told DA that we have get moving because we will be staring down the barrel of a gun in 3 months again. Need cash. Needed to know Dundee has a plan to engage capital. Assured me he does. Don't believe them as they have done little in the last 10 to 11 months.

Bill Foster



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[REDACTED]

This is a critical email.....shows Dundee's committment

From: Dave Anderson [<mailto:Danderson@dundeecapitalmarkets.com>]
Sent: Wednesday, February 19, 2014 4:26 PM
To: Bill Foster
Subject:

Hey Bill -- I spoke with Peter Deeb and here are the highlights:

I told him Ned came back from 2 weeks of holidays yesterday and wanted to do 2 things: 1) he wanted an update on MMC to better understand it's capital needs for the next 2 years: and 2) he wanted to see if it made sense to use a cashed up shell we had to provide the capital and listing for the Company.

As a result he called you and asked you to come to Toronto to have a quiet meeting to discuss the options -. You therefore flew in in the morning and out tonight

As a result of the meeting I have been asked by Ned to get with lawyers and put together an RTO proposal for the Board to consider. I also mentioned we have a couple of guys in Korea and Ned has asked them to approach KCOAL about perhaps working with us.

He seemed OK with everything but will likely also give you a call. My suggestion is you should call him first.

2 things he volunteered during our call: 1) he met with Mr. E yesterday and 2) he has some demand for the shoe related to the financing.

That's all for now

Cheers

Dave

Sent from my BlackBerry 10 smartphone on the Rogers network.

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Securities products and services are provided to Canadian residents by Dundee Securities Ltd. (member CIPF and IIROC), to US residents by Dundee Securities Inc. (member of FINRA and registered as a broker-dealer with the SEC) and to U.K. residents by Dundee Securities Europe LLP (authorized and regulated by the FSA and a Member of the LSE), each an affiliate of Dundee Corporation (TSX:DC.A).

[REDACTED]

From: Bill Foster
Sent: Wednesday, May 14, 2014 9:59 AM
To: Bill Foster
Subject: notes to file Dundee

Since March 2013 I have been dealing with Dave Anderson concerning financing for MMC by Dundee Resources.

While Dave have been honest with me about Dundee's intentions with MMC, I have been frustrated consistently by Dave's lack of follow up or his ability to get things done. I speak to Dave three to five times weekly and since Dundee is our biggest shareholder I attempt to keep them up to date on our efforts to bring in further shareholders, updates on JV talks with KCoal/KOMECO and dealings with other financial groups such as Shinhan of Korea, Brean Capital and our efforts in dealing with the Mongolian government over regulations or our Slurry Pipeline negotiations.

Dave has been consistent in his messaging to me over the past 15 months.

1. Dundee is very keen on MMC and its assets.
2. Dundee will continue to fund the company through the period of converting license 16830 to a mining license. The message has been to not worry about funding as Dundee has our back.

About 6 months ago I received a phone call from Dave to advise me that Dundee was interested in acquiring MMC and running it as a private company but did not want to do it unless the management team was on side. I reiterated the MT would stay if we felt funding the project would be consistent in light of the work we needed to accomplish in Mongolia. He agreed but it appeared the potential takeover was challenged by other shareholders and the purchase did not occur.

Three months ago we raised around 2.5 Mil through a CD issue and I indicated to the board and Dundee that we had enough cash to see us through the end of March 2014. We have been able to extend this to mid to late May because of the efforts of the management team. All through this time period and my nervousness Anderson has said Ned would continue to fund us so don't worry.

About three months ago Ned suggested to the Board we do a RTO with Ryan Gold. For the past three months I have been trying to get a proposal from Dave to take to the Board. Last week Dave phoned to tell me Ned wants to move very quickly on the RTO and had met with Cathy Singer of NortonRose to move on the documentation. I subsequently had a call with Cathy and she indicated she was working on the Proposal and funding as we needed cash within days. I convinced Dave in the interest of time to allow Osler to take the first cut of the Term Sheet which we delivered last Friday. As of today we have heard nothing from Dundee other than a call from Dave Friday to tell me they were aware of our need for cash and were looking to get us cash to see us through to the conclusion of the RTO.

In the meantime I presented 5 budgets to Dundee in January/February all dependent on various levels of activity. We are currently working under what we call the Dundee/Hampton Budget for 2014 (\$9.2 Million) which includes \$1.2Mil for interest and \$800,000 for RTO work). I resent this budget to Dundee last week as well as our requirement for May through September (\$4.4 Mil). Dundee tells me they are working to get the \$4.4 Mil to see us through.

[REDACTED]

From: Bill Foster
Sent: Thursday, May 15, 2014 12:05 PM
To: Bill Foster
Subject: May 15th Discussion with Dundee.. note to file.

Had an early email from DA yesterday to see if I was available 9AM for a call. I responded positively. Around 9 he emailed to say he would be late. I did not hear from Dave the remainder of the day.

This morning at around 730AM I phoned Dave and he told me Ned continues to be 1000% behind MMC and will fund it. He was having a meeting at 11AM TO time with Ned and Murray to set out a plan for the RTO and funding and would get back to be after the meeting.

At 1045 I received a call from Dave who had Ned and Murray with him and they wanted to talk about the project.

Ned asked how much Met coal was in the project and I explained that 474 was drilled off with a PEA and 43 101 as well as marketing studies to support it but was essentially a high quality thermal and PCI project. I told him there appears to be Met coal on the Korean project which was relayed to us by the Koreans and formed part of their JORC report. I told Ned our drilling in 2011 substantiated large coal seams but we would have to drill off the property this year or next year to attain core to run analysis for Met coal product. I told him we did not know but would have a better idea at the conclusion of drilling.

Ned said he was looking for a met project. This comment surprised me as it was the first time anyone from Dundee mentioned they wanted only met coal. This was the first time I heard this from Ned as we had been discussing our original project all along with Dundee and the plan and budgets I presented them was for drilling activity to substantiate coal quality and volumes on our 16830 license which as a result of the Korean report might have Met coal. I told Ned the whole purpose of our exploration program as discussed with Dundee over the past year and a half or more was to continue drilling, exploring and analyzing to determine volumes and quality of coal. He asked again for Met coal volumes and I responded if the Koreans had Met coal then because we had the same seams we could have the same but we needed to drill to find out.

He again asked for met volumes and I said if the Koreans have 40% we might have that but because I am a very conservative person I could not speculate and would need drill results.

Ned left and turned it over to Dave and Murray.

Murray was seemingly hostile to the project and concentrated on thermal coal prices as they were in the latest Fenwei Report. We talked about Teck coal prices into China over the past few years but did not know coal pricing from two years ago. There was discussion about coal pricing in Chinayesterday's, today's and tomorrow's pricing and ended with Murray saying he would like to meet me in Calgary next week.

I got the sense from the discussion Ned shifted his stance from support for our project to support for a Met project, Murray was hostile to doing anything (as Dave has told me over the past couple weeks) and Dave was silent.

Dave told me the three were meeting later today and he would phone me after.

Bill

[REDACTED]

From: Bill Foster
Sent: Friday, May 16, 2014 2:48 PM
To: Bill Foster
Subject: dundee call re committment to RTO and funding

Had a call with Dave Anderson at 2PM today to discuss events since our conf call with Ned, Murray and Dave yesterday. Dave was surprised Murray had not called me because he had given Murray our budget proposals yesterday for Murray to review and if he had any questions then Murray was to contact me. I asked Dave if after yesterday's meeting if Dundee was still keen on funding MMC and in the RTO arrangement with Ryan Gold. His answer was "absolutely".

I told him we have set Tuesday morning at 8AM Mountain time for a Board meeting and Ned was going to be on the call. I told him without immediate funding we might have to put MMC into CCAA. He said he was aware we needed cash "like yesterday" and again said he was surprised Murray did not call.

He told me he was going to call Murray and Ned right away and get back to me before the Board meeting with any update.

Dave has consistently told me over the past 4 months that Dundee was going to continue to fund MMC so "don't worry" and he has always said Ned wants the RTO to happen. He has told me over the past several weeks of meetings Ned has had with his boys, Dave and Murray and has reamed them a new one because they have not gotten the process moving. His view has been Dundee and Ned are 1000% behind getting the RTO concluded, doing a deal or JV with the Koreans and getting the budgeted funding of 30 to \$40 million to conclude the drilling on 16830 and the PFS. They have been supportive of the Retention Package we offered 4 executives and the actual G & O in the Retention package was devised and approved by Dundee.

Bill Foster



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[REDACTED]

From: Bill Foster
Sent: Friday, May 23, 2014 5:13 PM
To: Bill Foster
Subject: discussion with Dave Anderson

I was meeting with Robert Anderson of Osler's this AM when I received a call from David Anderson of Dundee. He said he had just met with Ned and asked me if I had seen the Globe and Mail article about Russia's natural gas deal with China. I said I had.
He told me Ned was concerned this deal was detrimental to coal sales from Mongolia to China and wanted to pass on to me three thoughts.

1. Ned no longer supported the RTO arrangement between MMC and Ryan Gold.
2. Ned did not want to continue supporting MMC financially
3. Ned was going to resign from the MMC Board immediately.

I asked Dave if he had any other good news and he said no. I told him this essentially settled what we can do with MMC and that I was with our CCAA lawyer reviewing our position.

I thanked him for his call.

I have to Say I Was devastated by his call because Dundee (Dave Anderson) had been telling me for three months that Ned and Dundee were 1000% behind the RTO and financial support for MMC. In fact Dundee had been telling me for 15 months Dundee either wanted to buy the company, support it financially and complete an RTO arrangement with Ryan Gold. It appeared to me Dundee led us down the garden path for this period of time.
Not a good result nor a vote of confidence for Dundee.

Bill Foster



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THIS IS EXHIBIT " 13 "
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2014
Raylor Schappert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

NOTE INDENTURE
DATED FEBRUARY 4, 2014
BETWEEN
MONGOLIA MINERALS CORPORATION
AND
VALIANT TRUST COMPANY
PROVIDING FOR THE ISSUE OF SECURED NOTES

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THIS NOTE INDENTURE is made on February 4, 2014 (the “**Note Indenture**”).

BETWEEN:

MONGOLIA MINERALS CORPORATION, a corporation
existing under the laws of Canada,

(“**MMC**” or the “**Corporation**”),

- and -

VALIANT TRUST COMPANY, a trust company continued
under the laws of Canada and registered to carry on business in the
Province of Alberta,

(the “**Trustee**”).

RECITALS:

- A. The Corporation wishes to create, issue and sell senior secured promissory notes of the Corporation, in one or more series, having the rights and obligations set forth in this Note Indenture (the “**Notes**”) as the same may be supplemented by supplemental indentures.
- B. Each Note will entitle its holder to be paid interest and to be repaid a principal amount, subject to the terms and conditions set forth in this Note Indenture.

THEREFORE, the Parties agree as follows:

ARTICLE 1 **INTERPRETATION**

1.1 Definitions

In this Note Indenture, unless the context otherwise requires, the following terms have the respective meanings hereinafter set forth:

“**Affiliate**” means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries: (i) Controls, (ii) is Controlled by, or (iii) is under common Control with, such Person;

“**Agency Agreement**” means the agency agreement between the Corporation and Hampton Securities Limited dated February 4, 2014 in respect of the Initial Note Offering;

“**Applicable Law**” means all Canadian, Mongolian or other governmental laws (statutory or common), rules, ordinances, regulations, grants, concessions, franchises, licenses, orders, directives, judgments, decrees, and other governmental restrictions, including permits and other similar requirements, whether legislative, administrative or judicial in nature, having application, directly or indirectly, to the Parties to this Note Indenture and their respective Subsidiaries and other Affiliates, or the transactions contemplated by this Note Indenture;

“arm’s-length” has the meaning that it has for purposes of the Tax Act;

“Auditor of the Corporation” means PricewaterhouseCoopers LLP, Chartered Accountants;

“B&F Mongolia” means B&F Mongolia Corp, a corporation existing under the laws of Canada and a direct wholly-owned Subsidiary of MMC;

“Board of Directors” or **“Board”** means the board of directors of the Corporation as constituted from time to time;

“Business Day” means any day which is not a Saturday, a Sunday or a day observed as a statutory or civic holiday under applicable law in the City of Calgary in the Province of Alberta and on which the principal commercial banks are generally open for business;

“CGBEM” means CGBEM LLC, a limited liability company existing under the laws of Mongolia and an indirect Subsidiary of MMC;

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

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

“Control” means when applied to the relationship between a Person (the **“first Person”**) and:

- (a) a legal entity organized in corporate form, the beneficial ownership by that first Person at the relevant time of shares of that corporation representing either (i) a majority of the voting rights exercisable at meetings of shareholders of that corporation, or (ii) the percentage of voting rights exercisable at meetings of shareholders of that corporation that are ordinarily sufficient to elect a majority of the directors; and
- (b) a partnership, limited partnership, trust, joint venture or other entity that is not an individual or an entity organized in corporate form (the **“second Person”**), (i) the beneficial ownership by the first Person of, or the ability of the first Person to exercise control or direction over, at the relevant time, more than 50% of the ownership interests of the second Person, (ii) the contractual right or ability to direct the affairs of the second Person, or (iii) in any situation in which the first Person, in fact, directs and controls the affairs of the second Person,

and, in each case, the words **“Controlled by”**, **“Controlling”** and similar words have corresponding meanings; provided that a Person who Controls another Person will be deemed to Control any other Person that such other Person Controls;

“Conversion Price” has the meaning ascribed to it in the applicable terms for any series of Notes issued under this Note Indenture;

“Counsel” means a barrister or solicitor or firm of barristers or solicitors retained or employed by the Trustee or retained or employed by the Corporation and acceptable to the Trustee;

“deemed year” has the meaning ascribed to it in Section 2.8(b);

“Dutchco” means Mongolia Minerals International NL B.V., a corporation existing under the laws of the Netherlands and an indirect wholly-owned Subsidiary of MMC;

“especially affected series” has the meaning ascribed to it in Section 11.2(b);

“Event of Default” has the meaning ascribed to it in Section 8.1;

“Extraordinary Resolution” has the meaning ascribed to it in Section 11.12;

“Fully Registered Notes” means Notes registered as to both principal and interest;

“GOM” means the Government of Mongolia;

“Governmental Authority” means any government, regulatory authority, judicial authority, governmental department, agency, commission, bureau, official, minister, Crown corporation, court, board, tribunal, dispute settlement panel or body or other law, rule or regulation-making entity:

- (a) having or purporting to have jurisdiction on behalf of any nation, province, state or other geographic or political subdivision thereof; or
- (b) exercising, or entitled or purporting to exercise any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power,

and, without limiting the generality of the foregoing, includes the GOM, any ministry or agency of the GOM and any other government department, commission, authority or agency of competent authority in any aimag or soum in Mongolia;

“IFRS” means the standards and interpretations adopted by the International Accounting Standards Board, as amended from time to time;

“Initial Note Offering” means the initial private placement Series 1A Notes;

“Interest Payment Date” means a date specified in a Note as the date on which interest on such Note shall become due and payable;

“Interest Obligation” means the obligation of the Corporation to pay interest on the Notes, as and when the same becomes due;

“Maturity Account” means an account or accounts required to be established by the Corporation (and which shall be maintained by and subject to the control of the Trustee) for each series of Notes issued pursuant to and in accordance with this Note Indenture;

“Maturity Date” means the date specified in a Note as the maturity date for the Note;

"MI 62-104" means Multilateral Instrument 62-104 – *Take-Over Bids and Issuer Bids*;

"MMC" or the **"Corporation"** means Mongolia Minerals Corporation and includes any successor to or of MMC that has complied with the provisions of Article 10;

"Note Indenture", **"hereto"**, **"herein"**, **"hereby"**, **"hereunder"**, **"hereof"** and similar expressions refer to this Note Indenture and not to any particular Article, Section, subsection, clause, subdivision, schedule, appendix or other portion hereof and include any and every instrument supplemental or ancillary hereto;

"Noteholders" or **"holders"** means the Persons from time to time being entered in the register for Notes as registered holders of Notes or any transferees of such Persons by endorsement or delivery;

"Notes" has the meaning ascribed to it in the Recitals, but for greater certainty, includes Notes of any one or more series issued under this Note Indenture;

"Officer's Certificate" means a certificate of the Corporation signed by any one authorized officer or director of the Corporation, in his or her capacity as an officer or director of the Corporation, and not in his or her personal capacity;

"Parties" means the Corporation and the Trustee and **"Party"** means any one of them;

"Person" means any individual, sole proprietorship, limited or unlimited liability corporation, partnership, unincorporated association, unincorporated syndicate, body corporate, joint venture, trust, pension fund, union, Governmental Authority, and a natural person including in such person's capacity as trustee, heir, beneficiary, executor, administrator or other legal representative;

"Principal" means Mr. Enkhtaivan Chimed;

"Principal Material Licences" means Mongolian minerals exploration licence XV-016830 and Mongolian minerals mining licence MV-012474;

"Privacy Laws" has the meaning ascribed to it in Section 13.17;

"Redemption Date" has the meaning ascribed to it in Section 4.3;

"Redemption Notice" has the meaning ascribed to it in Section 4.3;

"Redemption Price" has the meaning ascribed to it in Section 4.1;

"Redemption Right" has the meaning ascribed to it in Section 4.1;

"Securities Act" means the *Securities Act* (Alberta);

"Securities Laws" means, collectively, the Securities Act and the applicable securities laws of the other provinces and territories of Canada, the regulations made and forms prescribed

thereunder together with all applicable published rules, instruments, policy statements and blanket orders and rulings of the Canadian securities commissions;

"Security Documents" means the security agreements and other related documentation to be entered into by the Corporation and Dutchco concurrently with this Note Indenture wherein the Corporation's obligations under the Notes will be secured by a general charge, ranking senior to all other current and future indebtedness of the Corporation over all of the personal property of the Corporation and a first priority pledge of all the shares in the capital of B&F Mongolia and CGBEM held by the Corporation or Dutchco, as the case may be;

"Serial Meeting" has the meaning ascribed to it in Section 11.2(b)(i);

"Series 1A Notes" means the series 1A secured convertible notes of the Corporation to be issued by the Corporation on or about February 4, 2014 and having the terms set out in Schedule "A";

"Subscription Agreements" means the subscription agreements between the Corporation and Persons subscribing for Series 1A Notes accepted by the Corporation on or about February 4, 2014 in respect of the Initial Note Offering;

"Subsidiary" means, in respect of any Person, another Person that is Controlled by such first-mentioned Person;

"Successor" has the meaning ascribed to it in Section 10.1;

"Tax Act" means the *Income Tax Act* (Canada) and the regulations thereunder as amended from time to time;

"Taxes" means all taxes imposed by any federal, territorial, state, local or foreign Governmental Authority which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes, payroll and employee withholding taxes, other withholding taxes, unemployment insurance, social insurance taxes, sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, business license taxes, occupation taxes, real and personal property taxes, stamp taxes, environmental taxes, transfer taxes, workers compensation and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which a Party is required to pay, withhold, remit or collect;

"Time of Expiry" has the meaning ascribed to it in the applicable terms for any series of Notes issued under this Note Indenture;

"Treaty-Reduced Withholding Rate" has the meaning ascribed to it in Section 2.12(a);

"Trustee" means Valiant Trust Corporation, or its successor or successors for the time being as trustee hereunder;

"United States" means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

"Withholding Taxes" has the meaning ascribed to it in Section 2.12(a); and

“(Written Direction of the Corporation” means an instrument in writing signed by any one officer or director of the Corporation on behalf of the Corporation.

1.2 Certain Rules of Interpretation

In this Note Indenture:

- (a) Consent - Whenever a provision of this Note Indenture requires an approval or consent and such approval or consent is not delivered within the applicable time limit, then, unless otherwise specified, the party whose consent or approval is required shall be conclusively deemed to have withheld its approval or consent.
- (b) Currency – Unless otherwise specified, all references to money amounts are to the lawful currency of Canada.
- (c) Governing Law – This Note Indenture is a contract made under and shall be governed by and construed in accordance with, the laws of the Province of Alberta and the federal laws of Canada applicable in the Province of Alberta.
- (d) Headings – Headings of Articles and Sections are inserted for convenience of reference only and do not affect the construction or interpretation of this Note Indenture.
- (e) Including – Where the word “including” or “includes” is used in this Note Indenture, it means “including (or includes) without limitation”.
- (f) No Strict Construction – The language used in this Note Indenture is the language chosen by the Parties to express their mutual intent, and no rule of strict construction shall be applied against any Party.
- (g) Number and Gender – Unless the context otherwise requires, words importing the singular include the plural and *vice versa* and words importing gender include all genders.
- (h) Severability – If, in any jurisdiction, any provision of this Note Indenture or its application to any Party or circumstance is restricted, prohibited or unenforceable, the provision shall, as to that jurisdiction, be ineffective only to the extent of the restriction, prohibition or unenforceability without invalidating the remaining provisions of this Note Indenture and without affecting the validity or enforceability of such provision in any other jurisdiction.
- (i) Statutory References – A reference to a statute includes all regulations and rules made pursuant to the statute and, unless otherwise specified, the provisions of any statute, regulation or rule which amends, supplements or supersedes any such statute, regulation or rule.
- (j) Time – Time is of the essence in the performance of the Parties’ respective obligations.

- (k) Time Periods – Unless otherwise specified, time periods within or following which any payment is to be made or act is to be done, shall be calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day following if the last day of the period is not a Business Day.

1.3 Meaning of “Outstanding”

Every Note certified and delivered by the Trustee hereunder shall be deemed to be outstanding until it is cancelled or delivered to the Trustee for cancellation and monies for the payment thereof shall have been set aside under Article 9, provided that:

- (a) Notes which have been partially purchased shall be deemed to be outstanding only to the extent of the unpurchased part of the principal amount thereof;
- (b) when a new Note has been issued in substitution for a Note which has been lost, stolen or destroyed, only one of such Notes shall be counted for the purpose of determining the aggregate principal amount of Notes outstanding; and
- (c) for the purposes of any provision of this Note Indenture entitling holders of outstanding Notes to vote, sign consents, requisitions or other instruments or take any other action under this Note Indenture, or to constitute a quorum of any meeting of Noteholders, Notes owned directly or indirectly, legally or equitably, by the Corporation shall be disregarded except that:
 - (i) for the purpose of determining whether the Trustee shall be protected in relying on any such vote, consent, requisition or other instrument or action, or on the holders of Notes present or represented at any meeting of Noteholders, only the Notes which are certified by the Corporation as being so owned shall be disregarded;
 - (ii) Notes so owned which have been pledged in good faith other than to the Corporation or a Subsidiary of the Corporation shall not be so disregarded if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Notes, sign consents, requisitions or other instruments or take such other actions in his discretion free from the control of the Corporation or a Subsidiary of the Corporation;
 - (iii) for the purposes of disregarding any Notes owned legally or beneficially by the Corporation or any Subsidiary, the Corporation shall provide to the Trustee, at the request of the Trustee, from time to time, an Officer's Certificate setting forth as at the date of such certificate:
 - (A) the names of the registered holders of Notes which, to the knowledge of the Corporation, are owned, directly or indirectly, legally or equitably by the Corporation or any Subsidiary; and
 - (B) the principal amount of Notes owned legally and beneficially by each of such holders;

and the Trustee in making such determination shall be entitled to rely upon such certificate; and

- (iv) Notes so owned shall not be disregarded if they are the only Notes outstanding.

1.4 Enurement

This Note Indenture enures to the benefit of and is binding upon the Parties and their respective successors (including any successor by reason of amalgamation of any Party) and permitted assigns.

1.5 Submission To Jurisdiction

Each Party and each of the Noteholders submit to the non-exclusive jurisdiction of any Alberta courts sitting in Calgary in any action, application, reference or other proceeding arising out of or related to this Note Indenture and agrees that all claims in respect of any such actions, application, reference or other proceeding shall be heard and determined in such Alberta courts and agree to be bound by any suit, action or proceeding in such courts and by any order or judgement resulting therefrom.

1.6 Entire Agreement

This Note Indenture, the Agency Agreement, the Subscription Agreements and the Security Documents and the agreements and other documents required to be delivered pursuant hereto or thereto, constitute the entire agreement between the Parties and set out all the covenants, promises, warranties, representations, conditions and agreements between the Parties in connection with the subject matter of this Note Indenture and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, pre-contractual or otherwise, including any non-binding term sheet or other analogous document. There are no covenants, promises, warranties, representations, conditions or other agreements, whether oral or written, pre-contractual or otherwise, express, implied or collateral, whether statutory or otherwise, between the Parties in connection with the subject matter of this Note Indenture except as specifically set forth in this Note Indenture, the Agency Agreement, the Subscription Agreements and the Security Documents, and any document required to be delivered pursuant hereunder or thereunder.

1.7 Language

Each Party hereby acknowledges that it has consented to and requested that this Note Indenture and all documents relating thereto, including, without limiting the generality of the foregoing, the form of Series 1A Note attached as Appendix "1" to Schedule "A" be drawn up in the English language only. *Les parties aux présentes reconnaissent avoir accepté et demandé que le présent acte de fiducie et tous les documents s'y rapportant, y compris, sans restreindre la portée générale de ce qui précède, le formulaire de débenture joint aux présentes à titre d'annexe "B", soient rédigés en langue anglaise seulement.*

1.8 Benefits of Note Indenture

Nothing in this Note Indenture or in the Notes, express or implied, shall give to any Person, other than the Parties and their successors hereunder, any paying agent and the Noteholders any benefit or any legal or equitable right, remedy or claim under this Note Indenture.

1.9 Non-Business Days

Whenever any payment to be made hereunder is due, any period of time would begin or end, any calculation is to be made or any other action is to be taken on, or as of, or from a period ending on, a day other than a Business Day, such payment shall be made, such period of time shall begin or end, such calculation shall be made and such other action shall be taken, as the case may be, unless otherwise specifically provided herein, on or as of the next succeeding Business Day without any additional interest, cost or charge to the Corporation.

1.10 Accounting Terms

Except as hereinafter provided or as otherwise indicated in this Note Indenture, all calculations required or permitted to be made hereunder pursuant to the terms of this Note Indenture shall be made in accordance with IFRS.

1.11 Calculations

The Corporation shall be responsible for making all calculations called for under this Note Indenture. The Corporation shall make such calculations in good faith and, absent manifest error, the Corporation's calculations shall be final and binding on holders and the Trustee. The Corporation will provide a schedule of its calculations to the Trustee and the Trustee shall be entitled to rely conclusively on the accuracy of such calculations without independent verification.

1.12 Schedules

The following Schedules is incorporated into and forms part of this Note Indenture:

Schedule "A" – Terms of Series 1A Notes

In the event of any inconsistency between the provisions of any Section of this Note Indenture and the provisions of the Schedules which form a part of this Note Indenture, the provisions of this Note Indenture shall prevail to the extent of the inconsistency.

ARTICLE 2 THE NOTES

2.1 Limit of Notes

Subject to the limitation in respect of the Series 1A Notes set out in Schedule "A", the aggregate principal amount of Notes authorized to be issued under this Note Indenture is unlimited; however, Notes may only be issued only upon and subject to the conditions and limitations herein set forth including any amendment hereof or supplement hereto.

2.2 Terms of Notes of any Series

The Notes may be issued in one or more series. There shall be established in this Note Indenture or in or pursuant to one or more Note Indentures supplemental to this Note Indenture, prior to the initial issuance of Notes of any particular series:

- (a) the designation of the Notes of the series (which need not include the term "Notes"), which shall distinguish the Notes of the series from the Notes of all other series;
- (b) any limit upon the aggregate principal amount of the Notes of the series that may be certified and delivered under this Note Indenture (except for Notes certified and delivered upon registration of, transfer of, amendment of, or in lieu of, other Notes of the series pursuant to Sections 2.7, 3.1 and Article 7);
- (c) the date or dates on which the principal of the Notes of the series is payable;
- (d) the rate or rates at which the Notes of the series shall bear interest, if any, the date or dates from which such interest shall accrue, on which such interest shall be payable and on which record date, if any, shall be taken for the determination of holders to whom such interest shall be payable and/or the method or methods by which such rate or rates or date or dates shall be determined;
- (e) the place or places where the principal of and any interest on Notes of the series shall be payable or where any Notes of the series may be surrendered for registration of transfer or exchange;
- (f) the right, if any, of the Corporation to redeem Notes of the series, in whole or in part, at its option and the period or periods within which, the price or prices at which and any terms and conditions upon which, Notes of the series may be so redeemed, pursuant to any sinking fund or otherwise;
- (g) the obligation, if any, of the Corporation to purchase or repay Notes of the series pursuant to any mandatory redemption, sinking fund or analogous provisions or at the option of a holder thereof and the price or prices at which, the period or periods within which, the date or dates on which, and any terms and conditions upon which, Notes of the series shall be redeemed, purchased or repaid, in whole or in part, pursuant to such obligations;
- (h) if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which Notes of the series shall be issuable;
- (i) subject to the provisions of this Note Indenture, any trustee, depositories, authenticating or paying agents, transfer agents or registrars or any other agents with respect to the Notes of the series;
- (j) any events of default or covenants with respect to the Notes of the series;

- (k) whether the Notes of the series will be guaranteed by any Person and the terms of any such guarantee;
- (l) whether any security interest will be granted in respect the Notes of the series, and if so, the terms of any such security interest;
- (m) the form and terms of the Notes of the series;
- (n) if other than Canadian currency, the currency in which the Notes of the series are issuable; and
- (o) any other terms of the Notes of the series (which terms shall not be inconsistent with the provisions of this Note Indenture).

All Notes of any one series shall be substantially identical, except as may otherwise be established in this Note Indenture or in the applicable supplemental Note Indenture. All Notes of any one series need not be issued at the same time and may be issued from time to time, if so provided in this Note Indenture or in an Note Indenture supplemental hereto.

2.3 Form of Notes

Except in respect of the Series 1A Notes, the form of which is provided for in Appendix "1" to Schedule "A" of this Note Indenture, the Notes of each series shall be substantially in such form or forms (not inconsistent with this Note Indenture) as shall be established in this Note Indenture or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Note Indenture, and may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of this Note Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or securities regulatory authority or to conform to general usage, all as may be determined by the directors or officers of the Corporation executing such Notes on behalf of the Corporation, as conclusively evidenced by their execution of such Notes.

2.4 Certification and Delivery of Notes

The Corporation may from time to time request that the Trustee certify and deliver Notes of any series by delivering to the Trustee the documents referred to below in this Section 2.4 whereupon the Trustee shall certify such Notes and cause the same to be delivered in accordance with the Written Direction of the Corporation referred to below or pursuant to such procedures acceptable to the Trustee as may be specified from time to time by a Written Direction of the Corporation. The maturity date, issue date, interest rate (if any) and any other terms of the Notes of such series shall be set forth in or determined by or pursuant to such Written Direction of the Corporation and procedures. In certifying such Notes, the Trustee shall be entitled, unless and until such documents have been superseded or revoked, to receive and shall be fully protected in relying upon each of the following:

- (a) an executed supplemental Note Indenture by or pursuant to which the form and terms of such Notes were established;

- (b) a Written Direction of the Corporation requesting certification and delivery of such Notes and setting forth delivery instructions, and:
 - (i) such Written Direction of the Corporation addressed to the Trustee may be delivered by the Corporation to the Trustee prior to the delivery to the Trustee of such Notes of such series for certification and delivery;
 - (ii) the Trustee shall certify and deliver Notes of such series for original issue from time to time, in an aggregate principal amount not exceeding the aggregate principal amount, if any, established for such series, pursuant to a Written Direction of the Corporation or pursuant to procedures acceptable to the Trustee as may be specified from time to time by a Written Direction of the Corporation;
 - (iii) the maturity date or dates, issue date or dates, interest rate or rates (if any) and any other terms of Notes of such series shall be determined by an executed supplemental Note Indenture or by Written Direction of the Corporation or pursuant to such procedures; and
 - (iv) if provided for in such procedures, such Written Direction of the Corporation may authorize certification and delivery pursuant to oral or electronic instructions from the Corporation which oral or electronic instructions shall be promptly confirmed in writing;
- (c) an opinion of Counsel, in form and substance satisfactory to the Trustee, acting reasonably, to the effect that all requirements imposed by this Note Indenture and by law in connection with the proposed issue of Notes have been complied with, subject to the delivery of certain documents or instruments specified in such opinion; and
- (d) an Officer's Certificate certifying that the Corporation is not in default under this Note Indenture, that the terms and conditions for the certification and delivery of Notes (including those set forth in Section 13.5), have been complied with subject to the delivery of any documents or instruments specified in such Officer's Certificate and that no Event of Default exists or will exist upon such certification and delivery.

2.5 Execution of Notes

All Notes shall be signed (either manually or by facsimile signature) by any one authorized director or officer of the Corporation, on behalf of the Corporation, holding office at the time of signing. A facsimile signature upon a Note shall for all purposes of this Note Indenture be deemed to be the signature of the Person whose signature it purports to be. Notwithstanding that any Person whose signature, either manual or in facsimile, appears on a Note as a director or officer may no longer hold such office at the date of the Note or at the date of the certification and delivery thereof, such Note shall be valid and binding upon the Corporation and entitled to the benefits of this Note Indenture.

2.6 Certification by the Trustee

- (a) No Note shall be issued or, if issued, shall be obligatory, or shall entitle the holder to the benefit of this Note Indenture, until it has been certified manually by or on behalf of the Trustee substantially in the form set out in this Note Indenture, in the relevant supplemental Note Indenture, or in some other form approved by the Trustee. Such certification on any Note shall be conclusive evidence that such Note is duly issued, is a valid obligation of the Corporation and the holder is entitled to the benefits of this Note Indenture.
- (b) The certificate of the Trustee signed on the Notes shall not be construed as a representation or warranty by the Trustee as to the validity of this Note Indenture or of the Notes or as to the issuance of the Notes and the Trustee shall in no respect be liable or answerable for the use made of the Notes or any of them or the proceeds thereof. The certificate of the Trustee signed on the Notes shall, however, be a representation and warranty by the Trustee that the Notes have been duly certified by or on behalf of the Trustee pursuant to the provisions of this Note Indenture.

2.7 Mutilation, Loss, Theft or Destruction

In case any of the Notes issued hereunder shall become mutilated or be lost, stolen or destroyed, the Corporation, in its discretion, may issue, and thereupon the Trustee shall certify and deliver, a new Note upon surrender and cancellation of the mutilated Note, or in the case of a lost, stolen or destroyed Note, in lieu of and in substitution for the same, and the substituted Note shall be in a form approved by the Trustee and shall be entitled to the benefits of this Note Indenture and rank equally in accordance with its terms with all other Notes issued or to be issued hereunder. In case of loss, theft or destruction the applicant for a substituted Note shall furnish to the Corporation and to the Trustee such evidence of the loss, theft or destruction of the Note as shall be satisfactory to them in their discretion and shall also furnish an indemnity and surety bond satisfactory to them in their discretion. The applicant shall pay all reasonable expenses incidental to the issuance of any substituted Note.

2.8 Concerning Interest

- (a) Except as may otherwise be provided in this Note Indenture or in any supplemental Note Indenture or in a Written Direction of the Corporation in respect of a series of Notes, all Notes issued hereunder, whether originally or upon exchange or in substitution for previously issued Notes which are interest bearing, shall bear interest (i) from and including their issue date, or (ii) from and including the last Interest Payment Date to which interest shall have been paid or made available for payment on the outstanding Notes of that series, whichever shall be the later, in all cases, to and excluding the next Interest Payment Date.
- (b) Unless otherwise specifically provided in the terms of the Notes of any series, interest shall be computed on the basis on a 360-day year composed of twelve 30-day months. Whenever interest is computed on the basis of a year (the "deemed year") which contains fewer days than the actual number of days in the calendar

year of calculation, such rate of interest shall be expressed as a yearly rate for purposes of the *Interest Act* (Canada) by multiplying such rate of interest by the actual number of days in the calendar year of calculation and dividing it by the number of days in the deemed year.

2.9 Notes to Rank Pari Passu

The Notes will be direct secured obligations of the Corporation. Each Note shall rank *pari passu* with each other Note of the same series (regardless of their actual date or terms of issue) and, for greater certainty, Notes of differing series may rank *pari passu* as may be set out in any supplemental indenture hereto.

2.10 Payments of Amounts Due on Maturity

Except as may otherwise be provided herein or in any supplemental Note Indenture in respect of any series of Notes, payments of amounts due upon maturity of the Notes will be made in the following manner. The Corporation will establish and maintain with the Trustee a Maturity Account for each series of Notes. Each such Maturity Account shall be maintained by and be subject to the control of the Trustee for the purposes of this Note Indenture. On or before 11:00 a.m. (Calgary time) on the Business Day immediately prior to each Maturity Date for Notes outstanding from time to time under this Note Indenture, the Corporation will deliver to the Trustee a certified cheque, wire transfer or by other means acceptable to the Trustee for deposit in the applicable Maturity Account in an amount sufficient to pay the cash amount payable in respect of such Notes (including the principal amount together with any accrued and unpaid interest thereon less any tax required by law to be deducted or withheld), provided the Corporation may elect to satisfy this requirement by providing the Trustee with one or more certified cheques, or with funds by electronic transfer, for such amounts required under this Section 2.10 post-dated to the applicable Maturity Date. The Trustee, on behalf of the Corporation, will pay to each holder entitled to receive payment the principal amount of and premium (if any) and accrued and unpaid interest on the Note, upon surrender of the Note at any branch of the Trustee designated for such purpose from time to time by the Corporation and the Trustee. The delivery of such funds to the Trustee for deposit to the applicable Maturity Account will satisfy and discharge the liability of the Corporation for the Notes to which the delivery of funds relates to the extent of the amount delivered (plus the amount of any tax deducted or withheld as aforesaid) and such Notes will thereafter not be considered as outstanding under this Note Indenture and such holder will have no other right in regard thereto other than to receive out of the money so delivered or made available the amount to which it is entitled.

2.11 Payment of Interest

The following provisions shall apply to Notes, except as otherwise specified in this Note Indenture or in a supplemental Note Indenture relating to a particular series of Notes:

- (a) As interest becomes due on each Note the Corporation, either directly or through the Trustee or any agent of the Trustee, shall send or forward by prepaid ordinary mail, electronic transfer of funds or such other means as may be agreed to by the Trustee, payment of such interest (less any Tax required to be withheld therefrom)

to the order of the registered holder of such Note appearing on the registers maintained by the Trustee at the close of business on the fifth Business Day prior to the applicable Interest Payment Date and addressed to the holder at the holder's last address appearing on the register, unless such holder otherwise directs. If payment is made by cheque, such cheque shall be forwarded at least three days prior to each date on which interest becomes due and if payment is made by other means (such as electronic transfer of funds, provided the Trustee must receive confirmation of receipt of funds prior to being able to wire funds to holders), such payment shall be made in a manner whereby the holder receives credit for such payment on the date such interest on such Note becomes due. The mailing of such cheque or the making of such payment by other means shall, to the extent of the sum represented thereby, plus the amount of any Tax withheld as aforesaid, satisfy and discharge all liability for interest on such Note, unless in the case of payment by cheque, such cheque is not paid at par on presentation.

- (b) In the event of non-receipt of any cheque for or other payment of interest by the Person to whom it is so sent as aforesaid, the Corporation will issue to such Person a replacement cheque or other payment for a like amount upon being furnished with such evidence of non-receipt as it shall reasonably require and upon being indemnified to its satisfaction.
- (c) Notwithstanding the foregoing, if the Corporation is prevented by circumstances beyond its control (including, without limitation, any interruption in mail service) from making payment of any interest due on each Note in the manner provided above, the Corporation may make payment of such interest or make such interest available for payment in any other manner acceptable to the Trustee with the same effect as though payment had been made in the manner provided above.

2.12 Withholding Tax

- (a) Noteholders shall be liable for all Taxes arising in connection with any payment to be made on or in connection with the Notes, including any withholding Taxes that arise on or in connection with the conversion of a Note into any securities of the Corporation. The Corporation or the Trustee on behalf of the Corporation will be entitled to deduct and withhold any applicable taxes or similar charges (including interest, penalties or similar amounts in respect thereof) imposed or levied by or on behalf of a Governmental Authority, including pursuant to the Tax Act, from any payment to be made on or in connection with the Notes ("**Withholding Taxes**") and, provided that the Corporation remits such withheld amount to the relevant Governmental Authority and files all required forms in respect thereof in accordance with Applicable Law and, at the same time, provides copies of such remittance and filing to the Trustee and/or the relevant Noteholder, as applicable, the amount of any such Withholding Taxes will be considered an amount paid in satisfaction of the Corporation's obligations under the Notes and there is no obligation on the Corporation to gross-up amounts paid to a holder in respect of such Withholding Taxes. The Corporation shall provide the Trustee and/or the relevant Noteholder, as applicable, with copies of receipts or other communications relating to the remittance of such Withholding Taxes or

the filing of such forms received from such Governmental Authority promptly after receipt thereof. In determining the amount of any Withholding Taxes required to be deducted or withheld under Applicable Law, the Corporation shall apply the maximum withholding rate prescribed by Applicable Law and shall not be required to take into account any reductions in such withholding rate that may be permitted by an income tax convention (a "**Treaty-Reduced Withholding Rate**") unless:

- (i) the Noteholder provides evidence, satisfactory to the Corporation, establishing the application of a Treaty-Reduced Withholding Rate; and
 - (ii) if requested by the Corporation, the Noteholder agrees to indemnify and hold harmless the Corporation, its directors, officers, agents, employees and shareholders from and against any and all losses incurred or suffered in connection with the Corporation applying a Treaty-Reduced Withholding Rate, including, without limitation, any Taxes, fines, penalties, interests, costs and expenses associated therewith.
- (b) The Trustee shall have no obligation to verify any payments under the Tax Act or any provision of provincial, state, local or foreign tax law. The Trustee shall at all times be indemnified and held harmless by the Corporation from and against any personal liabilities of the Trustee incurred in connection with the failure of the Corporation or its agents, to report, remit or withhold taxes as required by the Tax Act or otherwise failing to comply with the Tax Act, unless the failure is caused by the negligence, bad faith or misconduct of the Trustee. This indemnification shall survive the resignation or removal of the Trustee and the termination of this Note Indenture solely to the extent that such liabilities have been incurred in connection with taxation years occurring during the term of this Note Indenture.

ARTICLE 3 REGISTRATION, TRANSFER, EXCHANGE AND OWNERSHIP

3.1 Fully Registered Notes

- (a) With respect to each series of Notes issuable as Fully Registered Notes, the Corporation shall cause to be kept by and at the principal office of the Trustee in Calgary, Alberta or such other registrar as the Corporation, with the approval of the Trustee, may appoint at such other place or places as may be specified in the Notes of such series or as the Corporation may designate with the approval of the Trustee, a register in which shall be entered the names and addresses of the holders of Fully Registered Notes and particulars of the Notes held by them respectively and of all transfers of Fully Registered Notes. Such registration shall be noted on the Notes by the Trustee or other registrar unless a new Note shall be issued upon such transfer.
- (b) No transfer of a Fully Registered Note shall be valid unless made on such register referred to in Section 3.1(a) by the registered holder or such holder's executors, administrators or other legal representatives or an attorney duly appointed by an

instrument in writing in a form, and executed in a manner, satisfactory to the Trustee or other registrar upon surrender of the Notes, together with a duly executed form of transfer acceptable to the Trustee and upon compliance with such other reasonable requirements as the Trustee or other registrar may prescribe, nor unless the name of the transferee shall have been noted on the Note by the Trustee or other registrar.

3.2 Transferee Entitled to Registration

The transferee of a Note shall be entitled, after the appropriate form of transfer is lodged with the Trustee or other registrar and upon compliance with Applicable Law and all other conditions required by this Note Indenture or by law, to be entered on the register as the owner of such Note free from all equities or rights of set-off or counterclaim between the Corporation and the transferor or any previous holder of such Note, save in respect of equities of which the Corporation is required to take notice by statute or by order of a court of competent jurisdiction.

3.3 No Notice of Trusts

Neither the Corporation nor the Trustee nor any registrar shall be bound to take notice of or see to the execution of any trust (other than that created by this Note Indenture) whether express, implied or constructive, in respect of any Note, and may transfer the same on the direction of the Person registered as the holder thereof, whether named as trustee or otherwise, as though that Person were the beneficial owner thereof.

3.4 Registers Open for Inspection

The register referred to in Section 3.1 shall, during regular business hours of the Trustee, be open for inspection by the Corporation, the Trustee or any Noteholder. Every registrar, including the Trustee, shall from time to time when requested so to do by the Corporation or by the Trustee, in writing, furnish the Corporation or the Trustee, as the case may be, with a list of names and addresses of holders of registered Notes entered on the register kept by them and showing the principal amount and serial numbers of the Notes held by each such holder, provided the Trustee shall be entitled to charge a reasonable fee to provide such a list.

3.5 Closing of Registers

- (a) Neither the Corporation nor the Trustee nor any registrar shall be required to:
 - (i) make transfers or exchanges of Fully Registered Notes on any Interest Payment Date for such Notes or during the five preceding Business Days;
 - (ii) make transfers or exchanges of any Notes on the day of any selection by the Trustee of Notes to be redeemed or during the five preceding Business Days; or
 - (iii) make exchanges of any Notes which will have been selected or called for redemption unless upon due presentation thereof for redemption such Notes shall not be redeemed.

- (b) Subject to any restriction herein provided, the Corporation, with the approval of the Trustee, may at any time close any register for any series of Notes, other than those kept at the principal offices of the Trustee in Calgary, Alberta and transfer the registration of any Notes registered thereon to another register (which may be an existing register) and thereafter such Notes shall be deemed to be registered on such other register. Notice of such transfer shall be given to the holders of such Notes.

3.6 Charges

For each Note registered, transferred or discharged from registration, the Trustee or other registrar, except as otherwise herein provided, may make a reasonable charge for its services and in addition may charge a reasonable sum for each new Note issued (such amounts to be agreed upon from time to time by the Trustee and the Corporation), and payment of such charges and reimbursement of the Trustee or other registrar for any stamp taxes or governmental or other charges required to be paid shall be made by the party requesting such registration, transfer or discharge from registration as a condition precedent thereto.

3.7 Ownership of Notes

- (a) Unless otherwise required by Applicable Law, the Person in whose name any registered Note is registered shall for all the purposes of this Note Indenture be deemed to be the owner thereof and payment of or on account of the principal of and premium, if any, on such Note and interest thereon shall be made to such registered holder.
- (b) The registered holder of any registered Note shall be entitled to the principal, premium, if any, and/or interest evidenced by such instruments, respectively, free from all equities or rights of set-off or counterclaim between the Corporation and any holder thereof and all Persons may act accordingly and the receipt of any such registered holder for any such principal, premium or interest shall be a good discharge to the Trustee, any registrar and to the Corporation for the same and none shall be bound to inquire into the title of any such registered holder.
- (c) Where Notes are registered in more than one name, the principal, premium, if any, and interest from time to time payable in respect thereof may be paid to the order of all such holders, failing written instructions from them to the contrary, and the receipt of any one of such holders therefor shall be a valid discharge, to the Trustee, any registrar and to the Corporation.
- (d) In the case of the death of one or more joint holders of any Note the principal, premium, if any, and interest from time to time payable thereon may be paid to the order of the survivor or survivors of such registered holders and the receipt of any such survivor or survivors therefor shall be a valid discharge to the Trustee and any registrar and to the Corporation.

ARTICLE 4 REDEMPTION AND PURCHASE OF NOTES

4.1 Applicability of Article

The Corporation shall have the right (the “**Redemption Right**”) in its sole discretion to redeem, either in whole or in part, from time to time up to and including the Maturity Date, by payment of money, any Notes issued hereunder of any series which by their terms are made so redeemable (subject, however, to any applicable restriction on the redemption of Notes of such series) for the principal amount of such Notes (the “**Redemption Price**”) plus any accrued and unpaid interest.

4.2 Partial Redemption

If less than all the Notes of any series for the time being outstanding are at any time to be redeemed, the Notes to be so redeemed shall be selected by the Trustee on a *pro rata* basis to the nearest multiple of \$1,000 in accordance with the principal amount of the Notes registered in the name of each holder or in such other manner as the Trustee deems equitable, subject to compliance with Applicable Law. Unless otherwise specifically provided in the terms of any series of Notes, no Note shall be redeemed in part unless the principal amount redeemed is \$1,000 or a multiple thereof. For this purpose, the Trustee may make, and from time to time vary, regulations with respect to the manner in which such Notes may be drawn for redemption and regulations so made shall be valid and binding upon all holders of such Notes notwithstanding that as a result thereof one or more of such Notes may become subject to redemption in part only. In the event that one or more of such Notes becomes subject to redemption in part only, upon surrender of any such notes for payment of the Redemption Price, together with interest accrued to but excluding the Redemption Date, the Corporation shall execute and the Trustee shall certify and deliver without charge to the holder thereof or upon the holder's order one or more new Notes for the unredeemed part of the principal amount of the Note or Notes so surrendered.

4.3 Notice of Redemption

Notice of redemption (a “**Redemption Notice**”) of any series of Notes shall be given to the Trustee and the holders of the Notes to be redeemed not less than 30 days prior to the date fixed for redemption (the “**Redemption Date**”). A Redemption Notice shall specify the aggregate Redemption Price of Notes called for redemption, the Redemption Date, and the places of payment and shall state that interest upon the principal amount of Notes called for redemption shall cease to accrue and be payable from and after the Redemption Date.

4.4 Notes Due on Redemption Dates

A Redemption Notice having been given as aforesaid, all the Notes so called for redemption shall thereupon be and become due and payable at the Redemption Price, together with accrued interest to but excluding the Redemption Date, on the Redemption Date specified in such notice, in the same manner and with the same effect as if it were the date of maturity specified in such Notes, anything therein or herein to the contrary notwithstanding, and from and after such Redemption Date, if the monies necessary to redeem such Notes shall have been deposited as

provided in Section 4.5 and affidavits or other proof satisfactory to the Trustee as to the publication and/or mailing of such notices shall have been lodged with it, interest upon the Notes shall cease. If any question shall arise as to whether any notice has been given as above provided and such deposit made, such question shall be decided by the Trustee whose decision shall be final and binding upon all parties in interest.

4.5 Deposit of Redemption Monies

Redemption of Notes shall be provided for by the Corporation depositing with the Trustee or any paying agent to the order of the Trustee, on or before 11:00 a.m. (Calgary time) on the Business Day immediately prior to the Redemption Date specified in such notice, such sums of money as may be sufficient to pay the Redemption Price, plus accrued and unpaid interest thereon up to but excluding the Redemption Date, provided the Corporation may elect to satisfy this requirement by providing the Trustee with one or more certified cheques or wire transfer for such amounts required under this Section 4.5 post-dated to the Redemption Date or by providing the Trustee with such funds through electronic transfer of funds on the Business Day immediately prior to the Redemption Date. The Corporation shall also deposit with the Trustee a sum of money sufficient to pay any charges or expenses which may be incurred by the Trustee in connection with such redemption. Every such deposit shall be irrevocable. From the sums so deposited, the Trustee shall pay or cause to be paid, or issue or cause to be issued, to the holders of such Notes so called for redemption, upon surrender of such Notes, the Redemption Price and interest (if any) to which they are respectively entitled on redemption less applicable withholding taxes, if any.

4.6 Failure to Surrender Notes Called for Redemption

In case the holder of any Note so called for redemption shall fail on or before the Redemption Date to surrender such holder's Note, or shall not within such time accept payment of the redemption monies payable, or give such receipt therefor, if any, as the Trustee may require, such redemption monies may be set aside in trust, either in the deposit department of the Trustee or in a chartered bank, and such setting aside shall for all purposes be deemed a payment to the Noteholder of the sum so set aside and, to that extent, the Note shall thereafter not be considered as outstanding hereunder and the Noteholder shall have no other right except to receive payment out of the monies so paid and deposited upon surrender and delivery up of such holder's Note of the Redemption Price of such Note, plus any accrued but unpaid interest thereon to but excluding the Redemption Date. In the event that any money required to be deposited hereunder with the Trustee or any depository or paying agent on account of principal, premium, if any, or interest, if any, on Notes issued hereunder shall remain so deposited for a period of three years less a day from the Redemption Date, then such monies together with any accumulated interest thereon, shall at the end of such period be paid over or delivered over by the Trustee or such depository or paying agent to the Corporation on its demand, and thereupon the Trustee shall not be responsible to Noteholders for any amounts owing to them and subject to applicable law, thereafter the holder of a Note in respect of which such money was so repaid to the Corporation shall have no rights in respect thereof except to obtain payment of the money due from the Corporation, subject to any limitation period provided by the laws of Alberta. Notwithstanding the foregoing, the Trustee will pay any remaining funds prior to the expiry of three years less a day after the Redemption Date to the Corporation upon receipt from the Corporation, of an unconditional letter of credit from a Canadian chartered bank in an amount equal to or in excess

of the amount of the remaining funds. If the remaining funds are paid to the Corporation prior to the expiry of three years less a day after the Redemption Date, the Corporation shall reimburse the Trustee for any amounts required to be paid by the Trustee to a holder of a Note pursuant to the redemption after the date of such payment of the remaining funds to the Corporation but prior to three years less a day after the redemption.

4.7 Cancellation of Notes Redeemed

Subject to the provisions of Sections 4.2 and 4.8 as to Notes redeemed or purchased in part, all Notes redeemed and paid under this Article 4 shall forthwith be delivered to the Trustee and cancelled and no Notes shall be issued in substitution for those redeemed.

4.8 Purchase of Notes by the Corporation

Unless otherwise specifically provided with respect to a particular series of Notes, the Corporation may, at any time and from time to time, purchase Notes in the market (which shall include purchases from or through an investment dealer or a firm holding membership on a recognized stock exchange) or by tender or by private contract, at any price provided, however, that if an Event of Default has occurred and is continuing, the Corporation will not have the right to purchase Notes by private contract. All Notes so purchased may, at the option of the Corporation, be delivered to the Trustee and shall be cancelled and no Notes shall be issued in substitution therefor.

If, upon an invitation for tenders, more Notes are tendered at the same lowest price that the Corporation is prepared to accept, the Notes to be purchased by the Corporation shall be selected by the Trustee on a *pro rata* basis from the Notes tendered by each tendering Noteholder who tendered at such lowest price. For this purpose the Trustee may make, and from time to time amend, regulations with respect to the manner in which Notes may be so selected, and regulations so made shall be valid and binding upon all Noteholders, notwithstanding the fact that as a result thereof one or more of such Notes become subject to purchase in part only. The holder of a Note of which a part only is purchased, upon surrender of such Note for payment, shall be entitled to receive, without expense to such holder, one or more new Notes for the unpurchased part so surrendered, and the Trustee shall certify and deliver such new Note or Notes upon receipt of the Note so surrendered.

ARTICLE 5 REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties of the Corporation

The Corporation represents and warrants to the Trustee the following matters and acknowledges that the Trustee is relying upon such representations and warranties in connection with the entering into of this Note Indenture and the performance of its obligations hereunder:

- (a) The Corporation has been duly incorporated and is validly existing under the laws of Canada and has all necessary power, authority and capacity to enter into this Note Indenture, the Security Documents to which it is a party and the other documents and agreements to be entered into by the Corporation in connection

with this Note Indenture and the Security Documents to which it is a party, and to carry out its obligations under this Note Indenture and the Security Documents to which it is a party and the other documents and agreements to be entered into by the Corporation in connection with this Note Indenture and the Security Documents to which it is a party, and to own its assets and to carry on its business as presently conducted.

- (b) B&F Mongolia has been duly incorporated and is validly existing under the laws of Canada, and has all necessary power, authority and capacity to own its assets and to carry on its business as presently conducted.
- (c) Dutchco has been duly incorporated and is validly existing under the laws of the Netherlands and has all necessary power, authority and capacity to enter into the Security Documents to which it is a party and the other documents and agreements to be entered into by Dutchco in connection with the Security Documents to which it is a party, and to carry out its obligations under the Security Documents to which it is a party and the other documents and agreements to be entered into by Dutchco in connection with the Security Documents to which it is a party, and to own its assets and to carry on its business as presently conducted.
- (d) CGBEM is validly existing under the laws of Mongolia, and has all necessary power, authority and capacity to own its assets and to carry on its business as presently conducted.
- (e) The execution, delivery and performance by the Corporation of this Note Indenture and the Security Documents to which it is a party and the other documents and agreements to be entered into by the Corporation in connection with this Note Indenture and the Security Documents to which it is a party, and the consummation by the Corporation of the transactions contemplated herein and therein have been duly authorized by all necessary corporate action on the part of the Corporation. This Note Indenture and the Security Documents to which it is a party and the other documents and agreements to be entered into by the Corporation in connection with this Note Indenture and the Security Documents to which it is a party constitute valid and binding obligations of the Corporation enforceable against the Corporation in accordance with the terms hereof and thereof, except as enforcement may be limited by bankruptcy, insolvency and other laws affecting the enforcement of rights of creditors generally and except that equitable remedies may only be granted in the discretion of a court of competent jurisdiction.
- (f) The execution, delivery and performance by Dutchco of the Security Documents to which it is a party and the other documents and agreements to be entered into by Dutchco in connection with the Security Documents to which it is a party, and the consummation by Dutchco of the transactions contemplated therein have been duly authorized by all necessary corporate action on the part of Dutchco. The Security Documents to which it is a party and the other documents and agreements to be entered into by Dutchco in connection with the Security

Documents to which it is a party constitute valid and binding obligations of Dutchco enforceable against Dutchco in accordance with the terms thereof, except as enforcement may be limited by bankruptcy, insolvency and other laws affecting the enforcement of rights of creditors generally and except that equitable remedies may only be granted in the discretion of a court of competent jurisdiction.

(g) The execution, delivery and performance by the Corporation of this Note Indenture, the Security Documents to which it is a party and the other documents and agreements to be entered into by the Corporation in connection with this Note Indenture and the Security Documents to which it is a party, and the consummation by the Corporation of the transactions contemplated herein and therein, do not and will not:

- (i) contravene, conflict with, or result in any violation or breach of any provision of the Constating Documents of the Corporation or any resolutions of the shareholders or directors (or any committee thereof) of the Corporation;
- (ii) contravene, conflict with, or result in any violation or breach of any provision of any Applicable Law in any material respect; or
- (iii) other than the consent of the Principal, which has been delivered in writing by the Principal to the Corporation prior to the date hereof, require any consent or other action by any Person, constitute a material default or an event that, with or without notice or lapse of time or both, would constitute a material default under, or cause or permit the termination, cancellation, acceleration or other change of any material right or material obligation or the loss of any material benefit to which the Corporation is entitled under any provision of any material contract or material authorization, permit or consent from any Governmental Authority to which the Corporation is a party or subject.

(h) The execution, delivery and performance by Dutchco of the Security Documents to which it is a party and the other documents and agreements to be entered into by Dutchco in connection with the Security Documents to which it is a party, and the consummation by Dutchco of the transactions contemplated therein, do not and will not:

- (i) contravene, conflict with, or result in any violation or breach of any provision of the Constating Documents of Dutchco, or any resolutions of the shareholders or directors (or any committee thereof) of Dutchco;
- (ii) contravene, conflict with, or result in any violation or breach of any provision of any Applicable Law in any material respect; or
- (iii) other than the consent of the Principal, which has been delivered in writing by the Principal to the Corporation prior to the date hereof,

require any consent or other action by any Person, constitute a material default or an event that, with or without notice or lapse of time or both, would constitute a material default under, or cause or permit the termination, cancellation, acceleration or other change of any material right or material obligation or the loss of any material benefit to which Dutchco is entitled under any provision of any material contract or material authorization, permit or consent from any Governmental Authority to which Dutchco is a party or subject.

- (i) The execution, delivery and performance by the Corporation of this Note Indenture, the Security Documents to which it is a party and the other documents and agreements to be entered into by the Corporation in connection with this Note Indenture, the Security Documents and the consummation by the Corporation of the transactions contemplated herein and therein require no further action by or in respect of, or filing with or approval, consent or authorization from, any Governmental Authority, other than post-closing filings required under Applicable Law.
- (j) The execution, delivery and performance by Dutchco of the Security Documents to which it is a party and the other documents and agreements to be entered into by Dutchco in connection with the Security Documents to which it is a party and the consummation by Dutchco of the transactions contemplated therein require no further action by or in respect of, or filing with or approval, consent or authorization from, any Governmental Authority, other than post-closing filings required under Applicable Law.

ARTICLE 6 COVENANTS OF THE CORPORATION

The Corporation hereby covenants and agrees with the Trustee for the benefit of the Trustee and the Noteholders, that so long as any Notes remain outstanding:

6.1 To Pay Principal, Premium (if any) and Interest

The Corporation will duly and punctually pay or cause to be paid to every Noteholder the principal of, premium (if any), and interest accrued on, the Notes of which such Noteholder is the holder on the dates, at the places and in the manner mentioned herein and in the Notes.

6.2 To Pay Trustee's Remuneration

The Corporation will pay the Trustee reasonable remuneration for its services as Trustee hereunder and will repay to the Trustee on demand all monies which shall have been paid by the Trustee in connection with the execution of the trusts hereby created and such monies including the Trustee's remuneration, shall be payable out of any funds coming into the possession of the Trustee in priority to payment of any principal of the Notes or interest or premium thereon.

6.3 To Give Notice of Default

The Corporation shall notify the Trustee forthwith upon obtaining knowledge of any Event of Default hereunder.

6.4 Preservation of Existence

Subject to the express provisions hereof, the Corporation will carry on and conduct its activities, and cause its Subsidiaries to carry on and conduct their businesses and activities in accordance with past business practices and in compliance with Applicable Law; and, subject to the express provisions hereof, it will do or cause to be done all things necessary to preserve and keep in full force and effect its and its Subsidiaries' respective existences and rights.

6.5 Keeping of Books

The Corporation will keep or cause to be kept proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Corporation in accordance with generally accepted accounting principles.

6.6 Performance of Covenants by Trustee

If the Corporation fails to perform any of its covenants contained in this Note Indenture, the Trustee may notify the Noteholders of such failure on the part of the Corporation or may itself perform any of the covenants capable of being performed by it but, subject to Sections 8.2 and 13.3, shall be under no obligation to perform such covenants or notify the Noteholders. All sums so expended or advanced by the Trustee shall be repayable as provided in Section 6.2. To the extent that a covenant shall have been performed by the Trustee as aforesaid, it shall relieve the Corporation of its obligations in that regard.

ARTICLE 7 CONVERSION

7.1 Applicability of Article

Any Notes issued hereunder of any series which by their terms are convertible (subject, however, to any applicable restriction of the conversion of Notes of such series) will be convertible into securities or property of the Corporation, at such conversion rate or rates, and on such date or dates and in accordance with such other provisions as shall have been determined at the time of issue of such Notes and shall have been expressed in this Note Indenture, in such Notes or in a supplemental indenture authorizing or providing for the issue thereof.

7.2 Cancellation of Converted Notes

All Notes converted in whole or in part under the provisions of this Article shall be forthwith delivered to and cancelled by the Trustee, and in the event that Notes are partially converted the Trustee shall issue new certificates to such Noteholder representing such portion of the Notes that were not converted by the Noteholder.

7.3 Protection of Trustee

Subject to Section 13.3, the Trustee:

- (a) shall not at any time be under any duty or responsibility to any Noteholder to determine whether any facts exist which may require any adjustment in the Conversion Price, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed in making the same;
- (b) shall not be accountable with respect to the validity or value (or the kind or amount) of any Common Shares or of any shares or other securities or property which may at any time be issued or delivered upon the conversion of any Note;
- (c) shall not be responsible for any failure of the Corporation to make any cash payment or to issue, transfer or deliver Common Shares, other shares or securities or property upon the surrender of any Note for the purpose of conversion, or to comply with any of the covenants contained in this Article 7; and
- (d) shall be entitled to act and rely on any adjustment calculation of the Corporation.

ARTICLE 8 DEFAULT

8.1 Events of Default

Each of the following events constitutes, and is herein sometimes referred to as, an “Event of Default”:

- (a) failure for 30 days to pay interest on any of the Notes when due;
- (b) failure to pay principal or premium, if any, when due on any of the Notes at maturity;
- (c) failure for 30 days to pay any indebtedness of the Corporation when due where the failure to pay such indebtedness would be reasonably likely to have a material adverse effect upon the Corporation and its subsidiaries considered as a whole;
- (d) default in the observance or performance of any material covenant or condition of the Note Indenture by the Corporation which, if curable remains unremedied (or is not waived) for a period of 30 days after notice in writing has been given by the Trustee specifying such default and requiring the Corporation to rectify such default or obtain a waiver for same;
- (e) if a decree or Order of a Court having jurisdiction is entered adjudging the Corporation, B&F Mongolia or CGBEM a bankrupt or insolvent under the *Bankruptcy and Insolvency Act* (Canada) or any other applicable bankruptcy, insolvency or analogous laws, or issuing sequestration or process of execution against, or against any substantial part of, the property of, the Corporation, B&F Mongolia or CGBEM, or appointing a receiver of, or of any substantial part of,

the property of, the Corporation, B&F Mongolia or CGBEM, or ordering the winding-up or liquidation of its affairs, and any such decree or order continues unstayed and in effect for a period of 60 days;

- (f) if the Corporation, B&F Mongolia or CGBEM institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency proceedings against itself under the *Bankruptcy and Insolvency Act* (Canada) or any other bankruptcy, insolvency or analogous laws, or consents to the filing of any such petition or to the appointment of a receiver of, or of any substantial part of, the property of the Corporation, B&F Mongolia or CGBEM or makes a general assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due;
- (g) if a resolution is passed for the winding-up or liquidation of the Corporation except in the course of carrying out or pursuant to a transaction in respect of which the conditions of Section 10.1 are duly observed and performed;
- (h) if a material breach of or default under any of the Principal Material Licenses is asserted by a Governmental Authority of competent jurisdiction and the decision of the applicable Governmental Authority relating to such material breach or default is no longer appealable;
- (i) if any of the representations and warranties of the Corporation set out in Section 5.1 is untrue or inaccurate in any material respect on the date hereof; and
- (j) if any Security Documents of the Corporation or Dutchco, as the case may be, are unenforceable, other than as a result of any action or inaction by the Trustee or any Noteholder,

then in each and every such event listed above, the Trustee may, in its discretion, but subject to the provisions of this Section, and shall, upon prior funding and indemnity and receipt of a request in writing signed by the holders of not less than 50% of the principal amount of the Notes then outstanding (or if the Event of Default shall exist only in respect of one or more series of the Notes then outstanding, then upon prior funding and indemnity and receipt of a request in writing signed by the holders of not less than 50% of the principal amount of the Notes of such series then outstanding), subject to the provisions of Section 8.3, by notice in writing to the Corporation declare the principal of and interest and premium, if any, on all Notes then outstanding (or, as the case may be, on all Notes of such series outstanding) and all other monies outstanding hereunder to be due and payable and the same shall thereupon forthwith become immediately due and payable to the Trustee, and the Corporation shall forthwith pay to the Trustee for the benefit of the Noteholders such principal, accrued and unpaid interest and premium, if any, and interest on amounts in default on such Note and all other monies outstanding hereunder, together with subsequent interest at the rate borne by the Notes on such principal, interest, premium, if any, and such other monies from the date of such declaration or event until payment is received by the Trustee, such subsequent interest to be payable at the times and places and in the manner mentioned in and according to the tenor of the Notes. Such payment when made shall be deemed to have been made in

discharge of the Corporation's obligations hereunder and any monies so received by the Trustee shall be applied in the manner provided in Section 8.6.

For greater certainty, for the purposes of this Section 8.1, a series of Notes shall be in default in respect of an Event of Default if such Event of Default relates to a default in the payment of principal, premium, if any, or interest on the Notes of such series in which case references to Notes in this Section 8.1 refer to Notes of that particular series.

For purposes of this Article 8, where the Event of Default refers to an Event of Default with respect to a particular series of Notes as described in this Section 8.1, then this Article 8 shall apply *mutatis mutandis* to the Notes of such series and references in this Article 8 to the Notes shall mean Notes of the particular series and references to the Noteholders shall refer to the Noteholders of the particular series, as applicable.

8.2 Notice of Events of Default

- (a) If an Event of Default shall occur and be continuing the Trustee shall, within 30 days after it receives written notice of the occurrence of such Event of Default, give notice of such Event of Default to the Noteholders in the manner provided in Section 12.3, provided that unless the Trustee shall have been requested to do so by the holders of at least 50% of the principal amount of the Notes then outstanding (or as the case may be, on all Notes of such series outstanding), the Trustee shall not be required to give such notice if the Trustee in good faith shall have determined that the withholding of such notice is in the best interests of the Noteholders and shall have so advised the Corporation in writing.
- (b) When notice of the occurrence of an Event of Default has been given to the Noteholders and the Event of Default is thereafter cured, notice that the Event of Default is no longer continuing shall be given by the Trustee to the Noteholders within 15 days after the Trustee becomes aware the Event of Default has been cured.

8.3 Waiver of Default

Upon the happening of any Event of Default hereunder:

- (a) the holders of the Notes shall have the power (in addition to the powers exercisable by Extraordinary Resolution as hereinafter provided) by requisition in writing by the holders of more than 50% of the principal amount of Notes then outstanding, to instruct the Trustee to waive any Event of Default and to cancel any declaration made by the Trustee pursuant to Section 8.1 and the Trustee shall thereupon waive the Event of Default and cancel such declaration, or either, upon such terms and conditions as shall be prescribed in such requisition; provided that if the Event of Default has occurred by reason of the non-observance or non-performance by the Corporation of any covenant applicable only to one or more series of Notes, then the holders of more than 50% of the principal amount of the outstanding Notes of that series shall be entitled to exercise the foregoing power

and the Trustee shall so act and it shall not be necessary to obtain a waiver from the holders of any other series of Notes; and

- (b) the Trustee, so long as it has not become bound to declare the principal and interest on the Notes then outstanding to be due and payable, or to obtain or enforce payment of the same, shall have power to waive any Event of Default if, in the Trustee's opinion, the same shall have been cured or adequate satisfaction made therefor, and in such event to cancel any such declaration theretofore made by the Trustee in the exercise of its discretion, upon such terms and conditions as the Trustee may deem advisable.

No such act or omission either of the Trustee or of the Noteholders shall extend to or be taken in any manner whatsoever to affect any subsequent Event of Default or the rights resulting therefrom.

8.4 Enforcement by the Trustee

- (a) Subject to the provisions of Section 8.3 and to the provisions of any Extraordinary Resolution that may be passed by the Noteholders, if the Corporation fails to pay to the Trustee, forthwith after the same shall have been declared to be due and payable under Section 8.1, the principal of and premium (if any) and accrued but unpaid interest on all Notes then outstanding, together with any other amounts due hereunder, the Trustee may in its discretion and shall upon receipt of a request in writing signed by the holders of not less than 50% of the principal amount of the Notes then outstanding (or in the event that one or more series of the Notes are then outstanding, then upon receipt of a request in writing signed by the holders of not less than 50% of the principal amount of Notes of such series then outstanding), and upon being funded and indemnified to its reasonable satisfaction against all costs, expenses and liabilities to be incurred, proceed in its name as trustee hereunder to obtain or enforce payment of such principal of and premium (if any) and interest on all the Notes then outstanding together or on all of the Notes of the affected series outstanding with any other amounts due hereunder by such proceedings authorized by this Note Indenture or by law or equity as the Trustee in such request shall have been directed to take, or if such request contains no such direction, or if the Trustee shall act without such request, then by such proceedings authorized by this Note Indenture or by suit at law or in equity as the Trustee shall deem expedient.
- (b) The Trustee shall be entitled and empowered, either in its own name or as trustee of an express trust, or as attorney-in-fact for the holders of the Notes, or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Trustee and of the holders of the Notes allowed in any insolvency, bankruptcy, liquidation or other judicial proceedings relative to the Corporation or its creditors or relative to or affecting its property. The Trustee is hereby irrevocably appointed (and the successive respective holders of the Notes by taking and holding the same shall be conclusively deemed to have so appointed the Trustee) the true and lawful attorney-in-fact of the respective

holders of the Notes with authority to make and file in the respective names of the holders of the Notes or on behalf of the holders of the Notes as a class, subject to deduction from any such claims of the amounts of any claims filed by any of the holders of the Notes themselves, any proof of debt, amendment of proof of debt, claim, petition or other document in any such proceedings and to receive payment of any sums becoming distributable on account thereof, and to execute any such other papers and documents and to do and perform any and all such acts and things for and on behalf of such holders of the Notes, as may be necessary or advisable in the opinion of the Trustee, in order to have the respective claims of the Trustee and of the holders of the Notes against the Corporation or its property allowed in any such proceeding, and to receive payment of or on account of such claims; provided, however, that subject to Section 8.3, nothing contained in this Note Indenture shall be deemed to give to the Trustee, unless so authorized by Extraordinary Resolution, any right to accept or consent to any plan of reorganization or otherwise by action of any character in such proceeding to waive or change in any way any right of any Noteholder.

- (c) The Trustee shall also have the power at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests and the interests of the Noteholders.
- (d) All rights of action hereunder may be enforced by the Trustee without the possession of any of the Notes or the production thereof on the trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Trustee shall be brought in the name of the Trustee as trustee of an express trust, and any recovery of judgment shall be for the rateable benefit of the holders of the Notes subject to the provisions of this Note Indenture. In any proceeding brought by the Trustee (and also any proceeding in which a declaratory judgment of a court may be sought as to the interpretation or construction of any provision of this Note Indenture, to which the Trustee shall be a party) the Trustee shall be held to represent all the holders of the Notes, and it shall not be necessary to make any holders of the Notes parties to any such proceeding.

8.5 No Suits by Noteholders

No holder of any Note shall have any right to institute any action, suit or proceeding at law or in equity for the purpose of enforcing payment of the principal of or interest on the Notes or for the execution of any trust or power hereunder or for the appointment of a liquidator or receiver or for a receiving order under the *Bankruptcy and Insolvency Act* (Canada) or any analogous legislation or to have the Corporation wound up or to file or prove a claim in any liquidation or bankruptcy proceeding or for any other remedy hereunder, unless: (a) such holder has previously given to the Trustee written notice of the happening of an Event of Default hereunder; and (b) the Noteholders by Extraordinary Resolution or by written instrument signed by the holders of at least 50% of the principal amount of the Notes then outstanding have made a request to the Trustee and the Trustee has been afforded reasonable opportunity either itself to proceed to exercise the powers granted under this Note Indenture or to institute an action, suit or proceeding in its name for such purpose; and (c) the Noteholders or any of them have furnished to the

Trustee, when so requested by the Trustee, sufficient funds and security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and (d) the Trustee has failed to act within a reasonable time after such notification, request and offer of indemnity; and (e) no direction inconsistent with such request has been received by the Trustee from holders of at least 50% of the principal amount of the Notes then outstanding and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to any such proceeding or for any other remedy hereunder by or on behalf of the holder of any Notes.

8.6 Application of Monies by Trustee

(a) Except as herein otherwise expressly provided, any monies received by the Trustee from the Corporation pursuant to the foregoing provisions of this Article 8, or as a result of legal or other proceedings or from any trustee in bankruptcy or liquidator of the Corporation, shall be applied, together with any other monies in the hands of the Trustee available for such purpose, as follows:

- (i) first, in payment or in reimbursement to the Trustee of its compensation, costs, charges, expenses, borrowings, advances or other monies furnished or provided by or at the instance of the Trustee in or about the execution of its trusts under, or otherwise in relation to, this Note Indenture, with interest thereon as herein provided;
- (ii) second, but subject to the other terms of this Section 8.6, in payment, ratably and proportionately to (and in the case of applicable withholding taxes, if any, on behalf of) the holders of Notes, of the principal of and premium (if any) and accrued and unpaid interest and interest on amounts in default on the Notes which are then outstanding in the priority of principal first and then premium (if any) and then accrued and unpaid interest and interest on amounts in default unless otherwise directed by Extraordinary Resolution and in that case in such order or priority as between principal, premium (if any) and interest as may be directed by such resolution; and
- (iii) third, in payment of the surplus, if any, of such monies to the Corporation or its assigns;

provided, however, that no payment shall be made pursuant to clause (ii) above in respect of the principal, premium or interest on any Note held, directly or indirectly, by or for the benefit of the Corporation or any Subsidiary (other than any Note pledged for value and in good faith to a Person other than the Corporation or any Subsidiary but only to the extent of such Person's interest therein) except subject to the prior payment in full of the principal, premium (if any) and interest (if any) on all Notes which are not so held.

(b) The Trustee shall not be bound to apply or make any partial or interim payment of any monies coming into its hands if the amount so received by it, after reserving such amount as the Trustee may think necessary to provide for the payments

mentioned in Section 8.6(a), is insufficient to make a distribution of at least 2% of the aggregate principal amount of the outstanding Notes, but it may retain the money so received by it and invest or deposit the same as provided in Section 13.8 until the money or the investments representing the same, with the income derived therefrom, together with any other monies for the time being under its control shall be sufficient for the said purpose or until it shall consider it advisable to apply the same in the manner hereinbefore set forth. The foregoing shall, however, not apply to a final payment in distribution hereunder.

8.7 Notice of Payment by Trustee

Not less than 15 days notice shall be given in the manner provided in Section 12.3 by the Trustee to the Noteholders of any payment to be made under this Article 8. Such notice shall state the time when and place where such payment is to be made and also the liability under this Note Indenture to which it is to be applied. After the day so fixed, unless payment shall have been duly demanded and have been refused, the Noteholders will be entitled to interest only on the balance (if any) of the principal monies, premium (if any) and interest due (if any) to them, respectively, on the Notes, after deduction of the respective amounts payable in respect thereof on the day so fixed.

8.8 Trustee May Demand Production of Notes

The Trustee shall have the right to demand production of the Notes in respect of which any payment of principal, interest or premium required by this Article 8 is made and may cause to be endorsed on the same a memorandum of the amount so paid and the date of payment, but the Trustee may, in its discretion, dispense with such production and endorsement, upon such indemnity being given to it and to the Corporation as the Trustee shall deem sufficient.

8.9 Remedies Cumulative

No remedy conferred upon or reserved to the Trustee by this Note Indenture, or upon or to the holders of Notes, is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Note Indenture or now existing or subsequently existing at law.

8.10 Immunity of Directors, Officers and Others

The Noteholders and the Trustee hereby waive and release any right, cause of action or remedy now or hereafter existing in any jurisdiction against any past, present or future officer, director or employee of the Corporation or of any of its Affiliates or any holder of securities of the Corporation or of any successor thereto, for the payment of the principal of or premium or interest on any of the Notes or on any covenant, agreement, representation or warranty by the Corporation contained herein or in the Notes other than a right, cause of action or remedy arising from the fraud or wilful misconduct of such person.

ARTICLE 9 SATISFACTION AND DISCHARGE

9.1 Cancellation and Destruction

All Notes shall forthwith after payment thereof be delivered to the Trustee and cancelled by it. All Notes cancelled or required to be cancelled under this or any other provision of this Note Indenture shall be destroyed by the Trustee and, if required by the Corporation, the Trustee shall furnish to it a destruction certificate setting out the designating numbers of the Notes so destroyed.

9.2 Non-Presentation of Notes

In case the holder of any Note fails to present any Note for payment on the date on which the principal of, premium (if any) or the interest thereon or represented thereby becomes payable either at maturity or otherwise, or shall not accept payment on account thereof and give such receipt therefor, if any, as the Trustee may require:

- (a) the Corporation shall be entitled to pay or deliver to the Trustee and direct it to set aside; or
- (b) in respect of monies in the hands of the Trustee which may or should be applied to the payment of the Notes, the Corporation shall be entitled to direct the Trustee to set aside; or
- (c) if the redemption was pursuant to notice given by the Trustee, the Trustee may itself set aside;

the monies, in trust to be paid to the holder of such Note upon due presentation or surrender thereof in accordance with the provisions of this Note Indenture; and thereupon the principal of, premium (if any) or the interest payable on or represented by each Note in respect whereof such monies, have been set aside shall be deemed to have been paid and the holder thereof shall thereafter have no right in respect thereof except that of receiving delivery and payment of the monies (less applicable withholding taxes, if any) so set aside by the Trustee upon due presentation and surrender thereof, subject always to the provisions of Section 9.3.

9.3 Repayment of Unclaimed Monies

Subject to Applicable Law, any monies set aside under Section 9.2 and not claimed by and paid to holders of Notes as provided in Section 9.2 within three years after the date of such setting aside shall be repaid and delivered to the Corporation by the Trustee and thereupon the Trustee shall be released from all further liability with respect to such monies and thereafter the holders of the Notes in respect of which such monies were so repaid to the Corporation shall have no rights in respect thereof except to obtain payment and delivery of the monies from the Corporation subject to any limitation provided by the laws of the Province of Alberta. Notwithstanding the foregoing, the Trustee will pay any remaining funds prior to the expiry of three years after the setting aside described in Section 9.2 to the Corporation upon receipt from the Corporation, of an unconditional letter of credit from a Canadian chartered bank in an

amount equal to or in excess of the amount of the remaining funds. If the remaining funds are paid to the Corporation prior to the expiry of three years after such setting aside, the Corporation shall reimburse the Trustee for any amounts so set aside which are required to be paid by the Trustee to a holder of a Note after the date of such payment of the remaining funds to the Corporation but prior to three years after such setting aside.

9.4 Discharge

The Trustee shall, at the written request of the Corporation, release and discharge this Note Indenture and execute and deliver such instruments as it shall be advised by Counsel are required for that purpose and to release the Corporation from its covenants herein contained (other than the provisions relating to the indemnification of the Trustee), and all security granted hereunder, upon proof being given to the reasonable satisfaction of the Trustee that the principal of, premium (if any) and interest (including interest on amounts in default, if any), on all the Notes and all other monies payable hereunder have been paid or satisfied or that all the Notes having matured or having been duly called for redemption, payment of the principal of and interest (including interest on amounts in default, if any) on such Notes and of all other monies payable hereunder has been duly and effectually provided for in accordance with the provisions hereof.

9.5 Satisfaction

- (a) The Corporation shall be deemed to have fully paid, satisfied and discharged all of the outstanding Notes of any series and the Trustee, at the expense of the Corporation, shall execute and deliver proper instruments acknowledging the full payment, satisfaction and discharge of such Notes, when, with respect to all of the outstanding Notes or all of the outstanding Notes of any series, as applicable:
 - (i) the Corporation has deposited or caused to be deposited with the Trustee as trust funds or property in trust for the purpose of making payment on such Notes, an amount in money, sufficient to pay, satisfy and discharge the entire amount of principal of, premium, if any, and interest, if any, to maturity, or any repayment date or Redemption Date or otherwise, as the case may be, of such Notes;
 - (ii) the Corporation has deposited or caused to be deposited with the Trustee as trust property in trust for the purpose of making payment on such Notes:
 - (A) if the Notes are issued in Canadian dollars, such amount in Canadian dollars of direct obligations of, or obligations the principal and interest of which are guaranteed by, the Government of Canada; or
 - (B) if the Notes are issued in a currency or currency unit other than Canadian dollars, cash in the currency or currency unit in which the Notes are payable and/or such amount in such currency or currency unit of direct obligations of, or obligations the principal and interest of which are guaranteed by, the Government of

Canada or the government that issued the currency or currency unit in which the Notes are payable;

as will, together with the income to accrue thereon and reinvestment thereof, be sufficient to pay and discharge the entire amount of principal of, premium, if any on, and accrued and unpaid interest to maturity or any repayment date, as the case may be, of all such Notes; or

so long as in any such event:

- (iii) the Corporation has paid, caused to be paid or made provisions to the satisfaction of the Trustee for the payment of all other sums payable or which may be payable with respect to all of such Notes (together with all applicable expenses of the Trustee in connection with the payment of such Notes); and
- (iv) the Corporation has delivered to the Trustee an Officer's Certificate stating that all conditions precedent herein provided relating to the payment, satisfaction and discharge of all such Notes have been complied with.

Any deposits with the Trustee referred to in this Section 9.5 shall be irrevocable, subject to Section 9.6, and shall be made under the terms of an escrow and/or trust agreement in form and substance satisfactory to the Trustee and which provides for the due and punctual payment of the principal of, premium, if any, and interest on the Notes being satisfied.

- (b) Upon the satisfaction of the conditions set forth in this Section 9.5 with respect to all the outstanding Notes, or all the outstanding Notes of any series, as applicable, the terms and conditions of the Notes, including the terms and conditions with respect thereto set forth in this Note Indenture shall no longer be binding upon or applicable to the Corporation.
- (c) Any funds or obligations deposited with the Trustee pursuant to this Section 9.5 shall be denominated in the currency or denomination of the Notes in respect of which such deposit is made.
- (d) If the Trustee is unable to apply any money or securities in accordance with this Section 9.5 by reason of any legal proceeding or any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Corporation's obligations under this Note Indenture and the affected Notes shall be revived and reinstated as though no money or securities had been deposited pursuant to this Section 9.5 until such time as the Trustee is permitted to apply all such money or securities in accordance with this Section 9.5, provided that if the Corporation has made any payment in respect of principal of, premium, if any, or interest on Notes or, as applicable, other amounts because of the reinstatement of its obligations, the Corporation shall be

subrogated to the rights of the holders of such Notes to receive such payment from the money or securities held by the Trustee.

9.6 Continuance of Rights, Duties and Obligations

Where trust funds or trust property have been deposited pursuant to Section 9.5, the holders of Notes and the Corporation shall continue to have and be subject to their respective rights, duties and obligations under Article 2.

ARTICLE 10 SUCCESSORS

10.1 Corporation may Consolidate, Etc., Only on Certain Terms

The Corporation shall not enter into any transaction or series of transactions whereby all or substantially all of its undertaking, property or assets would become the direct or indirect property of any other Person (herein called a “**Successor**”) whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless:

- (a) prior to or contemporaneously with the consummation of such transaction the Corporation and the Successor shall have executed such instruments and done such things as, in the opinion of Counsel, are necessary or advisable to establish that upon the consummation of such transaction:
 - (i) the Successor will have assumed all the covenants and obligations of the Corporation under this Note Indenture in respect of the Notes;
 - (ii) the Notes will be valid and binding obligations of the Successor entitling the holders thereof, as against the Successor, to all the rights of Noteholders under this Note Indenture; and
 - (iii) the Successor shall attorn to the jurisdiction of the courts of the Province of Alberta;
- (b) such transaction, in the opinion of Counsel, shall be on such terms as to substantially preserve and not impair any of the rights and powers of the Trustee or of the Noteholders hereunder; and
- (c) no condition or event shall exist as to the Corporation (at the time of such transaction) or the Successor (immediately after such transaction) and after giving full effect thereto or immediately after the Successor shall become liable to pay the principal monies, premium, if any, interest and other monies due or which may become due hereunder, which constitutes or would constitute an Event of Default hereunder; and

for greater certainty, for the purposes of the foregoing, the sale, conveyance, transfer or lease (in a single transaction or a series of related transactions) of the properties or assets of one or more Subsidiaries of the Corporation (other than to the Corporation or another wholly-owned Subsidiary of the Corporation), which, if such properties or assets were directly owned by the

Corporation, would constitute all or substantially all of the properties and assets of the Corporation and its Subsidiaries, taken as a whole, shall be deemed to be the sale, conveyance, transfer or lease of all or substantially all of the properties and assets of the Corporation.

10.2 Successor Substituted

Upon any consolidation of the Corporation with, or amalgamation or merger of the Corporation into, any other Person or any sale, conveyance, transfer or lease of all or substantially all of the properties and assets of the Corporation and its Subsidiaries, taken as a whole, in accordance with Section 10.1, the Successor formed by such consolidation or into which the Corporation is amalgamated or merged or to which such sale, conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Corporation under this Note Indenture with the same effect as if such Successor had been named as the Corporation herein, and thereafter, except in the case of a lease, and except for obligations the predecessor Person may have under a supplemental Note Indenture entered into pursuant to Section 14.1, the predecessor Person shall be relieved of all obligations and covenants under this Note Indenture and the Notes.

ARTICLE 11 MEETINGS OF NOTEHOLDERS

11.1 Right to Convene Meetings

The Trustee or the Corporation may at any time and from time to time, and the Trustee shall, on receipt of a Written Direction of the Corporation or a written request signed by the holders of not less than 15% of the principal amount of the Notes then outstanding, and upon receiving funding and being indemnified to its reasonable satisfaction by the Corporation or by the Noteholders signing such request against the costs which may be incurred in connection with the calling and holding of such meeting, convene a meeting of the Noteholders. In the event of the Trustee failing, within 30 days after receipt of any such request and such funding and indemnity, to give notice convening a meeting, the Corporation or such Noteholders, as the case may be, may convene such meeting. Every such meeting shall be held in Calgary, Alberta or at such other place as may be approved or determined by the Corporation and the Trustee.

11.2 Notice of Meetings

- (a) At least 21 days' notice of any meeting shall be given to the Noteholders in the manner provided in Section 12.3 and a copy of such notice shall be sent by mail to the Trustee, unless the meeting has been called by it. Such notice shall state the time when and the place where the meeting is to be held and shall state briefly the general nature of the business to be transacted at the meeting. It shall not be necessary for any such notice to set out the terms of any resolution to be proposed or any of the provisions of this Article. The accidental omission to give notice of a meeting to any holder of Notes shall not invalidate any resolution passed at any such meeting. A holder may waive notice of a meeting either before or after the meeting.

- (b) If the business to be transacted at any meeting by Extraordinary Resolution or otherwise, or any action to be taken or power exercised by instrument in writing under Section 11.15, especially affects the rights of holders of Notes of one or more series in a manner or to an extent differing in any material way from that in or to which the rights of holders of Notes of any other series are affected (determined as provided in Sections 11.2(c) and (d)), then:
- (i) a reference to such fact, indicating each series of Notes in the opinion of the Trustee so especially affected (hereinafter referred to as the “**especially affected series**”) shall be made in the notice of such meeting, and in any such case the meeting shall be and be deemed to be and is herein referred to as a “**Serial Meeting**”; and
 - (ii) the holders of Notes of an especially affected series shall not be bound by any action taken at a Serial Meeting or by instrument in writing under Section 11.15 unless in addition to compliance with the other provisions of this Article 11:
 - (A) at such Serial Meeting: (I) there are Noteholders present in person or by proxy and representing at least 25% in principal amount of the Notes then outstanding of such series, subject to the provisions of this Article 11 as to quorum at adjourned meetings; and (II) the resolution is passed by the affirmative vote of the holders of more than 50% (or in the case of an Extraordinary Resolution, not less than two-thirds) of the principal amount of the Notes of such series then outstanding voted on the resolution; or
 - (B) in the case of action taken or power exercised by instrument in writing under Section 11.15, such instrument is signed in one or more counterparts by the holders of not less than two-thirds of the principal amount of the Notes of such series then outstanding.
- (c) Subject to Section 11.2(d), the determination as to whether any business to be transacted at a meeting of Noteholders, or any action to be taken or power to be exercised by instrument in writing under Section 11.15, especially affects the rights of the Noteholders of one or more series in a manner or to an extent differing in any material way from that in or to which it affects the rights of Noteholders of any other series (and is therefore an especially affected series) shall be determined by an opinion of Counsel, which shall be binding on all Noteholders, the Trustee and the Corporation for all purposes hereof.
- (d) A proposal:
- (i) to extend the maturity of Notes of any particular series or to reduce the principal amount thereof or the rate of interest or redemption premium thereon;

- (ii) to modify or terminate any covenant or agreement which by its terms is effective only so long as Notes of a particular series are outstanding; or
- (iii) to reduce with respect to Noteholders of any particular series any percentage stated in this Section 11.2 or Sections 11.4, 11.12 and 11.15;

shall be deemed to especially affect the rights of the Noteholders of such series in a manner differing in a material way from that in which it affects the rights of holders of Notes of any other series, whether or not a similar extension, reduction, modification or termination is proposed with respect to Notes of any or all other series.

11.3 Chairman

Some individual, who need not be a Noteholder, nominated in writing by the Corporation (in case it convenes the meeting) or by the Trustee (in any other case) shall be chairman of the meeting and if no individual is so nominated, or if the individual so nominated is not present within 15 minutes from the time fixed for the holding of the meeting, a majority of the Noteholders present in person or by proxy shall choose some other individual present to be chairman.

11.4 Quorum

Subject to the provisions of Section 11.12, at any meeting of the Noteholders a quorum shall consist of Noteholders present in person or by proxy and representing at least 25% of the principal amount of the outstanding Notes and, if the meeting is a Serial Meeting, at least 25% of the Notes then outstanding of each especially affected series. If a quorum of the Noteholders shall not be present within 30 minutes from the time fixed for holding any meeting, the meeting, if summoned by the Noteholders or pursuant to a request of the Noteholders, shall be dissolved, but in any other case the meeting shall be adjourned to the same day in the next week (unless such day is not a Business Day in which case it shall be adjourned to the next following Business Day thereafter) at the same time and place and no notice shall be required to be given in respect of such adjourned meeting. At the adjourned meeting, the Noteholders present in person or by proxy shall, subject to the provisions of Section 11.12, constitute a quorum and may transact the business for which the meeting was originally convened notwithstanding that they may not represent 25% of the principal amount of the outstanding Notes or of the Notes then outstanding of each especially affected series. Any business may be brought before or dealt with at an adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling the same. No business shall be transacted at any meeting unless the required quorum be present at the commencement of business.

11.5 Power to Adjourn

The chairman of any meeting at which a quorum of the Noteholders is present may, with the consent of the holders of a majority in principal amount of the Notes represented thereat, adjourn any such meeting and no notice of such adjournment need be given except such notice, if any, as the meeting may prescribe.

11.6 Show of Hands

Every question submitted to a meeting shall, subject to Section 11.7, be decided in the first place by a majority of the votes given on a show of hands except that votes on Extraordinary Resolutions shall be given in the manner hereinafter provided. At any such meeting, unless a poll is duly demanded as herein provided, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact. The chairman of any meeting shall be entitled, both on a show of hands and on a poll, to vote in respect of the Notes, if any, held by him.

11.7 Poll

On every Extraordinary Resolution, and on any other question submitted to a meeting when demanded by the chairman or by one or more Noteholders or proxies for Noteholders, a poll shall be taken in such manner and either at once or after an adjournment as the chairman shall direct. Questions other than Extraordinary Resolutions shall, if a poll be taken, be decided by the votes of the holders of a majority in principal amount of the Notes and of each especially affected series, if applicable, represented at the meeting and voted on the poll.

11.8 Voting

On a show of hands every person who is present and entitled to vote, whether as a Noteholder or as proxy for one or more Noteholders or both, shall have one vote. On a poll each Noteholder present in person or represented by a proxy duly appointed by an instrument in writing shall be entitled to one vote in respect of each \$1,000 principal amount of Notes of which he shall then be the holder. In the case of any Note denominated in a currency or currency unit other than Canadian dollars, the principal amount thereof for these purposes shall be computed in Canadian dollars on the basis of the conversion of the principal amount thereof at the applicable spot buying rate of exchange for such other currency or currency unit as reported by the Bank of Canada at the close of business on the Business Day next preceding the meeting. Any fractional amounts resulting from such conversion shall be rounded to the nearest \$1,000. A proxy need not be a Noteholder. In the case of joint holders of a Note, any one of them present in person or by proxy at the meeting may vote in the absence of the other or others but in case more than one of them be present in person or by proxy, they shall vote together in respect of the Notes of which they are joint holders.

11.9 Proxies

A Noteholder may be present and vote at any meeting of Noteholders by an authorized representative. The Corporation (in case it convenes the meeting) or the Trustee (in any other case) for the purpose of enabling the Noteholders to be present and vote at any meeting without producing their Notes, and of enabling them to be present and vote at any such meeting by proxy and of lodging instruments appointing such proxies at some place other than the place where the meeting is to be held, may from time to time make and vary such regulations as it shall think fit providing for and governing any or all of the following matters:

- (a) the form of the instrument appointing a proxy, which shall be in writing, and the manner in which the same shall be executed and the production of the authority of any Person signing on behalf of a Noteholder;
- (b) the deposit of instruments appointing proxies at such place as the Trustee, the Corporation or the Noteholder convening the meeting, as the case may be, may, in the notice convening the meeting, direct and the time, if any, before the holding of the meeting or any adjournment thereof by which the same must be deposited;
- (c) the deposit of instruments appointing proxies at some approved place or places other than the place at which the meeting is to be held and enabling particulars of such instruments appointing proxies to be mailed, faxed, cabled, telegraphed or sent by other electronic means before the meeting to the Corporation or to the Trustee at the place where the same is to be held and for the voting of proxies so deposited as though the instruments themselves were produced at the meeting; and
- (d) generally for the calling of a meeting of Noteholders and the conduct of business thereof.

Any regulations so made shall be binding and effective and the votes given in accordance therewith shall be valid and shall be counted. Save as such regulations may provide, the only persons who shall be recognized at any meeting as the holders of any Notes, or as entitled to vote or be present at the meeting in respect thereof, shall be Noteholders and persons whom Noteholders have by instrument in writing duly appointed as their proxies.

11.10 Persons Entitled to Attend Meetings

The Corporation and the Trustee, by their respective officers and directors, the Auditor of the Corporation and the legal advisors of the Corporation, the Trustee or any Noteholder may attend any meeting of the Noteholders, but shall have no vote as such (other than the Noteholders).

11.11 Powers Exercisable by Extraordinary Resolution

In addition to the powers conferred upon them by any other provisions of this Note Indenture or by law, a meeting of the Noteholders shall have the following powers exercisable from time to time by Extraordinary Resolution:

- (a) power to authorize the Trustee to grant extensions of time for payment of any principal, premium or interest on the Notes, whether or not the principal, premium, or interest, the payment of which is extended, is at the time due or overdue;
- (b) power to sanction any modification, abrogation, alteration, compromise or arrangement of the rights of the Noteholders or the Trustee against the Corporation, or against its property, whether such rights arise under this Note Indenture or the Notes or otherwise provided that such sanctioned actions are not prejudicial to the Trustee;

- (c) power to assent to any modification of or change in or addition to or omission from the provisions contained in this Note Indenture or any Note which shall be agreed to by the Corporation and to authorize the Trustee to concur in and execute any Note Indenture supplemental hereto embodying any modification, change, addition or omission;
- (d) power to sanction any scheme for the reconstruction, reorganization or recapitalization of the Corporation or for the consolidation, amalgamation, arrangement, combination or merger of the Corporation with any other Person or for the sale, leasing, transfer or other disposition of all or substantially all of the undertaking, property and assets of the Corporation or any part thereof, provided that no such sanction shall be necessary in respect of any such transaction if the provisions of Section 10.1 shall have been complied with;
- (e) power to direct or authorize the Trustee to exercise any power, right, remedy or authority given to it by this Note Indenture in any manner specified in any such Extraordinary Resolution or to refrain from exercising any such power, right, remedy or authority;
- (f) power to waive, and direct the Trustee to waive, any default hereunder and/or cancel any declaration made by the Trustee pursuant to Section 8.1 either unconditionally or upon any condition specified in such Extraordinary Resolution;
- (g) power to restrain any Noteholder from taking or instituting any suit, action or proceeding for the purpose of enforcing payment of the principal, premium or interest on the Notes, or for the execution of any trust or power hereunder;
- (h) power to direct any Noteholder who, as such, has brought any action, suit or proceeding to stay or discontinue or otherwise deal with the same upon payment, if the taking of such suit, action or proceeding shall have been permitted by Section 8.5, of the costs, charges and expenses reasonably and properly incurred by such Noteholder in connection therewith;
- (i) power to assent to any compromise or arrangement with any creditor or creditors or any class or classes of creditors, whether secured or otherwise, and with holders of any shares or other securities of the Corporation;
- (j) power to appoint a committee with power and authority (subject to such limitations, if any, as may be prescribed in the resolution) to exercise, and to direct the Trustee to exercise, on behalf of the Noteholders, such of the powers of the Noteholders as are exercisable by Extraordinary Resolution or other resolution as shall be included in the resolution appointing the committee. The resolution making such appointment may provide for payment of the expenses and disbursements of and compensation to such committee. Such committee shall consist of such number of Persons as shall be prescribed in the resolution appointing it and the members need not be themselves Noteholders. Every such committee may elect its chairman and may make regulations respecting its quorum, the calling of its meetings, the filling of vacancies occurring in its

number and its procedure generally. Such regulations may provide that the committee may act at a meeting at which a quorum is present or may act by minutes signed by the number of members thereof necessary to constitute a quorum. All acts of any such committee within the authority delegated to it shall be binding upon all Noteholders. Neither the committee nor any member thereof shall be liable for any loss arising from or in connection with any action taken or omitted to be taken by them in good faith;

- (k) power to remove the Trustee from office and to appoint a new Trustee or Trustees provided that no such removal shall be effective unless and until a new Trustee or Trustees shall have become bound by this Note Indenture;
- (l) power to sanction the exchange of the Notes for or the conversion thereof into shares, bonds, Notes or other securities or obligations of the Corporation or of any other Person formed or to be formed;
- (m) power to authorize the distribution *in specie* of any shares or securities received pursuant to a transaction authorized under the provisions of Section 11.11(l); and
- (n) power to amend, alter or repeal any Extraordinary Resolution previously passed or sanctioned by the Noteholders or by any committee appointed pursuant to Section 11.11(j).

Except as otherwise provided in this Note Indenture, all other powers of and matters to be determined by the Noteholders may be exercised or determined from time to time by Ordinary Resolution.

The expression "**Ordinary Resolution**" when used in this Note Indenture means, except as otherwise provided in this Note Indenture, a resolution proposed to be passed as an ordinary resolution at a meeting of Noteholders duly convened for the purpose and held in accordance with the provisions of this Article 11 at which a quorum of the Noteholders is present and passed by the affirmative votes of Noteholders present in person or represented by proxy at the meeting who hold more than 50% of the aggregate principal amount of the Notes voted in respect of such resolution

11.12 Meaning of "Extraordinary Resolution"

- (a) The expression "**Extraordinary Resolution**" when used in this Note Indenture means, subject to the provisions of this Article, a resolution proposed to be passed as an Extraordinary Resolution at a meeting of Noteholders (including an adjourned meeting) duly convened for the purpose and held in accordance with the provisions of this Article at which the holders of not less than 25% of the principal amount of the Notes then outstanding, and if the meeting is a Serial Meeting, at which holders of not less than 25% of the principal amount of the Notes then outstanding of each especially affected series, are present in person or by proxy and passed by the favourable votes of the holders of not less than two-thirds of the principal amount of the Notes, and if the meeting is a Serial Meeting by the affirmative vote of the holders of not less than two-thirds of each especially

affected series, in each case present or represented by proxy at the meeting and voted upon on a poll on such resolution.

- (b) If, at any such meeting, the holders of not less than 25% of the principal amount of the Notes then outstanding and, if the meeting is a Serial Meeting, 25% of the principal amount of the Notes then outstanding of each especially affected series, in each case are not present in person or by proxy within 30 minutes after the time appointed for the meeting, then the meeting, if convened by or on the requisition of Noteholders, shall be dissolved but in any other case it shall stand adjourned to such date, being not less than 21 nor more than 60 days later, and to such place and time as may be appointed by the chairman. Not less than 10 days notice shall be given of the time and place of such adjourned meeting in the manner provided in Section 12.3. Such notice shall state that at the adjourned meeting the Noteholders present in person or by proxy shall form a quorum. At the adjourned meeting the Noteholders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened and a resolution proposed at such adjourned meeting and passed thereat by the affirmative vote of holders of not less than two-thirds of the principal amount of the Notes and, if the meeting is a Serial Meeting, by the affirmative vote of the holders of not less than two-thirds of the principal amount of the Notes of each especially affected series, in each case present or represented by proxy at the meeting voted upon on a poll shall be an Extraordinary Resolution within the meaning of this Note Indenture, notwithstanding that the holders of not less than 25% in principal amount of the Notes then outstanding, and if the meeting is a Serial Meeting, holders of not less than 25% of the principal amount of the Notes then outstanding of each especially affected series, are not present in person or by proxy at such adjourned meeting.
- (c) Votes on an Extraordinary Resolution shall always be given on a poll and no demand for a poll on an Extraordinary Resolution shall be necessary.

11.13 Powers Cumulative

Any one or more of the powers in this Note Indenture stated to be exercisable by the Noteholders by Extraordinary Resolution or otherwise may be exercised from time to time and the exercise of any one or more of such powers from time to time shall not be deemed to exhaust the rights of the Noteholders to exercise the same or any other such power or powers thereafter from time to time.

11.14 Minutes

Minutes of all resolutions and proceedings at every meeting as aforesaid shall be made and duly entered in books to be from time to time provided for that purpose by the Trustee at the expense of the Corporation, and any such minutes as aforesaid, if signed by the chairman of the meeting at which such resolutions were passed or proceedings had, or by the chairman of the next succeeding meeting of the Noteholders, shall be *prima facie* evidence of the matters therein stated and, until the contrary is proved, every such meeting, in respect of the proceedings of

which minutes shall have been made, shall be deemed to have been duly held and convened, and all resolutions passed thereat or proceedings taken thereat to have been duly passed and taken.

11.15 Instruments in Writing

All actions which may be taken and all powers that may be exercised by the Noteholders at a meeting provided for in this Article may also be taken and exercised by the holders of more than 50% of the principal amount of outstanding Notes in the case of an Ordinary Resolution and not less than two-thirds of the principal amount of all the outstanding Notes in the case of an Extraordinary Resolution and, if the meeting at which such actions might be taken would be a Serial Meeting, by the holders of more than 50% of the principal amount of outstanding Notes in the case of an Ordinary Resolution and not less than two-thirds of the principal amount of the Notes then outstanding in the case of an Extraordinary Resolution of each especially affected series, by an instrument in writing signed in one or more counterparts and the expression "Extraordinary Resolution" when used in this Note Indenture shall include an instrument so signed.

11.16 Binding Effect of Resolutions

Every resolution and every Extraordinary Resolution passed in accordance with the provisions of this Article at a meeting of Noteholders shall be binding upon all the Noteholders, whether present at or absent from such meeting, and every instrument in writing signed by Noteholders in accordance with Section 11.15 shall be binding upon all the Noteholders, whether signatories thereto or not, and each and every Noteholder and the Trustee (subject to the provisions for its indemnity herein contained) shall be bound to give effect accordingly to every such resolution, Extraordinary Resolution and instrument in writing.

11.17 Evidence of Rights of Noteholders

- (a) Any request, direction, notice, consent or other instrument which this Note Indenture may require or permit to be signed or executed by the Noteholders may be in any number of concurrent instruments of similar tenor signed or executed by such Noteholders.
- (b) The Trustee may, in its discretion, require proof of execution in cases where it deems proof desirable and may accept such proof as it shall consider proper.

11.18 Concerning Serial Meetings

If, in the opinion of Counsel, any business to be transacted at any meeting, or any action to be taken or power to be exercised by instrument in writing under Section 11.15, does not adversely affect the rights of the holders of Notes of one or more series, the provisions of this Article 11 shall apply as if the Notes of such series were not outstanding and no notice of any such meeting need be given to the holders of Notes of such series. Without limiting the generality of the foregoing, a proposal to modify or terminate any covenant or agreement which is effective only so long as Notes of a particular series are outstanding shall be deemed not to adversely affect the rights of the holders of Notes of any other series.

11.19 Record Dates

- (a) If the Corporation solicits from the holders of Notes any request, demand, authorization, direction, notice, consent, waiver or other action, the Corporation may, at its option, by or pursuant to a Written Direction of the Corporation, fix in advance a record date for the determination of such holders entitled to provide such request, demand, authorization, direction, notice, consent, waiver or other action, but the Corporation shall have no obligation to do so. Any such record date shall be the record date specified in or pursuant to such Written Direction of the Corporation.
- (b) If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action may be given before or after such record date, but only the holders of record at the close of business on such record date shall be deemed to be holders for the purposes of determining whether holders of the requisite proportion of Notes then outstanding have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other act, and for this purpose the Notes then outstanding shall be computed as of such record date.

ARTICLE 12 NOTICES

12.1 Notice to Corporation

Any notice to the Corporation under the provisions of this Note Indenture shall be valid and effective if delivered to the Corporation at: Suite 404, 1015 – 4th Avenue S.W., Calgary, Alberta T2R 1J4, Attention: William Foster, President and Chief Executive Officer, and a copy delivered to Osler, Hoskin & Harcourt LLP, 2500, 450 – 1st Street S.W., Calgary, Alberta T2P 5H1, Attention: Frank J. Turner, or if given by registered letter, postage prepaid, to such offices and so addressed and if mailed, shall be deemed to have been effectively given three days following the mailing thereof. The Corporation may from time to time notify the Trustee in writing of a change of address which thereafter, until changed by like notice, shall be the address of the Corporation for all purposes of this Note Indenture.

12.2 Notice to Trustee

Any notice to the Trustee under the provisions of this Note Indenture shall be valid and effective if delivered to the Trustee at its principal office in the City of Calgary, at 310, 606 – 4th Street S.W. Calgary, Alberta T2P 1T1, Attention: Manager, Corporate Trust or if given by registered letter, postage prepaid, to such office and so addressed and, if mailed, shall be deemed to have been effectively given three days following the mailing thereof.

12.3 Notice to Noteholders

- (a) All notices to be given hereunder with respect to the Notes shall be deemed to be validly given to the holders thereof if sent by first class mail, postage prepaid, by letter or circular addressed to such holders at their post office addresses appearing

in any of the registers identified in this Note Indenture and shall be deemed to have been effectively given three days following the day of mailing. Accidental error or omission in giving notice or accidental failure to mail notice to any Noteholder or the inability of the Corporation to give or mail any notice due to anything beyond the reasonable control of the Corporation shall not invalidate any action or proceeding founded thereon.

- (b) If any notice given in accordance with the foregoing paragraph would be unlikely to reach the Noteholders to whom it is addressed in the ordinary course of post by reason of an interruption in mail service, whether at the place of dispatch or receipt or both, the Corporation shall give such notice by publication at least once in the city of Calgary and the City of Toronto each such publication to be made in a daily newspaper of general circulation.
- (c) Any notice given to Noteholders by publication shall be deemed to have been given on the day on which publication shall have been effected at least once in each of the newspapers in which publication was required. All notices with respect to any Note may be given to whichever one of the holders thereof (if more than one) is named first in the registers hereinbefore mentioned, and any notice so given shall be sufficient notice to all holders of any Persons interested in such Note.

12.4 Mail Service Interruption

If by reason of any interruption of mail service, actual or threatened, any notice to be given to the Trustee or the Corporation, as applicable, would reasonably be unlikely to reach its destination by the time notice by mail is deemed to have been given pursuant to Section 12.1 or Section 12.2, as applicable, such notice shall be valid and effective only if delivered at the appropriate address in accordance with Section 12.1 or Section 12.2, as applicable.

ARTICLE 13 CONCERNING THE TRUSTEE

13.1 No Conflict of Interest

The Trustee represents to the Corporation that at the date of execution and delivery by it of this Note Indenture there exists no material conflict of interest in the role of the Trustee as a fiduciary hereunder but if, notwithstanding the provisions of this Section 13.1, such a material conflict of interest exists, or hereafter arises, the validity and enforceability of this Note Indenture, and the Notes issued hereunder, shall not be affected in any manner whatsoever by reason only that such material conflict of interest exists or arises but the Trustee shall, within 30 days after ascertaining that it has a material conflict of interest, either eliminate such material conflict of interest or resign in the manner and with the effect specified in Section 13.2.

13.2 Replacement of Trustee

- (a) The Trustee may resign its trust and be discharged from all further duties and liabilities hereunder by giving to the Corporation 90 days notice in writing or such

shorter notice as the Corporation may accept as sufficient. If at any time a material conflict of interest exists in the Trustee's role as a fiduciary hereunder the Trustee shall, within 30 days after ascertaining that such a material conflict of interest exists, either eliminate such material conflict of interest or resign in the manner and with the effect specified in this Section 13.2. The validity and enforceability of this Note Indenture and of the Notes issued hereunder shall not be affected in any manner whatsoever by reason only that such a material conflict of interest exists. In the event of the Trustee resigning or being removed or being dissolved, becoming bankrupt, going into liquidation or otherwise becoming incapable of acting hereunder, the Corporation shall forthwith appoint a new Trustee unless a new Trustee has already been appointed by the Noteholders. Failing such appointment by the Corporation, the retiring Trustee or any Noteholder may apply to the Court on such notice as such Court may direct at the Corporation's expense, for the appointment of a new Trustee but any new Trustee so appointed by the Corporation or by the Court shall be subject to removal as aforesaid by the Noteholders and the appointment of such new Trustee shall be effective only upon such new Trustee becoming bound by this Note Indenture. Any new Trustee appointed under any provision of this Section 13.2 shall be a corporation authorized to carry on the business of a trust company in all of the provinces and territories of Canada. On any new appointment the new Trustee shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as Trustee.

- (b) Any company into which the Trustee may be merged or, with or to which it may be consolidated, amalgamated or sold, or any company resulting from any merger, consolidation, sale or amalgamation to which the Trustee shall be a party, shall be the successor trustee under this Note Indenture without the execution of any instrument or any further act. Nevertheless, upon the written request of the successor Trustee or of the Corporation, the Trustee ceasing to act shall execute and deliver an instrument assigning and transferring to such successor Trustee, upon the trusts herein expressed, all the rights, powers and trusts of the Trustee so ceasing to act, and shall duly assign, transfer and deliver all property and money held by such Trustee to the successor Trustee so appointed in its place. Should any deed, conveyance or instrument in writing from the Corporation be required by any new Trustee for more fully and certainly vesting in and confirming to it such estates, properties, rights, powers and trusts, then any and all such deeds, conveyances and instruments in writing shall on request of said new Trustee, be made, executed, acknowledged and delivered by the Corporation.

13.3 Duties of Trustee

In the exercise of the rights, duties and obligations prescribed or conferred by the terms of this Note Indenture, the Trustee shall act honestly and in good faith and exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

13.4 Reliance Upon Declarations and Opinions

In the exercise of its rights, duties and obligations hereunder the Trustee may, if acting in good faith, rely, as to the truth of the statements and accuracy of the opinions expressed therein, upon statutory declarations, opinions, reports or certificates furnished pursuant to any covenant, condition or requirement of this Note Indenture or required by the Trustee to be furnished to it in the exercise of its rights and duties hereunder, if the Trustee examines such statutory declarations, opinions, reports or certificates and determines that they comply with Section 13.5, if applicable, and with any other applicable requirements of this Note Indenture. The Trustee may nevertheless, in its discretion, require further proof in cases where it deems further proof desirable. Without restricting the foregoing, the Trustee may rely on an opinion of Counsel satisfactory to the Trustee notwithstanding that it is delivered by a solicitor or firm which acts as solicitors for the Corporation.

13.5 Evidence and Authority to Trustee

- (a) The Corporation shall furnish to the Trustee evidence of compliance with the conditions precedent provided for in this Note Indenture relating to any action or step required or permitted to be taken by the Corporation or the Trustee under this Note Indenture or as a result of any obligation imposed under this Note Indenture, including without limitation, the certification and delivery of Notes hereunder, the satisfaction and discharge of this Note Indenture and the taking of any other action to be taken by the Trustee at the request of or on the application of the Corporation, forthwith if and when (a) such evidence is required by any other Section of this Note Indenture to be furnished to the Trustee in accordance with the terms of this Section 13.5, or (b) the Trustee, in the exercise of its rights and duties under this Note Indenture, gives the Corporation written notice requiring it to furnish such evidence in relation to any particular action or obligation specified in such notice.
- (b) Such evidence shall consist of:
 - (i) a certificate made by any one officer or director of the Corporation, stating that any such condition precedent has been complied with in accordance with the terms of this Note Indenture;
 - (ii) an opinion of Counsel that such condition precedent has been complied with in accordance with the terms of this Note Indenture; and
 - (iii) in the case of any such condition precedent compliance with which is subject to review or examination by auditors or accountants, an opinion or report of the Auditor of the Corporation whom the Trustee for such purposes hereby approves, that such condition precedent has been complied with in accordance with the terms of this Note Indenture.
- (c) Whenever such evidence relates to a matter other than the certificates and delivery of Notes and the satisfaction and discharge of this Note Indenture, and except as otherwise specifically provided herein, such evidence may consist of a report or

opinion of any solicitor, auditor, accountant, engineer or appraiser or any other Person whose qualifications give authority to a statement made by him, provided that if such report or opinion is furnished by a trustee, officer or employee of the Corporation it shall be in the form of a statutory declaration. Such evidence shall be, so far as appropriate, in accordance with the immediately preceding paragraph of this Section 13.5.

- (d) Each statutory declaration, certificate, opinion or report with respect to compliance with a condition precedent provided for in the Note Indenture shall include (i) a statement by the person giving the evidence that he has read and is familiar with those provisions of this Note Indenture relating to the condition precedent in question, (ii) a brief statement of the nature and scope of the examination or investigation upon which the statements or opinions contained in such evidence are based, (iii) a statement that, in the belief of the person giving such evidence, he has made such examination or investigation as is necessary to enable him to make the statements or give the opinions contained or expressed therein, and (iv) a statement whether in the opinion of such person the conditions precedent in question have been complied with or satisfied.
- (e) The Corporation shall furnish or cause to be furnished to the Trustee at any time if the Trustee reasonably so requires, an Officer's Certificate that the Corporation has complied with all covenants, conditions or other requirements contained in this Note Indenture, the non-compliance with which would, with the giving of notice or the lapse of time, or both, or otherwise, constitute an Event of Default, or if such is not the case, specifying the covenant, condition or other requirement which has not been complied with and giving particulars of such non-compliance. The Corporation shall, whenever the Trustee so requires, furnish the Trustee with evidence by way of statutory declaration, opinion, report or certificate as specified by the Trustee as to any action or step required or permitted to be taken by the Corporation or as a result of any obligation imposed by this Note Indenture.

13.6 Officer's Certificates Evidence

Except as otherwise specifically provided or prescribed by this Note Indenture, whenever in the administration of the provisions of this Note Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, the Trustee, if acting in good faith, may rely upon an Officer's Certificate.

13.7 Experts, Advisers and Agents

The Trustee may:

- (a) employ or retain and act and rely on the opinion or advice of or information obtained from any solicitor, auditor, valuator, engineer, surveyor, appraiser or other expert, whether obtained by the Trustee or by the Corporation, or otherwise, and shall not be liable for acting, or refusing to act, in good faith on any such opinion or advice and may pay proper and reasonable compensation for all such legal and other advice or assistance as aforesaid; and

- (b) employ such agents and other assistants as it may reasonably require for the proper discharge of its duties hereunder, and may pay reasonable remuneration for all services performed for it (and shall be entitled to receive reasonable remuneration for all services performed by it) in the discharge of the trusts hereof and compensation for all disbursements, costs and expenses made or incurred by it in the discharge of its duties hereunder and in the management of the trusts hereof and any solicitors employed or consulted by the Trustee may, but need not be, solicitors for the Corporation.

13.8 Investment of Monies Held by Trustee

- (a) Unless otherwise provided in this Note Indenture, any monies held by the Trustee, which, under the trusts of this Note Indenture, may or ought to be invested or which may be on deposit with the Trustee or which may be in the hands of the Trustee, may be invested and reinvested in the name or under the control of the Trustee in securities in which, under the laws of the Province of Alberta, trustees are authorized to invest trust monies, provided that such securities are expressed to mature within two years or such shorter period selected to facilitate any payments expected to be made under this Note Indenture, after their purchase by the Trustee, and unless and until the Trustee shall have declared the principal of and interest on the Notes to be due and payable, the Trustee shall so invest such monies at the Written Direction of the Corporation given in a reasonably timely manner. Pending the investment of any monies, such monies may be deposited in the name of the Trustee in any chartered bank of Canada or, with the consent of the Corporation, in the deposit department of the Trustee or any other loan or trust company authorized to accept deposits under the laws of Canada or any province or territories thereof at the rate of interest, if any, then current on similar deposits. The Corporation shall receive the Trustee's prevailing rate for all monies held by it, as may change from time to time.
- (b) Unless and until the Trustee shall have declared the principal of and interest on the Notes to be due and payable, the Trustee shall pay over to the Corporation all interest received by the Trustee in respect of any investments or deposits made pursuant to the provisions of this Section.

13.9 Trustee Not Ordinarily Bound

Except as provided in Section 8.2 and as otherwise specifically provided herein, the Trustee shall not, subject to Section 13.3, be bound to give notice to any Person of the execution hereof, nor to do, observe or perform or see to the observance or performance by the Corporation of any of the obligations herein imposed upon the Corporation or of the covenants on the part of the Corporation herein contained, nor in any way to supervise or interfere with the conduct of the Corporation's business, unless the Trustee shall have been required to do so in writing by the holders of not less than 25% of the aggregate principal amount of the Notes then outstanding or by any Extraordinary Resolution of the Noteholders passed in accordance with the provisions contained in Article 11, and then only after it shall have been funded and indemnified to its satisfaction against all actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

13.10 Trustee Not Bound to Act on Corporation's Request

Except as in this Note Indenture otherwise specifically provided, the Trustee shall not be bound to act in accordance with any direction or request of the Corporation until a duly authenticated copy of the instrument or resolution containing such direction or request shall have been delivered to the Trustee, and the Trustee shall be empowered to act upon any such copy purporting to be authenticated and believed by the Trustee to be genuine.

13.11 Conditions Precedent to Trustee's Obligations to Act Hereunder

- (a) The obligation of the Trustee to commence or continue any act, action or proceeding for the purpose of enforcing the rights of the Trustee and of the Noteholders hereunder shall be conditional upon the Noteholders furnishing when required by notice in writing by the Trustee, sufficient funds to commence or continue such act, action or proceeding and indemnity reasonably satisfactory to the Trustee to protect and hold harmless the Trustee against the costs, charges and expenses and liabilities to be incurred thereby and any loss and damage it may suffer by reason thereof.
- (b) None of the provisions contained in this Note Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers unless indemnified as aforesaid.
- (c) The Trustee may, before commencing or at any time during the continuance of any such act, action or proceeding require the Noteholders at whose instance it is acting to deposit with the Trustee the Notes held by them for which Notes the Trustee shall issue receipts.

13.12 Authority to Carry on Business

The Trustee represents to the Corporation that at the date of execution and delivery by it of this Note Indenture it is authorized to carry on the business of a trust company in each of the provinces and territories of Canada but if, notwithstanding the provisions of this Section 13.12 it ceases to be so authorized to carry on business, the validity and enforceability of this Note Indenture and the securities issued hereunder shall not be affected in any manner whatsoever by reason only of such event but the Trustee shall, within 90 days after ceasing to be authorized to carry on the business of a trust company in any of the provinces and territories of Canada, either become so authorized or resign in the manner and with the effect specified in Section 13.2.

13.13 Compensation and Indemnity

- (a) The Corporation shall pay to the Trustee from time to time compensation for its services hereunder as agreed separately by the Corporation and the Trustee, and shall pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in the administration or execution of its duties under this Note Indenture (including the reasonable and documented compensation and disbursements of its Counsel and all other advisers

and assistants not regularly in its employ), both before any default hereunder and thereafter until all duties of the Trustee under this Note Indenture shall be finally and fully performed. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust.

- (b) The Corporation hereby indemnifies and saves harmless the Trustee and its directors, officers, shareholders and employees from and against any and all loss, damages, charges, expenses, claims, demands, actions or liability whatsoever which may be brought against the Trustee or which it may suffer or incur as a result of or arising out of the performance of its duties and obligations hereunder save only in the event of negligence, the negligent failure to act, or the wilful misconduct or bad faith of the Trustee. This indemnity will survive the termination or discharge of this Note Indenture and the resignation or removal of the Trustee. The Trustee shall notify the Corporation promptly of any claim for which it may seek indemnity. The Corporation shall defend the claim and the Trustee shall co-operate in the defence. The Trustee may have separate Counsel and the Corporation shall pay the reasonable fees and expenses of such Counsel. The Corporation need not pay for any settlement made without its consent, which consent must not be unreasonably withheld. This indemnity shall survive the resignation or removal of the Trustee or the discharge of this Note Indenture.
- (c) The Corporation need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee through negligence or bad faith or breach of the Trustee's duties hereunder.

13.14 Acceptance of Trust

The Trustee hereby accepts the trusts in this Note Indenture declared and provided for and agrees to perform the same upon the terms and conditions herein set forth and to hold all rights, privileges and benefits conferred hereby and by law in trust for the various Persons who shall from time to time be Noteholders, subject to all the terms and conditions herein set forth.

13.15 Third Party Interests

Each party to this Note Indenture hereby represents to the Trustee that any account to be opened by, or interest to be held by, the Trustee in connection with this Note Indenture, for or to the credit of such party, either (i) is not intended to be used by or on behalf of any third party; or (ii) is intended to be used by or on behalf of a third party, in which case such party hereby agrees to complete, execute and deliver forthwith to the Trustee a declaration in the Trustee's prescribed form as to the particulars of such third party.

13.16 Anti-Money Laundering

The Trustee shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Trustee, in its sole judgment, acting reasonably, determines that such act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should the Trustee, in its sole judgment, acting reasonably, determine at any time that its acting under this

Note Indenture has resulted in its being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right to resign on 30 days' prior written notice sent to the Corporation provided that (i) the Trustee's written notice shall describe the circumstances of such non-compliance; and (ii) if such circumstances are rectified to the Trustee's satisfaction within such 30-day period, then such resignation shall not be effective.

13.17 Privacy Laws

The parties acknowledge that federal and/or provincial legislation that addresses the protection of individuals' personal information (collectively, "**Privacy Laws**") applies to certain obligations and activities under this Note Indenture. Notwithstanding any other provision of this Note Indenture, neither Party shall take or direct any action that would contravene, or cause the other to contravene, applicable Privacy Laws. The Corporation shall, prior to transferring or causing to be transferred personal information to the Trustee, obtain and retain required consents of the relevant individuals to the collection, use and disclosure of their personal information, or shall have determined that such consents either have previously been given upon which the Parties can rely or are not required under the Privacy Laws. The Trustee shall use commercially reasonable efforts to ensure that its services hereunder comply with Privacy Laws. Specifically, the Trustee agrees: (a) to have a designated chief privacy officer; (b) to maintain policies and procedures to protect personal information and to receive and respond to any privacy complaint or inquiry; (c) to use personal information solely for the purposes of providing its services under or ancillary to this Note Indenture and not to use it for any other purpose except with the consent of or direction from the Corporation or the individual involved or as permitted by Privacy Laws; (d) not to sell or otherwise improperly disclose personal information to any third party; and (e) to employ administrative, physical and technological safeguards to reasonably secure and protect personal information against loss, theft, or unauthorized access, use or modification.

13.18 Force Majeure

Neither Party shall be liable to the other, or held in breach of this Note Indenture, if prevented, hindered, or delayed in the performance or observance of any provision contained herein by reason of act of God, riots, terrorism, acts of war, epidemics, governmental action or judicial order, earthquakes, or any other similar causes (including, but not limited to, general mechanical, electronic or communication interruptions, disruptions or failures). Performance times under this Note Indenture shall be extended for a period of time equivalent to the time lost because of any delay that is excusable under this Section 13.18.

ARTICLE 14 SUPPLEMENTAL INDENTURES

14.1 Supplemental Indentures

From time to time the Trustee and, when authorized by a resolution of the board of directors of the Corporation, the Corporation, may, and they shall when required by this Note Indenture, execute, acknowledge and deliver by their proper officers deeds or indentures supplemental hereto which thereafter shall form part hereof, for any one or more of the following purposes:

- (a) providing for the creation and issuance of Notes under this Note Indenture and establishing the terms thereof;
- (b) adding to the covenants of the Corporation or otherwise amending the terms hereof if in the opinion of the Trustee, relying on the opinion of Counsel, such addition or amendment will not be prejudicial to the rights of the Noteholders generally or the rights of the holders of any Series of Notes;
- (c) making such provisions not inconsistent with this Note Indenture as may be necessary or desirable with respect to matters or questions arising hereunder, including the making of any modifications in the form of the Notes which do not affect the substance thereof and which in the opinion of the Trustee relying on an opinion of Counsel will not be prejudicial to the rights of the Noteholders generally or the rights of the holders of any Series of Notes;
- (d) evidencing the succession, or successive successions, of others to the Corporation and the covenants of and obligations assumed by any such successor in accordance with the provisions of this Note Indenture;
- (e) giving effect to any Extraordinary Resolution passed as provided in Article 11; and
- (f) for any other purpose not inconsistent with the terms of this Note Indenture.

Unless the supplemental indenture requires the consent or concurrence of Noteholders or the holders of a particular series of Notes, as the case may be, by Extraordinary Resolution, the consent or concurrence of Noteholders or the holders of a particular series of Notes, as the case may be, shall not be required in connection with the execution, acknowledgement or delivery of a supplemental indenture. The Corporation and the Trustee may amend any of the provisions of this Note Indenture related to matters of United States law or the issuance of Notes into the United States in order to ensure that such issuances can be made in accordance with applicable law in the United States without the consent or approval of the Noteholders. Further, the Corporation and the Trustee may without the consent or concurrence of the Noteholders or the holders of a particular series of Notes, as the case may be, by supplemental indenture or otherwise, make any changes or corrections in this Note Indenture which (a) in the opinion of the Trustee or its counsel or Counsel is of a format, minor or technical nature, or that (b) it shall have been advised by Counsel are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provisions or clerical omissions or mistakes or manifest errors contained herein or in any indenture supplemental hereto or any Written Direction of the Corporation provided for the issue of Notes.

ARTICLE 15 GENERAL

15.1 Counterparts

This Note Indenture may be simultaneously executed by facsimile in counterparts, each of which when so executed and delivered shall be deemed to be an original and such counterparts together

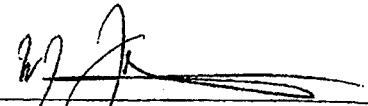
shall constitute one and the same instrument and notwithstanding their date of execution they shall be deemed to be dated as of the date hereof.

15.2 Contracts of the Corporation

- (a) The directors, in incurring any debts, liabilities or obligations, or in taking or omitting any other actions for or in connection with the affairs of the Corporation are, and will be conclusively deemed to be, acting for and on behalf of the Corporation, and not in their own personal capacities. None of the directors will be subject to any personal liability for any debts, liabilities, obligations, claims, demands, judgments, costs, charges or expenses (including legal expenses) against or with respect to the Corporation or in respect to the affairs of the Corporation. No property or assets of the directors, owned in their personal capacity or otherwise, will be subject to any levy, execution or other enforcement procedure with regard to any obligations under this Note Indenture or the Notes. No recourse may be had or taken, directly or indirectly, against the directors in their personal capacity. The Corporation will be solely liable therefor and resort will be had solely to the property and assets of the Corporation for payment or performance thereof.
- (b) No holder of Common Shares as such will be subject to any personal liability whatsoever, whether extra-contractually, contractually or otherwise, to any party to this Note Indenture or pursuant to the Notes in connection with the obligations or the affairs of the Corporation or the acts or omissions of the directors, whether under this Note Indenture, the Notes or otherwise, and the other parties to this Note Indenture and the holders of the Notes will look solely to the property and assets of the Corporation for satisfaction of claims of any nature arising out of or in connection therewith and the property and assets of the Corporation only will be subject to levy or execution.

IN WITNESS WHEREOF the Parties have caused this Note Indenture to be executed as of the date first written above.

MONGOLIA MINERALS CORPORATION

By: 

Name: William Foster

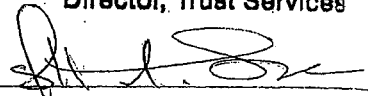
Title: President and Chief Executive
Officer

VALIANT TRUST COMPANY

By: 

Name: Dan Sander

Title: Director, Trust Services

By: 

Name:

Jodie Hansen

Title:

Account Manager

SCHEDULE "A"
TERMS OF SERIES 1A NOTES

1. In this Schedule "A", unless the context otherwise requires, the following terms have the respective meanings hereinafter set forth:
- (a) **"Conversion Price"** has the meaning ascribed to it in paragraph 12;
 - (b) **"Current Market Price"** means, generally, the volume weighted average trading price of the Common Shares on a stock exchange or other recognized quotation system, if the Corporation is a reporting issuer, for the 20 consecutive trading days ending on the fifth trading day preceding the applicable date. If the Corporation is not a reporting issuer, **"Current Market Price"** shall be the fair value of such Common Shares as reasonably determined by the Board of Directors;
 - (c) **"Event of Default"** has the meaning ascribed to it in the Note Indenture;
 - (d) **"Maturity Date"** has the meaning ascribed to it in paragraph 5;
 - (e) **"Note Indenture"** means the note indenture between Mongolia Minerals Corporation and Valiant Trust Company dated February 4, 2014;
 - (f) **"Preferred Shares"** means the 143,535,982 Series A convertible preferred shares in the capital of MMC issuable to the Principal on consummation of the Securities Exchange Transaction;
 - (g) **"Qualifying Private Placement"** means a private placement of equity securities of the Corporation in which:
 - (i) the issue price per equity security is, subject to adjustment as set out in this Note Indenture, at no less than \$0.40 per security; and
 - (ii) the Corporation receives gross proceeds in an amount not less than \$20,000,000;
 - (h) **"Securities Exchange Agreement"** means the securities exchange agreement among MMC, Mongolia Minerals International NL B.V., SHCO 29 S.À R.L., CGBEM, Mr. Frank Bellotti, Mr. Robert Cross, the Principal and White Falcon Inc. dated February 25, 2013;
 - (i) **"Securities Exchange Transaction"** means the transaction whereby the parties to the Securities Exchange Agreement have agreed that MMC will indirectly acquire all of the Principal's equity and other interests in CGBEM in exchange for MMC issuing from treasury the Preferred Shares to the Principal or his affiliate upon satisfaction of the closing conditions set forth therein;

- (j) **"Series 1A Notes"** means the series 1A senior secured convertible notes of the Corporation having the terms, rights, attributes and privileges set out in this Schedule "A";
 - (k) **"Time of Expiry"** has the meaning ascribed to it in paragraph 11;
 - (l) **"Units"** means a unit consisting of: (a) one Common Share; and (b) one Warrant, which will be issued to Noteholders upon any conversion of Series 1A Notes in the manner described in this Note Indenture; and
 - (m) **"Warrant"** means a Common Share purchase warrant entitling the holder thereof to purchase one Common Share, subject to adjustment in certain circumstances, at an exercise price of \$0.20 per Common Share, such exercise price also being subject to adjustment in accordance with paragraph 24(g) below. Each Warrant shall be exercisable for a period commencing on February 4, 2014 and expiring on December 31, 2015. Each Warrant issued shall be governed by the terms of and represented by a warrant certificate substantially in the form attached hereto as Appendix "3".
2. Capitalized terms used and not otherwise defined in this Schedule "A" shall have the respective meanings ascribed to such terms in the Note Indenture.
 3. All references to Articles, Sections and Schedules in this Schedule "A" shall refer to the applicable Articles, Sections and Schedules of the Note Indenture.
 4. The first series of Notes authorized for issue is the Series 1A Notes, which shall be limited to an aggregate principal amount of \$10,000,000, plus an additional \$1,500,000 in the event of an over-allotment option exercise, in full. The Series 1A Notes shall be issued by the Corporation on February 4, 2014. The Series 1A Notes shall be designated as "12% Senior Secured Convertible Promissory Notes due December 31, 2015". The Series 1A Notes shall rank in priority to all other current and future indebtedness as senior secured obligations of the Corporation.
 5. The Series 1A Notes shall be dated as of February 4, 2014 and shall mature December 31, 2015 (the **"Maturity Date"**).
 6. The Series 1A Notes shall bear interest from the date of issue at the rate of 12% per annum (based on a year of 360 days comprised of twelve 30-day months), calculated and payable in arrears in equal (with the exception of the first interest payment which will include interest from February 4, 2014 to March 31, 2014) quarterly payments on March 31, June 30, September 30 and December 31 in each year. The first interest payment on the Series 1A Notes shall fall due on March 31, 2014 and the last such payment (representing interest payable from the last Interest Payment Date to, but excluding, the Maturity Date of the Series 1A Notes or the earlier date of repayment of the Series 1A Notes) to fall due on December 31, 2015. For certainty, the first interest payment will include interest accrued from February 4, 2014 to March 31, 2014, which will be equal to \$19.00 for each \$1,000 principal amount of the Series 1A Notes. The record dates for the payment of interest on the Series 1A Notes will be March 15, June 15, September 15 and

December 15 in each year (or the first Business Day prior to such date if not a Business Day).

7. Interest to be paid on the Series 1A Notes on each Interest Payment Date shall be paid in cash.
8. The Series 1A Notes shall be issued in denominations of \$1,000 and integral multiples of \$1,000. Each Series 1A Note and the certificates of the Trustee endorsed thereon shall be issued in substantially the form set out in Appendix "1" to this Schedule "A" with such insertions, omissions, substitutions or other variations as shall be required or permitted by the Note Indenture, and may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of the Note Indenture, as may be required to comply with any Applicable Law or with any rules or regulations of any securities exchange or securities regulatory authority or to conform with general usage, all as may be determined by the Board of Directors executing such Series 1A Note as conclusively evidenced by their execution of a Series 1A Note. Each Series 1A Note shall additionally bear such distinguishing letters and numbers as the Trustee shall approve. Notwithstanding the foregoing, a Series 1A Note may be in such other form or forms as may, from time to time, be, specified in a supplemental indenture hereto.
9. The Trustee shall be provided with the documents and instruments referred to in Sections 2.4(b) and (d) of the Note Indenture with respect to the Series 1A Notes prior to the issuance of such Notes.
10. The Series 1A Notes will be redeemable in accordance with the terms of Article 4 of the Note Indenture, provided that the Series 1A Notes will not be redeemable before February 4, 2015. On or after February 4, 2015 the Series 1A Notes may be redeemed at the option of the Corporation in whole or in part from time to time up until the Maturity Date on notice as provided for in Section 4.3 of the Note Indenture at a Redemption Price equal to the principal amount thereof plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date. The Redemption Notice for the Series 1A Notes shall be substantially in the form of Appendix "2" to the Note Indenture.
11. Subject to the provisions and conditions of Article 7 of the Note Indenture:
 - (a) the holder of each Series 1A Note shall have the right at such holder's option, prior to the close of business on the fifth Business Day prior to the earlier of: (i) the date fixed for redemption or (ii) the Maturity Date of the Series 1A Notes (the "**Time of Expiry**"), to convert any part, being \$1,000 or an integral multiple thereof, of the principal amount of a Note into Units at the then prevailing Conversion Price (as defined below) in effect on the Date of Conversion. Notwithstanding the foregoing, no Series 1A Notes may be converted on an Interest Payment Date or during the five Business Days preceding March 31, June 30, September 30 and December 31 of each year; and
 - (b) in the event of the occurrence of: (x) an Event of Default set out at Section 8.1(a), 8.1(b), 8.1(c), 8.1(d), 8.1(e), 8.1(f), 8.1(g) or 8.1(h) of the Note Indenture, or (y) an Event of Default set out at Section 8.1(i) or 8.1(j) of the Note Indenture which

is not cured by the 30th day following such occurrence, then each \$0.01 of indebtedness then outstanding under the Notes shall immediately, and without further action by the holders or the Trustee, be convertible at the election of the holder into one Unit for so long as any Series 1A Notes of the holder are outstanding. The holder of each Series 1A Note shall have the right at such holder's option following the occurrence of an Event of Default to convert such holder's Series 1A Note(s) into Units at any time while that Event of Default is continuing, in the manner set forth in this paragraph (b), and for this purpose the limitations on conversion set out in paragraph (a) of this Section 11 shall be disregarded.

12. The conversion price in effect on the date hereof for each Unit to be issued upon the conversion of Series 1A Notes shall be equal to \$0.10 per Unit such that approximately 10,000 Units shall be issued for each \$1,000 principal amount of Series 1A Notes so converted, subject to adjustments for fractional interests and subject to adjustment as provided below in this Schedule "A" (the "**Conversion Price**").
13. Except as provided below, no adjustment in the number of Units to be issued upon conversion will be made for dividends or distributions on Common Shares issuable upon conversion, the record date for the payment of which precedes the date upon which the holder becomes a holder of Units in accordance with Article 7 of the Note Indenture, or for interest accrued on Series 1A Notes surrendered.
14. Holders converting their Series 1A Notes will receive, in addition to the applicable number of Units, accrued and unpaid interest (less any taxes required to be deducted) in respect of the Series 1A Notes surrendered for conversion up to but excluding the Date of Conversion from, and including, the most recent Interest Payment Date. For clarity, payment of such interest shall be made on the next regularly scheduled Interest Payment Date following the Date of Conversion. The Conversion Price will not be adjusted for accrued interest.
15. Notwithstanding any other provisions of the Note Indenture, if a Series 1A Note is surrendered for conversion on an Interest Payment Date or during the five preceding Business Days, the Person or Persons entitled to receive Units in respect of the Series 1A Note so surrendered for conversion shall not become the holder or holders of record of such Units until the Business Day following such Interest Payment Date, but for certainty will be entitled to receive the interest on such Series 1A Note payable on such Interest Payment Date.
16. In the event that the Corporation completes, after the issuance of the Series 1A Notes, a Qualifying Private Placement, the Corporation shall have the right, at any time from time to time prior to the Maturity Date, to convert \$1,000 multiples of principal amount of Notes, at the Conversion Price, into fully paid Units (the "**Forced Conversion**").
17. If less than all of the outstanding Series 1A Notes are to be converted by the Corporation pursuant to a Forced Conversion, the Series 1A Notes to be so converted shall be selected by the Trustee on a *pro rata* basis. For this purpose the Trustee may make, and from time to time amend, regulations with respect to the manner in which Series 1A Notes may be

so selected, and regulations so made shall be valid and binding upon all Noteholders, notwithstanding the fact that as a result thereof one or more of such Series 1A Notes become subject to conversion in part only. The holder of a Series 1A Note of which a part only is converted, upon surrender of such Series 1A Note for conversion, shall be entitled to receive, without expense to such holder, one or more new Series 1A Notes for the unconverted portion so surrendered, and the Trustee shall certify and deliver such new Series 1A Note or Series 1A Notes upon receipt of the Series 1A Note so surrendered.

18. In the event that the ownership interest of the Principal is not converted to Preferred Shares pursuant to the Securities Exchange Transaction by September 30, 2014, then the Conversion Price shall be reduced to \$0.05 per Unit and the exercise price per Warrant shall be reduced to \$0.15 per Common Share (in each case, subject to adjustment as set forth herein).
19. For so long as there is any indebtedness outstanding that is secured by the Series 1A Notes, the Corporation covenants and agrees not to and shall ensure that each Subsidiary does not:
 - (a) sell, transfer, assign, lease, or otherwise dispose of any of the Principal Material Licences, or pledge its interests in the Principal Material Licences, or create a security interest therein, in support of any obligation of the Corporation, any Subsidiary or any other person, unless such sale, transfer, assignment, lease, disposition, pledge or security interest is approved by the holders of Series 1A Notes in accordance with the terms of the Note Indenture; and
 - (b) enter into any agreement or arrangement requiring board approval with any person not dealing at arm's length with the Corporation or any of its Subsidiaries without the prior approval of a majority of directors of the Corporation who have no direct or indirect material interest in such agreement or arrangement in accordance with the procedures set out in Section 120 of the *Canada Business Corporation Act*;
 - (c) in the case of the Corporation only, pay any dividends to shareholders or make other distributions of corporate assets to shareholders, or redeem any outstanding securities of the Corporation other than the redemption of notes issued under the Note Indenture in the manner contemplated therein;
 - (d) pay any indebtedness of the Corporation other than in the ordinary course of business; however, it is acknowledged and agreed that the foregoing does not prohibit the Corporation from paying any interest-bearing indebtedness for borrowed money when due and owing, provided that there is no Event of Default outstanding at the time of such payment. For greater certainty, upon the occurrence of an Event of Default that is continuing, the Corporation covenants and agrees not to and shall ensure that each Subsidiary does not pay any indebtedness of the Corporation or of any Subsidiary for borrowed money, as the case may be, while there is any indebtedness outstanding that is secured by the Series 1A Notes; or

- (e) sell, transfer, assign, lease, or otherwise dispose of any asset or property material to its business (i) in the case of MMC to any Subsidiary; or (ii) in the case of any Subsidiary to any other Subsidiary, unless such sale, transfer, assignment, lease or other disposition is approved by the holders of Series 1A Notes in accordance with the terms of the Note Indenture, other than, in the case only of (i) and (ii) above, a transfer of a material asset or material property to a Subsidiary as part of a *bona fide* sale of assets to a third party that is approved by the Board.
20. The holder of a Series 1A Note desiring to convert such Series 1A Note in whole or in part into Units shall surrender such Series 1A Note to the Trustee at either of its principal offices in the City of Calgary, Alberta or the City of Toronto, Ontario together with the conversion notice attached hereto as Appendix "4" or any other written notice in a form satisfactory to the Trustee, in either case duly executed by the holder or his executors or administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Trustee, exercising his right to convert such Note in accordance with the provisions set out in this Schedule "A". Thereupon and subject to payment of all applicable stamp or security transfer taxes or other governmental charges and compliance with any request made for the Noteholder to provide a cash payment to the Trustee in satisfaction of all Taxes required to be withheld or deducted in connection with the conversion and all other reasonable requirements of the Trustee, such Noteholder or his nominee(s) or assignee(s) shall be entitled to be entered in the books of the Corporation as at the Date of Conversion as the holder of the number of Common Shares and Warrants comprising the Units into which such Series 1A Note is convertible in accordance with the provisions of this Schedule "A" and, as soon as practicable thereafter, the Corporation shall deliver to such Noteholder or, subject as aforesaid, his nominee(s) or assignee(s), a certificate or certificates for such Common Shares and Warrants comprising the Units and make or cause to be made any payment of interest to which such holder is entitled or in respect of fractional Units.
21. Subject to paragraph 15, for the purposes of this Schedule "A", a Series 1A Note shall be deemed to be surrendered for conversion on the date (herein called the "**Date of Conversion**") on which it is so surrendered when the register of the Trustee is open and, in the case of a Series 1A Note so surrendered by post or other means of transmission, on the date on which it is received by the Trustee at one of its offices; provided that if a Series 1A Note is surrendered for conversion on a day on which the Trustee is closed, the Person or Persons entitled to receive Common Shares and Warrants comprising the Units shall be deemed to become the holder or holders of record of such Common Shares and Warrants comprising the Units as at the date on which such registers are next reopened. A holder surrendering Series 1A Notes as aforementioned shall be treated as the holder of record of the Common Shares and Warrants comprising the Units to be issued effective immediately before the close of business on the Date of Conversion, and shall be entitled to all substitutions therefor, all income earned thereon or accretions thereto and all dividends or distributions (dividends or distributions in kind) thereon and arising as of such date, and in the event that the Trustee receives the same, it shall hold the same in trust for the benefit of such holder.

22. The holder of a Series 1A Note surrendered for conversion shall be entitled to receive accrued and unpaid interest in respect thereof from the date of the last Interest Payment Date up to but excluding the Date of Conversion (less applicable withholding taxes and other charges, if any, specified in paragraph 20).
23. In the event of a conversion of Series 1A Notes into Units where the holder is subject to withholding Taxes, the Trustee, on a Written Direction of the Corporation shall request the Noteholder to pay an amount in cash to the Trustee to cover the amount of Taxes required to be withheld or deducted, and the Trustee shall remit such amounts to the appropriate Governmental Authority, as and when required.
24. The Conversion Price in effect at any date shall be subject to adjustment from time to time as set forth below:
- (a) If and whenever at any time prior to the Time of Expiry the Corporation shall (i) subdivide or redivide the outstanding Common Shares into a greater number of shares, (ii) reduce, combine or consolidate the outstanding Common Shares into a smaller number of shares, or (iii) issue Common Shares to the holders of all or substantially all of the outstanding Common Shares by way of a dividend or distribution, the Conversion Price in effect on the effective date of such subdivision, redivision, reduction, combination or consolidation or on the record date for such issue of Common Shares by way of a dividend or distribution, as the case may be, shall in the case of any of the events referred to in (i) and (iii) above be decreased in proportion to the number of outstanding Common Shares resulting from such subdivision, redivision, dividend or distribution, or shall, in the case of any of the events referred to in (ii) above, be increased in proportion to the number of outstanding Common Shares resulting from such reduction, combination or consolidation. Such adjustment shall be made successively whenever any event referred to in this paragraph (a) shall occur. Any such issue of Common Shares by way of a dividend or distribution shall be deemed to have been made on the record date for the dividend or distribution for the purpose of calculating the number of outstanding Common Shares under paragraphs (c) and (d) below.
- (b) If and whenever at any time prior to the Time of Expiry the Corporation shall fix a record date for the issuance of options, rights or warrants to all or substantially all the holders of its outstanding Common Shares entitling them, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares (or securities convertible into Common Shares) at a price per share (or having a conversion or exchange price per share) less than 95% of the Current Market Price of a Common Share on such record date, the Conversion Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common Shares outstanding on such record date plus a number of Common Shares equal to the number arrived at by dividing the aggregate price of the total number of additional Common Shares offered for subscription or purchase (or the aggregate conversion or exchange price of the convertible securities so offered) by such

Current Market Price per Common Share, and of which the denominator shall be the total number of Common Shares outstanding on such record date plus the total number of additional Common Shares offered for subscription or purchase (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever such a record date is fixed. To the extent that any such options, rights or warrants are not so issued or any such options, rights or warrants are not exercised prior to the expiration thereof, the Conversion Price shall be re-adjusted to the Conversion Price which would then be in effect if such record date had not been fixed or to the Conversion Price which would then be in effect based upon the number of Common Shares (or securities convertible into Common Shares) actually issued upon the exercise of such options, rights or warrants were included in such fraction, as the case may be.

- (c) If and whenever at any time prior to the Time of Expiry, there is a reclassification of the Common Shares or a capital reorganization of the Corporation other than as described in paragraph (a) above or a consolidation, amalgamation, arrangement, binding share exchange, merger of the Corporation with or into any other Person or other entity or acquisition of the Corporation or other combination pursuant to which the Common Shares are converted into or acquired for cash, securities or other property; or a sale or conveyance of the property and assets of the Corporation as an entirety or substantially as an entirety to any other Person (other than a direct or indirect wholly-owned subsidiary of the Corporation) or other entity or a liquidation, dissolution or winding-up of the Corporation, any holder of a Series 1A Note who has not exercised its right of conversion prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, share exchange, acquisition, combination, sale or conveyance or liquidation, dissolution or winding-up, upon the exercise of such right thereafter, shall be entitled to receive and shall accept, in lieu of the number of Common Shares then sought to be acquired by it, such number of shares or other securities or property of the Corporation or of the Person or other entity resulting from such merger, amalgamation, arrangement, acquisition, combination or consolidation, or to which such sale or conveyance may be made or which holders of Common Shares receive pursuant to such liquidation, dissolution or winding-up, as the case may be, that such holder of a Series 1A Note would have been entitled to receive on such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, share exchange, acquisition, combination, sale or conveyance or liquidation, dissolution or winding-up, if, on the record date or the effective date thereof, as the case may be, the holder had been the registered holder of the number of Common Shares sought to be acquired by it and to which it was entitled to acquire upon the exercise of the conversion right. If determined appropriate by the Board, to give effect to or to evidence the provisions of this paragraph (c), the Corporation, its successor, or such purchasing Person or other entity, as the case may be, shall, prior to or contemporaneously with any such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, share exchange, acquisition, combination, sale or conveyance or liquidation, dissolution or winding-up, enter into an indenture which shall provide, to the extent possible, for the application of the provisions set forth in this Note Indenture with respect to

the rights and interests thereafter of the holder of Series 1A Notes to the end that the provisions set forth in this Note Indenture shall thereafter correspondingly be made applicable, as nearly as may reasonably be, with respect to any shares or other securities or property to which a holder of Series 1A Notes is entitled on the exercise of its acquisition rights thereafter. Any indenture entered into between the Corporation and the Trustee pursuant to the provisions of this paragraph (c) shall be a supplemental indenture entered into pursuant to the provisions of Article 14 of the Note Indenture. Any indenture entered into between the Corporation, any successor to the Corporation or such purchasing Person or other entity and the Trustee shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this paragraph (c) and which shall apply to successive reclassifications, capital reorganizations, amalgamations, consolidations, mergers, share exchanges, acquisitions, combinations, sales or conveyances and to any successive liquidation or winding up or other similar transaction.

- (d) Any adjustment hereunder shall become effective immediately after a record date for an event referred to herein. The Corporation may defer, until the occurrence of such event, issuing to the holder of any Series 1A Note converted after such record date and before the occurrence of such event the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event before giving effect to such adjustment; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional Common Shares upon the occurrence of the event requiring such adjustment and the right to receive any distributions made on such additional Common Shares declared in favour of holders of record of Common Shares on and after the Date of Conversion or such later date as such holder would, but for the provisions of this paragraph (d), have become the holder of record of such additional Common Shares pursuant to paragraph (b) above.
- (e) The adjustments provided for hereunder are cumulative and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Section, provided that, notwithstanding any other provision of this Section, no adjustment of the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Conversion Price then in effect; provided however, that any adjustments which by reason of this paragraph (e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.
- (f) For the purpose of calculating the number of Common Shares outstanding, Common Shares owned by or for the benefit of the Corporation shall not be counted.
- (g) In the event of the occurrence an adjustment event as described in paragraphs (a) or (b) above, the exercise price for each Warrant issuable on conversion of the

Series 1A Notes hereunder shall be adjusted in accordance with the following formula:

$$\text{Adjusted Warrant exercise price} = A \times B/C$$

where "A" is the exercise price of a Warrant prior to the occurrence of the adjustment event, "B" is the number of Common Shares that each Series 1A Note is convertible into prior to the occurrence of the adjustment event and "C" is the number of Common Shares that each Series 1A Note is convertible into following the adjustment event. Such adjustment to the exercise price per Warrant shall be made successively whenever any event referred to paragraphs (a) or (b) shall occur.

- (h) In the event of any question arising with respect to the adjustments provided for hereunder, such question shall be conclusively determined by a firm of nationally recognized chartered accountants appointed by the Corporation and acceptable to the Trustee (who may be the Auditors of the Corporation) and such accountants shall have access to all necessary records of the Corporation and such determination shall be binding upon the Corporation, the Trustee, and the Noteholders absent manifest error.
 - (i) In case the Corporation shall take any action affecting the Common Shares other than action described herein, which in the opinion of the Board, would materially affect the rights of Noteholders, the Conversion Price shall be adjusted in such manner and at such time, by action of the Board, as the Board, in its sole discretion may determine to be equitable in the circumstances. Failure of the directors to make such an adjustment shall be conclusive evidence that they have determined that it is equitable to make no adjustment in the circumstances.
 - (j) No adjustment in the Conversion Price shall be made in respect of any event described in paragraphs (a), (b) or (c) other than the events described in (a)(i) or (a)(ii) if the holders of the Series 1A Notes are entitled to participate in such event on the same terms *mutatis mutandis* as if they had converted their Series 1A Notes prior to the effective date or record date, as the case may be, of such event.
 - (k) Except as stated above, no adjustment will be made in the Conversion Price for any Series 1A Notes as a result of the issuance of Common Shares at less than the Current Market Price for such Common Shares on the date of issuance or the then applicable Conversion Price.
 - (l) No adjustment in the Conversion Price shall be made in connection with the issuance of the Preferred Shares to the Principal in connection with the Securities Exchange Transaction.
25. The Corporation shall from time to time immediately after the occurrence of any event which requires an adjustment or readjustment as provided hereunder, deliver an Officer's Certificate to the Trustee specifying the nature of the event requiring the same and the amount of the adjustment necessitated thereby and setting forth in reasonable detail the

method of calculation and the facts upon which such calculation is based, which certificate and the amount of the adjustment specified therein shall be verified by an opinion of a firm of nationally recognized chartered accountants appointed by the Corporation and acceptable to the Trustee (who may be the Auditors of the Corporation) and shall be conclusive and binding on all parties in interest. When so approved, the Corporation shall, except in respect of any subdivision, redivision, reduction, combination or consolidation of the Common Shares, forthwith give notice to the Noteholders in the manner provided in Section 12.2 of the Note Indenture specifying the event requiring such adjustment or readjustment and the results thereof, including the resulting Conversion Price.

26. The Corporation shall not be required to issue fractional Common Shares and Warrants comprising the Units upon the conversion of Series 1A Notes pursuant to this Article or otherwise hereunder. If more than one Series 1A Note shall be surrendered for conversion at one time by the same holder, the number of whole Common Shares and Warrants comprising the Units issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of such Series 1A Notes to be converted. If any fractional interest in a Common Share or Warrant comprising a Unit would, except for the provisions of this Section, be deliverable upon the conversion of any principal amount of Series 1A Notes, any fractional interest that is less than 0.5 of a Common Share or Warrant will be rounded down to the nearest whole Common Share or Warrant, and any fractional interest that is 0.5, or greater, of a Common Share or Warrant will be rounded up to the nearest whole Common Share or Warrant.
27. The Corporation covenants with the Trustee that it will at all times reserve and keep available out of its authorized Common Shares, solely for the purpose of issue upon conversion of Series 1A Notes, and conditionally allot to Noteholders who may exercise their conversion rights hereunder, such number of Common Shares as shall then be issuable upon the conversion of all outstanding Notes. The Corporation covenants with the Trustee that all Common Shares which shall be so issuable shall be duly and validly issued as fully-paid and non-assessable.
28. The Corporation covenants with the Trustee that so long as any Series 1A Note remains outstanding, it will give notice to the Trustee, and to the Noteholders in the manner provided in Section 12.2 of the Note Indenture, of its intention to fix a record date for any event referred to in Section 24(a), (b), (c) or (d) hereunder (other than the subdivision, redivision, reduction, combination or consolidation of its Common Shares) which may give rise to an adjustment in the Conversion Price, and, in each case, such notice shall specify the particulars of such event and the record date and the effective date for such event; provided that the Corporation shall only be required to specify in such notice such particulars of such event as shall have been fixed and determined on the date on which such notice is given.
29. In addition, the Corporation covenants with the Trustee that so long as any Series 1A Note remains outstanding, it will give notice to the Trustee, and to the Noteholders in the manner provided in Sections 12.2 and 12.3 of the Note Indenture, prior to the (i) effective date of any transaction referred to in Section 24(d) stating the consideration into which the Series 1A Notes will be convertible after the effective date of such transaction, and

(ii) Expiration Date of any transaction referred to in Section 24(e) stating the consideration paid per Common Share in such transaction.

30. Each certificate representing Common Shares and Warrants comprising the Units issued upon conversion of Series 1A Notes, as well as all certificates issued in exchange for or in substitution of the foregoing securities, shall have imprinted or otherwise reproduced thereon such legend or legends, including any applicable Canadian securities legend, as may be required to comply with any law or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or securities regulatory authority or to conform with general usage, all as may be determined by the Corporation, as conclusively evidenced by the issue of such certificates.
31. Upon conversion, the Corporation may offer and the converting holder may agree to the delivery of cash for all or a portion of the Series 1A Notes surrendered in lieu of Common Shares and Warrants comprising the Units. Notwithstanding such offer, the converting holder may, in his sole discretion, elect not to receive cash for all or a portion of the Series 1A Notes surrendered in which case, the Corporation shall issue and deliver the requisite number of Common Shares and Warrants comprising the Units to the converting holder.
32. If upon any conversion of Series 1A Notes, the Corporation may not issue Common Shares and Warrants comprising the Units in an applicable jurisdiction pursuant to the laws thereof, then the Corporation may alternatively satisfy its obligations to issue and deliver Common Shares and Warrants comprising the Units in respect of the conversion of such Series 1A Notes by a payment in cash effected through the delivery of an amount in cash equal to the Current Market Price of the Units on the Date of Conversion multiplied by the number of Units into which the Series 1A Notes would then be convertible.
33. The Corporation shall promptly deliver to each Noteholder for so long as they are holders of Notes all periodic financial and investor information that is prepared by the Corporation for its shareholders. In addition, while there is any indebtedness outstanding under the Series 1A Notes, the Corporation will prepare and deliver to each Noteholder, an annual budget, annual audited financial statements within 120 days of each financial year end and quarterly unaudited financial statements within 90 days of each fiscal quarter.

APPENDIX "1"
FORM OF SERIES 1A NOTE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THIS SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (I) FEBRUARY 4, 2014, AND (II) THE DATE THE CORPORATION BECOMES A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY OF CANADA.

No. ●

●

MONGOLIA MINERALS CORPORATION

(A corporation incorporated under the laws of Canada)

**SERIES 1A 12% SENIOR SECURED CONVERTIBLE PROMISSORY NOTE
DUE DECEMBER 31, 2015**

MONGOLIA MINERALS CORPORATION (the “Corporation” or the “Issuer”) for value received hereby acknowledges itself indebted and, subject to the provisions of the Note Indenture (the “Note Indenture”) dated February 4, 2014 between the Corporation and Valiant Trust Company (the “Trustee”), promises to pay to the registered holder hereof on December 31, 2015 (the “Maturity Date”) or on such earlier date as the principal amount hereof may become due in accordance with the provisions of the Note Indenture the principal sum of ● (\$●) in lawful money of Canada on presentation and surrender of this Series 1A Note at the main branch of the Trustee in Calgary, Alberta in accordance with the terms of the Note Indenture and to pay interest on the principal amount hereof from the date hereof at the rate of 12% per annum (based on a year of 360 days comprised of twelve 30-day months), in like money, calculated and payable in arrears in equal (with the exception of the first interest payment which will include interest from February 4, 2014 to March 31, 2014 as set forth below) quarterly instalments (less any tax required by law to be deducted) on March 31, June 30, September 30 and December 31 in each year commencing on March 31, 2014 and the last payment (representing interest payable from the last Interest Payment Date to, but excluding, the Maturity Date or the earlier date of redemption or repayment) to fall due on the Maturity Date. For certainty, the first interest payment will include interest accrued from February 4, 2014 to March 31, 2014, which will be equal to \$19.00 for each \$1,000 principal amount of the Series 1A Notes.

Interest hereon shall be payable by cheque mailed by prepaid ordinary mail or by electronic transfer of funds to the registered holder hereof and, subject to the provisions of the Note Indenture, the mailing of such cheque shall, to the extent of the sum represented thereby (plus the amount of any tax withheld), satisfy and discharge all liability for interest on this Series 1A Note.

This Note is one of the Series 1A 12% Senior Secured Convertible Promissory Notes due December 31, 2015 (referred to herein as the “Series 1A Note”) of the Corporation issued or issuable in one or more series under the provisions of the Note Indenture. The Series 1A Notes authorized for issue immediately are limited to an aggregate principal amount of \$10,000,000, plus an additional \$1,500,000 in the event of an over-allotment option exercise, in lawful money of Canada. Reference is hereby expressly made to the Note Indenture for a description of the terms and conditions upon which the Series 1A Notes are to be issued and held and the rights and remedies of the holders of the Series 1A Notes and of the Corporation and of the Trustee, all to the same effect as if the provisions of the Note Indenture were herein set forth to all of which provisions the holder of this Series 1A Note by acceptance hereof assents.

The Series 1A Notes are issuable only in denominations of \$1,000 and integral multiples thereof. Upon compliance with the provisions of the Note Indenture, Notes of any denomination may be exchanged for an equal aggregate principal amount of Notes in any other authorized denomination or denominations.

The principal hereof may become or be declared due and payable before the stated maturity in the events, in the manner, with the effect and at the times provided in the Note Indenture.

The indebtedness evidenced by this Series 1A Note, and by all other Notes now or hereafter certified and delivered under the Note Indenture, is a direct senior secured obligation of the Corporation.

Subject to the provisions and conditions of the Note Indenture, the holder of this Series 1A Note shall have the right at such holder's option, prior to the close of business on the fifth Business Day prior to the earlier of: (i) the date fixed for redemption or (ii) the Maturity Date of the Series 1A Notes, to convert any part, being \$1,000 or an integral multiple thereof, of the principal amount of a Series 1A Note into Units at the then prevailing Conversion Price. Notwithstanding the foregoing, no Series 1A Note may be converted on an Interest Payment Date or during the five Business Days preceding March 31, June 30, September 30 and December 31 each year. The conversion price in effect on the date hereof for each Unit to be issued upon the conversion of Series 1A Notes shall be equal to \$0.10 per Unit, subject to adjustment as provided in the Note Indenture (the "**Conversion Price**"). Holders converting their Series 1A Notes will receive, in addition to the applicable number of Units, accrued and unpaid interest (less any taxes required to be deducted) in respect of the Series 1A Notes surrendered for conversion in accordance with the terms of the of the Note Indenture.

In the event that the Corporation completes a Qualifying Private Placement, the Corporation shall have the right, at any time from time to time prior to the Maturity Date, to convert \$1,000 multiples of principal amount of Series 1A Notes, at the Conversion Price, into fully paid Units.

In the event that the ownership interest of the Principal is not converted to Preferred Shares pursuant to the Securities Exchange Transaction by September 30, 2014, then the Conversion Price shall be reduced to \$0.05 per Unit and the exercise price per Warrant shall be reduced to \$0.15 per Common Share.

This Series 1A Notes may be redeemed at the option of the Corporation on the terms and conditions set out in the Note Indenture at the Redemption Price therein and herein set out provided that this Series 1A Notes is not redeemable before February 4, 2015.

The Note Indenture contains provisions making binding upon all holders of Notes outstanding thereunder (or in certain circumstances specific series of Notes) resolutions passed at meetings of such holders held in accordance with such provisions and instruments signed by the holders of a specified majority of Notes outstanding (or specific series), which resolutions or instruments may have the effect of amending the terms of this Series 1A Note or the Note Indenture.

The Note Indenture contains provisions disclaiming any personal liability on the part of holders of Common Shares and officers, directors and employees of the Corporation in respect of any obligation or claim arising out of the Note Indenture or this Note.

The registered holder hereof shall be liable for all Taxes arising in connection with any payment to be made on or in connection with this Series 1A Note, including any withholding Taxes that arise on or in connection with the conversion of all or a portion of the principal amount represented by this Series 1A Note into Units. The Corporation or the Trustee on behalf of the Corporation will be entitled to deduct and withhold any applicable taxes or similar charges (including interest, penalties or similar amounts in respect thereof) imposed or levied by or on behalf of a Governmental Authority, including pursuant to the Tax Act, from any payment to be made on or in connection with this Series 1A Note and, provided that the Corporation forthwith remits such withheld amount to relevant Governmental Authority and files all required forms in respect thereof and, at the same time, provides copies of such remittance and filing to the Trustee and/or the registered holder hereof, as applicable, the amount of any such deduction or withholding will be considered an amount paid in satisfaction of the Corporation's obligations under this Series 1A Note. Where the Corporation or Trustee is required to withhold and remit Taxes on the conversion of all or a portion of the principal amount represented by this Series 1A Note into Units, the registered holder hereof shall, in accordance with paragraph 19 of Schedule "A" to the Note Indenture, provide a cash payment to the Trustee to satisfy such withholding Tax obligation. There is no obligation on the Corporation to gross-up amounts paid to the registered holder hereof in respect of such deductions or withholdings.

This Series 1A Note may only be transferred, upon compliance with the conditions prescribed in the Note Indenture, in one of the registers to be kept at the principal office of the Trustee in the City of Calgary, Alberta and in such other place or places and/or by such other registrars (if any) as the Corporation with the approval of the Trustee may designate. No transfer of this Series 1A Note shall be valid unless made on the register by the registered holder hereof or his executors or administrators or other legal representatives, or his or their attorney duly appointed by an instrument in form and substance satisfactory to the Trustee or other registrar, and upon compliance with such reasonable requirements as the Trustee and/or other registrar may prescribe and upon surrender of this Series 1A Note for cancellation. Thereupon a new Series 1A Note in the same aggregate principal amount shall be issued to the transferee in exchange hereof.

This Series 1A Note shall not become obligatory for any purpose until it shall have been certified by the Trustee under the Note Indenture. The Series 1A Notes are governed by the Note Indenture. If any of the provisions of this Series 1A Note are inconsistent with the provisions of the Note Indenture, the provisions of the Note Indenture shall take precedence and shall govern.

Capitalized terms used and not otherwise defined herein shall have the respective meanings ascribed thereto in the Note Indenture.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF MONGOLIA MINERALS CORPORATION has caused this Series 1A Note to be signed by its authorized representatives on this 4th day of February, 2014.

MONGOLIA MINERALS CORPORATION

By: _____
Name: William Foster
Title: President and Chief Executive Officer

(FORM OF TRUSTEE'S CERTIFICATE)

This Series 1A Note is one of the Series 1A 12% Senior Secured Convertible Promissory Notes due December 31, 2015 referred to in the Note Indenture within mentioned.

VALIANT TRUST COMPANY

By: _____
(Authorized Officer)

(FORM OF REGISTRATION PANEL)

(No writing hereon except by Trustee or other registrar)

Date of Registration	In Whose Name Registered	Signature of Trustee or Registrar

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____, whose address and social insurance number, if applicable, are set forth below, this Series 1A Note (or \$_____ principal amount hereof*) of MONGOLIA MINERALS CORPORATION standing in the name(s) of the undersigned in the register maintained by the Corporation with respect to such Series 1A Note and does hereby irrevocably authorize and direct the Trustee to transfer such Series 1A Note in such register, with full power of substitution in the premises.

Dated: _____

Address of Transferee: _____

(Street Address, City, Province and Postal Code)

Social Insurance Number of Transferee, if applicable: _____

*If less than the full principal amount of the within Series 1A Note is to be transferred, indicate in the space provided the principal amount (which must be \$1,000 or an integral multiple thereof, unless you hold a Series 1A Note in a non-integral multiple of \$1,000, in which case such Series 1A Note is transferable only in its entirety) to be transferred.

The signature(s) to this assignment must correspond with the name(s) as written upon the face of this Series 1A Note in every particular without alteration or any change whatsoever. The signature(s) must be guaranteed by a Canadian chartered bank or trust company or by a member of an acceptable Medallion Guarantee Program. Notarized or witnessed signatures are not acceptable as guaranteed signatures. The Guarantor must affix a stamp bearing the actual words: "SIGNATURE GUARANTEED".

The registered holder of this Series 1A Note is responsible for the payment of any taxes that may be payable in respect of the transfer of this Note.

Signature of Guarantor: _____

Authorized Officer

Signature of transferring registered
holder

Name of Institution

APPENDIX "2"
FORM OF REDEMPTION NOTICE

To: Holders of Convertible Notes (the "Notes") of Mongolia Minerals Corporation (the "Corporation")

Note: All capitalized terms used and not otherwise defined herein have the respective meanings ascribed thereto in the Indenture mentioned below, unless otherwise indicated.

Notice is hereby given pursuant to Section 4.3 of the note indenture (the "Indenture") dated as of February 4, 2014 among the Corporation and Valiant Trust Company (the "Trustee"), that the aggregate principal amount of \$● of the \$● of Notes outstanding will be redeemed as of ● (the "Redemption Date"), upon payment of a redemption amount of \$● for each \$1,000 principal amount of Notes, being equal to the aggregate of (i) \$● (the "Redemption Price"), and (ii) all accrued and unpaid interest hereon to but excluding the Redemption Date (collectively, the "Total Redemption Price").

The Total Redemption Price will be payable upon presentation and surrender of the Notes called for redemption at the following corporate trust office:

Valiant Trust Company
Suite 310, 606 – 4th Avenue SW
Calgary Alberta T2P 1T1

The interest upon the principal amount of Notes called for redemption shall cease to be payable from and after the Redemption Date, unless payment of the Total Redemption Price shall not be made on presentation for surrender of such Notes at the above-mentioned corporate trust office on or after the Redemption Date or prior to the setting aside of the Total Redemption Price pursuant to the Indenture.

In this connection, upon presentation and surrender of the Notes for payment on the Redemption Date, the Corporation shall, on the Redemption Date, make the delivery to the Trustee, at the above-mentioned corporate trust office, for delivery to and on account of the holders of cash representing the Redemption Price and all accrued and unpaid interest.

DATED:

MONGOLIA MINERALS CORPORATION

(Authorized Director or Officer of Mongolia Minerals Corporation)

APPENDIX "3"
FORM OF WARRANT CERTIFICATE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (i) FEBRUARY 4, 2014, AND (ii) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

THE WARRANTS REPRESENTED BY THIS CERTIFICATE WILL BE VOID AND OF NO VALUE IF NOT EXERCISED BEFORE THE EXPIRY TIME, AS SUCH TERM IS DEFINED IN THE ATTACHED TERMS AND CONDITIONS OF WARRANTS OF MONGOLIA MINERALS CORPORATION

WARRANT CERTIFICATE
MONGOLIA MINERALS CORPORATION

CERTIFICATE NO. ●

● WARRANTS entitling the holder to receive on due exercise thereof, subject to adjustment, one Common Share (as defined below) for each Warrant represented hereby.

THIS IS TO CERTIFY THAT ● (the "Warrantholder") is entitled to subscribe for and purchase, for each warrant ("Warrant") represented hereby, in the manner and subject to the restrictions and adjustments set forth in the "Terms and Conditions of Warrants of Mongolia Minerals Corporation" appended as a Schedule hereto (the "Terms and Conditions") and forming a part hereof, at any time until the Expiry Time, as such term is defined in the Terms and Conditions, one (1) fully paid and non-assessable common share ("Common Share") in the capital of Mongolia Minerals Corporation (the "Corporation"), subject to adjustment in accordance with the Terms and Conditions, on payment to the Corporation of CAD\$0.20 per Common Share; provided however that if all of the ownership interests of the Corporation's Mongolian partner in CGBEM LLC are not exchanged for 143,535,982 series A preferred shares of the Corporation, such shares to be issued to the Mongolian partner's controlled subsidiary, by September 30, 2014, then the exercise price shall automatically be reduced to CAD\$0.15 per Common Share.

The Warrants represented by this certificate may only be exercised at the principal office of the Corporation at, Suite 404, 1015 – 4th Street SW, Calgary, AB, T2R 1J4 to the attention of the Chief Financial Officer upon surrender of this certificate with the subscription form on the reverse side hereof (or a separate notice on substantially the same form) (the "Subscription Form") duly completed and executed, and a certified cheque or bank draft payable to or to the order of the Corporation, or wire transfer to an account specified for this purpose by the Corporation, in immediately available funds, for the full purchase price of the Common Shares so subscribed for.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be executed by a duly authorized director or officer.

DATED ●, 2014.

MONGOLIA MINERALS CORPORATION

By: _____

Name: William J. Foster

Title: Chief Executive Officer

SEE ATTACHED "TERMS AND CONDITIONS OF WARRANTS OF MONGOLIA MINERALS CORPORATION"

(reverse side of Warrant Certificate)

SUBSCRIPTION FORM

TO: MONGOLIA MINERALS CORPORATION

The undersigned holder of the Warrants represented by this Warrant Certificate hereby irrevocably subscribes for _____ Common Shares (or such adjusted number of Common Shares or other securities to which such subscription entitles the undersigned in lieu thereof) in accordance with and subject to the provisions of this Warrant Certificate at the subscription price of CAD\$0.20 per Common Share; provided however that if all of the ownership interests of the Corporation's Mongolian partner in CGBEM LLC are not exchanged for 143,535,982 series A preferred shares of the Corporation, such shares to be issued to the Mongolian partner's controlled subsidiary, by September 30, 2014, then the exercise price shall automatically be reduced to CAD\$0.15 per Common Share for each one (1) Warrant exercised hereby, and encloses herewith a certified cheque or bank draft payable to or to the order of Mongolia Minerals Corporation or has sent a wire transfer for the full subscription price for the Common Shares so subscribed for.

The Common Shares subscribed for are to be issued as follows:

Name: _____

Address in full: _____

Delivery Instructions: _____

Note: If further nominees are intended, please attach (and initial) a schedule providing these particulars.

DATED this ____ day of _____, 20__.

Signature Guaranteed

Signature of Warrantholder

Name of Warrantholder (please print)

Address of Warrantholder (please print)

Instructions:

If the Subscription Form indicates that Common Shares are to be issued to a person or persons other than the registered holder of the Warrant Certificate, the signature of such Warrantholder on the Subscription Form must be guaranteed by an authorized officer of a chartered bank, trust company or an investment dealer who is a member of a recognized stock exchange, and the Warrantholder must pay any applicable transfer taxes or fees.

SCHEDULE TO WARRANT CERTIFICATE
TERMS AND CONDITIONS OF WARRANTS OF
MONGOLIA MINERALS CORPORATION (the "Terms and Conditions")

ARTICLE 1
INTERPRETATION

1.1 Definitions

In these Terms and Conditions, unless there is something in the subject matter or context inconsistent therewith:

- (a) "affiliate" has the meaning that it has for purposes of the *Securities Act* (Alberta);
- (b) "Business Day" means a day other than a Saturday, Sunday or any day on which banks are not generally open for the transaction of commercial business in Calgary, Alberta;
- (c) "Common Shares" means the common shares in the capital of the Corporation as presently constituted;
- (d) "Corporation" means Mongolia Minerals Corporation and its successors;
- (e) "Corporation's Auditors" means an independent firm of accountants duly appointed as auditors of the Corporation;
- (f) "Exercise Price" means the amount to be paid upon the exercise of each Warrant, being the sum of CAD\$0.20 per Common Share, provided however that if all of the ownership interests of the Corporation's Mongolian partner in CGBEM LLC are not exchanged for 143,535,982 series A preferred shares of the Corporation, such shares to be issued to the Mongolian partner's controlled subsidiary, by September 30, 2014, then the exercise price shall automatically be reduced to CAD\$0.15 per Common Share;
- (g) "Expiry Time" means 4:00 p.m. (Calgary time) on December 31, 2015;
- (h) "person" includes an individual, corporation, partnership, trustee or any unincorporated organization and words importing persons include individuals, corporations, partnerships, trustees and unincorporated organizations;
- (i) "Purchase Price" shall mean, for any exercise of Warrants, the aggregate consideration payable to the Corporation by the Warrantholder pursuant to Section 2.1 hereof, in an amount equal to the product of the Exercise Price multiplied by the number of Warrants so exercised at such time;
- (j) "Subscription Form" means the subscription form printed on the reverse side of the Warrant Certificate, or a separate notice in substantially the same form;
- (k) "Warrantholder" means the registered holder of the Warrants;
- (l) "Warrant Certificate" means the certificate to which these Terms and Conditions are attached and of which these Terms and Conditions form a part; and
- (m) "Warrants" means the warrants to purchase Common Shares evidenced by the Warrant Certificate.

1.2 Certain Rules of Interpretation

- (a) These Terms and Conditions shall be governed by, and construed in accordance with, the laws of the Province of Alberta and the federal laws of Canada applicable therein. The parties irrevocably

submit to the non-exclusive jurisdiction of the courts of competent jurisdiction in the Province of Alberta in respect of any action or proceeding relating in any way to this Agreement.

- (b) Headings of Articles and Sections in these Terms and Conditions are inserted for convenience of reference only and do not affect the construction or interpretation of these Terms and Conditions.
- (c) Where the word "including" or "includes" is used in these Terms and Conditions, it means "including (or includes) without limitation".
- (d) Unless the context otherwise requires, in these Terms and Conditions words importing the singular include the plural and vice versa and words importing gender include all genders.
- (e) Time is of the essence in the performance of the Parties' respective obligations under these Terms and Conditions.

ARTICLE 2 EXERCISE OF WARRANTS

2.1 Method of Exercise

The right to purchase Common Shares hereunder may be exercised on or after December 31, 2013 until the Expiry Time, by the Warrantholder delivering to the Corporation at, Suite 404, 1015 – 4th Street SW, Calgary, AB, T2R 1J4 to the attention of the Chief Financial Officer: (a) the Warrant Certificate with a duly completed and executed Subscription Form; and (b) a certified cheque or bank draft payable to or to the order of the Corporation, or by wire transfer to an account specified for this purpose by the Corporation, in immediately available funds as well as the other items specified herein, for the full amount of the Purchase Price, in lawful money of Canada, and such items referred to above shall be deemed to be delivered only upon actual receipt of same by the Corporation.

2.2 Effect of Exercise

Upon delivery of the Warrant Certificate and Subscription Form and payment by the Warrantholder as set forth in Section 2.1 as well as the other items specified herein, the Common Shares so subscribed for shall be issued as fully paid and non-assessable shares in the capital of the Corporation and the Warrantholder will become the holder of record of the Common Shares, effective as of the date of such delivery and payment, and within five Business Days thereafter the Corporation will cause certificate(s) representing the Common Shares purchased to be mailed to the Warrantholder at the address provided by the Warrantholder in the delivery instructions in the Subscription Form, and the Warrantholder shall become a shareholder of the Corporation.

2.3 Partial Exercise

The Warrantholder may subscribe for and purchase a number of Common Shares less than the total number of Common Shares that the Warrantholder is entitled to purchase hereunder, in which event the Corporation shall cause a certificate representing the balance of the Warrants not exercised by the Warrantholder to be mailed to the Warrantholder at the address set forth in the delivery instructions provided by the Warrantholder in the Subscription Form within five Business Days of receiving the items set forth in Section 2.1.

2.4 Expiration

At the Expiry Time, all Warrants which have not been exercised by that time, and these Terms and Conditions as they relate to such unexercised Warrants, shall cease and terminate and such Warrants shall expire and be void and of no effect.

ARTICLE 3 GENERAL

3.1 Issue of Warrants

The number of Warrants set forth on the face page of this Warrant Certificate are hereby created and authorized to be issued, and the Corporation hereby represents and warrants to the Warrantholder that the Corporation is duly authorized and has the corporate power and authority to create and issue the Warrants and the Common Shares issuable on the exercise thereof, the Corporation has duly reserved for issuance the number of Common Shares issuable upon exercise of the Warrants, and that this Warrant Certificate represents a valid, legal and binding obligation of the Corporation enforceable in accordance with these Terms and Conditions.

3.2 Reservation of Sufficient Common Shares

For so long as the Warrants remain outstanding, the Corporation shall reserve and keep available for issue upon the exercise of the Warrants such number of authorized but unissued Common Shares or other shares in the capital of the Corporation as will be required to satisfy in full the Warrantholder's rights to be issued Common Shares (or other shares in the capital of the Corporation) upon the exercise of the Warrants in accordance with the provisions of these Terms and Conditions.

3.3 Representations of the Corporation

- (a) The execution, delivery and performance of this Warrant and the consummation of the transactions contemplated hereunder will not, with or without the giving of notice or the lapse of time or both (A) violate any provision of law, statute, rule or regulation to which the Corporation is subject, (B) violate any order, judgment or decree applicable to it or (C) conflict with or result in a breach or default under any term or condition of its applicable governing instruments or any agreement or other instrument to which it is a party or by which it is bound or the policies of the stock exchange(s) on which the Common Shares are traded.
- (b) No consent, approval, order or authorization of , or registration, qualification, designation, declaration or filing with, any Canadian federal, provincial or local governmental authority on part of the Corporation is required in connection with the consummation of the transactions contemplated in this Warrant, except for such filings as may be required pursuant to applicable Canadian provincial securities laws.

3.4 Covenants of the Corporation

- (a) The Corporation shall not take any action that has the effect of depriving the Warrantholder of the right to exercise the right of purchase pursuant to the Warrant.
- (b) If the issuance of any Common Shares upon the exercise of this Warrant requires any filing or registration with or approval of any governmental or regulatory authority or compliance with any other requirement under any applicable law before such shares may be validly issued upon such exercise, the Corporation agrees to take such actions as may be necessary to secure such filing, registration, approval or compliance, as the case may be, provided that, in the event that such filing, registration, approval or compliance is required only by reason of the particular circumstances of or actions taken by the recipient of such Common Shares, the Corporation will not be required to take such action.

3.5 Additional Rights

Nothing contained herein shall be construed as preventing the Corporation from making any distribution of or otherwise issuing to any person, at any time and from time to time, additional Common Shares (or securities that are, directly or indirectly, exercisable or exchangeable for, or convertible into, Common Shares) for such consideration and on such terms as may be approved by the board of directors of the Corporation in its sole discretion.

3.6 Lost, Stolen, Destroyed or Mutilated Warrant Certificate

Upon receipt of evidence satisfactory to the Corporation of the loss, theft, destruction or mutilation of the Warrant Certificate and, in the case of loss, theft or destruction, upon receipt of indemnity or security in an amount and form satisfactory to the Corporation, or, in the case of mutilation, upon surrender and cancellation of the mutilated Warrant Certificate, and upon payment by the Warrantholder of the reasonable charges of the Corporation therefor, the Corporation will issue and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant Certificate, a new Warrant Certificate of like tenor and representing the same number of Warrants.

3.7 Warrantholder Not a Shareholder

The Warrants represented hereby shall not constitute the Warrantholder a shareholder of the Corporation, nor entitle the Warrantholder to any right or interest (including, without limitation, any voting rights or rights to receive dividends or other distributions) as a shareholder of the Corporation. For greater certainty, the Warrants represented hereby shall not entitle the Warrantholder to any voting rights whatsoever in the affairs of the Corporation.

3.8 Notice to Regulatory Authorities

The Corporation may give notice of the issuance of any Common Shares pursuant to the exercise of the Warrants, in such detail as may be required, to any stock exchange, securities commission or other regulatory authority having jurisdiction in respect of such issuance.

3.9 Hold Periods and the Legending of Share Certificates

The certificate(s) representing the Common Shares to be issued pursuant to the exercise of the Warrants may, if applicable, bear the following legend:

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (i) FEBRUARY 4, 2014, AND (ii) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

ARTICLE 4 ADJUSTMENTS

4.1 Adjustments

The number of Common Shares purchasable upon the exercise of each Warrant shall be subject to adjustment as follows:

- (a) If and whenever the Corporation shall:
 - (i) fix a record date to pay a dividend in Common Shares or make a distribution in Common Shares;
 - (ii) subdivide its outstanding Common Shares into a greater number of Common Shares; or
 - (iii) combine its outstanding Common Shares into a smaller number of Common Shares;

the number of Common Shares purchasable upon exercise of each Warrant immediately prior thereto shall be adjusted so that the Warrantholder shall be entitled to receive the kind and number of Common Shares of the Corporation which it would have otherwise been entitled to receive after the happening of any of the events described above, had such Warrant been exercised immediately prior to the happening of such event or any record date with respect thereto. An adjustment made pursuant to this subsection (a) shall become effective immediately after the record date or effective date, as the case may be, of such event.

- (b) If and whenever the Corporation shall fix a record date for issuance of rights, options or warrants to all or substantially all holders of its outstanding Common Shares entitling them (for a period expiring not more than 45 days after such record date) to subscribe for or purchase Common Shares at a price per share which is lower than 95% of the current market price per Common Share at such record date (as determined in accordance with subsection (d) below), the number of Common Shares thereafter purchasable upon the exercise of each Warrant shall be determined by multiplying the number of Common Shares theretofore purchasable upon exercise of the Warrants outstanding immediately prior to such record date by a fraction, of which the numerator shall be the number of Common Shares outstanding on such record date plus the number of additional Common Shares offered for subscription or purchase, and of which the denominator shall be the number of Common Shares outstanding on such record date plus the number of Common Shares which the aggregate subscription price of the total number of Common Shares so offered would be purchased at the current market price per Common Share (as determined in accordance with subsection (d) below) at such record date. Such adjustment shall be made whenever such rights, options or warrants are issued, and shall become effective immediately after the record date for the determination of shareholders entitled to receive such rights, options or warrants. To the extent that any such rights, options or warrants are not so issued or any such rights, option or warrants are not exercised prior to the expiration thereof, the number of Common Shares purchasable upon the exercise of each Warrant shall then be re-adjusted to the number of Common Shares purchasable upon the exercise of each Warrant which would then be in effect if such record date had not been fixed or based on the number of and aggregate subscription price of Common Shares actually issued upon the exercise of such rights, options or warrants, as the case may be.

- (c) If and whenever there is:

- (i) a reclassification of the Common Shares or a capital reorganization of the Corporation other than as described in subsection (a) above;
- (ii) a consolidation, amalgamation, arrangement or merger of the Corporation with or into any other body corporate, trust, partnership or other entity; or
- (iii) a sale or conveyance of the property and assets of the Corporation as an entirety or substantially as an entirety to any other body corporate, trust, partnership or other entity;

and the Warrantholder has not fully exercised all Warrants prior to the record date or the effective date of such event, as the case may be, then upon the exercise of Warrants thereafter, the Warrantholder shall be entitled to receive and shall accept, in lieu of the number of Common Shares as then constituted and to which the Warrantholder was previously entitled upon exercise of the Warrants, for the same aggregate consideration payable therefor, the number of shares or other securities or property of the Corporation or of the body corporate, trust, partnership or other entity resulting from such reclassification, capital reorganization, merger, amalgamation, arrangement or consolidation, or to which such sale or conveyance may be made, as the case may be, that the Warrantholder would have been entitled to receive on such event if, on the record date or the effective date thereof, as the case may be, the Warrantholder had been the registered holder of the number of Common Shares upon due exercise of the Warrants; and in any case, necessary and appropriate adjustments shall be made in the application of the provisions herein with respect to the rights and interests thereafter of the Warrantholder to the end that the provisions set forth herein shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares or securities or property to which the Warrantholder may be entitled upon the exercise of such Warrants thereafter.

- (d) For the purpose of any computation under subsection (b) of this Section 4.1, the current market price per Common Share at any date shall be the weighted average price per Common Share for twenty-five (25) consecutive trading days prior to the date such determination is required; provided if the Common Shares are then traded on more than one stock exchange, then the market price shall be calculated with reference to the weighted average price per Common Share on the stock exchange on which the largest volume of Common Shares were traded during such twenty-

five (25) consecutive trading day period. The weighted average price per Common Share shall be determined by dividing the aggregate sale price of all Common Shares sold on such exchange or market, as the case may be, during the said twenty-five (25) consecutive trading days by the total number of shares so sold. For purposes of this subsection (d), trading day means, with respect to a stock exchange, a day on which such exchange is open for the transaction of business. Should the Common Shares not be listed on any stock exchange, the current market price per Common Share at any date shall be determined by the board of directors of the Corporation, acting reasonably.

- (e) In any case in which this Article 4 shall require that any adjustment be made effective immediately after a record date for a specified event, the Corporation may elect to defer, until the occurrence of the event, the issuance, to the holder of any Warrant exercised after that record date, of the Common Shares and other securities of the Corporation, if any, issuable upon the exercise of the Warrant over and above the Common Shares and other securities of the Corporation otherwise issuable to the Warrantholder; provided, however, that the Corporation shall deliver to the holder an appropriate instrument evidencing the holder's right to receive such additional shares or other securities upon the occurrence of the event requiring such adjustment. Notwithstanding the foregoing, in the event that the record date relates to a consolidation or event which would result in the Warrantholder receiving fewer securities than what would otherwise be issuable to the Warrantholder, the Corporation shall only be obligated to deliver such lesser number of securities.
- (f) The adjustments provided for in this Section 4.1 are cumulative, and shall apply to successive events resulting in any adjustment under the provisions of this Article 4, provided that no adjustment in the number of Common Shares purchasable hereunder shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in the number of Common Shares purchasable upon the exercise of each Warrant or would result in the Warrantholder being entitled to receive securities, property or assets other than (or in addition to) Common Shares upon exercise of Warrants; provided, however, that any adjustments which by reason of this subsection (f) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.
- (g) No adjustment in the number of Common Shares purchasable upon the exercise of each Warrant need be made under subsection (b) if the Corporation issues or distributes to the Warrantholder the rights, options, warrants or convertible or exchangeable securities, evidences of indebtedness, securities, assets or property referred to in those subsections which the Warrantholder would have been entitled to receive had the Warrants been exercised prior to the happening of such event or the record date with respect thereto.
- (h) For avoidance of doubt, the Exercise Price, being the amount to be paid on exercise of each Warrant, shall not be adjusted as result of such events pursuant to this Section 4.1.

4.2 Voluntary Adjustment by the Corporation

Subject to requisite stock exchange approval, if applicable, the Corporation may, at its option, at any time during the term of the Warrants, reduce the then current Exercise Price to any amount deemed appropriate by the Board of Directors of the Corporation.

4.3 Notice of Adjustment

Whenever the number of Common Shares purchasable upon the exercise of each Warrant is adjusted, as herein provided, the Corporation shall promptly send to the Warrantholder by first class mail, postage prepaid, notice of such adjustment or adjustments.

4.4 No Adjustment

Subject to section 4.1, no adjustment in respect of any cash dividends paid in the ordinary course to holders of Common Shares shall be made during the term of the Warrants or upon the exercise of a Warrant represented by this Warrant Certificate. Other than as set forth in this Warrant, no adjustment shall be made in respect of the issuance to

any person, at any time and from time to time, of rights, options, warrants and other securities that are, directly or indirectly, exercisable or exchangeable for, or convertible into, Common Shares on such terms and for such consideration as may be approved by the board of directors of the Corporation in its sole discretion.

4.5 Determination of Adjustments

If any disputes shall at any time arise with respect to the Exercise Price or the number of Common Shares issuable upon the exercise of the Warrants, such question shall be conclusively determined by the Corporation's Auditors, or, if they decline to so act, any other independent firm of Chartered Accountants, in Calgary, Alberta, that the Corporation may designate and the Warrantholder, acting reasonably, may approve, and who shall have access to all appropriate records and such determination shall be binding upon the Corporation and the holder.

4.6 Additional Rules Regarding Adjustments

- (a) In case the Corporation after the date of issuance of this Warrant Certificate takes any action affecting the Common Shares, other than actions described in Article 4, which in the opinion of the board of directors of the Corporation would materially affect the rights of the holder, the number of Common Shares purchasable hereunder will be adjusted in such manner, if any, and at such time, by action by the directors of the Corporation but subject in all cases to any necessary regulatory approval. Failure of the taking of action by the directors of the Corporation so as to provide for an adjustment on or prior to the effective date of any action by the Corporation affecting the Common Shares will be conclusive evidence that the board of directors of the Corporation has determined that it is equitable to make no adjustment in the circumstances.
- (b) The Corporation covenants to and in favour of the holder that so long as any Warrants represented by this Warrant Certificate remain outstanding, it will give notice to the Warrantholder of its intention to fix a record date for any event referred to in Article 4 which may give rise to an adjustment in the number of Common Shares purchasable hereunder, and, in each case, such notice must specify the particulars of such event and the record date and the effective date for such event; provided that the Corporation is only required to specify in such notice such particulars of such event as have been fixed and determined on the date on which such notice is given.

4.7 Fractional Shares

If upon any exercise of Warrants hereunder such exercise would, taking into account all of the Warrants then being exercised, result in the issuance of a fractional Common Shares, the number of Common Shares to be issued upon such exercise of Warrants shall be rounded to the nearest whole number (and if the fraction is 0.5, the number shall be rounded upwards).

ARTICLE 5 MERGER AND SUCCESSORS

5.1 Preservation of Rights

In connection with any consolidation of the Corporation with, or amalgamation or merger of the Corporation with or into, another person (including, without limitation, pursuant to a "takeover bid", "tender offer", amalgamation, arrangement or analogous transaction), the Corporation or such successor, as the case may be, shall agree that the applicable adjustment provisions in Article 4 shall apply. The provisions of this Article 5 shall similarly apply to successive consolidations, mergers, amalgamations, arrangements or analogous transactions.

5.2 Corporation May Consolidate, etc. on Certain Terms

Nothing herein contained shall prevent any consolidation, amalgamation or merger of the Corporation with or into any other corporation or corporations, or a conveyance or transfer of all or substantially all or the undertakings, properties and assets of the Corporation as an entirety to any corporation lawfully entitled to acquire and operate same.

**ARTICLE 6
AMENDMENTS AND NOTICE**

6.1 Amendments

The terms of the Warrants represented by this Warrant Certificate may be amended, and the observance of any term thereof may be waived, only by a written instrument signed by the Corporation and the Warrantholder. Any such amendment shall be subject to receipt by the Corporation of all required approvals (if any) from any stock exchange on which the Common Shares are listed, and any applicable governmental or regulatory authorities.

6.2 Notice

Any notice given under or pursuant to this Warrant Certificate will be given in writing and must be delivered, or mailed by prepaid post, and addressed to the person to which notice is to be given at the address of the person set out on page one, or at another address designated by such person in writing. If notice is delivered, it will be deemed to have been given at the time of delivery. If notice is mailed, it will be deemed to have been received on the fourth Business Day after and excluding the date of mailing.

6.3 Assignment and Transfer

The Corporation and the Warrantholder agree that the Warrantholder may not assign or transfer these Warrants, in whole or in part, to any other person(s).

6.4 Enurement

This Warrant Certificate shall enure to the benefit of the Warrantholder and the successors and assignees thereof and shall be binding upon the Corporation and the successors thereof.

APPENDIX "4"
FORM OF CONVERSION NOTICE

CONVERSION NOTICE

TO: MONGOLIA MINERALS CORPORATION

Note: All capitalized terms used herein have the respective meanings ascribed thereto in the Note Indenture.

The undersigned registered holder of _____ [Insert Description of Series of Note] irrevocably elects to convert such Notes (or \$_____ principal amount thereof*) in accordance with the terms of the Note Indenture referred to in such Notes and tenders herewith the Notes, and directs that the Common Shares and Warrants of Mongolia Minerals Corporation comprising the Units issuable upon a conversion be issued and delivered to the Person indicated below. (If Common Shares and Warrants are to be issued in the name of a Person other than the holder, all requisite taxes must be tendered by the undersigned).

Dated: _____

(Signature of Registered Holder)

* If less than the full principal amount of the Notes, indicate in the space provided the principal amount (which must be \$1,000 or integral multiples thereof). _____

NOTE: If Common Shares and Warrants are to be issued in the name of a Person other than the holder, the signature must be guaranteed by a chartered bank, a trust company or by a member of an acceptable Medallion Guarantee Program. The Guarantor must affix a stamp bearing the actual words: "SIGNATURE GUARANTEED".

(Print name in which Common Shares and Warrants are to be issued, delivered and registered)

Name: _____

(Address)

(City, Province and Postal Code)

Name of guarantor: _____

Authorized signature: _____

FIRST SUPPLEMENTAL INDENTURE
DATED APRIL 1, 2014
TO THE NOTE INDENTURE DATED FEBRUARY 4, 2014
BETWEEN
MONGOLIA MINERALS CORPORATION
AND
VALIANT TRUST COMPANY
PROVIDING FOR THE ISSUE OF SERIES 1B NOTES

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THIS FIRST SUPPLEMENTAL INDENTURE is made on April 1, 2014 (the “**First Supplemental Indenture**”).

BETWEEN:

MONGOLIA MINERALS CORPORATION, a corporation
existing under the laws of Canada,

(“**MMC**” or the “**Corporation**”),

- and -

VALIANT TRUST COMPANY, a trust company continued
under the laws of Canada and registered to carry on business in the
Province of Alberta,

(the “**Trustee**”).

RECITALS:

- A. The Corporation entered into a note indenture with the Trustee dated February 4, 2014 (the “**Note Indenture**”) which provides for the issuance of one or more series of notes of the Corporation.
- B. This First Supplemental Indenture is being entered into between the Corporation and the Trustee for the purpose of providing for the creation and issuance of up to \$2,000,000 aggregate principal amount of 12% series 1B senior secured promissory notes of the Corporation due December 31, 2015 (the “**Series 1B Notes**”), which form part of the Corporation’s Series 1 Notes, and establishing the terms, provisions and conditions of such Series 1B Notes.

THEREFORE, the parties hereto agree as follows:

ARTICLE 1
INTERPRETATION

1.1 To Be Read With Note Indenture

This First Supplemental Indenture is a supplemental indenture as described and within the meaning of the Note Indenture. The Note Indenture and this First Supplemental Indenture shall be read together and shall have effect so far as practicable as though all the provisions of all indentures were contained in one instrument.

1.2 First Supplemental Indenture

The terms “**this First Supplemental Indenture**”, “**this indenture**”, “**herein**”, “**hereof**”, “**hereby**”, “**hereunder**” and similar expressions, unless the context otherwise specifies or requires, refer to the Note Indenture as amended and supplemented by this First Supplemental Indenture and not to any particular article, section, subsection or clause or other portion thereof, and include every instrument supplemental or ancillary to this First Supplemental Indenture.

1.3 Definitions

All terms which are used but not defined in this First Supplemental Indenture shall have the respective meanings ascribed to them in the Note Indenture. In the event of any inconsistency between the terms in the Note Indenture and this First Supplemental Indenture, the terms in this First Supplemental Indenture prevail.

ARTICLE 2 SERIES 1B NOTES

2.1 Series 1 Notes Rank *Pari Passu*

The Series 1B Notes shall rank *pari passu* with the Series 1A Notes, the Series 1C Notes and with each other Series 1 Note of the Corporation (regardless of their actual date or terms of issue) that may be issued by the Corporation from time to time by supplemental indenture to the Note Indenture.

2.2 Creation and Designation

The Corporation, being authorized in accordance with the Note Indenture to create and issue Notes in one or more series, hereby authorizes under this First Supplemental Indenture the creation and issuance of Series 1B Notes, designated as "Series 1B 12% Senior Secured Promissory Notes of the Corporation due December 31, 2015", which will have the terms set out in Schedule "A" to this First Supplemental Indenture.

2.3 Execution of Series 1B Notes

The Series 1B Notes shall be signed (either manually or by facsimile signature) by any one authorized director or officer of the Corporation, on behalf of the Corporation, holding office at the time of signing. A facsimile signature upon any of the Series 1B Notes shall for all purposes of this First Supplemental Indenture be deemed to be the signature of the individual whose signature it purports to be and to have been signed at the time of such signature (either manual or by facsimile) and notwithstanding that any individual whose signature (either manual or by facsimile) may appear on the Series 1B Notes is not, at the date of this First Supplemental Indenture or at the date of the Series 1B Notes or at the date of the certification and delivery thereof, a director or officer, as the case may be, of the Corporation, such Series 1B Notes shall be valid and binding upon the Corporation and entitled to the benefits of this First Supplemental Indenture.

2.4 Certification

- (a) No Series 1B Note shall be issued or, if issued, shall be obligatory or shall entitle the holder of such Series 1B Note to the benefits of this First Supplemental Indenture until it has been certified by manual signature by or on behalf of the Trustee substantially in the form set out in Appendix "1" to Schedule "A" hereto, or in some other form approved by the Trustee. Such certificate on any Series 1B Note shall be conclusive evidence that such Series 1B Note is duly issued and is a valid obligation of the Corporation and that the holder of such Series 1B Note is entitled to the benefits of this First Supplemental Indenture.

- (b) The certificate of the Trustee on any Series 1B Note shall not be construed as a representation or warranty by the Trustee as to the validity of this First Supplemental Indenture or of the Series 1B Notes and the Trustee shall in no respect be liable or answerable for the use made of the Series 1B Notes or any of them or the proceeds thereof. The certificate of the Trustee signed on the Notes shall, however, be a representation and warranty by the Trustee that the Notes have been duly certified by or on behalf of the Trustee pursuant to the provisions of this Note Indenture.

2.5 Location of Registers

With respect to the Series 1B Notes, initially the registers referred to in Section 3.1 of the Note Indenture shall be kept by and at the principal offices of the Trustee in Calgary, Alberta and may be kept in such other place or places, if any, by the Trustee or by such other registrar or registrars (if any) as the Corporation, with the approval of the Trustee, may designate.

ARTICLE 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this First Supplemental Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this First Supplemental Indenture and in accordance with the Note Indenture.

3.2 Confirmation of Note Indenture

The Note Indenture, as amended and supplemented by this First Supplemental Indenture, is in all respects confirmed.

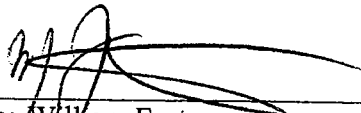
3.3 Counterparts

This First Supplemental Indenture may be executed in several counterparts each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF the parties hereto have executed this First Supplemental Indenture to be executed as of the date first written above.

MONGOLIA MINERALS CORPORATION

By: 
Name: William Foster
Title: President and Chief Executive Officer

IN WITNESS WHEREOF the parties hereto have executed this First Supplemental Indenture to be executed as of the date first written above.

VALIANT TRUST COMPANY

By: D. S. L.
Name: **Dan Sander**
Title: **Director, Trust Services**

By: J. Hansen
Name: **Jodie Hansen**
Title: **Account Manager**

SCHEDULE "A"
TERMS OF SERIES 1B NOTES

1. In this Schedule "A", unless the context otherwise requires, the following terms have the respective meanings hereinafter set forth:
- (a) **"Accompanying Warrant"** means the unexercised portion of the non-transferable warrant issued to Principal Holdco concurrently with the issuance of the Series 1B Notes as contemplated herein, such warrant entitling Principal Holdco to purchase Series 1B Units on payment of the exercise price set out in the warrant certificate evidencing such warrant (the **"Accompanying Warrant Certificate"**);
 - (b) **"Event of Default"** has the meaning ascribed to it in the Note Indenture;
 - (c) **"Event of Default Redemption"** has the meaning ascribed to it in paragraph 15;
 - (d) **"First Supplemental Indenture"** means the first supplemental indenture dated April 1, 2014 amending the Note Indenture, of which this schedule forms a part, to create and authorize the issuance of the Series 1B Notes;
 - (e) **"Maturity Date"** has the meaning ascribed to it in paragraph 5;
 - (f) **"Note Indenture"** means the note indenture between Mongolia Minerals Corporation and Valiant Trust Company dated February 4, 2014, including the schedules and supplements thereto;
 - (g) **"Principal Holdco"** means White Falcon Inc., an exempt company existing under the laws of the Cayman Islands which is wholly-owned by Mr. Enkhtaivan Chimed;
 - (h) **"Qualifying Private Placement"** means a private placement of equity securities of the Corporation in which:
 - (i) the issue price per equity security is, subject to adjustment as set out in the Note Indenture, at no less than \$0.40 per security; and
 - (ii) the Corporation receives gross proceeds in an amount not less than \$20,000,000;
 - (i) **"Second Supplemental Indenture"** means the second supplemental indenture amending the Note Indenture to create and authorize the issuance of Series 1C Notes;
 - (j) **"Series 1 Notes"** means collectively, the Series 1A Notes, the Series 1B Notes, the Series 1C Notes and any other tranche of Series 1 Notes issued under the Note Indenture;

- (k) **"Series 1A Notes"** means the Series 1A 12% Senior Secured Convertible Promissory Notes of the Corporation due December 31, 2015, having the terms, rights, attributes and privileges set out in the Note Indenture including Schedule "A" thereto;
 - (l) **"Series 1B Notes"** means the Series 1B 12% Senior Secured Promissory Notes of the Corporation due December 31, 2015, having the terms, rights, attributes and privileges set out in the Note Indenture, including this Schedule "A" of the First Supplemental Indenture;
 - (m) **"Series 1B Units"** means the units of the Corporation issuable on the due exercise of the Accompanying Warrant, each unit consisting of (i) one Common Share and (ii) one Common Share purchase warrant (each a **"Series 1B Warrant"**) entitling the holder to purchase one Common Share, subject to adjustment, at an exercise price of \$0.20 per Common Share;
 - (n) **"Series 1C Notes"** means the 12% Series 1C Senior Secured Convertible Promissory Notes of the Corporation due December 31, 2015, having the terms, rights, attributes and privileges set out in the Note Indenture including Schedule "A" to the Second Supplemental Indenture; and
 - (o) **"Undertaking and Direction"** means the undertaking and direction of Mr. Enkhtaivan Chimed and Principal Holdco to the Corporation dated March 31, 2014.
2. Capitalized terms used and not otherwise defined in this Schedule "A" shall have the respective meanings ascribed to such terms in the Note Indenture.
 3. All references to Articles, Sections and Schedules in this Schedule "A" shall refer to the applicable Articles, Sections and Schedules of the Note Indenture.
 4. The second tranche of Series 1 Notes authorized for issue under the Note Indenture is the Series 1B Notes which are authorized and created pursuant to this First Supplemental Indenture, which shall be limited to an aggregate principal amount of \$2,000,000. The Series 1B Notes shall be issued by the Corporation on April 1, 2014. The Series 1B Notes shall be designated as "Series 1B 12% Senior Secured Promissory Notes due December 31, 2015" and shall rank *pari passu* with the Series 1A Notes, the Series 1C Notes and any other tranche of Series 1 Notes issued under the Note Indenture. The Series 1 Notes rank in priority to all other current and future indebtedness as senior secured obligations of the Corporation.
 5. The Series 1B Notes shall be dated as of April 1, 2014 and shall mature on December 31, 2015 (the **"Maturity Date"**).
 6. The Series 1B Notes shall bear interest from the date of issue at the rate of 12% per annum (based on a year of 360 days comprised of twelve 30-day months), calculated and payable in arrears in equal quarterly payments on March 31, June 30, September 30 and December 31 in each year. The first interest payment on the Series 1B Notes shall fall due on June 30, 2014 and the last such payment (representing interest payable from the

last Interest Payment Date to, but excluding, the Maturity Date of the Series 1B Notes or the earlier date of repayment or redemption of the Series 1B Notes) to fall due on December 31, 2015. The record dates for the payment of interest on the Series 1B Notes will be March 15, June 15, September 15 and December 15 in each year (or the first Business Day prior to such date if not a Business Day).

7. Interest to be paid on the Series 1B Notes on each Interest Payment Date shall be paid in cash.
8. The Series 1B Notes shall be issued in denominations of \$1,000 and integral multiples of \$1,000. Each Series 1B Note and the certificates of the Trustee endorsed thereon shall be issued in substantially the form set out in Appendix "1" to this Schedule "A" of this First Supplemental Indenture with such insertions, omissions, substitutions or other variations as shall be required or permitted by the Note Indenture, and may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of the Note Indenture, as may be required to comply with any Applicable Law or with any rules or regulations of any securities exchange or securities regulatory authority or to conform with general usage, all as may be determined by the Board of Directors executing such Series 1B Note as conclusively evidenced by their execution of a Series 1B Note. Each Series 1B Note shall additionally bear such distinguishing letters and numbers as the Trustee shall approve. Notwithstanding the foregoing, a Series 1B Note may be in such other form or forms as may, from time to time, be, specified in a supplemental indenture hereto.
9. The Trustee shall be provided with the documents and instruments referred to in Sections 2.4(b) and (d) of the Note Indenture with respect to the Series 1B Notes prior to the issuance of such Notes.
10. The Series 1B Notes will be redeemable in accordance with the terms of Article 4 of the Note Indenture, provided that the Series 1B Notes will not be redeemable before February 4, 2015 (other than in the circumstances described in paragraph 11, paragraph 13 and paragraph 15). On or after February 4, 2015, the Series 1B Notes may be redeemed at the option of the Corporation in whole or in part from time to time up until the Maturity Date on notice as provided for in Section 4.3 of the Note Indenture at a Redemption Price equal to the principal amount thereof plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date. The Redemption Notice for the Series 1B Notes shall be substantially in the form of Appendix "2" to this Schedule "A".
11. In the event that the Corporation completes, after the issuance of the Series 1B Notes, a Qualifying Private Placement, the Corporation shall have the right, using the Redemption Notice referred to in paragraph 10 above, at any time from time to time prior to the Maturity Date to redeem all or a portion of the Series 1B Notes in accordance with the provisions set out in Article 4 of the Note Indenture at a Redemption Price equal to the principal amount thereof plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date, provided that in order to exercise such right of redemption the Corporation shall concurrently exercise a "Forced Conversion" (as such term is defined in the Series 1A Note terms) in respect of an equivalent amount of Series 1A Notes.

12. In the event that the Corporation redeems all or a portion of the Series 1A Notes: (a) on or after February 4, 2015; or (b) in connection with the completion by the Corporation of a Qualifying Private Placement, the Corporation shall be required to concurrently redeem the same proportion of the then outstanding Series 1B Notes in accordance with the provisions set out in Article 4 of the Note Indenture at a Redemption Price equal to the principal amount thereof plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date.
13. In the event that Principal Holdco exercises all or any portion of the Accompanying Warrant, the Corporation shall have the right, using the Redemption Notice referred to in paragraph 10 above, at any time from time to time prior to the Maturity Date to redeem the same proportion of the Series 1B Notes in accordance with the provisions set out in Article 4 of the Note Indenture at a Redemption Price equal to the principal amount thereof plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date and the Corporation shall be obligated to do so.
14. If all or a portion of the Series 1B Notes are redeemed in accordance with paragraph 11 or paragraph 13, the Corporation shall apply, on behalf of Principal Holdco, all or a portion of the Redemption Price in payment of all, or a portion of, the aggregate Exercise Price (as such term is defined in the Accompanying Warrant Certificate) of the Accompanying Warrant in accordance with, and as more particularly set out in the Undertaking and Direction. In the event of a redemption of any or all of the Series 1B Notes by the Corporation in any of the foregoing circumstances and application of all, or a portion of such amount to the aggregate Exercise Price of the Accompanying Warrant, the balance of the Redemption Price, if any, shall be paid in cash by the Corporation, to the holder of such Series 1B Notes.
15. Subject to the provisions and conditions of Article 7 of the Note Indenture, in the event of the occurrence of: (a) an Event of Default set out at Section 8.1(a), 8.1(b), 8.1(c), 8.1(d), 8.1(e), 8.1(f), 8.1(g) or 8.1(h) of the Note Indenture, or (b) an Event of Default set out at Section 8.1(i) or 8.1(j) of the Note Indenture which is not cured by the 30th day following such occurrence, under the terms of the Accompanying Warrant Certificate in respect of the Accompanying Warrant, Principal Holdco may notify the Corporation in writing of its intention to exercise the Accompanying Warrant pursuant to Section 4.8 of the Accompanying Warrant Certificate (an “**Event of Default Exercise**”). If Principal Holdco provides written notice to the Corporation of its intention to effect an Event of Default Exercise, within three Business Days of receipt by the Corporation of such written notice, the Corporation shall issue the Common Shares and Underlying Warrants (as such term is defined in the Accompanying Warrant Certificate) issuable on exercise of the Accompanying Warrant and then, concurrently with such exercise and issuance, each \$0.01 of indebtedness then outstanding under the Series 1B Notes shall be immediately redeemed without further action by Principal Holdco or the Trustee in accordance with the provisions set out in Article 4 of the Note Indenture at a Redemption Price equal to the principal amount thereof plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date (an “**Event of Default Redemption**”). In respect of any foregoing Event of Default Exercise and Event of Default Redemption, the Corporation shall apply, on behalf of Principal Holdco, all of the Redemption Price in payment of the aggregate Exercise Price (as such term is defined in the Accompanying

Warrant Certificate) of the Accompanying Warrant in accordance with, and as more particularly set out in the Undertaking and Direction. In the event of a redemption of the Series 1B Notes in the foregoing circumstances and application of the Redemption Price to the aggregate Exercise Price of the Accompanying Warrant, the balance of the Redemption Price, if any, shall be paid in cash by the Corporation to the holder of such Series 1B Notes.

16. For so long as there is any indebtedness outstanding that is secured by the Series 1B Notes, the Corporation covenants and agrees not to and shall ensure that each Subsidiary does not:
- (a) sell, transfer, assign, lease, or otherwise dispose of any of the Principal Material Licences, or pledge its interests in the Principal Material Licences, or create a security interest therein, in support of any obligation of the Corporation, any Subsidiary or any other person, unless such sale, transfer, assignment, lease, disposition, pledge or security interest is approved by the holders of Series 1B Notes in accordance with the terms of the Note Indenture;
 - (b) enter into any agreement or arrangement requiring board approval with any person not dealing at arm's length with the Corporation or any of its Subsidiaries without the prior approval of a majority of directors of the Corporation who have no direct or indirect material interest in such agreement or arrangement in accordance with the procedures set out in Section 120 of the *Canada Business Corporation Act*;
 - (c) in the case of the Corporation only, pay any dividends to shareholders or make other distributions of corporate assets to shareholders, or redeem any outstanding securities of the Corporation other than the redemption of notes issued under the Note Indenture in the manner contemplated therein;
 - (d) pay any indebtedness of the Corporation other than in the ordinary course of business; however, it is acknowledged and agreed that the foregoing does not prohibit the Corporation from paying any interest-bearing indebtedness for borrowed money when due and owing, provided that there is no Event of Default outstanding at the time of such payment. For greater certainty, upon the occurrence of an Event of Default that is continuing, the Corporation covenants and agrees not to and shall ensure that each Subsidiary does not pay any indebtedness of the Corporation or of any Subsidiary for borrowed money, as the case may be, while there is any indebtedness outstanding that is secured by the Series 1B Notes; or
 - (e) sell, transfer, assign, lease, or otherwise dispose of any asset or property material to its business (i) in the case of MMC to any Subsidiary; or (ii) in the case of any Subsidiary to any other Subsidiary, unless such sale, transfer, assignment, lease or other disposition is approved by the holders of Series 1 Notes in accordance with the terms of the Note Indenture, other than, in the case only of (i) and (ii) above, a transfer of a material asset or material property to a Subsidiary as part of a *bona fide* sale of assets to a third party that is approved by the Board.

17. The Corporation shall promptly deliver to each Noteholder for so long as they are holders of Notes all periodic financial and investor information that is prepared by the Corporation for its shareholders. In addition, while there is any indebtedness outstanding under the Series 1B Notes, the Corporation will prepare and deliver to each Noteholder, an annual budget, annual audited financial statements within 120 days of each financial year end and quarterly unaudited financial statements within 90 days of each fiscal quarter.
18. In the event of a conflict between the terms and conditions of the Undertaking and Direction and these Terms of Series 1B Notes, the terms and conditions of the Undertaking and Direction shall govern.

APPENDIX "1"
FORM OF SERIES 1B NOTE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THIS SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (I) ●, 2014, AND (II) THE DATE THE CORPORATION BECOMES A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY OF CANADA.

No. ●

●

MONGOLIA MINERALS CORPORATION

(A corporation incorporated under the laws of Canada)

**SERIES 1B 12% SENIOR SECURED PROMISSORY NOTE
DUE DECEMBER 31, 2015**

MONGOLIA MINERALS CORPORATION (the “Corporation” or the “Issuer”) for value received hereby acknowledges itself indebted and, subject to the provisions of the Note Indenture (the “Note Indenture”) dated February 4, 2014 between the Corporation and Valiant Trust Company (the “Trustee”) as amended by the first supplemental indenture dated April 1, 2014, promises to pay to the registered holder hereof on December 31, 2015 (the “Maturity Date”) or on such earlier date as the principal amount hereof may become due in accordance with the provisions of the Note Indenture the principal sum of ● (\$●) in lawful money of Canada on presentation and surrender of this Series 1B Note at the main branch of the Trustee in Calgary, Alberta in accordance with the terms of the Note Indenture and to pay interest on the principal amount hereof from the date hereof at the rate of 12% per annum (based on a year of 360 days comprised of twelve 30-day months), in like money, calculated and payable in arrears in equal quarterly instalments (less any tax required by law to be deducted) on March 31, June 30, September 30 and December 31 in each year commencing on June 30, 2014 and the last payment (representing interest payable from the last Interest Payment Date to, but excluding, the Maturity Date or the earlier date of redemption or repayment) to fall due on the Maturity Date.

Interest hereon shall be payable by cheque mailed by prepaid ordinary mail or by electronic transfer of funds to the registered holder hereof and, subject to the provisions of the Note Indenture, the mailing of such cheque shall, to the extent of the sum represented thereby (plus the amount of any tax withheld), satisfy and discharge all liability for interest on this Series 1B Note.

This Note is a Series 1B 12% Senior Secured Promissory Note due December 31, 2015 (referred to herein as the “Series 1B Note”) forming part of the Series 1 Notes of the Corporation issued or issuable in one or more tranches under the provisions of the Note Indenture. The Series 1B Notes authorized for issue immediately are limited to an aggregate principal amount of \$2,000,000 in lawful money of Canada. Reference is hereby expressly made to the Note Indenture for a description of the terms and conditions upon which the Series 1B Notes are to be issued and held and the rights and remedies of the holders of the Series 1B Notes and of the Corporation and of the Trustee, all to the same effect as if the provisions of the Note Indenture were herein set forth to all of which provisions the holder of this Series 1B Note by acceptance hereof assents.

The Series 1B Notes are issuable only in denominations of \$1,000 and integral multiples thereof. Upon compliance with the provisions of the Note Indenture, Notes of any denomination may be

exchanged for an equal aggregate principal amount of Notes in any other authorized denomination or denominations.

The principal hereof may become or be declared due and payable before the stated maturity in the events, in the manner, with the effect and at the times provided in the Note Indenture and in the First Supplemental Indenture.

The indebtedness evidenced by this Series 1B Note, and by all other Notes now or hereafter certified and delivered under the Note Indenture, is a direct senior secured obligation of the Corporation.

In the event that the Corporation completes a Qualifying Private Placement, the Corporation shall have the right, at any time prior to the Maturity Date, to redeem all or a portion of the Series 1B Notes on the terms and conditions set out in the Note Indenture and in the First Supplemental Indenture at the Redemption Price therein.

This Series 1B Note may be redeemed at the option of the Corporation on the terms and conditions set out in the Note Indenture and in the First Supplemental Indenture at the Redemption Price therein and herein set out provided that, except in certain circumstances, this Series 1B Note is not redeemable before February 4, 2015.

In the event that the Corporation redeems all or a portion of the Series 1A Notes issued under the Note Indenture: (a) on or after February 4, 2015; or (b) in connection with the completion by the Corporation of a Qualifying Private Placement, the Corporation shall be required to concurrently redeem the same proportion of the then outstanding Series 1B Notes at the Redemption Price therein.

The Note Indenture contains provisions making binding upon all holders of Notes outstanding thereunder (or in certain circumstances specific series of Notes) resolutions passed at meetings of such holders held in accordance with such provisions and instruments signed by the holders of a specified majority of Notes outstanding (or specific series), which resolutions or instruments may have the effect of amending the terms of this Series 1B Note or the Note Indenture.

The Note Indenture contains provisions disclaiming any personal liability on the part of holders of Common Shares and officers, directors and employees of the Corporation in respect of any obligation or claim arising out of the Note Indenture or this Note.

The registered holder hereof shall be liable for all Taxes arising in connection with any payment to be made on or in connection with this Series 1B Note. The Corporation or the Trustee on behalf of the Corporation will be entitled to deduct and withhold any applicable taxes or similar charges (including interest, penalties or similar amounts in respect thereof) imposed or levied by or on behalf of a Governmental Authority, including pursuant to the Tax Act, from any payment to be made on or in connection with this Series 1B Note and, provided that the Corporation forthwith remits such withheld amount to relevant Governmental Authority and files all required forms in respect thereof and, at the same time, provides copies of such remittance and filing to the Trustee and/or the registered holder hereof, as applicable, the amount of any such deduction or withholding will be considered an amount paid in satisfaction of the Corporation's obligations under this Series 1B Note. There is no obligation on the Corporation to gross-up amounts paid to the registered holder hereof in respect of such deductions or withholdings.

This Series 1B Note may only be transferred, upon compliance with the conditions prescribed in the Note Indenture, in one of the registers to be kept at the principal office of the Trustee in the City of Calgary, Alberta and in such other place or places and/or by such other registrars (if any) as the Corporation with the approval of the Trustee may designate. No transfer of this Series 1B Note shall be valid unless made on the register by the registered holder hereof or his executors or administrators or other legal representatives, or his or their attorney duly appointed by an instrument in form and substance satisfactory to the Trustee or other registrar, and upon compliance with such reasonable requirements as the Trustee and/or other registrar may prescribe and upon surrender of this Series 1B Note for cancellation. Thereupon a new Series 1B Note in the same aggregate principal amount shall be issued to the transferee in exchange hereof.

This Series 1B Note shall not become obligatory for any purpose until it shall have been certified by the Trustee under the Note Indenture. The Series 1B Notes are governed by the Note Indenture. If any of the provisions of this Series 1B Note are inconsistent with the provisions of the Note Indenture, the provisions of the Note Indenture shall take precedence and shall govern.

Capitalized terms used and not otherwise defined herein shall have the respective meanings ascribed thereto in the Note Indenture.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF MONGOLIA MINERALS CORPORATION has caused this Series 1B Note to be signed by its authorized representatives on this 1st day of April, 2014.

MONGOLIA MINERALS CORPORATION

By: _____
Name: William Foster
Title: President and Chief Executive
Officer

(FORM OF TRUSTEE'S CERTIFICATE)

This Series 1B Note is a Series 1B 12% Senior Secured Promissory Note due December 31, 2015 referred to in the Note Indenture within mentioned.

VALIANT TRUST COMPANY

By: _____
(Authorized Officer)

(FORM OF REGISTRATION PANEL)

(No writing hereon except by Trustee or other registrar)

Date of Registration	In Whose Name Registered	Signature of Trustee or Registrar

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____, whose address and social insurance number, if applicable, are set forth below, this Series 1B Note (or \$_____ principal amount hereof*) of MONGOLIA MINERALS CORPORATION standing in the name(s) of the undersigned in the register maintained by the Trustee with respect to such Series 1B Note and does hereby irrevocably authorize and direct the Trustee to transfer such Series 1B Note in such register, with full power of substitution in the premises.

Dated: _____

Address of Transferee: _____

(Street Address, City, Province and Postal Code)

Social Insurance Number of Transferee, if applicable: _____

*If less than the full principal amount of the within Series 1B Note is to be transferred, indicate in the space provided the principal amount (which must be \$1,000 or an integral multiple thereof, unless you hold a Series 1B Note in a non-integral multiple of \$1,000, in which case such Series 1B Note is transferable only in its entirety) to be transferred.

The signature(s) to this assignment must correspond with the name(s) as written upon the face of this Series 1B Note in every particular without alteration or any change whatsoever. The signature(s) must be guaranteed by a Canadian chartered bank or trust company or by a member of an acceptable Medallion Guarantee Program. Notarized or witnessed signatures are not acceptable as guaranteed signatures. The Guarantor must affix a stamp bearing the actual words: "SIGNATURE GUARANTEED".

The registered holder of this Series 1B Note is responsible for the payment of any taxes that may be payable in respect of the transfer of this Note.

Signature of Guarantor:

Authorized Officer

Signature of transferring registered holder

Name of Institution

APPENDIX "2"
FORM OF REDEMPTION NOTICE

To: Holders of Notes (the "**Notes**") of Mongolia Minerals Corporation (the "**Corporation**")

Note: All capitalized terms used and not otherwise defined herein have the respective meanings ascribed thereto in the Note Indenture (including any supplemental indentures thereto) mentioned below, unless otherwise indicated.

Notice is hereby given pursuant to Section 4.3 of the note indenture (the "**Note Indenture**") dated as of February 4, 2014 among the Corporation and Valiant Trust Company (the "**Trustee**"), as amended by a supplemental indenture dated April 1, 2014, that the aggregate principal amount of \$_____ of the \$2,000,000 of Series 1B Notes outstanding will be redeemed as of _____ (the "**Redemption Date**"), upon payment of a redemption amount of \$_____ for each \$1,000 principal amount of Notes, being equal to the aggregate of (i) \$_____ (the "**Redemption Price**"), and (ii) all accrued and unpaid interest hereon to but excluding the Redemption Date (collectively, the "**Total Redemption Price**").

The Total Redemption Price will be payable upon presentation and surrender of the Notes called for redemption at the following corporate trust office:

Valiant Trust Company
Suite 310, 606 – 4th Street SW
Calgary Alberta T2P 1T1

The interest upon the principal amount of Notes called for redemption shall cease to be payable from and after the Redemption Date, unless payment of the Total Redemption Price shall not be made on presentation for surrender of such Notes at the above-mentioned corporate trust office on or after the Redemption Date or prior to the setting aside of the Total Redemption Price pursuant to the Indenture.

In this connection, upon presentation and surrender of the Notes for payment on the Redemption Date, the Corporation shall, on the Redemption Date, make the delivery to the Trustee, at the above-mentioned corporate trust office, for delivery to and on account of the holders of cash representing the Redemption Price and all accrued and unpaid interest, less any withheld amounts.

DATED:

MONGOLIA MINERALS CORPORATION

(Authorized Director or Officer of Mongolia Minerals Corporation)

SECOND SUPPLEMENTAL INDENTURE
DATED MARCH 6, 2014
TO THE NOTE INDENTURE DATED FEBRUARY 4, 2014
BETWEEN
MONGOLIA MINERALS CORPORATION
AND
VALIANT TRUST COMPANY
PROVIDING FOR THE ISSUE OF SERIES 1C NOTES

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THIS SECOND SUPPLEMENTAL INDENTURE is made on March 6, 2014 (the "**Second Supplemental Indenture**").

BETWEEN:

MONGOLIA MINERALS CORPORATION, a corporation
existing under the laws of Canada,

("MMC" or the "**Corporation**"),

- and -

VALIANT TRUST COMPANY, a trust company continued
under the laws of Canada and registered to carry on business in the
Province of Alberta,

(the "**Trustee**").

RECITALS:

- A. The Corporation entered into a note indenture with the Trustee dated February 4, 2014 (the "**Note Indenture**") which provides for the issuance of one or more series of notes of the Corporation.
- B. This Second Supplemental Indenture is being entered into between the Corporation and the Trustee for the purpose of providing for the creation and issuance of \$704,000 aggregate principal amount of 12% series 1C senior secured convertible promissory notes of the Corporation due December 31, 2015 (the "**Series 1C Notes**"), which form part of the Series 1 Notes (as defined below), and establishing the terms, provisions and conditions of such Series 1C Notes.

THEREFORE, the parties hereto agree as follows:

**ARTICLE 1
INTERPRETATION**

1.1 To Be Read With Note Indenture

This Second Supplemental Indenture is a supplemental indenture as described and within the meaning of the Note Indenture. The Note Indenture, all indentures supplemental thereto and this Second Supplemental Indenture shall be read together and shall have effect so far as practicable as though all the provisions of all indentures were contained in one instrument.

1.2 Second Supplemental Indenture

The terms "**this Second Supplemental Indenture**", "**this indenture**", "**herein**", "**hereof**", "**hereby**", "**hereunder**" and similar expressions, unless the context otherwise specifies or requires, refer to the Note Indenture and all indentures supplemental thereto, as amended and supplemented by this Second Supplemental Indenture and not to any particular article, section,

subsection or clause or other portion thereof, and include every instrument supplemental or ancillary to this Second Supplemental Indenture.

1.3 Definitions

All terms which are used but not defined in this Second Supplemental Indenture shall have the respective meanings ascribed to them in the Note Indenture and all indentures supplemental thereto. In the event of any inconsistency between the terms in the Note Indenture and all indentures supplemental thereto and this Second Supplemental Indenture, the terms in this Second Supplemental Indenture prevail. For certainty, "Series 1 Notes" has the meaning ascribed to that term in Schedule "A" to this Second Supplemental Indenture.

ARTICLE 2 SERIES 1C NOTES

2.1 Series 1 Notes Rank Pari Passu

The Series 1C Notes shall rank *pari passu* with the Series 1A Notes, the Series 1B Notes and with each other Series 1 Senior Note of the Corporation (regardless of their actual date or terms of issue) that may be issued by the Corporation from time to time by supplemental indenture to the Note Indenture.

2.2 Creation and Designation

The Corporation, being authorized in accordance with the Note Indenture to create and issue Notes in one or more series, hereby authorizes under this Second Supplemental Indenture the creation and issuance of Series 1C Notes, designated as "Series 1C 12% Senior Secured Convertible Promissory Notes of the Corporation due December 31, 2015", which will have the terms set out in Schedule "A" to this Second Supplemental Indenture.

2.3 Execution of Series 1C Notes

The Series 1C Notes shall be signed (either manually or by facsimile signature) by any one authorized director or officer of the Corporation, on behalf of the Corporation, holding office at the time of signing. A facsimile signature upon any of the Series 1C Notes shall for all purposes of this Second Supplemental Indenture be deemed to be the signature of the individual whose signature it purports to be and to have been signed at the time of such signature (either manual or by facsimile) and notwithstanding that any individual whose signature (either manual or by facsimile) may appear on the Series 1C Notes is not, at the date of this Second Supplemental Indenture or at the date of the Series 1C Notes or at the date of the certification and delivery thereof, a director or officer, as the case may be, of the Corporation, such Series 1C Notes shall be valid and binding upon the Corporation and entitled to the benefits of this Second Supplemental Indenture.

2.4 Certification

- (a) No Series 1C Note shall be issued or, if issued, shall be obligatory or shall entitle the holder of such Series 1C Note to the benefits of this Second Supplemental Indenture until it has been certified by manual signature by or on behalf of the

Trustee substantially in the form set out in Appendix "1" to Schedule "A" hereto, or in some other form approved by the Trustee. Such certificate on any Series 1C Note shall be conclusive evidence that such Series 1C Note is duly issued and is a valid obligation of the Corporation and that the holder of such Series 1C Note is entitled to the benefits of this Second Supplemental Indenture.

- (b) The certificate of the Trustee on any Series 1C Note shall not be construed as a representation or warranty by the Trustee as to the validity of this Second Supplemental Indenture or of the Series 1C Notes and the Trustee shall in no respect be liable or answerable for the use made of the Series 1C Notes or any of them or the proceeds thereof. The certificate of the Trustee signed on the Notes shall, however, be a representation and warranty by the Trustee that the Notes have been duly certified by or on behalf of the Trustee pursuant to the provisions of this Note Indenture.

2.5 Location of Registers

With respect to the Series 1C Notes, initially the registers referred to in Section 3.1 of the Note Indenture shall be kept by and at the principal offices of the Trustee in Calgary, Alberta and may be kept in such other place or places, if any, by the Trustee or by such other registrar or registrars (if any) as the Corporation, with the approval of the Trustee, may designate.

ARTICLE 3 MISCELLANEOUS

3.1 Acceptance of Trust

The Trustee accepts the trusts in this Second Supplemental Indenture and agrees to carry out and discharge the same upon the terms and conditions set out in this Second Supplemental Indenture and in accordance with the Note Indenture and all indentures supplemental thereto.

3.2 Confirmation of Note Indenture

The Note Indenture and all indentures supplemental thereto, as amended and supplemented by this Second Supplemental Indenture, is in all respects confirmed.

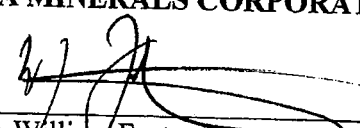
3.3 Counterparts

This Second Supplemental Indenture may be executed in several counterparts each of which so executed shall be deemed to be original and such counterparts together shall constitute one and the same instrument.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF the parties hereto have executed this Second Supplemental Indenture to be executed as of the date first written above.

MONGOLIA MINERALS CORPORATION

By: 

Name: William Foster

Title: President and Chief Executive Officer

VALIANT TRUST COMPANY

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF the parties hereto have executed this Second Supplemental Indenture to be executed as of the date first written above.

MONGOLIA MINERALS CORPORATION

By: _____
Name: William Foster
Title: President and Chief Executive Officer

VALIANT TRUST COMPANY

By: D. S. L.
Name: Dan Sander
Title: Director, Trust Services

By: J. Hansen
Name: Jodie Hansen
Title: Account Manager

SCHEDULE "A"
TERMS OF SERIES 1C NOTES

1. In this Schedule "A", unless the context otherwise requires, the following terms have the respective meanings hereinafter set forth:
- (a) **"Conversion Price"** has the meaning ascribed to it in paragraph 12;
 - (b) **"Current Market Price"** means, generally, the volume weighted average trading price of the Common Shares on a stock exchange or other recognized quotation system, if the Corporation is a reporting issuer, for the 20 consecutive trading days ending on the fifth trading day preceding the applicable date. If the Corporation is not a reporting issuer, **"Current Market Price"** shall be the fair value of such Common Shares as reasonably determined by the Board of Directors;
 - (c) **"Event of Default"** has the meaning ascribed to it in the Note Indenture;
 - (d) **"First Supplemental Indenture"** means the first supplemental indenture amending the Note Indenture to create and authorize the issuance of Series 1B Notes;
 - (e) **"Maturity Date"** has the meaning ascribed to it in paragraph 5;
 - (f) **"Note Indenture"** means the note indenture between Mongolia Minerals Corporation and Valiant Trust Company dated February 4, 2014, including the schedules and supplements thereto;
 - (g) **"Qualifying Private Placement"** means a private placement of equity securities of the Corporation in which:
 - (i) the issue price per equity security is, subject to adjustment as set out in the Note Indenture, at no less than \$0.40 per security; and
 - (ii) the Corporation receives gross proceeds in an amount not less than \$20,000,000;
 - (h) **"Second Supplemental Indenture"** means the second supplemental indenture amending the Note Indenture, of which this schedule forms a part, to create and authorize the issuance of Series 1C Notes;
 - (i) **"Series 1 Notes"** means collectively, the Series 1A Notes, the Series 1B Notes and the Series 1C Notes and any other tranche of Series 1 Notes issued under the Note Indenture;
 - (j) **"Series 1A Notes"** means the 12% Series 1A Senior Secured Convertible Promissory Notes of the Corporation due December 31, 2015, having the terms, rights, attributes and privileges set out in the Note Indenture including Schedule "A" thereto;

- (k) **"Series 1B Notes"** means the 12% Series 1B Senior Secured Promissory Notes of the Corporation due December 31, 2015, having the terms, rights, attributes and privileges set out in the Note Indenture including First Supplemental Note Indenture;
 - (l) **"Series 1C Notes"** means the 12% Series 1C Senior Secured Convertible Promissory Notes of the Corporation due December 31, 2015, having the terms, rights, attributes and privileges set out in the Note Indenture and this Schedule "A" to this Second Supplemental Indenture;
 - (m) **"Time of Expiry"** has the meaning ascribed to it in paragraph 11;
 - (n) **"Units"** means a unit consisting of: (a) one Common Share; and (b) one Warrant, which will be issued to Noteholders upon any conversion of Series 1C Notes in the manner described in this Schedule "A" to this Second Supplemental Indenture; and
 - (o) **"Warrant"** means a Common Share purchase warrant entitling the holder thereof to purchase one Common Share, subject to adjustment in certain circumstances, at an exercise price of \$0.20 per Common Share, such exercise price also being subject to adjustment in accordance with paragraph 23(g) below. Each Warrant shall be exercisable for a period commencing on March 6, 2014 and expiring on December 31, 2015. Each Warrant issued shall be governed by the terms of and represented by a warrant certificate substantially in the form attached hereto as Appendix "3".
2. Capitalized terms used and not otherwise defined in this Schedule "A" shall have the respective meanings ascribed to such terms in the Note Indenture and all indentures supplemental thereto.
 3. All references to Articles, Sections and Schedules in this Schedule "A" shall refer to the applicable Articles, Sections and Schedules of the Note Indenture.
 4. The third tranche of Series 1 Notes authorized for issue under the Note Indenture is the Series 1C Notes, which shall be limited to an aggregate principal amount of \$704,000. The Series 1C Notes shall be issued by the Corporation on March 6, 2014. The Series 1C Notes shall be designated as "Series 1C 12% Senior Secured Convertible Promissory Notes due December 31, 2015" and shall rank *pari passu* with the Series 1A Notes, the Series 1B Notes and any other tranche of Series 1 Notes issued under the Note Indenture. The Series 1 Notes rank in priority to all other current and future indebtedness as senior secured obligations of the Corporation.
 5. The Series 1C Notes shall be dated as of March 6, 2014 and shall mature December 31, 2015 (the **"Maturity Date"**).
 6. The Series 1C Notes shall bear interest from the date of issue at the rate of 12% per annum (based on a year of 360 days comprised of twelve 30-day months), calculated and payable in arrears in equal (with the exception of the first interest payment which will include interest from March 6, 2014 to March 31, 2014) quarterly payments on March 31,

June 30, September 30 and December 31 in each year. The first interest payment on the Series 1C Notes shall fall due on March 31, 2014 and the last such payment (representing interest payable from the last Interest Payment Date to, but excluding, the Maturity Date of the Series 1C Notes or the earlier date of repayment, redemption or conversion of the Series 1C Notes) to fall due on December 31, 2015. For certainty, the first interest payment will include interest accrued from March 6, 2014 to March 31, 2014, which will be equal to \$8.33 for each \$1,000 principal amount of the Series 1C Notes. The record dates for the payment of interest on the Series 1C Notes will be March 15, June 15, September 15 and December 15 in each year (or the first Business Day prior to such date if not a Business Day).

7. Interest to be paid on the Series 1C Notes on each Interest Payment Date shall be paid in cash.
8. The Series 1C Notes shall be issued in denominations of \$1,000 and integral multiples of \$1,000. Each Series 1C Note and the certificates of the Trustee endorsed thereon shall be issued in substantially the form set out in Appendix "1" to this Schedule "A" of this Second Supplemental Indenture with such insertions, omissions, substitutions or other variations as shall be required or permitted by the Note Indenture, and may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of the Note Indenture, as may be required to comply with any Applicable Law or with any rules or regulations of any securities exchange or securities regulatory authority or to conform with general usage, all as may be determined by the Board of Directors executing such Series 1C Note as conclusively evidenced by their execution of a Series 1C Note. Each Series 1C Note shall additionally bear such distinguishing letters and numbers as the Trustee shall approve. Notwithstanding the foregoing, a Series 1C Note may be in such other form or forms as may, from time to time, be, specified in a supplemental indenture hereto.
9. The Trustee shall be provided with the documents and instruments referred to in Sections 2.4(b) and (d) of the Note Indenture with respect to the Series 1C Notes prior to the issuance of such Notes.
10. The Series 1C Notes will be redeemable in accordance with the terms of Article 4 of the Note Indenture, provided that the Series 1C Notes will not be redeemable before February 4, 2015. On or after February 4, 2015 the Series 1C Notes may be redeemed at the option of the Corporation in whole or in part from time to time up until the Maturity Date on notice as provided for in Section 4.3 of the Note Indenture at a Redemption Price equal to the principal amount thereof plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date. The Redemption Notice for the Series 1C Notes shall be substantially in the form of Appendix "2" to this Second Supplemental Indenture.
11. Subject to the provisions and conditions of Article 7 of the Note Indenture:
 - (a) the holder of each Series 1C Note shall have the right at such holder's option, prior to the close of business on the fifth Business Day prior to the earlier of: (i) the date fixed for redemption or (ii) the Maturity Date of the Series 1C Notes (the "**Time of Expiry**"), to convert any part, being \$1,000 or an integral multiple

thereof, of the principal amount of a Note into Units at the then prevailing Conversion Price (as defined below) in effect on the Date of Conversion. Notwithstanding the foregoing, no Series 1C Notes may be converted on an Interest Payment Date or during the five Business Days preceding March 31, June 30, September 30 and December 31 of each year; and

- (b) in the event of the occurrence of: (x) an Event of Default set out at Section 8.1(a), 8.1(b), 8.1(c), 8.1(d), 8.1(e), 8.1(f), 8.1(g) or 8.1(h) of the Note Indenture, or (y) an Event of Default set out at Section 8.1(i) or 8.1(j) of the Note Indenture which is not cured by the 30th day following such occurrence, then each \$0.01 of indebtedness then outstanding under the Notes shall immediately, and without further action by the holders or the Trustee, be convertible at the election of the holder into one Unit for so long as any Series 1C Notes of the holder are outstanding. The holder of each Series 1C Note shall have the right at such holder's option following the occurrence of an Event of Default to convert such holder's Series 1C Note(s) into Units at any time while that Event of Default is continuing, in the manner set forth in this paragraph (b), and for this purpose the limitations on conversion set out in paragraph (a) of this Section 11 shall be disregarded.
- 12. The conversion price in effect on the date hereof for each Unit to be issued upon the conversion of Series 1C Notes shall be equal to \$0.10 per Unit such that approximately 10,000 Units shall be issued for each \$1,000 principal amount of Series 1C Notes so converted, subject to adjustments for fractional interests and subject to adjustment as provided in this Schedule "A" to this Second Supplemental Indenture (the "**Conversion Price**").
- 13. Except as provided below, no adjustment in the number of Units to be issued upon conversion will be made for dividends or distributions on Common Shares issuable upon conversion, the record date for the payment of which precedes the date upon which the holder becomes a holder of Units in accordance with Article 7 of the Note Indenture, or for interest accrued on Series 1C Notes surrendered.
- 14. Holders converting their Series 1C Notes will receive, in addition to the applicable number of Units, accrued and unpaid interest (less any taxes required to be deducted) in respect of the Series 1C Notes surrendered for conversion up to but excluding the Date of Conversion from, and including, the most recent Interest Payment Date. For clarity, payment of such interest shall be made on the next regularly scheduled Interest Payment Date following the Date of Conversion. The Conversion Price will not be adjusted for accrued interest.
- 15. Notwithstanding any other provisions of the Note Indenture, if a Series 1C Note is surrendered for conversion on an Interest Payment Date or during the five preceding Business Days, the Person or Persons entitled to receive Units in respect of the Series 1C Note so surrendered for conversion shall not become the holder or holders of record of such Units until the Business Day following such Interest Payment Date, but for certainty will be entitled to receive the interest on such Series 1C Note payable on such Interest Payment Date.

16. In the event that the Corporation completes, after the issuance of the Series 1C Notes, a Qualifying Private Placement, the Corporation shall have the right, at any time from time to time prior to the Maturity Date, to convert \$1,000 multiples of principal amount of Notes, at the Conversion Price, into fully paid Units (the "**Forced Conversion**").
17. If less than all of the outstanding Series 1C Notes are to be converted by the Corporation pursuant to a Forced Conversion, the Series 1C Notes to be so converted shall be selected by the Trustee on a *pro rata* basis. For this purpose the Trustee may make, and from time to time amend, regulations with respect to the manner in which Series 1C Notes may be so selected, and regulations so made shall be valid and binding upon all Noteholders, notwithstanding the fact that as a result thereof one or more of such Series 1C Notes become subject to conversion in part only. The holder of a Series 1C Note of which a part only is converted, upon surrender of such Series 1C Note for conversion, shall be entitled to receive, without expense to such holder, one or more new Series 1C Notes for the unconverted portion so surrendered, and the Trustee shall certify and deliver such new Series 1C Note or Series 1C Notes upon receipt of the Series 1C Note so surrendered.
18. For so long as there is any indebtedness outstanding that is secured by the Series 1C Notes, the Corporation covenants and agrees not to and shall ensure that each Subsidiary does not:
- (a) sell, transfer, assign, lease, or otherwise dispose of any of the Principal Material Licences, or pledge its interests in the Principal Material Licences, or create a security interest therein, in support of any obligation of the Corporation, any Subsidiary or any other person, unless such sale, transfer, assignment, lease, disposition, pledge or security interest is approved by the holders of Series 1C Notes in accordance with the terms of the Note Indenture;
 - (b) enter into any agreement or arrangement requiring board approval with any person not dealing at arm's length with the Corporation or any of its Subsidiaries without the prior approval of a majority of directors of the Corporation who have no direct or indirect material interest in such agreement or arrangement in accordance with the procedures set out in Section 120 of the *Canada Business Corporation Act*;
 - (c) in the case of the Corporation only, pay any dividends to shareholders or make other distributions of corporate assets to shareholders, or redeem any outstanding securities of the Corporation other than the redemption of notes issued under the Note Indenture in the manner contemplated therein;
 - (d) pay any indebtedness of the Corporation other than in the ordinary course of business; however, it is acknowledged and agreed that the foregoing does not prohibit the Corporation from paying any interest-bearing indebtedness for borrowed money when due and owing, provided that there is no Event of Default outstanding at the time of such payment. For greater certainty, upon the occurrence of an Event of Default that is continuing, the Corporation covenants and agrees not to and shall ensure that each Subsidiary does not pay any indebtedness of the Corporation or of any Subsidiary for borrowed money, as the

case may be, while there is any indebtedness outstanding that is secured by the Series 1C Notes; or

- (e) sell, transfer, assign, lease, or otherwise dispose of any asset or property material to its business (i) in the case of MMC to any Subsidiary; or (ii) in the case of any Subsidiary to any other Subsidiary, unless such sale, transfer, assignment, lease or other disposition is approved by the holders of Series 1 Notes in accordance with the terms of the Note Indenture, other than, in the case only of (i) and (ii) above, a transfer of a material asset or material property to a Subsidiary as part of a *bona fide* sale of assets to a third party that is approved by the Board.
19. The holder of a Series 1C Note desiring to convert such Series 1C Note in whole or in part into Units shall surrender such Series 1C Note to the Trustee at either of its principal offices in the City of Calgary, Alberta or the City of Toronto, Ontario together with the conversion notice attached hereto as Appendix "4" or any other written notice in a form satisfactory to the Trustee, in either case duly executed by the holder or his executors or administrators or other legal representatives or his or their attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Trustee, exercising his right to convert such Note in accordance with the provisions set out in this Schedule "A" to this Second Supplemental Indenture. Thereupon and subject to payment of all applicable stamp or security transfer taxes or other governmental charges and compliance with any request made for the Noteholder to provide a cash payment to the Trustee in satisfaction of all Taxes required to be withheld or deducted in connection with the conversion and all other reasonable requirements of the Trustee, such Noteholder or his nominee(s) or assignee(s) shall be entitled to be entered in the books of the Corporation as at the Date of Conversion as the holder of the number of Common Shares and Warrants comprising the Units into which such Series 1C Note is convertible in accordance with the provisions of this Schedule "A" to this Second Supplemental Indenture and, as soon as practicable thereafter, the Corporation shall deliver to such Noteholder or, subject as aforesaid, his nominee(s) or assignee(s), a certificate or certificates for such Common Shares and Warrants comprising the Units and make or cause to be made any payment of interest to which such holder is entitled or in respect of fractional Units.
20. Subject to paragraph 15, for the purposes of this Schedule "A" to this Second Supplemental Indenture, a Series 1C Note shall be deemed to be surrendered for conversion on the date (herein called the "**Date of Conversion**") on which it is so surrendered when the register of the Trustee is open and, in the case of a Series 1C Note so surrendered by post or other means of transmission, on the date on which it is received by the Trustee at one of its offices; provided that if a Series 1C Note is surrendered for conversion on a day on which the Trustee is closed, the Person or Persons entitled to receive Common Shares and Warrants comprising the Units shall be deemed to become the holder or holders of record of such Common Shares and Warrants comprising the Units as at the date on which such registers are next reopened. A holder surrendering Series 1C Notes as aforementioned shall be treated as the holder of record of the Common Shares and Warrants comprising the Units to be issued effective immediately before the close of business on the Date of Conversion, and shall be entitled to all substitutions therefor, all income earned thereon or accretions thereto and all dividends or

distributions (dividends or distributions in kind) thereon and arising as of such date, and in the event that the Trustee receives the same, it shall hold the same in trust for the benefit of such holder.

21. The holder of a Series 1C Note surrendered for conversion shall be entitled to receive accrued and unpaid interest in respect thereof from the date of the last Interest Payment Date up to but excluding the Date of Conversion (less applicable withholding taxes and other charges, if any, specified in paragraph 20).
22. In the event of a conversion of Series 1C Notes into Units where the holder is subject to withholding Taxes, the Trustee, on a Written Direction of the Corporation shall request the Noteholder to pay an amount in cash to the Trustee to cover the amount of Taxes required to be withheld or deducted, and the Trustee shall remit such amounts to the appropriate Governmental Authority, as and when required.
23. The Conversion Price in effect at any date shall be subject to adjustment from time to time as set forth below:
 - (a) If and whenever at any time prior to the Time of Expiry the Corporation shall (i) subdivide or redivide the outstanding Common Shares into a greater number of shares, (ii) reduce, combine or consolidate the outstanding Common Shares into a smaller number of shares, or (iii) issue Common Shares to the holders of all or substantially all of the outstanding Common Shares by way of a dividend or distribution, the Conversion Price in effect on the effective date of such subdivision, redivision, reduction, combination or consolidation or on the record date for such issue of Common Shares by way of a dividend or distribution, as the case may be, shall in the case of any of the events referred to in (i) and (iii) above be decreased in proportion to the number of outstanding Common Shares resulting from such subdivision, redivision, dividend or distribution, or shall, in the case of any of the events referred to in (ii) above, be increased in proportion to the number of outstanding Common Shares resulting from such reduction, combination or consolidation. Such adjustment shall be made successively whenever any event referred to in this paragraph (a) shall occur. Any such issue of Common Shares by way of a dividend or distribution shall be deemed to have been made on the record date for the dividend or distribution for the purpose of calculating the number of outstanding Common Shares under paragraphs (c) and (d) below.
 - (b) If and whenever at any time prior to the Time of Expiry the Corporation shall fix a record date for the issuance of options, rights or warrants to all or substantially all the holders of its outstanding Common Shares entitling them, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares (or securities convertible into Common Shares) at a price per share (or having a conversion or exchange price per share) less than 95% of the Current Market Price of a Common Share on such record date, the Conversion Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Common

Shares outstanding on such record date plus a number of Common Shares equal to the number arrived at by dividing the aggregate price of the total number of additional Common Shares offered for subscription or purchase (or the aggregate conversion or exchange price of the convertible securities so offered) by such Current Market Price per Common Share, and of which the denominator shall be the total number of Common Shares outstanding on such record date plus the total number of additional Common Shares offered for subscription or purchase (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever such a record date is fixed. To the extent that any such options, rights or warrants are not so issued or any such options, rights or warrants are not exercised prior to the expiration thereof, the Conversion Price shall be re-adjusted to the Conversion Price which would then be in effect if such record date had not been fixed or to the Conversion Price which would then be in effect based upon the number of Common Shares (or securities convertible into Common Shares) actually issued upon the exercise of such options, rights or warrants were included in such fraction, as the case may be.

- (c) If and whenever at any time prior to the Time of Expiry, there is a reclassification of the Common Shares or a capital reorganization of the Corporation other than as described in paragraph (a) above or a consolidation, amalgamation, arrangement, binding share exchange, merger of the Corporation with or into any other Person or other entity or acquisition of the Corporation or other combination pursuant to which the Common Shares are converted into or acquired for cash, securities or other property; or a sale or conveyance of the property and assets of the Corporation as an entirety or substantially as an entirety to any other Person (other than a direct or indirect wholly-owned subsidiary of the Corporation) or other entity or a liquidation, dissolution or winding-up of the Corporation, any holder of a Series 1C Note who has not exercised its right of conversion prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, share exchange, acquisition, combination, sale or conveyance or liquidation, dissolution or winding-up, upon the exercise of such right thereafter, shall be entitled to receive and shall accept, in lieu of the number of Common Shares then sought to be acquired by it, such number of shares or other securities or property of the Corporation or of the Person or other entity resulting from such merger, amalgamation, arrangement, acquisition, combination or consolidation, or to which such sale or conveyance may be made or which holders of Common Shares receive pursuant to such liquidation, dissolution or winding-up, as the case may be, that such holder of a Series 1C Note would have been entitled to receive on such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, share exchange, acquisition, combination, sale or conveyance or liquidation, dissolution or winding-up, if, on the record date or the effective date thereof, as the case may be, the holder had been the registered holder of the number of Common Shares sought to be acquired by it and to which it was entitled to acquire upon the exercise of the conversion right. If determined appropriate by the Board, to give effect to or to evidence the provisions of this paragraph (c), the Corporation, its successor, or such purchasing Person or other entity, as the case may be, shall, prior to or contemporaneously with any such reclassification, capital

reorganization, consolidation, amalgamation, arrangement, merger, share exchange, acquisition, combination, sale or conveyance or liquidation, dissolution or winding-up, enter into an indenture which shall provide, to the extent possible, for the application of the provisions set forth in this Note Indenture with respect to the rights and interests thereafter of the holder of Series 1C Notes to the end that the provisions set forth in this Note Indenture shall thereafter correspondingly be made applicable, as nearly as may reasonably be, with respect to any shares or other securities or property to which a holder of Series 1C Notes is entitled on the exercise of its acquisition rights thereafter. Any indenture entered into between the Corporation and the Trustee pursuant to the provisions of this paragraph (c) shall be a supplemental indenture entered into pursuant to the provisions of Article 14 of the Note Indenture. Any indenture entered into between the Corporation, any successor to the Corporation or such purchasing Person or other entity and the Trustee shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this paragraph (c) and which shall apply to successive reclassifications, capital reorganizations, amalgamations, consolidations, mergers, share exchanges, acquisitions, combinations, sales or conveyances and to any successive liquidation or winding up or other similar transaction.

- (d) Any adjustment hereunder shall become effective immediately after a record date for an event referred to herein. The Corporation may defer, until the occurrence of such event, issuing to the holder of any Series 1C Note converted after such record date and before the occurrence of such event the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event before giving effect to such adjustment; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional Common Shares upon the occurrence of the event requiring such adjustment and the right to receive any distributions made on such additional Common Shares declared in favour of holders of record of Common Shares on and after the Date of Conversion or such later date as such holder would, but for the provisions of this paragraph (d), have become the holder of record of such additional Common Shares pursuant to paragraph (b) above.
- (e) The adjustments provided for hereunder are cumulative and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Section, provided that, notwithstanding any other provision of this Section, no adjustment of the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Conversion Price then in effect; provided however, that any adjustments which by reason of this paragraph (e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.
- (f) For the purpose of calculating the number of Common Shares outstanding, Common Shares owned by or for the benefit of the Corporation shall not be counted.

- (g) In the event of the occurrence an adjustment event as described in paragraphs (a) or (b) above, the exercise price for each Warrant issuable on conversion of the Series 1C Notes hereunder shall be adjusted in accordance with the following formula:

$$\text{Adjusted Warrant exercise price} = A \times B/C$$

where "A" is the exercise price of a Warrant prior to the occurrence of the adjustment event, "B" is the number of Common Shares that each Series 1C Note is convertible into prior to the occurrence of the adjustment event and "C" is the number of Common Shares that each Series 1C Note is convertible into following the adjustment event. Such adjustment to the exercise price per Warrant shall be made successively whenever any event referred to paragraphs (a) or (b) shall occur.

- (h) In the event of any question arising with respect to the adjustments provided for hereunder, such question shall be conclusively determined by a firm of nationally recognized chartered accountants appointed by the Corporation and acceptable to the Trustee (who may be the Auditors of the Corporation) and such accountants shall have access to all necessary records of the Corporation and such determination shall be binding upon the Corporation, the Trustee, and the Noteholders absent manifest error.
- (i) In case the Corporation shall take any action affecting the Common Shares other than action described herein, which in the opinion of the Board, would materially affect the rights of Noteholders, the Conversion Price shall be adjusted in such manner and at such time, by action of the Board, as the Board, in its sole discretion may determine to be equitable in the circumstances. Failure of the directors to make such an adjustment shall be conclusive evidence that they have determined that it is equitable to make no adjustment in the circumstances.
- (j) No adjustment in the Conversion Price shall be made in respect of any event described in paragraphs (a), (b) or (c) other than the events described in (a)(i) or (a)(ii) if the holders of the Series 1C Notes are entitled to participate in such event on the same terms *mutatis mutandis* as if they had converted their Series 1C Notes prior to the effective date or record date, as the case may be, of such event.
- (k) Except as stated above, no adjustment will be made in the Conversion Price for any Series 1C Notes as a result of the issuance of Common Shares at less than the Current Market Price for such Common Shares on the date of issuance or the then applicable Conversion Price.
24. The Corporation shall from time to time immediately after the occurrence of any event which requires an adjustment or readjustment as provided hereunder, deliver an Officer's Certificate to the Trustee specifying the nature of the event requiring the same and the amount of the adjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based, which certificate and the amount of the adjustment specified therein shall be verified by an

opinion of a firm of nationally recognized chartered accountants appointed by the Corporation and acceptable to the Trustee (who may be the Auditors of the Corporation) and shall be conclusive and binding on all parties in interest. When so approved, the Corporation shall, except in respect of any subdivision, redivision, reduction, combination or consolidation of the Common Shares, forthwith give notice to the Noteholders in the manner provided in Section 12.2 of the Note Indenture specifying the event requiring such adjustment or readjustment and the results thereof, including the resulting Conversion Price.

25. The Corporation shall not be required to issue fractional Common Shares and Warrants comprising the Units upon the conversion of Series 1C Notes pursuant to this Article or otherwise hereunder. If more than one Series 1C Note shall be surrendered for conversion at one time by the same holder, the number of whole Common Shares and Warrants comprising the Units issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of such Series 1C Notes to be converted. If any fractional interest in a Common Share or Warrant comprising a Unit would, except for the provisions of this Section, be deliverable upon the conversion of any principal amount of Series 1C Notes, any fractional interest that is less than 0.5 of a Common Share or Warrant will be rounded down to the nearest whole Common Share or Warrant, and any fractional interest that is 0.5, or greater, of a Common Share or Warrant will be rounded up to the nearest whole Common Share or Warrant.
26. The Corporation covenants with the Trustee that it will at all times reserve and keep available out of its authorized Common Shares, solely for the purpose of issue upon conversion of Series 1C Notes, and conditionally allot to Noteholders who may exercise their conversion rights hereunder, such number of Common Shares as shall then be issuable upon the conversion of all outstanding Notes. The Corporation covenants with the Trustee that all Common Shares which shall be so issuable shall be duly and validly issued as fully-paid and non-assessable.
27. The Corporation covenants with the Trustee that so long as any Series 1C Note remains outstanding, it will give notice to the Trustee, and to the Noteholders in the manner provided in Section 12.2 of the Note Indenture, of its intention to fix a record date for any event referred to in Section 23(a), (b), (c) or (d) hereunder (other than the subdivision, redivision, reduction, combination or consolidation of its Common Shares) which may give rise to an adjustment in the Conversion Price, and, in each case, such notice shall specify the particulars of such event and the record date and the effective date for such event; provided that the Corporation shall only be required to specify in such notice such particulars of such event as shall have been fixed and determined on the date on which such notice is given.
28. In addition, the Corporation covenants with the Trustee that so long as any Series 1C Note remains outstanding, it will give notice to the Trustee, and to the Noteholders in the manner provided in Sections 12.2 and 12.3 of the Note Indenture, prior to the effective date of any transaction referred to in Section 23(d) stating the consideration into which the Series 1C Notes will be convertible after the effective date of such transaction.

29. Each certificate representing Common Shares and Warrants comprising the Units issued upon conversion of Series 1C Notes, as well as all certificates issued in exchange for or in substitution of the foregoing securities, shall have imprinted or otherwise reproduced thereon such legend or legends, including any applicable Canadian securities legend, as may be required to comply with any law or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or securities regulatory authority or to conform with general usage, all as may be determined by the Corporation, as conclusively evidenced by the issue of such certificates.
30. Upon conversion, the Corporation may offer and the converting holder may agree to the delivery of cash for all or a portion of the Series 1C Notes surrendered in lieu of Common Shares and Warrants comprising the Units. Notwithstanding such offer, the converting holder may, in his sole discretion, elect not to receive cash for all or a portion of the Series 1C Notes surrendered in which case, the Corporation shall issue and deliver the requisite number of Common Shares and Warrants comprising the Units to the converting holder.
31. If upon any conversion of Series 1C Notes, the Corporation may not issue Common Shares and Warrants comprising the Units in an applicable jurisdiction pursuant to the laws thereof, then the Corporation may alternatively satisfy its obligations to issue and deliver Common Shares and Warrants comprising the Units in respect of the conversion of such Series 1C Notes by a payment in cash effected through the delivery of an amount in cash equal to the Current Market Price of the Units on the Date of Conversion multiplied by the number of Units into which the Series 1C Notes would then be convertible.
32. The Corporation shall promptly deliver to each Noteholder for so long as they are holders of Notes all periodic financial and investor information that is prepared by the Corporation for its shareholders. In addition, while there is any indebtedness outstanding under the Series 1C Notes, the Corporation will prepare and deliver to each Noteholder, an annual budget, annual audited financial statements within 120 days of each financial year end and quarterly unaudited financial statements within 90 days of each fiscal quarter.

APPENDIX "1"
FORM OF SERIES 1C NOTE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THIS SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (I) MARCH 6, 2014, AND (II) THE DATE THE CORPORATION BECOMES A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY OF CANADA.

No. ●

●\$

MONGOLIA MINERALS CORPORATION

(A corporation incorporated under the laws of Canada)

**SERIES 1C 12% SENIOR SECURED CONVERTIBLE PROMISSORY NOTE
DUE DECEMBER 31, 2015**

MONGOLIA MINERALS CORPORATION (the “**Corporation**” or the “**Issuer**”) for value received hereby acknowledges itself indebted and, subject to the provisions of the Note Indenture (the “**Note Indenture**”) dated February 4, 2014 between the Corporation and Valiant Trust Company (the “**Trustee**”) as amended by all supplemental indentures thereto, promises to pay to the registered holder hereof on December 31, 2015 (the “**Maturity Date**”) or on such earlier date as the principal amount hereof may become due in accordance with the provisions of the Note Indenture the principal sum of ● (\$●) in lawful money of Canada on presentation and surrender of this Series 1C Note at the main branch of the Trustee in Calgary, Alberta in accordance with the terms of the Note Indenture and to pay interest on the principal amount hereof from the date hereof at the rate of 12% per annum (based on a year of 360 days comprised of twelve 30-day months), in like money, calculated and payable in arrears in equal (with the exception of the first interest payment which will include interest from March 6, 2014 to March 31, 2014 as set forth below) quarterly instalments (less any tax required by law to be deducted) on March 31, June 30, September 30 and December 31 in each year commencing on March 31, 2014 and the last payment (representing interest payable from the last Interest Payment Date to, but excluding, the Maturity Date or the earlier date of redemption, repayment or conversion) to fall due on the Maturity Date. For certainty, the first interest payment will include interest accrued from March 6, 2014 to March 31, 2014, which will be equal to \$8.33 for each \$1,000 principal amount of the Series 1C Notes.

Interest hereon shall be payable by cheque mailed by prepaid ordinary mail or by electronic transfer of funds to the registered holder hereof and, subject to the provisions of the Note Indenture, the mailing of such cheque shall, to the extent of the sum represented thereby (plus the amount of any tax withheld), satisfy and discharge all liability for interest on this Series 1C Note.

This Note is a Series 1C 12% Senior Secured Convertible Promissory Notes due December 31, 2015 (referred to herein as the “**Series 1C Note**”) forming part of the Series 1 Notes of the Corporation issued or issuable in one or more tranches under the provisions of the Note Indenture. The Series 1C Notes authorized for issue immediately are limited to an aggregate principal amount of \$704,000 in lawful money of Canada. Reference is hereby expressly made to the Note Indenture for a description of the terms and conditions upon which the Series 1C Notes are to be issued and held and the rights and remedies of the holders of the Series 1C Notes and of the Corporation and of the Trustee, all to the same effect as if the provisions of the Note

Indenture were herein set forth to all of which provisions the holder of this Series 1C Note by acceptance hereof assents.

The Series 1C Notes are issuable only in denominations of \$1,000 and integral multiples thereof. Upon compliance with the provisions of the Note Indenture, Notes of any denomination may be exchanged for an equal aggregate principal amount of Notes in any other authorized denomination or denominations.

The principal hereof may become or be declared due and payable before the stated maturity in the events, in the manner, with the effect and at the times provided in the Note Indenture and in the Second Supplemental Indenture.

The indebtedness evidenced by this Series 1C Note, and by all other Notes now or hereafter certified and delivered under the Note Indenture, is a direct senior secured obligation of the Corporation.

Subject to the provisions and conditions of the Note Indenture, the holder of this Series 1C Note shall have the right at such holder's option, prior to the close of business on the fifth Business Day prior to the earlier of: (i) the date fixed for redemption or (ii) the Maturity Date of the Series 1C Notes, to convert any part, being \$1,000 or an integral multiple thereof, of the principal amount of a Series 1C Note into Units at the then prevailing Conversion Price. Notwithstanding the foregoing, no Series 1C Note may be converted on an Interest Payment Date or during the five Business Days preceding March 31, June 30, September 30 and December 31 each year. The conversion price in effect on the date hereof for each Unit to be issued upon the conversion of Series 1C Notes shall be equal to \$0.10 per Unit, subject to adjustment as provided in the Note Indenture and in the Second Supplemental Indenture (the "**Conversion Price**"). Holders converting their Series 1C Notes will receive, in addition to the applicable number of Units, accrued and unpaid interest (less any taxes required to be deducted) in respect of the Series 1C Notes surrendered for conversion in accordance with the terms of the of the Note Indenture.

In the event that the Corporation completes a Qualifying Private Placement, the Corporation shall have the right, at any time from time to time prior to the Maturity Date, to convert \$1,000 multiples of principal amount of Series 1C Notes, at the Conversion Price, into fully paid Units.

This Series 1C Notes may be redeemed at the option of the Corporation on the terms and conditions set out in the Note Indenture and in the Second Supplemental Indenture at the Redemption Price therein and herein set out provided that this Series 1C Notes is not redeemable before February 4, 2015.

The Note Indenture contains provisions making binding upon all holders of Notes outstanding thereunder (or in certain circumstances specific series of Notes) resolutions passed at meetings of such holders held in accordance with such provisions and instruments signed by the holders of a specified majority of Notes outstanding (or specific series), which resolutions or instruments may have the effect of amending the terms of this Series 1C Note or the Note Indenture.

The Note Indenture contains provisions disclaiming any personal liability on the part of holders of Common Shares and officers, directors and employees of the Corporation in respect of any obligation or claim arising out of the Note Indenture or this Note.

The registered holder hereof shall be liable for all Taxes arising in connection with any payment to be made on or in connection with this Series 1C Note, including any withholding Taxes that arise on or in connection with the conversion of all or a portion of the principal amount represented by this Series 1C Note into Units. The Corporation or the Trustee on behalf of the Corporation will be entitled to deduct and withhold any applicable taxes or similar charges (including interest, penalties or similar amounts in respect thereof) imposed or levied by or on behalf of a Governmental Authority, including pursuant to the Tax Act, from any payment to be made on or in connection with this Series 1C Note and, provided that the Corporation forthwith remits such withheld amount to relevant Governmental Authority and files all required forms in respect thereof and, at the same time, provides copies of such remittance and filing to the Trustee and/or the registered holder hereof, as applicable, the amount of any such deduction or withholding will be considered an amount paid in satisfaction of the Corporation's obligations under this Series 1C Note. Where the Corporation or Trustee is required to withhold and remit Taxes on the conversion of all or a portion of the principal amount represented by this Series 1C Note into Units, the registered holder hereof shall, in accordance with paragraph 19 of Schedule "A" to the Second Supplemental Indenture, provide a cash payment to the Trustee to satisfy such withholding Tax obligation. There is no obligation on the Corporation to gross-up amounts paid to the registered holder hereof in respect of such deductions or withholdings.

This Series 1C Note may only be transferred, upon compliance with the conditions prescribed in the Note Indenture, in one of the registers to be kept at the principal office of the Trustee in the City of Calgary, Alberta and in such other place or places and/or by such other registrars (if any) as the Corporation with the approval of the Trustee may designate. No transfer of this Series 1C Note shall be valid unless made on the register by the registered holder hereof or his executors or administrators or other legal representatives, or his or their attorney duly appointed by an instrument in form and substance satisfactory to the Trustee or other registrar, and upon compliance with such reasonable requirements as the Trustee and/or other registrar may prescribe and upon surrender of this Series 1C Note for cancellation. Thereupon a new Series 1C Note in the same aggregate principal amount shall be issued to the transferee in exchange hereof.

This Series 1C Note shall not become obligatory for any purpose until it shall have been certified by the Trustee under the Note Indenture. The Series 1C Notes are governed by the Note Indenture. If any of the provisions of this Series 1C Note are inconsistent with the provisions of the Note Indenture, the provisions of the Note Indenture shall take precedence and shall govern.

Capitalized terms used and not otherwise defined herein shall have the respective meanings ascribed thereto in the Note Indenture.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF MONGOLIA MINERALS CORPORATION has caused this Series 1C Note to be signed by its authorized representatives on this 6th day of March, 2014.

MONGOLIA MINERALS CORPORATION

By: _____

Name: William Foster

Title: President and Chief Executive
Officer

(FORM OF TRUSTEE'S CERTIFICATE)

This Series 1C Note is one of the Series 1C 12% Senior Secured Convertible Promissory Notes due December 31, 2015 referred to in the Note Indenture within mentioned.

VALIANT TRUST COMPANY

By: _____
(Authorized Officer)

(FORM OF REGISTRATION PANEL)

(No writing hereon except by Trustee or other registrar)

Date of Registration	In Whose Name Registered	Signature of Trustee or Registrar

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____, whose address and social insurance number, if applicable, are set forth below, this Series 1C Note (or \$_____ principal amount hereof*) of MONGOLIA MINERALS CORPORATION standing in the name(s) of the undersigned in the register maintained by the Trustee with respect to such Series 1C Note and does hereby irrevocably authorize and direct the Trustee to transfer such Series 1C Note in such register, with full power of substitution in the premises.

Dated: _____

Address of Transferee: _____

(Street Address, City, Province and Postal Code)

Social Insurance Number of Transferee, if applicable: _____

*If less than the full principal amount of the within Series 1C Note is to be transferred, indicate in the space provided the principal amount (which must be \$1,000 or an integral multiple thereof, unless you hold a Series 1C Note in a non-integral multiple of \$1,000, in which case such Series 1C Note is transferable only in its entirety) to be transferred.

The signature(s) to this assignment must correspond with the name(s) as written upon the face of this Series 1C Note in every particular without alteration or any change whatsoever. The signature(s) must be guaranteed by a Canadian chartered bank or trust company or by a member of an acceptable Medallion Guarantee Program. Notarized or witnessed signatures are not acceptable as guaranteed signatures. The Guarantor must affix a stamp bearing the actual words: "SIGNATURE GUARANTEED".

The registered holder of this Series 1C Note is responsible for the payment of any taxes that may be payable in respect of the transfer of this Note.

Signature of Guarantor:

Authorized Officer

Signature of transferring registered holder

Name of Institution

APPENDIX "2"
FORM OF REDEMPTION NOTICE

To: Holders of 12% Series 1C Senior Secured Convertible Promissory Notes (the "**Series 1 CNotes**") of Mongolia Minerals Corporation (the "**Corporation**")

Note: All capitalized terms used and not otherwise defined herein have the respective meanings ascribed thereto in the Note Indenture (including any supplemental indentures thereto) mentioned below, unless otherwise indicated.

Notice is hereby given pursuant to Section 4.3 of the note indenture (the "**Indenture**") dated as of February 4, 2014 among the Corporation and Valiant Trust Company (the "**Trustee**"), as amended by supplemental indentures thereto, that the aggregate principal amount of \$_____ of the \$704,000 of Series 1C Notes outstanding will be redeemed as of _____ (the "**Redemption Date**"), upon payment of a redemption amount of \$_____ for each \$1,000 principal amount of Notes, being equal to the aggregate of (i) \$_____ (the "**Redemption Price**"), and (ii) all accrued and unpaid interest hereon to but excluding the Redemption Date (collectively, the "**Total Redemption Price**").

The Total Redemption Price will be payable upon presentation and surrender of the Notes called for redemption at the following corporate trust office:

Valiant Trust Company
Suite 310, 606 – 4th Avenue SW
Calgary Alberta T2P 1T1

The interest upon the principal amount of Notes called for redemption shall cease to be payable from and after the Redemption Date, unless payment of the Total Redemption Price shall not be made on presentation for surrender of such Notes at the above-mentioned corporate trust office on or after the Redemption Date or prior to the setting aside of the Total Redemption Price pursuant to the Indenture.

In this connection, upon presentation and surrender of the Notes for payment on the Redemption Date, the Corporation shall, on the Redemption Date, make the delivery to the Trustee, at the above-mentioned corporate trust office, for delivery to and on account of the holders of cash representing the Redemption Price and all accrued and unpaid interest, less any withheld amounts.

DATED:

MONGOLIA MINERALS CORPORATION

(Authorized Director or Officer of Mongolia Minerals Corporation)

APPENDIX "3"
FORM OF WARRANT CERTIFICATE

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (i) ●, AND (ii) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

THE WARRANTS REPRESENTED BY THIS CERTIFICATE WILL BE VOID AND OF NO VALUE IF NOT EXERCISED BEFORE THE EXPIRY TIME, AS SUCH TERM IS DEFINED IN THE ATTACHED TERMS AND CONDITIONS OF WARRANTS OF MONGOLIA MINERALS CORPORATION

WARRANT CERTIFICATE

MONGOLIA MINERALS CORPORATION

CERTIFICATE NO. ●

● **WARRANTS** entitling the holder to receive on due exercise thereof, subject to adjustment, one Common Share (as defined below) for each Warrant represented hereby.

THIS IS TO CERTIFY THAT ● (the "Warrantholder") is entitled to subscribe for and purchase, for each warrant ("Warrant") represented hereby, in the manner and subject to the restrictions and adjustments set forth in the "Terms and Conditions of Warrants of Mongolia Minerals Corporation" appended as a Schedule hereto (the "Terms and Conditions") and forming a part hereof, at any time until the Expiry Time, as such term is defined in the Terms and Conditions, one (1) fully paid and non-assessable common share ("Common Share") in the capital of Mongolia Minerals Corporation (the "Corporation"), subject to adjustment in accordance with the Terms and Conditions, on payment to the Corporation of CAD\$0.20 per Common Share.

The Warrants represented by this certificate may only be exercised at the principal office of the Corporation at, Suite 404, 1015 - 4th Street SW, Calgary, AB, T2R 1J4 to the attention of the Chief Executive Officer upon surrender of this certificate with the subscription form on the reverse side hereof (or a separate notice on substantially the same form) (the "Subscription Form") duly completed and executed, and a certified cheque or bank draft payable to or to the order of the Corporation, or wire transfer to an account specified for this purpose by the Corporation, in immediately available funds, for the full purchase price of the Common Shares so subscribed for.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be executed by a duly authorized director or officer.

DATED ●.

MONGOLIA MINERALS CORPORATION

By: _____
Name:
Title:

SEE ATTACHED "TERMS AND CONDITIONS OF WARRANTS OF MONGOLIA MINERALS CORPORATION"

(reverse side of Warrant Certificate)

SUBSCRIPTION FORM

TO: MONGOLIA MINERALS CORPORATION

The undersigned holder of the Warrants represented by this Warrant Certificate hereby irrevocably subscribes for _____ Common Shares (or such adjusted number of Common Shares or other securities to which such subscription entitles the undersigned in lieu thereof) in accordance with and subject to the provisions of this Warrant Certificate at the subscription price of CAD\$0.20 per Common Share, and encloses herewith a certified cheque or bank draft payable to or to the order of Mongolia Minerals Corporation or has sent a wire transfer for the full subscription price for the Common Shares so subscribed for.

The Common Shares subscribed for are to be issued as follows:

Name:

Address in full:

Delivery Instructions:

Note: If further nominees are intended, please attach (and initial) a schedule providing these particulars.

DATED this ____ day of _____, 20__.

Signature Guaranteed

Signature of Warrantholder

Name of Warrantholder (please print)

Address of Warrantholder (please print)

Instructions:

If the Subscription Form indicates that Common Shares are to be issued to a person or persons other than the registered holder of the Warrant Certificate, the signature of such Warrantholder on the Subscription Form must be guaranteed by an authorized officer of a chartered bank, trust company or an investment dealer who is a member of a recognized stock exchange, and the Warrantholder must pay any applicable transfer taxes or fees.

SCHEDULE TO WARRANT CERTIFICATE
TERMS AND CONDITIONS OF WARRANTS OF
MONGOLIA MINERALS CORPORATION (the "Terms and Conditions")

ARTICLE 1
INTERPRETATION

1.1 Definitions

In these Terms and Conditions, unless there is something in the subject matter or context inconsistent therewith:

- (a) "affiliate" has the meaning that it has for purposes of the *Securities Act* (Alberta);
- (b) "Business Day" means a day other than a Saturday, Sunday or any day on which banks are not generally open for the transaction of commercial business in Calgary, Alberta;
- (c) "Common Shares" means the common shares in the capital of the Corporation as presently constituted;
- (d) "Corporation" means Mongolia Minerals Corporation and its successors;
- (e) "Corporation's Auditors" means an independent firm of accountants duly appointed as auditors of the Corporation;
- (f) "Exercise Price" means the amount to be paid upon the exercise of each Warrant, being the sum of CAD\$0.20 per Common Share;
- (g) "Expiry Time" means 4:00 p.m. (Calgary time) on December 31, 2015;
- (h) "person" includes an individual, corporation, partnership, trustee or any unincorporated organization and words importing persons include individuals, corporations, partnerships, trustees and unincorporated organizations;
- (i) "Purchase Price" shall mean, for any exercise of Warrants, the aggregate consideration payable to the Corporation by the Warrantholder pursuant to Section 2.1 hereof, in an amount equal to the product of the Exercise Price multiplied by the number of Warrants so exercised at such time;
- (j) "Subscription Form" means the subscription form printed on the reverse side of the Warrant Certificate, or a separate notice in substantially the same form;
- (k) "Warrantholder" means the registered holder of the Warrants;
- (l) "Warrant Certificate" means the certificate to which these Terms and Conditions are attached and of which these Terms and Conditions form a part; and
- (m) "Warrants" means the warrants to purchase Common Shares evidenced by the Warrant Certificate.

1.2 Certain Rules of Interpretation

- (a) These Terms and Conditions shall be governed by, and construed in accordance with, the laws of the Province of Alberta and the federal laws of Canada applicable therein. The parties irrevocably submit to the non-exclusive jurisdiction of the courts of competent jurisdiction in the Province of Alberta in respect of any action or proceeding relating in any way to this Agreement.
- (b) Headings of Articles and Sections in these Terms and Conditions are inserted for convenience of reference only and do not affect the construction or interpretation of these Terms and Conditions.

- (c) Where the word "including" or "includes" is used in these Terms and Conditions, it means "including (or includes) without limitation".
- (d) Unless the context otherwise requires, in these Terms and Conditions words importing the singular include the plural and vice versa and words importing gender include all genders.
- (e) Time is of the essence in the performance of the Parties' respective obligations under these Terms and Conditions.

ARTICLE 2 EXERCISE OF WARRANTS

2.1 Method of Exercise

The right to purchase Common Shares hereunder may be exercised at any time up until the Expiry Time, by the Warrantholder delivering to the Corporation at, Suite 404, 1015 – 4th Street SW, Calgary, AB, T2R 1J4 to the attention of the Chief Executive Officer: (a) the Warrant Certificate with a duly completed and executed Subscription Form; and (b) a certified cheque or bank draft payable to or to the order of the Corporation, or by wire transfer to an account specified for this purpose by the Corporation, in immediately available funds as well as the other items specified herein, for the full amount of the Purchase Price, in lawful money of Canada, and such items referred to above shall be deemed to be delivered only upon actual receipt of same by the Corporation.

2.2 Effect of Exercise

Upon delivery of the Warrant Certificate and Subscription Form and payment by the Warrantholder as set forth in Section 2.1 as well as the other items specified herein, the Common Shares so subscribed for shall be issued as fully paid and non-assessable shares in the capital of the Corporation and the Warrantholder will become the holder of record of the Common Shares, effective as of the date of such delivery and payment, and within five Business Days thereafter the Corporation will cause certificate(s) representing the Common Shares purchased to be mailed to the Warrantholder at the address provided by the Warrantholder in the delivery instructions in the Subscription Form, and the Warrantholder shall become a shareholder of the Corporation.

2.3 Partial Exercise

The Warrantholder may subscribe for and purchase a number of Common Shares less than the total number of Common Shares that the Warrantholder is entitled to purchase hereunder, in which event the Corporation shall cause a certificate representing the balance of the Warrants not exercised by the Warrantholder to be mailed to the Warrantholder at the address set forth in the delivery instructions provided by the Warrantholder in the Subscription Form within five Business Days of receiving the items set forth in Section 2.1.

2.4 Expiration

At the Expiry Time, all Warrants which have not been exercised by that time, and these Terms and Conditions as they relate to such unexercised Warrants, shall cease and terminate and such Warrants shall expire and be void and of no effect.

ARTICLE 3 GENERAL

3.1 Issue of Warrants

The number of Warrants set forth on the face page of this Warrant Certificate are hereby created and authorized to be issued, and the Corporation hereby represents and warrants to the Warrantholder that the Corporation is duly authorized and has the corporate power and authority to create and issue the Warrants and the Common Shares issuable on the exercise thereof, the Corporation has duly reserved for issuance the number of Common Shares issuable upon exercise of the Warrants, and that this Warrant Certificate represents a valid, legal and binding obligation of the Corporation enforceable in accordance with these Terms and Conditions.

3.2 Reservation of Sufficient Common Shares

For so long as the Warrants remain outstanding, the Corporation shall reserve and keep available for issue upon the exercise of the Warrants such number of authorized but unissued Common Shares or other shares in the capital of the Corporation as will be required to satisfy in full the Warrantholder's rights to be issued Common Shares (or other shares in the capital of the Corporation) upon the exercise of the Warrants in accordance with the provisions of these Terms and Conditions.

3.3 Representations of the Corporation

- (a) The execution, delivery and performance of this Warrant and the consummation of the transactions contemplated hereunder will not, with or without the giving of notice or the lapse of time or both (A) violate any provision of law, statute, rule or regulation to which the Corporation is subject, (B) violate any order, judgment or decree applicable to it or (C) conflict with or result in a breach or default under any term or condition of its applicable governing instruments or any agreement or other instrument to which it is a party or by which it is bound or the policies of the stock exchange(s) on which the Common Shares are traded.
- (b) No consent, approval, order or authorization of , or registration, qualification, designation, declaration or filing with, any Canadian federal, provincial or local governmental authority on part of the Corporation is required in connection with the consummation of the transactions contemplated in this Warrant, except for such filings as may be required pursuant to applicable Canadian provincial securities laws.

3.4 Covenants of the Corporation

- (a) The Corporation shall not take any action that has the effect of depriving the Warrantholder of the right to exercise the right of purchase pursuant to the Warrant.
- (b) If the issuance of any Common Shares upon the exercise of this Warrant requires any filing or registration with or approval of any governmental or regulatory authority or compliance with any other requirement under any applicable law before such shares may be validly issued upon such exercise, the Corporation agrees to take such actions as may be necessary to secure such filing, registration, approval or compliance, as the case may be, provided that, in the event that such filing, registration, approval or compliance is required only by reason of the particular circumstances of or actions taken by the recipient of such Common Shares, the Corporation will not be required to take such action.

3.5 Additional Rights

Nothing contained herein shall be construed as preventing the Corporation from making any distribution of or otherwise issuing to any person, at any time and from time to time, additional Common Shares (or securities that are, directly or indirectly, exercisable or exchangeable for, or convertible into, Common Shares) for such consideration and on such terms as may be approved by the board of directors of the Corporation in its sole discretion.

3.6 Lost, Stolen, Destroyed or Mutilated Warrant Certificate

Upon receipt of evidence satisfactory to the Corporation of the loss, theft, destruction or mutilation of the Warrant Certificate and, in the case of loss, theft or destruction, upon receipt of indemnity or security in an amount and form satisfactory to the Corporation, or, in the case of mutilation, upon surrender and cancellation of the mutilated Warrant Certificate, and upon payment by the Warrantholder of the reasonable charges of the Corporation therefor, the Corporation will issue and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant Certificate, a new Warrant Certificate of like tenor and representing the same number of Warrants.

3.7 Warrantholder Not a Shareholder

The Warrants represented hereby shall not constitute the Warrantholder a shareholder of the Corporation, nor entitle the Warrantholder to any right or interest (including, without limitation, any voting rights or rights to receive dividends or other distributions) as a shareholder of the Corporation. For greater certainty, the Warrants represented hereby shall not entitle the Warrantholder to any voting rights whatsoever in the affairs of the Corporation.

3.8 Notice to Regulatory Authorities

The Corporation may give notice of the issuance of any Common Shares pursuant to the exercise of the Warrants, in such detail as may be required, to any stock exchange, securities commission or other regulatory authority having jurisdiction in respect of such issuance.

3.9 Hold Periods and the Legending of Share Certificates

The certificate(s) representing the Common Shares to be issued pursuant to the exercise of the Warrants may, if applicable, bear the following legend:

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (i) ●, AND (ii) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.

ARTICLE 4 ADJUSTMENTS

4.1 Adjustments

The number of Common Shares purchasable upon the exercise of each Warrant shall be subject to adjustment as follows:

- (a) If and whenever the Corporation shall:
 - (i) fix a record date to pay a dividend in Common Shares or make a distribution in Common Shares;
 - (ii) subdivide its outstanding Common Shares into a greater number of Common Shares; or
 - (iii) combine its outstanding Common Shares into a smaller number of Common Shares;

the number of Common Shares purchasable upon exercise of each Warrant immediately prior thereto shall be adjusted so that the Warrantholder shall be entitled to receive the kind and number of Common Shares of the Corporation which it would have otherwise been entitled to receive after the happening of any of the events described above, had such Warrant been exercised immediately prior to the happening of such event or any record date with respect thereto. An adjustment made pursuant to this subsection (a) shall become effective immediately after the record date or effective date, as the case may be, of such event.

- (b) If and whenever the Corporation shall fix a record date for issuance of rights, options or warrants to all or substantially all holders of its outstanding Common Shares entitling them (for a period expiring not more than 45 days after such record date) to subscribe for or purchase Common Shares at a price per share which is lower than 95% of the current market price per Common Share at such record date (as determined in accordance with subsection (d) below), the number of Common Shares thereafter purchasable upon the exercise of each Warrant shall be determined by multiplying the number of Common Shares theretofore purchasable upon exercise of the Warrants outstanding immediately prior to such record date by a fraction, of which the numerator shall be the number of Common Shares outstanding on such record date plus the number of additional

Common Shares offered for subscription or purchase, and of which the denominator shall be the number of Common Shares outstanding on such record date plus the number of Common Shares which the aggregate subscription price of the total number of Common Shares so offered would be purchased at the current market price per Common Share (as determined in accordance with subsection (d) below) at such record date. Such adjustment shall be made whenever such rights, options or warrants are issued, and shall become effective immediately after the record date for the determination of shareholders entitled to receive such rights, options or warrants. To the extent that any such rights, options or warrants are not so issued or any such rights, option or warrants are not exercised prior to the expiration thereof, the number of Common Shares purchasable upon the exercise of each Warrant shall then be re-adjusted to the number of Common Shares purchasable upon the exercise of each Warrant which would then be in effect if such record date had not been fixed or based on the number of and aggregate subscription price of Common Shares actually issued upon the exercise of such rights, options or warrants, as the case may be.

(c) If and whenever there is:

- (i) a reclassification of the Common Shares or a capital reorganization of the Corporation other than as described in subsection (a) above;
- (ii) a consolidation, amalgamation, arrangement or merger of the Corporation with or into any other body corporate, trust, partnership or other entity; or
- (iii) a sale or conveyance of the property and assets of the Corporation as an entirety or substantially as an entirety to any other body corporate, trust, partnership or other entity;

and the Warrantholder has not fully exercised all Warrants prior to the record date or the effective date of such event, as the case may be, then upon the exercise of Warrants thereafter, the Warrantholder shall be entitled to receive and shall accept, in lieu of the number of Common Shares as then constituted and to which the Warrantholder was previously entitled upon exercise of the Warrants, for the same aggregate consideration payable therefor, the number of shares or other securities or property of the Corporation or of the body corporate, trust, partnership or other entity resulting from such reclassification, capital reorganization, merger, amalgamation, arrangement or consolidation, or to which such sale or conveyance may be made, as the case may be, that the Warrantholder would have been entitled to receive on such event if, on the record date or the effective date thereof, as the case may be, the Warrantholder had been the registered holder of the number of Common Shares upon due exercise of the Warrants; and in any case, necessary and appropriate adjustments shall be made in the application of the provisions herein with respect to the rights and interests thereafter of the Warrantholder to the end that the provisions set forth herein shall thereafter correspondingly be made applicable, as nearly as may reasonably be, in relation to any shares or securities or property to which the Warrantholder may be entitled upon the exercise of such Warrants thereafter.

- (d) For the purpose of any computation under subsection (b) of this Section 4.1, the current market price per Common Share at any date shall be the weighted average price per Common Share for twenty-five (25) consecutive trading days prior to the date such determination is required; provided if the Common Shares are then traded on more than one stock exchange, then the market price shall be calculated with reference to the weighted average price per Common Share on the stock exchange on which the largest volume of Common Shares were traded during such twenty-five (25) consecutive trading day period. The weighted average price per Common Share shall be determined by dividing the aggregate sale price of all Common Shares sold on such exchange or market, as the case may be, during the said twenty-five (25) consecutive trading days by the total number of shares so sold. For purposes of this subsection (d), trading day means, with respect to a stock exchange, a day on which such exchange is open for the transaction of business. Should the Common Shares not be listed on any stock exchange, the current market price per Common Share at any date shall be determined by the board of directors of the Corporation, acting reasonably.

- (e) In any case in which this Article 4 shall require that any adjustment be made effective immediately after a record date for a specified event, the Corporation may elect to defer, until the occurrence of the event, the issuance, to the holder of any Warrant exercised after that record date, of the Common Shares and other securities of the Corporation, if any, issuable upon the exercise of the Warrant over and above the Common Shares and other securities of the Corporation otherwise issuable to the Warrantholder; provided, however, that the Corporation shall deliver to the holder an appropriate instrument evidencing the holder's right to receive such additional shares or other securities upon the occurrence of the event requiring such adjustment. Notwithstanding the foregoing, in the event that the record date relates to a consolidation or event which would result in the Warrantholder receiving fewer securities than what would otherwise be issuable to the Warrantholder, the Corporation shall only be obligated to deliver such lesser number of securities.
- (f) The adjustments provided for in this Section 4.1 are cumulative, and shall apply to successive events resulting in any adjustment under the provisions of this Article 4, provided that no adjustment in the number of Common Shares purchasable hereunder shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in the number of Common Shares purchasable upon the exercise of each Warrant or would result in the Warrantholder being entitled to receive securities, property or assets other than (or in addition to) Common Shares upon exercise of Warrants; provided, however, that any adjustments which by reason of this subsection (f) are not required to be made shall be carried forward and taken into account in any subsequent adjustment.
- (g) No adjustment in the number of Common Shares purchasable upon the exercise of each Warrant need be made under subsection (b) if the Corporation issues or distributes to the Warrantholder the rights, options, warrants or convertible or exchangeable securities, evidences of indebtedness, securities, assets or property referred to in those subsections which the Warrantholder would have been entitled to receive had the Warrants been exercised prior to the happening of such event or the record date with respect thereto.
- (h) For avoidance of doubt, the Exercise Price, being the amount to be paid on exercise of each Warrant, shall not be adjusted as result of such events pursuant to this Section 4.1.

4.2 Voluntary Adjustment by the Corporation

Subject to requisite stock exchange approval, if applicable, the Corporation may, at its option, at any time during the term of the Warrants, reduce the then current Exercise Price to any amount deemed appropriate by the Board of Directors of the Corporation.

4.3 Notice of Adjustment

Whenever the number of Common Shares purchasable upon the exercise of each Warrant is adjusted, as herein provided, the Corporation shall promptly send to the Warrantholder by first class mail, postage prepaid, notice of such adjustment or adjustments.

4.4 No Adjustment

Subject to section 4.1, no adjustment in respect of any cash dividends paid in the ordinary course to holders of Common Shares shall be made during the term of the Warrants or upon the exercise of a Warrant represented by this Warrant Certificate. Other than as set forth in this Warrant, no adjustment shall be made in respect of the issuance to any person, at any time and from time to time, of rights, options, warrants and other securities that are, directly or indirectly, exercisable or exchangeable for, or convertible into, Common Shares on such terms and for such consideration as may be approved by the board of directors of the Corporation in its sole discretion.

4.5 Determination of Adjustments

If any disputes shall at any time arise with respect to the Exercise Price or the number of Common Shares issuable upon the exercise of the Warrants, such question shall be conclusively determined by the Corporation's Auditors, or,

if they decline to so act, any other independent firm of Chartered Accountants, in Calgary, Alberta, that the Corporation may designate and the Warrantholder, acting reasonably, may approve, and who shall have access to all appropriate records and such determination shall be binding upon the Corporation and the holder.

4.6 Additional Rules Regarding Adjustments

- (a) In case the Corporation after the date of issuance of this Warrant Certificate takes any action affecting the Common Shares, other than actions described in Article 4, which in the opinion of the board of directors of the Corporation would materially affect the rights of the holder, the number of Common Shares purchasable hereunder will be adjusted in such manner, if any, and at such time, by action by the directors of the Corporation but subject in all cases to any necessary regulatory approval. Failure of the taking of action by the directors of the Corporation so as to provide for an adjustment on or prior to the effective date of any action by the Corporation affecting the Common Shares will be conclusive evidence that the board of directors of the Corporation has determined that it is equitable to make no adjustment in the circumstances.
- (b) The Corporation covenants to and in favour of the holder that so long as any Warrants represented by this Warrant Certificate remain outstanding, it will give notice to the Warrantholder of its intention to fix a record date for any event referred to in Article 4 which may give rise to an adjustment in the number of Common Shares purchasable hereunder, and, in each case, such notice must specify the particulars of such event and the record date and the effective date for such event; provided that the Corporation is only required to specify in such notice such particulars of such event as have been fixed and determined on the date on which such notice is given.

4.7 Fractional Shares

If upon any exercise of Warrants hereunder such exercise would, taking into account all of the Warrants then being exercised, result in the issuance of a fractional Common Shares, the number of Common Shares to be issued upon such exercise of Warrants shall be rounded to the nearest whole number (and if the fraction is 0.5, the number shall be rounded upwards).

ARTICLE 5 MERGER AND SUCCESSORS

5.1 Preservation of Rights

In connection with any consolidation of the Corporation with, or amalgamation or merger of the Corporation with or into, another person (including, without limitation, pursuant to a "takeover bid", "tender offer", amalgamation, arrangement or analogous transaction), the Corporation or such successor, as the case may be, shall agree that the applicable adjustment provisions in Article 4 shall apply. The provisions of this Article 5 shall similarly apply to successive consolidations, mergers, amalgamations, arrangements or analogous transactions.

5.2 Corporation May Consolidate, etc. on Certain Terms

Nothing herein contained shall prevent any consolidation, amalgamation or merger of the Corporation with or into any other corporation or corporations, or a conveyance or transfer of all or substantially all or the undertakings, properties and assets of the Corporation as an entirety to any corporation lawfully entitled to acquire and operate same.

ARTICLE 6 AMENDMENTS AND NOTICE

6.1 Amendments

The terms of the Warrants represented by this Warrant Certificate may be amended, and the observance of any term thereof may be waived, only by a written instrument signed by the Corporation and the Warrantholder. Any such

amendment shall be subject to receipt by the Corporation of all required approvals (if any) from any stock exchange on which the Common Shares are listed, and any applicable governmental or regulatory authorities.

6.2 Notice

Any notice given under or pursuant to this Warrant Certificate will be given in writing and must be delivered, or mailed by prepaid post, and addressed to the person to which notice is to be given at the address of the person set out on page one, or at another address designated by such person in writing. If notice is delivered, it will be deemed to have been given at the time of delivery. If notice is mailed, it will be deemed to have been received on the fourth Business Day after and excluding the date of mailing.

6.3 Assignment and Transfer

The Corporation and the Warrantholder agree that the Warrantholder may not assign or transfer these Warrants, in whole or in part, to any other person(s).

6.4 Enurement

This Warrant Certificate shall enure to the benefit of the Warrantholder and the successors and assignees thereof and shall be binding upon the Corporation and the successors thereof.

APPENDIX "4"
FORM OF CONVERSION NOTICE

CONVERSION NOTICE

TO: MONGOLIA MINERALS CORPORATION

Note: All capitalized terms used herein have the respective meanings ascribed thereto in the Note Indenture.

The undersigned registered holder of _____ [Insert Description of Series of Note] irrevocably elects to convert such Notes (or \$_____ principal amount thereof*) in accordance with the terms of the Note Indenture referred to in such Notes and tenders herewith the Notes, and directs that the Common Shares and Warrants of Mongolia Minerals Corporation comprising the Units issuable upon a conversion be issued and delivered to the Person indicated below. (If Common Shares and Warrants are to be issued in the name of a Person other than the holder, all requisite taxes must be tendered by the undersigned).

Dated: _____

(Signature of Registered Holder)

* If less than the full principal amount of the Notes, indicate in the space provided the principal amount (which must be \$1,000 or integral multiples thereof). _____

NOTE: If Common Shares and Warrants are to be issued in the name of a Person other than the holder, the signature must be guaranteed by a chartered bank, a trust company or by a member of an acceptable Medallion Guarantee Program. The Guarantor must affix a stamp bearing the actual words: "SIGNATURE GUARANTEED".

(Print name in which Common Shares and Warrants are to be issued, delivered and registered)

Name: _____

(Address)

(City, Province and Postal Code)

Name of guarantor: _____

Authorized signature: _____

THIS IS EXHIBIT " 14
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of Feb A.D. 2014
Taylor Schaeffer
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

GENERAL SECURITY AGREEMENT

THIS AGREEMENT is made as of February 4, 2014.

TO: **VALIANT TRUST COMPANY**, as Trustee (on behalf of the Noteholders)
(together with its successors and assigns, the "Trustee")

310, 606 – 4th Street S.W.
Calgary, Alberta T2P 1T1

GRANTED BY: **MONGOLIA MINERALS CORPORATION**
(together with its successors and permitted assigns, the "Borrower")
having its principal office or place of business at:

Suite 404, 1015 – 4th Avenue SW
Calgary, Alberta T2R 1J4

RECITALS:

- A. Pursuant to a note indenture dated as of February 4, 2014 between the Borrower and the Trustee, the Borrower is required to provide a general security agreement in favour of the Trustee providing security in all of the Borrower's present and after-acquired personal property.

THEREFORE, the parties agree as follows:

ARTICLE 1 DEFINITIONS AND PRINCIPLES OF INTERPRETATION

1.1 Defined Statutory Terms

Unless the context otherwise requires or unless otherwise specified, all the terms used in this Agreement without initial capitals, which are defined in the PPSA or the STA, have the same meanings in this Agreement as in the PPSA or the STA, as applicable.

1.2 Definitions

Wherever used in this Agreement, all capitalized terms used and not defined have the meanings ascribed to them in the Note Indenture, and the following words and terms have the meanings set out below:

"Account Debtor" means any Person who becomes obligated to the Borrower under, with respect to, or on account of, an Account.

"Accounts" means all accounts now or in the future owned by the Borrower, and includes, all accounts receivable, other receivables, book debts, claims and other forms of monetary obligation now or in the future owned, received or acquired by, or belonging or owing to, the Borrower, whether arising out of goods sold or services rendered by it, or from any other transaction, and "Account" means any one of them.

"Chattel Paper" means all or any part of any present or future interest of the Borrower in chattel paper.

"Contracts" means any contracts, agreements, indentures, licences, commitments, entitlements, engagements or other arrangements, including any investment with or interest in any Person which does not constitute Investment Property, whether written or unwritten, to which the Borrower is now or subsequently a party or has a benefit, right, or in which the Borrower now has or subsequently acquires an interest.

"Control Agreement" means any present or future agreement or agreements entered into by the Borrower, the Trustee and the applicable issuer, securities intermediary or futures intermediary, whereby the parties intend for the Trustee to obtain control of Investment Property.

"Documents of Title" means all or any part of any documents of title, whether negotiable or non-negotiable, including all warehouse receipts and bills of lading, in which the Borrower now or subsequently has an interest.

"Encumbrances" means, with respect to any Person, any mortgage, debenture, pledge, hypothec, lien, charge, assignment by way of security, hypothecation or security interest granted or permitted by such Person or arising by operation of law, in respect of any of such Person's property, or any consignment by way of security or capital lease of property by such Person as consignee or lessee, as the case may be, or any other security agreement, trust or arrangement having the effect of security for the payment of any debt, liability or other obligation.

"Equipment" means all goods in which the Borrower now or subsequently has an interest other than Inventory or consumer goods and any part of such Inventory or consumer goods, including all tools, apparatus, fixtures, plant, machinery and furniture.

"Event of Default" means the occurrence of any one of the events described in Section 6.1.

"Futures Account" means all of the present or future futures accounts maintained for the Borrower by a futures intermediary, including all futures contracts carried in such futures accounts and the agreements between the Borrower and the futures intermediary governing such futures accounts.

"Guarantor" means any Person who from time to time guarantees the Obligations and/or who covenants and agrees to indemnify the Trustee for any loss, costs or damages which arise as a result of the Borrower's failure to perform the Obligations.

"Instruments" means all or any part of any letters of credit, advices of credit, bills of exchange, depository notes, depository bills, banker's acceptances and other instruments in which the Borrower now or subsequently has an interest.

"Intangibles" means all intangibles of whatever kind in which the Borrower now or subsequently has an interest, including all of the Borrower's rights under Contracts, Intellectual Property Rights, Technical Information, permits, or quotas.

"Intellectual Property Rights" means all trade-marks, trade-names, brands, trade dress, business names, uniform resource locators ("URL"), domain names, tag lines, designs, graphics, logos and other commercial symbols and indicia of origin, goodwill, patents and inventions, copyrights, industrial designs, and other intellectual property rights, whether registered or not or the subject of a pending application for registration, owned by or licensed to the Borrower.

"Inventory" means all inventory including raw materials, works-in-progress, finished goods and by-products, spare parts, operating supplies, packing, shipping and packaging materials of or relating to the business of the Borrower.

"Investment Property" means all or any part of any present or future interest of the Borrower in present and after acquired investment property, including all securities, Securities Accounts and Futures Accounts, all of the present and future security entitlements of the Borrower as an entitlement holder of such security entitlements, all of the present and future futures contracts of the Borrower as a futures customer in respect of such futures contracts, and all proceeds of any such property.

"Money" means all or any part of any money in which the Borrower now has or subsequently acquires an interest.

"Note Indenture" means the note indenture dated as of February 4, 2014 between the Trustee and the Borrower which governs the rights and obligations for certain senior secured convertible promissory notes of the Borrower, as amended, supplemented, restated, extended, renewed or replaced from time to time.

"Obligations" has the meaning specified in Section 3.1.

"Permitted Encumbrances" means with respect to any Person, the following:

- (a) liens for Taxes, rates, assessments or other governmental charges or levies not yet due, or for which instalments have been paid based on reasonable estimates pending final assessments, or if due, the validity of which is being contested diligently and in good faith by appropriate proceedings by that Person, and if over \$300,000, in respect of which appropriate reserves have been established or retained in working capital to the satisfaction of the Trustee, so long as such proceedings shall not involve material danger of the sale, forfeiture or loss of the Secured Property, as the case may be, the Borrower's title thereto, or any of the Borrower's interest therein and shall not interfere in any material respect with the use or disposition of the Secured Property by the Borrower or the use thereof for the purposes intended by such Person;
- (b) reservations, limitations, provisos and conditions expressed in any original grant from the federal or Alberta Crown or other grants of real or immovable property, or interests therein;
- (c) licenses, permits, covenants, reservations, restrictions, servitudes, easements, rights-of-way and rights in the nature of easements (including licenses, easements, rights-of-way and rights in the nature of easements for railways, sidewalks, public

ways, sewers, drains, gas, steam and water mains or electric light and power, or telephone and telegraph conduits, poles, wires and cables) that do not materially impair the use of the affected land for the purpose for which it is used by that Person;

- (d) title defects, encroachments, irregularities or other matters relating to title that are of a minor nature and that in the aggregate do not materially impair the use of the affected property for the purpose for which it is intended to be used by that Person;
- (e) the right reserved to or vested in any Governmental Authority by the terms of any lease, licence, franchise, grant or permit acquired by that Person or by any statutory provision to terminate or modify any such lease, licence, franchise, grant or permit, or to require annual or other payments as a condition to the continuance thereof;
- (f) the Encumbrance resulting from the deposit of cash or securities in connection with contracts, tenders or expropriation proceedings, or to secure workmen's compensation, unemployment insurance, surety or appeal bonds, or costs of litigation, in each case when required by law;
- (g) liens and claims incidental to current construction, mechanics', warehousemen's, carriers' and other similar liens, and public, statutory and other like obligations incurred in the ordinary course of business, either (x) for amounts not yet due, (y) which at the time have not yet been registered in accordance with Applicable Law against the Secured Property or part thereof, or (z) for amounts being contested in good faith and by appropriate proceedings so long as such proceedings shall not involve any imminent danger of the sale, forfeiture or loss of any part of the Secured Property, as the case may be, title thereto or any interest therein and shall not interfere with the use or disposition of the Secured Property provided that all holdbacks have been retained by the Borrower in respect of the foregoing required to be made pursuant to the *Builders' Lien Act* (Alberta) or similar applicable legislation or that appropriate cash reserves have been established or retained in working capital to the satisfaction of the Trustee;
- (h) security given to a public utility or any Governmental Authority when required by such utility or authority in connection with the operations of that Person in the ordinary course of its business;
- (i) the Encumbrance created by a court or arbitral proceeding, as long as the judgment or arbitral award is being contested diligently and in good faith by appropriate proceedings by that Person and does not result in an Event of Default and as long as appropriate cash reserves have been established or retained in working capital to the satisfaction of the Trustee;
- (j) pledges or deposits of cash or securities in connection with any appeal, review or contestation of any Encumbrance or any matter giving rise to an Encumbrance;

- (k) all Encumbrances in respect of any execution, judgment rendered, or claims filed, against such Person not in excess of \$300,000 in the aggregate at any time which are being contested in good faith by such Person and in respect of which there shall have been paid into court a bond or other security or deposited with the Trustee collateral in an amount sufficient to pay such judgment or claim together with any interest thereon and costs in respect thereof;
- (l) all Encumbrances created by others upon lands in respect of leases or easements that have been or will be acquired by such Person which do not and will not in the aggregate at any time involve material danger of the sale, forfeiture or loss of the Secured Property or the leases or easements, as the case may be, the Borrower's title thereto, or any of the Borrower's interest therein, materially and adversely affect the Secured Property or materially impair their use in the operation of the business of the Borrower or in respect of which the Borrower has obtained a non-disturbance agreement, if applicable, or in respect of which the registered owners of such lands have certified that the instruments giving rise to such Encumbrances are expired or otherwise no longer in force or effect in respect of such lands or in respect of which the Borrower has obtained a non-disturbance agreement from the mortgagee of the relevant landlord, if applicable;
- (m) any zoning, building by-laws or private deed restrictions, easements, reservations from title, rights of way, development agreements, subdivision agreements, site plan agreements, cross-easement agreements, servitudes, leases or other similar Encumbrance or privileges in respect of particular real property which in the aggregate at any time do not materially impair the use or intended use of such property by such Person in the operation of its business;
- (n) Encumbrances or any rights of distress reserved in or exercisable under any lease;
- (o) any other Encumbrances which the Trustee approves in writing as a Permitted Encumbrance;
- (p) Encumbrances securing payment of premiums on insurance; provided, however, that the amount of such Encumbrance shall not exceed the amount of the annual premium being financed at such time and any recourse with respect to such Encumbrance shall be limited to the insurance proceeds that are payable in respect of such insurance premium which is being financed;
- (q) any operating lease entered into in the ordinary course of business;
- (r) bankers' liens, rights of set-off and other similar liens existing solely with respect to cash, cash equivalents and approved securities on deposit in one or more accounts maintained by or on behalf of the Borrower granted in favour of the financial institutions with which such accounts are maintained, securing amounts owing to such financial institutions with respect to operating, working capital and cash management arrangements, including cash collateral on deposit as security for the Borrower's credit card facilities;

- (s) security interests securing capital lease obligations and security interests securing purchase money obligations;
- (t) security interests granted by the Borrower pursuant to the secured convertible promissory note in the principal amount of Cdn. \$500,000 dated as of September 30, 2013 between, the Borrower and Paloduro Investments Inc., as lender, pursuant to the secured convertible promissory note in the principal amount of Cdn. \$2,500,000 dated as of June 13, 2013 between the Borrower, as borrower, and Dundee Resources Limited, as lender, and pursuant to the secured convertible promissory note in the principal amount of Cdn. \$1,590,000 dated as of September 30, 2013 between the Borrower and Dundee Resources Limited, as lender, and pursuant to the secured convertible promissory note in the principal amount of Cdn. \$1,250,000 dated as of December 20, 2013 between the Borrower and Dundee Resources Limited, as lender; and
- (u) the Security Interest.

"PPSA" means the *Personal Property Security Act* (Alberta) RSA 2000, c P-7, or when the laws of any other jurisdiction govern the perfection, priority or enforcement of any lien, the Personal Property Security Act or such other applicable legislation in effect from time to time in such other jurisdiction.

"Places of Business" means the Borrower's places of business specified in Section 4.1(m), and **"Place of Business"** means any one of them.

"Proceeds" means all proceeds and personal property in any form derived directly or indirectly from any dealing with all or any part of the Secured Property and any insurance or payment that indemnifies or compensates for such property lost, damaged or destroyed, and proceeds of proceeds and any part of any such proceeds.

"Secured Property" means all of the Borrower's undertaking, property, rights and assets of every nature and kind, now owned or subsequently acquired and at any time and from time to time existing or in which the Borrower has or acquires an interest, including all personal property, insurance policies, annuities, financial assets, Accounts, Chattel Paper, Contracts, Documents of Title, Equipment, Intangibles, Instruments, Inventory, Investment Property, Money and Proceeds, together with all increases, additions and accessions to any of them, and all substitutions or any replacements of any of them.

"Securities Account" means all of the present or future securities accounts maintained for the Borrower by a securities intermediary, including all of the financial assets credited to such securities accounts, all related securities entitlements and the agreements between the Borrower and the securities intermediary governing such securities accounts.

"Security Interest" means the security interest granted under Section 2.1.

"STA" means the *Securities Transfer Act*, SA 2006, c S-4.5.

“**Technical Information**” means all know-how and information owned by or licensed to the Borrower, confidential or otherwise, including any information of a scientific, technical, financial or business nature regardless of its form.

1.3 Certain Rules of Interpretation

In this Agreement:

- (a) **Governing Law** – This Agreement is a contract made under and shall be governed by and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein without prejudice to or limitation of any other rights or remedies available under the laws of any jurisdiction where property or assets of the Borrower may be found.
- (b) **Headings** – Headings of Articles and Sections are inserted for convenience of reference only and shall not affect the construction or interpretation of this Agreement.
- (c) **Including** – Where the word “including” or “includes” is used in this Agreement, it means “including (or includes) without limitation”.
- (d) **No Strict Construction** – The language used in this Agreement is the language chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.
- (e) **Number and Gender** – Unless the context otherwise requires, words importing the singular include the plural and *vice versa* and words importing gender include all genders.
- (f) **Severability** – If, in any jurisdiction, any provision of this Agreement or its application to any party or circumstance is restricted, prohibited or unenforceable, such provision shall, as to such jurisdiction, be ineffective only to the extent of such restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to other parties or circumstances.
- (g) **Statutory references** – A reference to a statute includes all regulations made pursuant to such statute and, unless otherwise specified, the provisions of any statute or regulation which amends, revises, restates, supplements or supersedes any such statute or any such regulation.
- (h) **Time** – Time is of the essence in the performance of the parties’ respective obligations.
- (i) **References to Agreements** – The term “this Agreement” refers to this agreement including all schedules, amendments, supplements, extensions, renewals, replacements, novations or restatements from time to time, in each case as

permitted, and references to "Articles" or "Sections" means the specified Articles or Sections of this Agreement.

- (j) **Paramountcy** – If there is a conflict, inconsistency, ambiguity or difference between any provision of this Agreement and the Note Indenture, the provisions of the Note Indenture shall prevail, and such provision of this Agreement be amended to the extent only to eliminate any such conflict, inconsistency, ambiguity or difference. Any right or remedy in this Agreement which may be in addition to the rights and remedies contained in the Note Indenture shall not constitute a conflict, inconsistency, ambiguity or difference.

1.4 Entire Agreement

This Agreement and the Note Indenture and the agreements and other documents required to be delivered pursuant to this Agreement and the Note Indenture, constitute the entire agreement between the parties and set out all the covenants, promises, warranties, representations, conditions, understandings and agreements between the parties pertaining to the subject matter of this Agreement and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written. There are no covenants, promises, warranties, representations, conditions, understandings or other agreements, oral or written, express, implied or collateral between the parties in connection with the subject matter of this Agreement except as specifically set forth in this Agreement and the Note Indenture and any document required to be delivered pursuant to this Agreement.

ARTICLE 2 SECURITY INTERESTS

2.1 Security Interest

As continuing security for the repayment and the performance of each of the Obligations, the Borrower grants to the Trustee a security interest in all of the Secured Property.

2.2 Fixed Nature of Security Interests

The Security Interest is intended to operate as a fixed and specific charge of all of the Secured Property presently existing, and with respect to all future Secured Property, to operate as a fixed and specific charge of such future Secured Property.

2.3 Attachment

The Borrower acknowledges that value has been given. The Security Interest is intended to attach, as to all of the Secured Property, upon the execution by the Borrower of this Agreement.

2.4 Leases

The last day of any term reserved by any real property lease, written or unwritten, or any agreement to lease real property, now held or subsequently acquired by the Borrower is excepted out of the Security Interest. As further security for the payment of the

Obligations, the Borrower agrees that it will stand possessed of the reversion of such last day of the term and shall hold it in trust for the Trustee for the purpose of this Agreement. The Borrower shall assign and dispose of the same in such manner as the Trustee may from time to time direct in writing without cost or expense to the Trustee. Upon any sale, assignment, sublease or other disposition of such lease or agreement to lease, the Trustee shall, for the purpose of vesting the residue of any such term in any purchaser, sublessee or such other acquiror of the real property lease, agreement to lease or any interest in any of them, be entitled by deed or other written instrument to assign to such other person, the residue of any such term in place of the Borrower and to vest the residue freed and discharged from any obligation whatsoever respecting the same.

2.5 Consent

Nothing in this Agreement shall constitute an assignment or attempted assignment of any contract or agreement to the extent that such contract or agreement is not assignable or requires the consent of a third party to its assignment unless such consent has been obtained, due to: (a) its provisions (other than a contract or agreement that is the whole of an account or chattel paper for money due or to become due), or (b) applicable law. In each such case, the Borrower shall, unless the Trustee otherwise agrees in writing, promptly, upon written request by the Trustee, attempt to obtain the consent of any necessary third party to its assignment under this Agreement and to its further assignment by the Trustee to any third party as a result of the exercise by the Trustee of remedies after demand. Upon such consent being obtained or waived, this Agreement shall apply to the applicable contract or agreement without regard to this section and without the necessity of any further assurance to effect such assignment. Unless and until the consent to assignment is obtained as provided above, the Borrower shall, to the extent it may do so at law or pursuant to the provisions of the contract or interest in question hold all benefit to be derived from such contracts or agreements in trust for the Trustee (including, without limitation, the Borrower's beneficial interest in any contract or agreement which may be held in trust for the Borrower by a third party), as additional security for payment of Obligations and shall deliver up all such benefit to the Trustee, promptly upon demand by the Trustee.

ARTICLE 3 OBLIGATIONS SECURED

3.1 Obligations

The Secured Property constitutes and will constitute continuing security for the following obligations (the "**Obligations**") of the Borrower:

- (a) **Indebtedness** – The prompt payment, as and when due and payable, of all amounts now or subsequently owing by the Borrower to the Trustee (acting in its capacity as trustee on behalf of the Noteholders) or the Noteholders, including by way of guarantee or indemnity, matured or unmatured, direct, indirect or contingent, including any amendments, restatements, supplements, extensions, renewals and replacements of any such obligations, including any obligation under the Note Indenture; and

- (b) **Performance of Agreements** – The strict performance and observance by the Borrower of all agreements, warranties, representations, covenants and conditions of the Borrower made pursuant to this Agreement or any other agreement between the Borrower and the Trustee (acting in its capacity as trustee on behalf of the Noteholders) or any agreement between the Borrower and the Noteholders, in each case as now in effect or as subsequently entered into, amended, restated, supplemented, renewed, extended or replaced from time to time, including all those made under the Note Indenture.

ARTICLE 4

BORROWER'S REPRESENTATIONS, WARRANTIES AND COVENANTS

4.1 Representations and Warranties

The Borrower represents and warrants to the Trustee the matters set out below:

- (a) **Status** – The Borrower is a corporation, duly incorporated, and validly existing under the laws of Canada.
- (b) **Authority** – The Borrower has all necessary corporate power, authority, and capacity to: (a) own its assets, including the Secured Property; (b) carry on business as presently conducted; and (c) enter into and carry out its obligations under this Agreement and to grant the Security Interest.
- (c) **Registrations and Licenses** – Neither the nature of its business nor the location or character of the assets owned or leased by it relating to its business requires it to be registered, licensed or otherwise qualified as an extra-provincial or foreign corporation in any jurisdiction other than in the Province of Alberta where it is duly registered, licensed or otherwise qualified for such purpose.
- (d) **Ownership of Secured Property Free of Encumbrances** – The Borrower is the owner of or has rights in the Secured Property free and clear of all Encumbrances other than Permitted Encumbrances.
- (e) **Non-Conflict** – Neither the execution nor the performance of this Agreement requires the approval of any regulatory agency having jurisdiction over the Borrower nor is this Agreement in contravention of or in conflict with the articles, by-laws or resolutions of the directors or shareholders of the Borrower or of the provisions of any agreement to which the Borrower is a party or by which any of its property may be bound or of any statute, regulation, by-law, ordinance or other law, or of any judgment, decree, award, ruling or order to which the Borrower or any of its property may be subject.
- (f) **Enforceability** – This Agreement constitutes a valid and legally binding obligation of the Borrower enforceable against it in accordance with its terms.
- (g) **No Material Default** – The Borrower is not in material breach or material default of any material agreement to which it is a party.

- (h) **Account Debtor and Third Parties** – Each of the Accounts, Chattel Paper, Contracts and Instruments constituting Secured Property is genuine and enforceable in accordance with its terms against the applicable Account Debtor or counterparty.
- (i) **Amounts Due From Account Debtor** – The amount represented by the Borrower to the Trustee from time to time as owing by each Account Debtor or by all Account Debtors, to the best of the Borrower's knowledge, is the correct amount actually and unconditionally owing by such Account Debtor or Account Debtors, save and except for normal cash discounts where applicable and a reasonable reserve for bad debts.
- (j) **Accounts with Financial Intermediaries** – Each of the Securities Accounts and Futures Accounts is enforceable in accordance with its terms against the applicable securities intermediary or futures intermediary without any security interest or other lien held by such securities intermediary or futures intermediary or right of set-off, netting or consolidation other than for normal charges applicable to the maintenance of such accounts and brokerage fees incurred in the ordinary course of business.
- (k) **Insurance** – The Secured Property is insured in accordance with the terms of Section 4.2(j).
- (l) **No Other Corporate Names or Styles** – The Borrower does not carry on business under or use any name or style other than the name(s) specified in this Agreement including, any names in the French language.
- (m) **Place of Business of Borrower** - The following is/are the Borrower's Place(s) of Business:

Suite 404, 1015 – 4th Avenue SW
Calgary, Alberta T2R 1J4

The Borrower's chief executive office is located at the foregoing address and its registered or head office under the laws of Canada or of a Canadian territory or province, if any, is located at Suite 404, 1015 – 4th Avenue SW, Calgary, Alberta T2R 1J4.
- (n) **No Actions or Material Adverse Changes** – There is no action or proceeding pending or to the knowledge of the Borrower threatened against it before any court, administrative agency, tribunal, arbitrator, or other Governmental Authority or any fact known to the Borrower and not disclosed to the Trustee which would reasonably be expected to have a material adverse effect, or question the validity of this Agreement or any other material agreement to which the Borrower is a party (or the Borrower's ability to perform its obligations under this Agreement) and there are no outstanding judgments, writs of execution, work orders, injunctions, directives against the Borrower or its properties, including the Secured Property.

- (o) **Reliance and Survival** – All representations and warranties of the Borrower made in this Agreement or in any certificate or other document delivered by or on behalf of the Borrower to or for the benefit of the Trustee are material, shall survive and shall not merge upon the execution and delivery of this Agreement and shall continue in full force and effect until payment and performance of the Obligations. The Trustee shall be deemed to have relied upon such representations and warranties notwithstanding any investigation made by or on behalf of the Trustee at any time.

4.2 Covenants

Unless compliance with the following covenants is waived by the Trustee in writing or unless non-compliance with any such covenants is otherwise consented to by the Trustee in writing, the Borrower covenants and agrees that:

- (a) **Existence** – The Borrower shall: (i) maintain its corporate existence in good standing under the laws of its jurisdiction of incorporation or organization; (ii) continue to conduct its business substantially as now conducted; (iii) do, or cause to be done, all things necessary to keep in full force and effect all permits and all properties, rights, franchises, licenses and qualifications to carry on its business in all jurisdictions where such business is currently being carried on.
- (b) **Conduct of Business** – The Borrower shall keep all of its assets used or useful in the conduct of its business in good repair, working order and condition, ordinary wear and tear excepted, and from time to time shall make, or cause to be made, all needful and proper repairs, renewals and replacements, betterments and improvements to such assets in the conduct of its business as may be properly advantageous to its business at all times.
- (c) **Compliance with Agreements and Laws** – The Borrower shall: (i) comply with all Applicable Law in the conduct of its business including those relating to quotas, licencing, employment and labour matters, and environmental laws, and obtain all required permits and maintain them and material contracts in good standing.
- (d) **Notification to Trustee** – The Borrower shall promptly notify the Trustee of:
 - (i) **Claims and Liens** – any claim or lien made or asserted against any of the Secured Property;
 - (ii) **Proceedings** – any suit, action or proceeding affecting any of the Secured Property or which would materially adversely affect the Borrower; and
 - (iii) **Loss or Damage** – all loss or damage to or loss of possession of all or any part of the Secured Property other than by disposition in accordance with the terms of this Agreement,

and the Borrower shall, at its own expense, defend the Secured Property against any and all such claims or liens, and against any and all such suits, actions or proceedings.

- (e) **No Accessions or Fixtures** – The Borrower shall prevent the Secured Property from becoming an accession to any property other than the Secured Property or from becoming a fixture unless the Security Interests rank prior to the interests of all other persons in the real property.
- (f) **Encumbrances** – The Borrower shall not create, incur, assume, grant, permit or suffer to exist (voluntarily or involuntarily) any Encumbrance whatsoever, on or with respect to any of the Secured Property, except for Permitted Encumbrances.
- (g) **Maintenance of Secured Property and Books** – The Borrower shall at all times keep accurate and complete records of the Secured Property as well as proper books of account for its business all in accordance with generally accepted accounting principles, consistently applied, and shall maintain the currency of registration of its Intellectual Property Rights.
- (h) **Examination of Books and Records and Secured Property** – The Trustee or its agents shall have the right to examine the Securities Accounts, the Futures Accounts, the books of accounts, financial and other records and reports of the Borrower wherever and however such data may be stored and to make copies of and take extracts from such books, records and reports. During reasonable business hours, the Trustee or its agents shall have the right to examine the Secured Property and review and copy any and all information and data relating to such property, or to any related transactions, wherever and however such information and data may be stored. In the event that the use of a computer system is required for access to which the Trustee is entitled, including without limitation, access to any premises, place, Secured Property, books of accounts, records, reports, information or data, the Borrower shall allow the Trustee the use of its computer system for such purpose and shall provide assistance in that regard, including, without limitation, making known to the Trustee any password, access number or other code required for such access. If for any reason the information and data cannot be accessed and retrieved at the Borrower's premises the Trustee may remove the medium in which such information or data is stored from the Borrower's premises to any other place for the purpose of giving the Trustee the opportunity to retrieve, record or copy such information and data. The Trustee shall be entitled to reproduce and retain a copy of any such information and data in any format whatsoever. If any of the above items are in the possession of a third party, the Borrower shall take all reasonable steps to allow the Trustee the access and retrieval to which it is entitled.
- (i) **Delivery of Documents** – The Borrower shall deliver to the Trustee promptly upon request:
 - (i) **Documents** – any Chattel Paper, Instruments, certificated securities and Documents of Title, and upon such delivery, where applicable, duly endorse the same for transfer in blank or as the Trustee may direct;

- (ii) **Uncertificated Securities** – any uncertificated securities, including any registration and any further acts and things necessary for delivery of such uncertificated securities to the Trustee in accordance with the STA;
 - (iii) **Records** – all computer software, tapes, discs, drums and cards, all Securities Accounts, Future Accounts, books of account and all records, ledgers, reports, correspondence, schedules, documents, statements, lists and other writings relating to the Secured Property or the Borrower's business for the purpose of inspecting, auditing or copying the same;
 - (iv) **Financial Statements** – all financial statements prepared by or for the Borrower regarding the Borrower's business;
 - (v) **Policies of Insurance** – all policies and certificates of insurance relating to the Secured Property;
 - (vi) **Contracts and Agreements** – all Contracts and all other agreements, licenses, permits and consents relating to the Secured Property and the Borrower's business; and
 - (vii) **Other Information** – such information concerning the Secured Property, the Borrower and the Borrower's business and affairs as the Trustee may request.
- (j) **Risk and Insurance** – The Borrower bears the sole risk of any loss, damage, destruction or confiscation of or to the Secured Property during the Borrower's possession of the Secured Property or otherwise. The Borrower shall maintain insurance on all of the Secured Property with financially sound and reputable insurers including, without limitation, all-risk property insurance and comprehensive general liability insurance and with such coverage and against such loss or damage to the full insurable value of such property with the Trustee as a named insured and with loss payable to the Trustee as its interest may appear. The Borrower shall also obtain such other insurance coverage as the Trustee may reasonably require from time to time. All such policies of insurance shall provide that such insurance coverage shall not be changed or cancelled except on thirty (30) days' notice to the Trustee. If the Borrower fails to so insure, the Trustee may but shall not be required to insure the Secured Property and the premiums for such insurance shall be added to the balance of the Obligations secured under this Agreement as they exist at the date of the payment of such premium by the Trustee.
- (k) **Changes and Other Names** – The Borrower shall not without at least fifteen (15) days' prior written notice to the Trustee: (i) change its name as it appears in official filings in the jurisdiction of its organization; (ii) change its registered office, head office, chief executive office, principal place of business, domicile (within the meaning of the *Civil Code of Quebec*), corporate offices or warehouses or locations at which Secured Property is held or stored, or the location of its books and records; (iii) change the type of entity that it is; (iv) change its jurisdiction of incorporation or organization.

- (l) **No Consolidation/Amalgamation, etc.** – The Borrower shall not enter into any transaction (or series of transactions) whether by way of reconstruction, arrangement, reorganization, consolidation, amalgamation, wind-up, liquidation, dissolution, merger or otherwise, whereby all or substantially all of its undertaking and assets would become the property of any other Person (such other Person or continuing corporation, “**Successor Corporation**”), and the Borrower shall not do any act or thing that would materially adversely affect its business, property, prospects or financial condition and shall not permit any corporation of which it is the majority shareholder to do any of the foregoing.
- (m) **No Affecting the Security** – The Borrower shall not do, permit or suffer to be done anything to adversely affect the ranking, validity or perfection of the Security Interest.

ARTICLE 5 RIGHT TO DEAL

5.1 Borrower’s Rights before Default

Until the occurrence of an Event of Default which is continuing and subject to the terms of this Agreement, the Borrower is entitled to deal with the Secured Property in the ordinary course of business, provided that, that no such action shall be taken which would impair the effectiveness of the Security Interests created by this Agreement or which would be inconsistent with or violate the provisions of this Agreement, any other written agreement between the Trustee and the Borrower or any Control Agreement. Upon the occurrence of an Event of Default which is continuing, the Borrower shall and shall be deemed to hold all Proceeds in trust, separate and apart from other Money, Instruments, Investment Property or property, for the benefit of the Trustee until all amounts owing by the Borrower to the Trustee have been paid in full.

5.2 Investment Property

Until the occurrence and during the continuation of an Event of Default and subject to the terms of this Agreement, the Borrower is entitled to receive interest and dividends and other distributions, vote the Investment Property and give entitlement orders, instructions, directions and other consents, waivers and ratifications in respect of the Investment Property, provided that, that no such action shall be taken which would impair the validity, perfection or priority of the Security Interests or which would be inconsistent with or violate the provisions of this Agreement, any other written agreement between the Trustee and the Borrower or any Control Agreement.

5.3 Delivery and Control

The Trustee may, at its sole and unfettered discretion, require the Borrower to do all such acts and things that are necessary or desirable for the Trustee, the Trustee’s agent or a nominee of the Trustee to receive delivery of the Investment Property or obtain control of the Investment Property, including any consent of the Borrower as a registered owner of Investment Property, an entitlement holder or a futures customer, as the case may be, necessary or desirable for such control to be obtained by the Trustee. Notwithstanding

any such transfer, delivery or control, prior to the occurrence of an Event of Default, Section 5.1 and Section 5.2 shall continue to apply and upon such transfer the Trustee shall provide the Borrower with such proxies and other written authorizations as may reasonably be requested by the Borrower to enable the Borrower to exercise the rights and take the actions described in Section 5.1 and Section 5.2.

ARTICLE 6 DEFAULT

6.1 Default

The Borrower shall be in default under this Agreement upon the occurrence of any of the following events (each, an “**Event of Default**”):

- (a) **Event of Default** – There is an Event of Default pursuant to the Note Indenture.
- (b) **Disposition** – The Borrower transfers, assigns, sells, leases or otherwise disposes of all or any part of the Secured Property or any interest in such Secured Property except for:
 - (i) Inventory in the ordinary course of business on customary trade terms; and
 - (ii) Equipment which has become worn out, damaged or otherwise unsuitable for its purpose, provided that the Borrower substitutes for such Equipment similar property of equal value, free from all Encumbrances (other than Permitted Encumbrances). Such substituted property shall constitute part of the Secured Property as soon as the Borrower acquires any interest in it.
- (c) **Destruction** – Any material portion of the Secured Property is damaged, lost or destroyed.
- (d) **Priority of Security** – The Security Interest shall cease to be a valid and perfected first priority security interest, and the Borrower shall have failed to remedy such default within 10 days.

ARTICLE 7 REMEDIES

7.1 Trustee’s Rights and Remedies

If any Event of Default shall occur and be continuing, all of the Obligations shall, at the Trustee’s option and with notice to the Borrower, become immediately due and payable and the Trustee may, in its discretion, proceed to enforce payment and performance of the Obligations and to exercise any or all of the rights and remedies contained in this Agreement, (including, without limitation, the signification and collection of the Borrower’s Accounts), or otherwise afforded by law, in equity or otherwise. The Trustee shall have the right to enforce one or more remedies successively or concurrently in accordance with applicable law and the Trustee expressly retains all rights and remedies not inconsistent with the provisions in this Agreement including all the rights it may have

under the PPSA. Without limitation, the Trustee may, upon the occurrence of any Event of Default which is continuing and to the extent permitted by applicable law:

- (a) **Appointment of Receiver** – Appoint by instrument in writing a receiver (which term shall include a receiver and manager or agent) of the Borrower and of all or any part of the Secured Property and remove or replace such receiver from time to time or may institute proceedings in any court of competent jurisdiction for the appointment of a receiver. Any such receiver appointed by the Trustee, with respect to responsibility for its acts, shall, to the extent permitted by applicable law, be deemed the agent of the Borrower and not of the Trustee. Where the “Trustee” is referred to in this Article the reference includes, where the context permits, any receiver so appointed and the officers, employees, servants or agents of such receiver.
- (b) **Enter and Repossess** – Immediately and without notice enter the Borrower’s premises and repossess, disable or remove the Secured Property.
- (c) **Retain the Collateral** – Retain and administer the Secured Property in the Trustee’s sole and unfettered discretion, which discretion the Borrower acknowledges is commercially reasonable.
- (d) **Dispose of the Collateral** – Dispose of any Secured Property by public auction, private tender or private contract with or without notice, advertising or any other formality, all of which are waived by the Borrower to the extent permitted by law. The Trustee may, to the extent permitted by law, at its discretion, establish the terms of such disposition, including, without limitation, terms and conditions as to credit, upset, reserve bid or price. All payments made pursuant to such dispositions shall be credited against the Obligations only as they are actually received. The Trustee may, to the extent permitted by law, enter into, rescind or vary any contract for the disposition of any Secured Property and may dispose of any Secured Property again without being answerable for any related loss. Any such disposition may take place whether or not the Trustee has taken possession of the Secured Property.
- (e) **Foreclosure** – Foreclose upon the Secured Property.
- (f) **Power of Attorney** – Upon the occurrence, and during the continuance of, an Event of Default, the Borrower constitutes and appoints the Trustee from time to time, or any receiver appointed of the Borrower as provided for in this Agreement, the true and lawful attorney of the Borrower irrevocably with full power of substitution to do, make and execute all such documents, acts, matters or things with the right to use the name of the Borrower whenever and wherever it may be deemed necessary or expedient in connection with the exercise of its rights and remedies set forth in this Agreement. Without limitation, the Trustee or its agent is authorized to sign any financing statements and similar forms which may be necessary or desirable to perfect the Security Interest in any jurisdiction on behalf of the Borrower. The Borrower declares that the irrevocable power of attorney granted in this Agreement, being coupled with an interest, is given for valuable consideration.

(g) **Investment Property –**

- (i) **Disposal** – Without limiting the generality of Section 7.1(d), the Borrower acknowledges that when disposing of any Investment Property, the Trustee may be unable to effect a public sale of any or all of the Investment Property, or to sell any or all of the securities as a control block sale at more than a stated premium to the “market price” of any shares, stock, instruments, warrants, bonds, debenture stock and other securities forming part of the Investment Property, by reason of certain prohibitions contained in the *Securities Act* (Alberta) and applicable laws of other jurisdictions, but may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Investment Property as principal and to comply with other resale restrictions provided for in the *Securities Act* (Alberta) and other applicable laws. The Borrower acknowledges and agrees that any such private sale may result in prices and other terms less favourable to the seller than if such sale were a public sale or a control block sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by reason of its being a private sale. The Trustee shall be under no obligation to delay a sale of any of the Investment Property for the period of time necessary to permit the issuer of such securities to qualify such Investment Property for public sale under the *Securities Act* (Alberta) or under applicable securities laws of other jurisdictions, even if the issuer would agree to do so, or to permit a prospective purchaser to make a formal offer to all or substantially all holders of any class of securities forming any part of the Investment Property.
- (ii) **Exercise of Rights** – Upon the occurrence, and during the continuance of, an Event of Default, the Trustee may elect by written notice to the Borrower and to an officer of the issuer of the Investment Property or to any securities intermediary or futures intermediary in respect of the Investment Property, as may be applicable, that all or part of the rights of the Borrower in the Investment Property including, the right to vote, give consents, entitlement orders, instructions, directions, waivers or ratifications and take other actions and receive interest or regular cash dividends, payments or other distributions, shall cease, and upon such election all such rights shall become vested in the Trustee or as it may direct.
- (iii) **Registration and Control** – Require that the Investment Property be registered in the name of the Trustee or as it may direct, that delivery of the Investment Property be made to the Trustee or that control of the Investment Property be obtained by the Trustee, or as it may direct, in accordance with the provisions of the STA and the Trustee may then, without notice, exercise any and all voting rights at any meeting of the

issuers thereof and exercise any and all rights, privileges or options pertaining to the Investment Property without the consent of the Borrower as if it were the absolute owner, including the right to exchange at its discretion, any and all of the Investment Property upon the issuer's amalgamation, merger, consolidation, reorganization, recapitalization, restructuring or other readjustment or upon the issuer's exercise of any right, privilege or option pertaining to any of the Investment Property and to deposit and deliver any and all of the Secured Property with any committee, depository, transfer agent, registrar, securities intermediary, futures intermediary, clearing agency or other designated agency upon such terms and conditions as it may determine.

- (h) **Collection of Accounts** – Upon the occurrence, and during the continuance of, an Event of Default the Trustee on its own account or through a receiver, receiver-manager or agent and whether alone or in conjunction with the exercise of all or any other remedies contemplated by this Agreement, shall have the right, at any time, to notify and direct Account Debtors and any Person obligated to the Borrower under a promissory note or bill of exchange to make all payments whatever to the Trustee and the Trustee shall have the right, at any time, to hold all amounts acquired from any Account Debtors and any Person obligated to the Borrower under a promissory note or bill of exchange and any Proceeds as part of the Secured Property. Upon the occurrence, and during the continuance of, an Event of Default any payments received by the Borrower shall be held by the Borrower in trust for the Trustee in the same medium in which received, shall not be commingled with any assets of the Borrower and shall, at the request of the Trustee be turned over to the Trustee not later than the next Business Day following the day of their receipt.
- (i) **Carry on Business** – Carry on or concur in the carrying on of all or any part of the business of the Borrower and may, in any event, to the exclusion of all others, including the Borrower, enter upon, occupy and use all premises of or occupied or used by the Borrower and use any of the personal property (which shall include fixtures) of the Borrower for such time and such purposes as the Trustee sees fit. The Trustee shall not be liable to the Borrower for any neglect in so doing or in respect of any related rent, costs, charges, depreciation or damages.
- (j) **Payment of Encumbrances** – Pay any liens or other claims that may exist or be threatened against the Secured Property, and any amount so paid together with costs, charges and expenses incurred shall be added to the Obligations.
- (k) **Payment of Deficiency** – If the proceeds of realization are insufficient to pay all monetary Obligations, the Borrower shall forthwith pay or cause to be paid to the Trustee any deficiency and the Trustee may sue the Borrower to collect the amount of such deficiency.
- (l) **Dealing with Secured Property** – Subject to applicable law, seize, collect, realize, borrow money on the security of, release to third parties, sell (by way of public or private sale), lease or otherwise deal with the Secured Property in such manner, upon such terms and conditions, at such time or times and place or places

and for such consideration as may seem to the Trustee advisable and without notice to the Borrower. The Trustee may charge on its own behalf and pay to others sums for expenses incurred and for services rendered (expressly including without limitation, legal, consulting, broker, management, receivership and accounting fees) in or in connection with seizing, collecting, realizing, borrowing on the security of, selling or obtaining payment of the Secured Property and may add all such sums to the Obligations.

7.2 Assemble the Secured Property

To assist the Trustee in the implementation of such rights and remedies, the Borrower will, at its own risk and expense and immediately upon the Trustee's request, assemble and prepare for removal such items of the Secured Property as are selected by the Trustee as shall, in the Trustee's sole judgment, have a value sufficient to cover all the Obligations.

7.3 Allocation of proceeds

All monies collected or received by the Trustee in respect of the Secured Property may be held by the Trustee and may be applied on account of such parts of the Obligations in accordance with Section 8.6 of the Note Indenture at the sole discretion of the Trustee.

7.4 Waivers and Extensions

The Trustee may waive default or any breach by the Borrower of any of the provisions contained in this Agreement. No waiver shall extend to a subsequent breach or default, whether or not the same as or similar to the breach or default waived and no act or omission of the Trustee shall extend to or be taken in any manner whatsoever to affect any subsequent breach or default of the Borrower or the rights of the Trustee resulting therefrom. Any such waiver must be in writing and signed by the Trustee to be effective.

The Trustee may also grant extensions of time and other indulgences, take and give up securities, accept compositions, grant releases and discharges, release the Secured Property to third parties and otherwise deal with the Borrower's guarantors or sureties and others and with the Secured Property and other securities as the Trustee may see fit without prejudice to the liability of the Borrower to the Trustee, or the Trustee's rights, remedies and powers under this Agreement. No extension of time, forbearance, indulgence or other accommodation now, heretofore or hereafter given by the Trustee to the Borrower shall operate as a waiver, alteration or amendment of the rights of the Trustee or otherwise preclude the Trustee from enforcing such rights.

7.5 Remedies Cumulative and Waivers

For greater certainty, it is expressly understood and agreed that the rights and remedies of the Trustee under this Agreement are cumulative and are in addition to and not in substitution for any rights or remedies provided by law or equity; and any single or partial exercise by the Trustee of any right or remedy for a default or breach of any term, covenant, condition or agreement contained in this Agreement shall not be deemed to be a waiver of, or to alter, affect or prejudice, any other right or remedy to which any one or

more of the Trustee may be lawfully entitled for such default or breach. Any waiver by the Trustee of the strict observance, performance or compliance with any term, covenant, condition or other matter contained in this Agreement and any indulgence granted, either expressly or by course of conduct by the Trustee shall be effective only in the specific instance and for the purpose for which it was given and shall be deemed not to be a waiver of any right or remedy of the Trustee under this Agreement as a result of any other default or breach under this Agreement.

7.6 Effect of Possession or Receiver

As soon as the Trustee takes possession of any Secured Property or appoints a receiver, all powers, functions, rights and privileges of the Borrower and the directors and officers of the Borrower with respect to the Secured Property shall cease, unless specifically continued by the written consent of the Trustee or the receiver.

7.7 Set-off or Compensation

In addition to and not in limitation of any rights granted now or after the date of this Agreement at law, upon the occurrence and during the continuance of an Event of Default, the Trustee may at any time and from time to time without notice to the Borrower (it being expressly waived by the Borrower) set-off and compensate and apply any and all securities accounts, futures accounts, deposits, general or special, term or demand, provisional or final, matured or unmatured, and any other indebtedness at any time owing by the Trustee, or to appropriate any other properties or assets at any time held by the Trustee, to or for the credit of or the account of the Borrower, against and on account of the Obligations, even if any of them are contingent or unmatured.

7.8 Limitation of Liability

The Trustee shall not be liable or accountable:

- (a) by reason of any entry into or taking possession of all or any of the Secured Property, to account as mortgagee in possession or for anything except actual receipts, or for any loss on realization or any act or omission for which a secured party in possession might be liable; or
- (b) for any failure to exercise its remedies, take possession of, seize, collect, realize, sell, lease or otherwise dispose of or obtain payment for the Secured Property and shall not be bound to institute proceedings for such purposes or for the purpose of preserving any rights, remedies or powers of the Trustee, the Borrower or any other person in respect of same.

The Trustee shall not by virtue of these presents be deemed to be a mortgagee in possession of the Secured Property. The Borrower releases and discharges the Trustee and the receiver from every claim of every nature, whether sounding in damages or not, which may arise or be caused to the Borrower or any person claiming through or under the Borrower by reason or as a result of anything done by the Trustee or any successor or assign claiming through or under the Trustee or the receiver under the provisions of this Agreement unless such claim be the result of gross negligence or wilful misconduct.

ARTICLE 8 GENERAL

8.1 Expenses

The Borrower shall pay all reasonable costs and expenses (including the reasonable fees and disbursements of legal counsel and other advisors) incurred by the Trustee in connection with the negotiation, preparation and execution of this Agreement and the perfection, protection of and enforcement under this Agreement, advice with respect to this Agreement, and those arising in connection with the delivery, control, realization, disposition, retention, protection or collection of any Secured Property and the protection or enforcement of the rights, remedies and powers of the Trustee or any receiver and those incurred for perpetual registration of any financing statement registered in connection with the Security Interests. All amounts for which the Borrower is required under this Agreement to reimburse the Trustee or any receiver shall, from the date of disbursement until the date the Trustee or the receiver receives reimbursement, be deemed advanced to the Borrower by the Trustee, shall be deemed to be Obligations secured hereby and shall bear interest at the highest rate per annum charged by the Trustee on any of the other Obligations.

In particular, the Borrower agrees to indemnify and save the Trustee harmless from all reasonable legal fees and disbursements incurred by the Trustee in connection with any enforcement of rights and remedies under this Agreement. This indemnity is independent of and in addition to any right which the Trustee may have to seek recovery of costs in any litigation which results in respect of this Agreement and is intended to ensure that the Trustee is fully reimbursed for one-hundred percent (100%) of the reasonable fees and disbursements which may be incurred as by it and its legal counsel.

8.2 Notices

Any notice, consent or approval required or permitted to be given in connection with this Agreement (in this Section referred to as a "Notice") shall be in writing and shall be sufficiently given if delivered (whether in person, by courier service or other personal method of delivery), or if transmitted by facsimile or email (and if transmitted by email, such Notice shall be transmitted concurrently by email and facsimile or other method of delivery):

- (a) in the case of a Notice to the Borrower at:

Suite 404, 1015 – 4th Avenue S.W.
Calgary, Alberta T2R 1J4

Attention: William Foster, President and Chief Executive Officer
Email: wfoster@mongolianminerals.com
Fax: 403.686.1018

- (b) in the case of a Notice to the Trustee at:

310, 606 – 4th Street S.W.
Calgary, Alberta T2P 2Y3

Attention: Manager, Corporate Trust
Email: inquiries@valianttrust.com
Fax: (403) 233-2857

Any Notice delivered or transmitted to a party as provided above shall be deemed to have been given and received on the day it is delivered or transmitted, provided that it is delivered or transmitted on a Business Day prior to 5:00 p.m. local time in the place of delivery or receipt. However, if the Notice is delivered or transmitted after 5:00 p.m. local time or if such day is not a Business Day then the Notice shall be deemed to have been given and received on the next Business Day.

Any party may, from time to time, change its address by giving Notice to the other party in accordance with the provisions of this Section.

8.3 Amendment

No amendment, supplement, modification or waiver or termination of this Agreement and, unless otherwise specified, no consent or approval by any party, shall be binding unless executed in writing by the party to be bound.

8.4 Enurement

This Agreement shall be binding on the Borrower, and its successors (including any successor by reason of amalgamation), and permitted assigns and enure to the benefit of the Trustee and its successors (including any successor by reason of amalgamation) and assigns.

8.5 Further Assurances

The Borrower shall at all times do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by this Agreement, and shall provide such further documents or instruments required by the Trustee as may be reasonably necessary or desirable to effect the purpose of this Agreement and carry out its provisions, and for the better granting, transferring, assigning, charging, setting over, assuring, confirming or perfecting the Security Interest and the priority accorded to them by law or under this Agreement.

8.6 Execution and Delivery

This Agreement may be executed by the parties in counterparts and may be executed and delivered by facsimile or other electronic means and all such counterparts, facsimiles or other electronic means shall together constitute one and the same agreement.

The Borrower acknowledges receiving a copy of this Agreement, and further agrees that a carbon, photographic, photostatic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement.

8.7 Security Interests Effective Immediately

Neither the execution of, nor any filing with respect to, this Agreement shall obligate the Trustee to make any advance or loan or further advance, or bind the Trustee to grant or extend any credit to the Borrower, but the Security Interests shall take effect forthwith upon the execution of this Agreement by the Borrower.

8.8 Statutory Waivers

To the fullest extent permitted by law, the Borrower waives all of the rights, benefits and protections given by the provisions of any existing or future statute which imposes limitations upon the powers, rights or remedies of a Trustee or upon the methods of realization of security, including any seize or sue or anti-deficiency statute or any similar provisions of any other statute.

8.9 Reasonableness

The Borrower acknowledges that the provisions of this Agreement and, in particular, those respecting rights, remedies and powers of the Trustee and any receiver against the Borrower, its business and any Secured Property upon the occurrence of an Event of Default, are commercially reasonable and not manifestly unreasonable.

8.10 Discharge

Upon payment and performance by the Borrower of the Obligations, the Trustee shall promptly deliver up this Agreement to the Borrower and shall at the expense of the Borrower promptly cancel and discharge the Security Interests and execute and deliver to the Borrower such documents as shall be requisite to discharge the Security Interests.

[Remainder of this page intentionally left blank.]

IN WITNESS OF WHICH the Borrower has duly executed this Agreement as of the date first written above.

MONGOLIA MINERALS CORPORATION

By: _____

Name: William Foster

Title: President and Chief Executive
Officer

MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS (the "Board") of Mongolia Minerals
Corporation ("Corporation") held by teleconference
on Friday, April 11, 2014 at 8:30 a.m. (MST)

Present: Robert Cross
Frank Bellotti
Peter Deeb
William Foster
Michael Parrett
Owen Ryan

Also present by
invitation: Frank Turner, Osler

THIS IS EXHIBIT " 15
referred to in the Affidavit of
William J. Foster

Sworn before me this 13th
day of Ju A.D. 2014
Taylor Schappert
NOTARY PUBLIC / COMMISSIONER FOR O.A.
IN AND FOR THE PROVINCE OF ALBERTA

1. Call to Order

Mr. Cross acted as chair of the meeting. Mr. Cross called the meeting to order at 8:30 a.m. (Mountain Time) and with the consent of the meeting, Frank Turner acted as Secretary. It was acknowledged that the notice of meeting had been duly provided to all of the members of the Board in accordance with the Corporation's by-laws or waived by attendance. A quorum being present, the meeting was declared to be duly called and constituted for the transaction of business.

Mr. Foster advised that Mr. Ned Goodman was not available to join the call at this time as he was attending to another matter on an urgent basis. However, Mr. Goodman advised that he would be available to speak at 9:30 a.m. (Mountain Time). Mr. Cross indicated that the meeting should proceed and that those directors that were available could join the call with Mr. Goodman at 9:30 a.m. (Mountain Time).

2. Financial Position

At the commencement of the meeting, Mr. Parrett asked about the Corporation's current financial position. Mr. Foster advised that the Corporation had \$1.1 million in the bank as of this morning and \$250,000 in Trust with Osler, Hoskin & Harcourt LLP. Mr. Foster advised that these funds should be sufficient to see the Company through to the last half of May. Mr. Foster also advised that Messrs. Goodman and Anderson, acting in their capacity as representatives of Dundee Resources, had undertaken to fund the Corporation through to the end of the RTO process (being the proposed reverse take-over transaction between the Company and Ryan Gold).

3. KOMECO Transaction

Mr. Foster advised the Board on the Corporation's current arrangements with Korea Mongolia Energy Development Company ("KOMECO"). Mr. Foster advised that he had met personally with Mr. Ko In-Hyeon, the President of KOMECO in Vancouver. At the Vancouver meetings, a letter of intent was entered into. Mr. Foster indicated that the Corporation was taking the lead and driving the arrangements with KOMECO. In this regard Mr. Foster advised the Board that,

in addition to the executed letter of intent, the Corporation had provided KOMECO with a due diligence schedule, a due diligence request list (being information that the Corporation requires from KOMECO and its affiliates in order to evaluate the proposed transaction), our data room index and a commitment to provide a management presentation in one month's time. The due diligence schedule has been designed to run in concert with the RTO process noted above. Mr Foster further advised that he had commenced a dialogue with Canaccord regarding valuation support of the proposed transaction.

Mr. Foster expressed the view that KOMECO and its affiliates do not wish to operate their Mongolian assets and see value in combining their assets with the Corporation's Khotgor assets and allowing the Corporation to develop those assets. Mr. Foster also explained that the deal with KOMECO potentially comes with \$35-\$50 million in new financing from Shin Ha. However, such financing would only be available if we make substantial progress in finalizing the terms of a deal with KOMECO that would see KOMECO have some form of participation in the project going forward (assistance with government relations in Mongolia and South Korea, consultation regarding mine planning).

Discussion then ensued regarding the potential opportunity with KOMECO including consideration of KOMECO's motivation in selling. Mr. Deeb observed that KOMECO was a government-owned enterprise and accordingly, their principal concern would be avoiding an imprudent transaction that would damage the reputation of the officials involved. As such, their motivations would not be strictly commercial and the appetite for risk would be low. Mr. Ryan expressed the view that KOMECO should contribute some working capital to the project in order to fully realize the value of their investment.

There was further discussion as to whether the potential KOMECO transaction was conditional upon the Corporation achieving a public listing whether through an RTO or otherwise. Mr. Cross expressed the view that the Koreans were in fact looking for liquidity and as such the public vehicle was important to them; however, it may not be a requirement to the KOMECO deal that the Corporation be publicly listed at the time of closing, but instead that there be a line of sight to a public listing in the 12 to 18 months following closing. Mr. Deeb noted that the value of KOMECO's investment would be enhanced if the Corporation was allowed a period of time to do further work on its property and otherwise organize its affairs in advance of being publicly listed. Mr. Cross endorsed this view.

Mr. Deeb noted that as the Corporation was dealing with a government entity in Korea, the Corporation would be required to do the lion's share of the structuring of the transaction and driving the negotiations. To this end, he suggested that representatives of the Corporation, including board members, meet with the Koreans in the coming weeks with a view to both further defining the terms of the potential transaction with KOMECO but also for purposes of meeting with [Shin Ha] to attempt to confirm the availability of additional funding in the event that the KOMECO transaction can be completed. Mr. Foster noted that the schedule with KOMECO contemplated mutual management presentations in the coming weeks and perhaps there was an opportunity to have such meetings around those presentations.

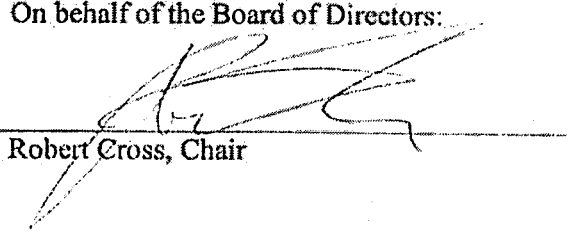
4. Sequencing of Transactions

Discussion then ensued with respect to how the potential KOMECO transaction and the potential RTO transaction with Ryan Gold should be sequenced. Mr. Cross expressed a view that

completion of the transaction with Ryan Gold was not, in any case, a certainty and suggested that the priority should be the KOMECO transaction with concurrent Shin Ha financing. It was observed that reaching an agreement with KOMECO and Shin Ha would greatly enhance the value of the Corporation which would be of assistance when settling the respective valuations that would need to occur as part of a transaction with Ryan Gold. Alternatively, if the KOMECO/[Shin Ha] transaction can be completed, the Corporation could back into a listed shell that did not have cash.

The meeting was then adjourned until such time as Mr. Goodman could dial-in.

On behalf of the Board of Directors:



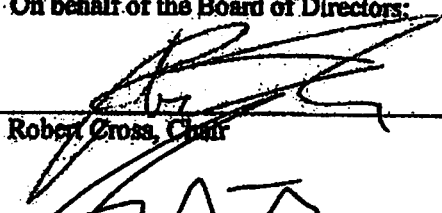
Robert Cross, Chair

Frank Turner, Recording Secretary

completion of the transaction with Ryan Gold was not, in any case, a certainty and suggested that the priority should be the KOMECO transaction with concurrent Shin Ha financing. It was observed that reaching an agreement with KOMECO and Shin Ha would greatly enhance the value of the Corporation which would be of assistance when settling the respective valuations that would need to occur as part of a transaction with Ryan Gold. Alternatively, if the KOMECO/[Shin Ha] transaction can be completed, the Corporation could back into a listed shell that did not have cash.

The meeting was then adjourned until such time as Mr. Goodman could dial-in.

On behalf of the Board of Directors:



Robert Gross, Chair

Frank Turner, Recording Secretary

MINUTES OF THE MEETING OF THE BOARD OF
DIRECTORS (the "Board") of Mongolia Minerals
Corporation ("Corporation") held by teleconference
on Tuesday, May 20, 2014 at 8:00 a.m. (MST)

Present: Frank Bellotti
Peter Deeb
William Foster
Michael Parrett
Owen Ryan
Ned Goodman

Directors absent: Robert Cross
Bat-Erdene Baatar

Also present by invitation: Jim Berridge, MMC
Dave Anderson, Dundee
Frank Turner, Osler
Gordon Cameron, Osler

THIS IS EXHIBIT " 16
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of Jun A.D. 2014

NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

1. Call to Order

Mr. Parrett acted as chair of the meeting in Robert Cross' absence. Mr. Parrett called the meeting to order at 8:00 a.m. (Mountain Time) and with the consent of the meeting, Jim Berridge acted as Secretary. It was acknowledged that the notice of meeting had been duly provided to all of the members of the Board in accordance with the Corporation's by-laws or waived by attendance. A quorum being present, the meeting was declared to be duly called and constituted for the transaction of business.

2. Financial Position, Proposed RTO transaction and New Financing

Mr. Foster gave the board an update on the current cash position of the Corporation. As of May 20th, the Corporation had cash resources of CAD \$670,000 and requires approximately CAD \$730,000 to make all its salary and payables for the remainder of May, at which point the Corporation will be out of cash. Mr. Foster advised that the proposed RTO with Ryan Gold ("RG") is essential to continuing the viability of the Corporation, however, short term financing of approximately \$4.4 million is required, based on the Corporation's current budget, to see the Corporation through to September 2014, which was sent to Dundee on May 7, 2014.

Mr. Anderson of Dundee then gave the board an update on the RTO process with RG. Mr. Anderson advised that the process will take approximately three months to complete taking into account the required shareholder and TSX-V approvals.

Mr. Goodman and Mr. Foster then advised the board about a telephone conversation they had with Murray John of Dundee in the previous week. They advised that the RTO is moving forward, albeit slower than anticipated as RG's directors still need to approve any transaction. They also advised that RG still has approximately \$20 million in cash, and that the legal teams acting for MMC and RG are currently working to settle the term sheet for the RTO. Mr.

Goodman advised that he would speak to the directors of RG and reiterated that Dundee wants to ensure that the RTO occurs.

Mr. Anderson then advised the board that RG cannot lend funds to MMC during the RTO process.

A general discussion of the directors then ensued regarding proposed financing alternatives in the short term in light of the \$4.4 million budget sent out by Mr. Foster to Dundee. The circulated budget was for the period from May to September 2014 and includes spending to keep MMC's mining licences in good standing. After a consideration of financing alternatives, including seeking a loan from Mongolian lending institutions, given the relatively tight timeline for the Corporation's financing needs and short term liquidity concerns, it was determined that the best course of action would be to offer all participants in the Corporation's 12% senior secured convertible note financings which closed in two tranches in February and March of 2014 (the "**First Senior Secured Financing**") the opportunity to participate, *pro rata* to their participation in such earlier offering, in a new offering of up to an aggregate principal amount of \$5 million of 12% senior secured convertible notes having substantially the same terms as the notes offered in the First Senior Secured Financing.

Upon a motion duly made, seconded and carried IT WAS RESOLVED THAT the Corporation proceed with an offering of 12% senior secured convertible notes in an aggregate principal amount of up to \$5,000,000 *pro rata* to the parties who participated in the First Senior Secured Financing on substantially the same terms as the First Senior Secured Financing.

3. Termination of Date of Options Granted to Directors

Mr. Foster then discussed two board resolutions that were circulated in April, 2014 for approval, one appointing Bat-Erdene Baatar to the board of directors, the other to amend the existing option agreements of the Corporation's directors to extend the date of termination of the options. The first resolution regarding the board appointment passed; however, the second resolution was not approved by one of the Corporation's directors.

Mr. Foster advised that the resolution to amend the director's existing option agreements was recommended on October 2, 2012 by the Corporation's Compensation Committee. Mr. Foster advised that the Compensation Committee recommended that, upon the resignation of a director, such director be given a period of time not to exceed the earlier of one year following the completion by the Corporation of an initial public offering or analogous transaction, or three years from the date of termination, to exercise any unexercised options.

No further discussion ensued and Mr. Parrett put the resolution before the board for approval.

Upon a motion duly made, seconded and carried IT WAS RESOLVED THAT pursuant to section 3.1 of the Corporation's stock option plan, the termination date of options granted under the stock option plan to directors in lieu of, or forming part of, the annual compensation to be paid to directors, upon the termination of a director shall be the earlier of:

- (a) the original expiration date specified in the applicable option agreement;

- (b) the date which is the 12th month anniversary of the date on which the Corporation completes an initial public offering, reverse take-over or analogous transaction; or
- (c) the third anniversary of the date on which the director ceased to serve as a director of the Corporation.

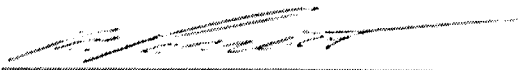
4. Other Business

Mr. Deeb then asked Mr. Foster to provide an update on the possible sale of the Dalan properties. In 2013, the Corporation received an offer of \$2 million from a third party for the Dalan licences. The offer was \$1 million up front and the other \$1 million to be paid over the course of a year. This offer was not accepted under those terms at that time as the Corporation's Mongolian partner indicated he could sell the licence for a better price. The Corporation explored a possible sale brokered by the Corporation's Mongolian partner, but the parties were unable to come to any agreement. The Corporation has now gone back to the original interested party to see if the \$2 million offer is still available and whether the terms can be negotiated so that the Corporation receives the full payment within a shorter time frame. Mr. Foster advised that he expects a reply back soon.

5. Termination of Meeting

There being no further items of business, the Meeting was terminated.

On behalf of the Board of Directors:



Michael Parrett, Acting Chair

Jim Berridge, Recording Secretary

- (b) the date which is the 12th month anniversary of the date on which the Corporation completes an initial public offering, reverse take-over or analogous transaction; or
- (c) the third anniversary of the date on which the director ceased to serve as a director of the Corporation.

4. Other Business

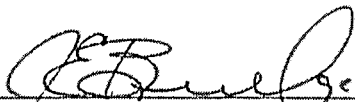
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5. Termination of Meeting

There being no further items of business, the Meeting was terminated.

On behalf of the Board of Directors:

Michael Parrett, Acting Chair



Jim Berridge, Recording Secretary

THIS IS EXHIBIT " 17
referred to in the Affidavit of
William J. Foster

Sworn before me this 13th
day of June A.D. 2014

Taylor Schappert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA



Mongolia Minerals

C O R P O R A T I O N

Audited Consolidated Financial Statements
For the Year ended December 31, 2012



Independent Auditor's Report

To the Shareholders of Mongolia Minerals Corporation

We have audited the accompanying consolidated financial statements of Mongolia Minerals Corporation which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mongolia Minerals Corporation as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Mongolia Minerals Corporation's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

March 28, 2013

Mongolia Minerals Corporation

Consolidated Balance Sheet
(in thousands of Canadian dollars)

	Note	December 31 2012	December 31 2011
Assets			
Cash, cash equivalents	8	\$ 6,405	\$ 6,500
Accounts receivable	9	20	183
Prepaid expenses		991	569
Total current assets		7,416	7,252
Refundable deposits	10	14,100	14,412
Property, plant, equipment	11	416	478
Intangible exploration, evaluation assets	12	49,380	52,805
Total non-current assets		63,896	67,695
Total assets		\$ 71,312	\$ 74,947
Liabilities			
Accounts payable, accrued liabilities	13	\$ 513	\$ 1,008
Total current liabilities		513	1,008
Decommissioning liability	14	71	224
Total liabilities		584	1,232
Shareholders' Equity			
Share capital	15	73,520	64,374
Warrants	16	4,083	1,146
Contributed surplus	16	9,940	7,369
Accumulated other comprehensive (loss)		(4,642)	(1,625)
Deficit		(25,587)	(15,981)
Capital attributed to owners of			
Mongolia Minerals Corporation		57,314	55,283
Non-controlling interest		13,414	18,432
Total equity		70,728	73,715
Total liabilities and equity		\$ 71,312	\$ 74,947

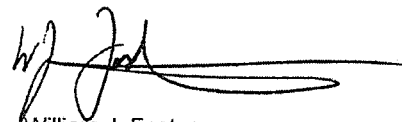
Going Concern - see note 2

The notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors



Michael S. Parrett
Director



William J. Foster
Director

Mongolia Minerals Corporation

Consolidated Statement of Comprehensive Income
(in thousands of Canadian dollars, except per share amounts)

	Note	2012	2011
Expenses			
Salaries, benefits		\$ 3,716	\$ 3,737
Share-based compensation	16	2,308	6,769
Professional services		1,629	2,983
Office, administration expenses		1,862	1,664
Exploration, evaluation		2,866	1,969
Depreciation	11	77	60
Impairment charges	11,12	1,051	455
Loss from operations		13,509	17,637
Finance (income) expense			
Interest (income)		(48)	(54)
Fees on loans		-	37
Accretion of decommissioning liabilities	14	65	34
Net foreign exchange (gains)		57	(48)
Net loss		13,583	17,606
Other comprehensive (income) loss			
Foreign currency translation	17	4,058	3,680
Comprehensive loss		\$ 17,641	\$ 21,286
Net loss attributable to:			
Owners of Mongolia Minerals Corporation		\$ 9,606	\$ 13,381
Non-controlling interests		3,977	4,225
		\$ 13,583	\$ 17,606
Comprehensive loss attributable to:			
Owners of Mongolia Minerals Corporation		\$ 12,623	\$ 15,106
Non-controlling interests		5,018	6,180
		\$ 17,641	\$ 21,286
Net loss per share attributed to			
owners of Mongolia Minerals Corporation			
Basic and diluted	18	\$ 0.04	\$ 0.06

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Consolidated Statement of Changes in Equity
(in thousands of Canadian dollars)

	Note	Year Ended December 31 2012	Year Ended December 31 2011
Share capital	15		
Balance, beginning of year		\$ 64,374	\$ 34,604
Issue of common shares for cash		9,731	33,147
Share issue costs		(585)	(3,377)
		73,520	64,374
Warrants	16		
Balance, beginning of year		1,146	188
Issued in connection with issue of common shares		3,200	958
Warrants expired		(263)	-
		4,083	1,146
Contributed surplus	16		
Balance, beginning of year		7,369	600
Share-based payments		2,308	6,769
Warrants expired		263	-
		9,940	7,369
Deficit			
Balance, beginning of year		(15,981)	(2,600)
Net (loss)		(9,606)	(13,381)
		(25,587)	(15,981)
Accumulated other comprehensive income (loss)			
Balance, beginning of year		(1,625)	100
Currency translation differences		(3,017)	(1,725)
		(4,642)	(1,625)
Non-controlling interests			
Balance, beginning of year		18,432	24,612
Net (loss)		(3,977)	(4,225)
Other comprehensive income			
Currency translation differences		(1,041)	(1,955)
		13,414	18,432
Total Shareholders' Equity		\$ 70,728	\$ 73,715

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Consolidated Statement of Cash Flows
(in thousands of Canadian dollars)

	Note	Year Ended December 31 2012	Year Ended December 31 2011
Cash flows from operating activities:			
Net (loss)		\$ (13,583)	\$ (17,606)
Adjustments for:			
Non-cash salaries benefits	16	-	250
Share-based compensation	16	2,308	6,769
Depreciation	11	77	60
Impairment charges	11,12	1,051	455
Accretion of decommissioning liability		65	34
Change in non-cash working capital	22	61	(1,153)
Net cash (used in) operating activities		(10,021)	(11,191)
Cash flows from investing activities:			
Refundable deposits	7,10	-	(15,281)
Property, plant, equipment, net	11	(118)	(159)
Intangible exploration, evaluation assets	12	(1,451)	(5,413)
Change in non-cash working capital	22	(813)	727
Net cash (used in) investing activities		(2,382)	(20,126)
Cash flows from financing activities:			
Proceeds from the issue of capital	15,16	12,931	32,897
Share issue costs	15	(585)	(2,419)
Proceeds from loans		-	37
Repayment of loans		-	(1,832)
Change in non-cash working capital	22	(61)	3,795
Net cash from financing activities		12,285	32,478
Effect of currency changes		23	(309)
Change in cash, cash equivalents		(95)	852
Cash, cash equivalents, beginning of year		6,500	5,648
Cash, cash equivalents		\$ 6,405	\$ 6,500
Interest paid		\$ -	\$ -
Income taxes paid		\$ -	\$ -

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

1. Reporting entity

Mongolia Minerals Corporation (MMC) is a private corporation incorporated in Canada on April 22, 2010, and has a registered office in Alberta, Canada. The address of the principal place of business is 404, 1015 – 4 Street S.W., Calgary, Alberta, Canada.

The consolidated financial statements of MMC for the year ended December 31, 2012 are comprised of MMC and its subsidiaries (together the Corporation). The Corporation is engaged in the exploration for and ultimately the development and production of coal and other minerals from its licensed properties in Mongolia. As at December 31, 2012, the Corporation was in the exploration phase and in the process of determining its resources. To the date of these financial statements, the Corporation has incurred exploration and evaluation costs in respect of mining and exploration licenses but has not incurred any costs with respect to developing any mineral properties.

The principal subsidiary of MMC is CGBEM LLC, a corporation incorporated in Mongolia with a registered office in Ulaanbaatar, Mongolia. CGBEM and its subsidiary corporations, which are wholly owned, hold all of the Mongolian mining and exploration licenses. MMC holds 67% of the voting shares of CGBEM, which affords MMC control over the strategic direction and operating decisions of CGBEM, subject to a small number of matters pertaining to the protection of shareholders' rights that require the unanimous consent of the shareholders. The shareholders of CGBEM are parties to a unanimous shareholders' agreement. Pursuant to this agreement, MMC generally holds a 60% participating interest in CGBEM and the Corporation's Mongolian partner is entitled to up to 40% of the net profits of CGBEM following recovery by MMC of its investments in CGBEM. MMC has been appointed the operator of the assets of CGBEM. See note 25, Subsequent events.

2. Going Concern

The consolidated financial statements of the Corporation have been prepared using International Financial Reporting Standards (IFRS) that are applicable to a going concern. This basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation does not generate revenue from operating activities and has accumulated losses amounting to \$25.6 million.

In the near term, the Corporation had \$6.4 million in cash and a working capital position of \$6.9 million as at December 31, 2012. The Corporation needs to raise equity or debt financing to continue its exploration program (including completion of resource assessments for licenses in accordance with Mongolian regulations), advance its feasibility studies, consolidate mining and exploration license holdings through further acquisitions, and for general corporate purposes.

Exploration work on license MV-012474 in the Khotgor area must be completed by the end of the 2013 exploration season to provide an updated resource assessment to the Mongolian authorities. Failure to provide the updated resource assessment may result in revocation of the license unless an extension can be obtained. The Corporation continues work to determine the expenditures required to maintain all of its licenses. Management expects that its current cash reserves will support anticipated spending, which excludes drilling activities, for approximately six months from December 31, 2012. Without additional funding, the Corporation

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

would not be able to sufficiently advance its exploration program to ensure an updated resource assessment could be prepared.

The Corporation will continue to adjust the scope of its operations and anticipated expenditures in light of its working capital position. However, there is no assurance that any steps taken by the Corporation will be successful in this regard, and there is risk that unforeseen circumstances and expenditures will limit the time period for which cash will be available. The Corporation may not be able to raise financing of sufficient magnitude, or on a cost-effective basis. The failure of the Corporation to raise further financing would limit the ability of the Corporation to advance its business plan and carry on current activities.

The Mongolian Parliament enacted the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance (Foreign Investment Law) in 2012, and many aspects of the law are unclear. The government of Mongolia has also recently issued draft minerals laws that, if enacted in their current form, would significantly alter the legal and regulatory regime governing the mining industry in the country.

Early in 2012 and in response to protests at the site, exploration activities in the Khotgor area were suspended by the Mongolian government. While the Corporation was able to resolve certain issues regarding access to the site, this did not occur with sufficient time left in the 2012 exploration season to resume productive work. The Corporation continues work to resolve any outstanding issues in anticipation of being able to resume exploration work in early 2013.

In addition, Mongolian national elections in June 2012 resulted in a change of government. The Democratic Party won a minority government, replacing the Mongolian People's Party. The Democratic Party formed a multi-party coalition government, which has appointed its cabinet ministers. Presidential elections are scheduled for June 2013. These and other political developments in Mongolia may have an adverse affect on the Corporation, including its ability to raise additional funds.

The matters and conditions described above indicate the existence of material uncertainties that cast significant doubt about the Corporation's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In the longer term, the Corporation will have to sell or develop its licenses and projects in order to recover its investments in mining and exploration licenses. Until that time, the Corporation will need to continue to raise equity or debt financing to support expenditures to advance its exploration and projects. Should a decision be made to develop its projects, the Corporation will need to raise significant equity and debt financing to build project infrastructure and develop its operations.

The changing conditions of equity and debt markets and the commodity business cycle could limit the availability, timing and sufficiency of funding. Further, risks associated with operating in Mongolia, including political risks, levels of taxation, issues related to license tenure and infrastructure development, tolerance of foreign investment, and availability of skilled labour, could affect the ability of the Corporation to finance advancement and development of its projects. The Corporation will seek additional funding through further offerings of equity, soliciting strategic investors and joint venture partners, and by seeking project and other debt financing. The outcome of such activities cannot be determined at this time, and there is no assurance that steps taken by the Corporation will be successful.

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

During 2012, the Corporation undertook an extensive process to raise equity financing by way of private placements. In June 2012, the Corporation issued common shares and warrants for gross proceeds of \$10.0 million. Discussions with potential investors continue; however, such efforts may not be successful. Accordingly, the Corporation has reduced its planned exploration and other expenditures in order to conserve cash while maintaining the flexibility to proceed with its planned exploration program should sufficient funding become available.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, reported revenue and expenses, and balance sheet classifications used. These adjustments could be material.

See note 10, Refundable deposits, note 12, Intangible exploration, evaluation assets, note 24, Contingencies, and note 25, Subsequent events.

3. Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. The consolidated financial statements were authorized for issue by the Board of Directors on March 28, 2013.

The consolidated financial statements have been prepared on the historical cost basis except any derivative financial instruments, which are measured at fair value and any other assets and liabilities that are measured at fair value in accordance with the accounting policies described in note 4, Significant accounting policies.

These consolidated financial statements are presented in Canadian dollars. At the present time and development of the Corporation, the functional currency of MMC is the Canadian dollar (CAD) and the functional currency of CGBEM is the Mongolian tugrik (MNT).

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include interest accrued on intercompany loans, management fees and those items included in the following notes:

Determination of fair values

Management applies judgment, assumptions, and estimates in the determination of fair values. The method to determine fair value varies according to the nature of the financial and non-financial assets and liabilities. See note 5, Determination of fair values.

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

Acquisitions

In the acquisition of assets the fair value of intangible exploration, evaluation assets and property, plant and equipment are assessed by management with help from third party advisors when required. The judgments applied are based on management's experience and the estimates used are based on available information at that time. At the time of acquisition of mineral licenses, where available, Mongolian resource reports (which are not NI 43-101 compliant) were included in the analysis to determine the fair value of the exploration and mining licenses. See note 7, Acquisitions of mining and exploration licenses.

Intangible exploration, evaluation assets

Judgment and experience are required in assessing whether there is sufficient information available at the time to make a determination on expectation of future cash flows of the licenses. Management performed an impairment assessment on each license held by the corporation. Available resource report findings were reviewed and interpreted by management in determining whether the carrying amount exceeded the recoverable amount. See note 12, Intangible exploration, evaluation assets.

Share-based payments

The fair value of stock based compensation is measured using the Black Scholes option pricing model. Use of this model requires management to apply significant judgment in the determination of various computational inputs, including the estimated volatility of the Corporation's share price and estimated forfeiture rates which are used to measure the fair value of share options and warrants. The Corporation is not listed for trading on a public exchange and share prices and trading volatility are based on limited activity and information available from peer corporations. The Corporation was formed in 2010 and has a limited history upon which to base estimates of option and warrant life and forfeiture rates. See note 16, Share-based payments.

Income taxes

Judgment is required in assessing whether certain deferred tax assets and liabilities are recognized in the consolidated financial statements. The recognition of deferred tax assets is dependent upon the Corporation's assumptions of future taxable profits, which depend on expectations for profitable operations, including timing, future capital investment, coal and mineral prices, and operating costs. Judgments are also made about the interpretation and application of income tax legislation by taxation authorities, including legislation that may be incomplete, vague or ambiguous. These judgments and expectations are subject to change, and any changes will affect the amount of deferred tax assets and liabilities and deferred tax expense recognized in the financial statements. See note 20, Income tax expense.

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

4. Significant accounting policies

The accounting policies set out below have been applied consistently by the Corporation and its subsidiaries.

Basis of consolidation

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Costs related to acquisitions are expensed as incurred.

Any excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the statement of comprehensive income. Goodwill is measured at cost less accumulated impairment losses.

Where the Corporation's interest in the subsidiary is less than 100% the interest attributable to the minority shareholders is reflected as non-controlling interests. The Corporation recognizes non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency

The consolidated financial statements of CGBEM have been translated into the Canadian dollar reporting currency by translating assets and liabilities using the exchange rate at the reporting date and translating income, expense and cash flow items using the rate that approximates the exchange rates at the dates the transactions occurred or the average rate for the period. Resulting translation gains or losses are reported in other comprehensive income or loss. On any disposal of a foreign operation, all of the accumulated exchange differences with respect to the operation that are attributable to the shareholders of the Corporation will be reclassified to profit or loss.

Transactions in foreign currencies are translated to functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to functional currencies at the period end exchange rate. Any non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on transactions are recognized in net profit or loss.

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Financial instruments

Financial instruments comprise cash and cash equivalents, accounts receivable, bank overdrafts, accounts payable and accrued liabilities, and loans. Financial instruments are initially recognized at fair value plus any directly attributable transaction costs, unless the asset or liability is classified as fair value through net profit or loss, in which case such costs are expensed as incurred.

Cash and cash equivalents comprise cash on hand, term deposits held with banks, any short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Any bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Other non-derivative financial instruments, such as accounts receivable, accounts payable and accrued liabilities, and loans, are measured at amortized cost using the effective interest method, less any impairment losses.

There are no financial assets classified as available for sale or fair value through profit or loss. The Corporation does not utilize derivative financial instruments.

Intangible exploration, evaluation assets

Intangible exploration and evaluation expenditures are incurred in relation to mineral projects where such costs are considered recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. These costs are capitalized and recorded on the consolidated statement of financial position as intangible assets. These expenditures include the costs of acquiring licenses and mineral rights and researching, acquiring, and analyzing existing exploration data; expenses associated with acquiring, researching and analyzing exploration data including geological studies, exploratory drilling and sampling, examining and testing extraction and treatment methods, and related marketing and financial studies; and directly attributable general and administrative costs. Costs incurred prior to obtaining a license are recognized in net profit or loss as incurred.

These costs are initially capitalized as intangible exploration, evaluation assets and are accumulated by exploration area pending determination of the technical feasibility and commercial viability of developing a project. Intangible exploration, evaluation assets are reviewed for indications of impairment at each reporting date to determine if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, intangible exploration, evaluation assets are allocated to cash-generating units.

When a decision is made to proceed with the development of a project, intangible exploration, evaluation assets attributable to the project are first tested for impairment and then reclassified from intangible exploration, evaluation assets to Property, Plant and Equipment.

Property, plant and equipment

Property, plant and equipment consist of mine development costs, construction in progress, production assets, which include mine assets, land, buildings, plant and equipment, and other capital assets.

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Items of production assets are measured at cost, being the purchase price and other costs directly attributable to the purchase or construction of the asset required to bring the asset to the location and condition to be capable of operating as intended, less accumulated depletion and depreciation and accumulated impairment losses. When major components of production assets have different useful lives, they are accounted for as separate items. Costs of replacing parts of production assets are recognized as assets only when they increase the future economic benefits embodied in the specific asset to which they relate. The carrying amount of any replaced or sold component is derecognized. All other expenditures, including costs of the day-to-day servicing of production assets, are recognized in profit or loss as incurred.

Gains and losses on disposal of an item of production assets are determined by comparing the proceeds from disposal with the carrying amount of the assets and are recognized within "other income" or "other expenses" in the statement of comprehensive income.

For purposes of impairment testing, property, plant and equipment are allocated to cash-generating units.

Depreciation

For buildings, plant and equipment, depreciation is recognized in net profit or loss on the basis of equipment operating hours or on a straight-line basis over the estimated useful lives of each part of an item of buildings, plant and equipment.

The estimated useful lives, in years, for production and other assets for the current period are as follows:

Buildings	5 – 50
Mine equipment	5 – 10
Vehicles	3 – 10
Office equipment	3 – 10
Computer equipment	3 – 5

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired, which is evidence that one or more events have had a negative effect on the estimated future cash flows of that asset. Any impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Any impairment losses are recognized in net profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in net profit or loss.

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Non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For any goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. Intangible exploration, evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into cash generating units, which are the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Any goodwill acquired in a business combination is allocated to the cash generating units that are expected to benefit from the synergies of the combination. Intangible exploration, evaluation assets are allocated to related cash generating units when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets.

The recoverable amount of an asset or a cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of reserves. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In absence of such transactions, an alternative valuation method based on the assumptions of a typical market participant is used.

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if objective evidence exists to indicate that there has been a change in the circumstances, conditions, or estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Share-based payments

Share-based awards are granted to executives, employees and non-employee directors of the Corporation. The expense of common share options granted to employees and non-employee directors is based on the fair values of the options at the time of the grant, which is recognized over the vesting period of the respective options. A corresponding increase is recorded to contributed surplus in shareholders' equity. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

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Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

The Corporation's activities give rise to dismantling, decommissioning and site disturbance re-mediation obligations. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs. Increases or decreases in the provision due to changes in the estimated future cash flows or the discount rate applied are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions, impairment losses recognized on financial assets, and foreign exchange gains and losses.

Any borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in net profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Corporation's outstanding borrowings during the period.

Interest income is recognized as it accrues in net profit or loss, using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net profit or loss except to the extent that it relates to items recognized directly in equity, which is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, nor is it recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to

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income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the net profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

Share Capital

Common shares are classified as equity. Equity is initially recorded at the fair value of the proceeds received less incremental costs directly attributable to the issue of common shares and share options, net of any tax effects.

New standards and interpretations not yet adopted

The IASB issued the following revised standards and amendments in 2011, which have not yet been adopted by the Corporation. Each of the new revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 unless otherwise stated.

IFRS 7, *Financial Instruments: Disclosures*, identifies additional disclosure requirements on transition from IAS 39 to IFRS 9. The amendment is effective for annual periods beginning on or after January 1, 2015.

IFRS 9, *Financial Instruments: Classification and Measurement*, is part of the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Equity instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. The amendment is effective for annual periods beginning on or after January 1, 2015.

IFRS 10, *Consolidation*, replaces SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*, and requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11, *Joint Arrangements*, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operations. Joint ventures will be accounted for using the equity method of accounting, whereas the venturer will recognize its share of the assets, liabilities, revenue and expenses of joint operation. IFRS 11 supersedes IAS 31, *Interest in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

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IFRS 12, *Disclosure of Interest in Other Entities*, establishes disclosure requirements for interest in other entities, such as joint arrangements, associates, and special purpose and off balance sheet entities. The standard carries forward existing disclosures and introduces significant additional disclosure requirements regarding the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, *Fair Value Measurement*, is a comprehensive standard that defines fair value, provides a framework for measuring fair value when it is required or permitted within the IFRS standards, and identifies disclosure requirements.

IAS 27, *Separate Financial Statements*, addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements.

IAS 28, *Investment in Associates and Joint Ventures*, has been amended to include joint ventures in its scope and to address the changes in IFRS 10 through 13, inclusive.

IAS 32, *Financial Instruments: Presentation*, provides clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after July 1, 2012.

Certain of these new pronouncements and amendments are not currently applicable to the Corporation. The Corporation does not anticipate any material impact on its financial position and results of operations upon adoption of applicable new and revised standards and amendments.

5. Determination of fair values

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

The fair value of cash and cash equivalents, accounts receivable, bank overdraft, and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2012, the fair value of these balances approximated their carrying value due to their short term to maturity.

The fair value of property, plant and equipment recognized in a business combination is based on the estimated amount for which the property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

The fair value of intangible exploration, evaluation assets recognized in an acquisition in which the intangible exploration, evaluation assets are the principal assets acquired is the acquisition cost of the net assets acquired less fair values allocated to the other identifiable assets and liabilities acquired.

The fair value of loans and borrowings are not based on observable market data. Fair value is estimated by the Corporation based on current interest rates, estimates of risk, and any fees or other costs associated with the loans.

The fair value of employee stock options is measured using a Black Scholes option pricing model. Measurement inputs include: share price on measurement date, exercise price of the instrument, expected price volatility based

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on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behavior, expected dividends, and, the risk-free interest rate based on government bonds.

6. Financial risk management

The Corporation's activities expose it to a variety of financial risks that arise as a result of its exploration, development, and financing activities such as credit risk, liquidity risk, and market risk.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investment of cash. The maximum exposure to credit risk based on carrying amounts at year-end is as follows:

	2012	2011
Bank balances	\$ 744	\$ 3,424
Term deposits	5,661	3,076
Accounts Receivable	20	183
	\$ 6,425	\$ 6,683

The Corporation limits its exposure to credit risk of cash and cash equivalents by only investing in liquid securities with counterparties that are large banks. The Corporation does not expect any counterparty to fail to meet its obligations.

The Corporation holds cash in accounts at the Khan Bank in Mongolia, and funds these accounts as required to meet payment obligations. The cash balance at December 31, 2012 was \$309 thousand, which was the Canadian equivalent of USD\$223 thousand and MNT 121.5 million (2011: \$436 thousand, which was the Canadian equivalent of USD\$405 thousand and MNT 29.8 million). The Khan Bank is the largest in Mongolia in terms of deposits and loans. Khan Bank's credit rating is below investment grade given Mongolia's high risk operating environment and narrow-based economy.

The Corporation does not anticipate any default of receivables as transactions are with creditworthy parties and the Corporation does not expect any losses from non-performance by these parties. A provision for doubtful accounts has not been recorded at December 31, 2012. The Corporation also has refundable deposits, some of which are unsecured. See note 10, Refundable deposits.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

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The Corporation was formed in 2010 and has not established a cash flow from active operations. The Corporation is considering an operating and capital budget for the next fiscal year with which it manages spending on various initiatives, including the hiring of staff, purchase of coal and mineral licenses and the payment of exploration, professional and other costs. This excludes the potential impact of circumstances that cannot be predicted.

Until the Corporation establishes cash flows from operating activities, it is dependent on its ability to periodically raise funds from the issuance of new equity or debt financing. Due to the nature of financial capital markets, funds may not be available when desired or required by the Corporation, which would severely impact the liquidity available to the Corporation. See note 2, Going concern.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Corporation's cash flow or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing total return to shareholders.

Currency risk

The Corporation raises funds for operations and investment in Canadian dollars. Operations expenditures and investments outside of Canada are typically based in MNT and U.S. dollars (USD). The USD:CAD and MNT:CAD exchange rates during the period were as follows:

	High	Low	Average	Period End
USD:CAD\$1	1.03	0.96	1.00	1.01
MNT:CAD\$1	1,445	1,263	1,359	1,399

The following financial instruments were denominated in U.S. dollars and Mongolian tugriks, and are stated at the Canadian dollar equivalent value:

	2012		2011	
	USD	MNT	USD	MNT
Cash, cash equivalents	\$ 340	87	\$ 1,185	22
Accounts receivable	-	1	10	13
Accounts payable, accrued liabilities	(10)	(152)	(116)	(391)
	\$ 330	(64)	\$ 1,079	(356)

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A 1% percent change in the Canadian dollar against the USD and MNT at December 31, 2012 would have increased (decreased) profit or loss by approximately \$6 thousand (2011: \$18 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

Future cash flows will fluctuate as a result of changes in market interest rates. The Corporation did not have any interest-bearing debts outstanding to third parties during the year.

Capital management

The Corporation is engaged in the exploration for and ultimately the development and production of coal and other minerals from its licensed properties in Mongolia, and does not generate cash flows from operations. The Corporation considers its capital structure to include shareholders' equity and loans and borrowings. In order to maintain or adjust the capital structure, the Corporation may issue shares and adjust its capital spending to manage current and projected debt levels.

In order to facilitate the management of its capital structure, the Corporation prepares annual capital and operating expenditure budgets, which are updated as necessary depending on business conditions.

Neither the Corporation nor any of its subsidiaries are subject to externally imposed capital requirements. See note 2, Going concern.

7. Acquisitions of mining and exploration licenses

The Corporation did not acquire mining or exploration licenses in 2012.

On June 30, 2011, CGBEM acquired the right to explore and exploit an exploration license through the purchase of all of the issued and outstanding shares of ECL LLC (ECL) for total consideration of \$13.2 million in cash including a \$10.3 million payment through a Mongolian corporation controlled by the Corporation's Mongolian partner. ECL, the sole asset of which consisted of rights to exploration license XV-016830 in Mongolia, did not meet the definition of a business under IFRS 3. The purchase price was fully allocated to refundable deposits. See note 10, Refundable deposits.

On May 9, 2011, CGBEM acquired eight exploration licenses through the purchase of all of the issued and outstanding shares of MMU LLC (MMU) from a Mongolian corporation controlled by the Corporation's Mongolian partner for total consideration \$953 thousand in cash. MMU, the assets of which consisted of the eight exploration licenses in Mongolia, did not meet the definition of a business under IFRS 3. The purchase price was fully allocated to intangible exploration, evaluation assets.

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8. Cash, cash equivalents

	2012	2011
Bank balances	\$ 744	\$ 3,424
Term deposits	5,661	3,076
	\$ 6,405	\$ 6,500

9. Accounts receivable

	2012	2011
Value-added taxes	\$ -	\$ 160
Other	20	23
	\$ 20	\$ 183

10. Refundable deposits

A former shareholder of the vendor of exploration license XV-016830, the rights to which were acquired on the acquisition of ECL, commenced a legal proceeding in Mongolia in March 2012. The party has challenged the validity of the sale of the shares to the vendor. A lower court decision in July 2012, a decision on appeal in September 2012, and a decision of the Supreme court of Mongolia in November 2012 were all in favour of the vendor of the license and dismissed the action of the former shareholder. In December 2012, the former shareholder appealed the matter to the Chief Justice of Mongolia, which rendered a decision in favour of the vendor in January 2013. No further appeals can be advanced by this former shareholder. See note 25, Subsequent events.

With respect to an earlier lawsuit involving another former shareholder of the vendor of the mineral exploration license noted above, a decision favourable to the Corporation was rendered by the Chief Justice of Mongolia in April 2012. No further appeals can be advanced by this former shareholder.

Efforts are underway to transfer license XV-016830 to a subsidiary of the Corporation. In March 2013, the Foreign Investment Regulations and Registration Department, which is the administrator of the Foreign Investment Law, agreed in writing to the Corporation's position that the Foreign Investment Law does not apply to the transfer of license XV-016830 because the transaction to acquire the license occurred prior to the enactment of the law. The Corporation will now present the matter to the State Registration Office in an attempt to effect the transfer of the license. The Corporation entered into agreements with the vendor such that the Corporation is entitled to exercise the rights of ownership of the license. In addition, a subsidiary of the Corporation holds the physical license certificate in safekeeping. Should the transfer of the license not be ultimately successful, the Corporation's acquisition of title to the license may be unsuccessful. The Corporation's right and title to the license is secured by indemnification obligations of the vendor, which have been guaranteed by the Corporation's Mongolian partner to a maximum amount of the purchase price of ECL. The Corporation's

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Mongolian partner has pledged as security for the guarantee twenty percent of the Mongolian partner's common shares and beneficial interest in CGBEM. Costs expensed during the year for exploration and evaluation work on the license were \$1.7 million. See note 25, Subsequent events.

In November 2011, the Corporation paid \$2.0 million in cash to its Mongolian partner in connection with the advancement of an infrastructure development opportunity in Mongolia. Under the terms of the agreement the amount is repayable to the Corporation if the opportunity does not proceed. The Corporation's right to any repayment is unsecured.

11. Property, plant, equipment

	Production Assets	Other Capital Assets	Total
Cost			
Balance at January 1, 2011	\$ 673	\$ 237	\$ 910
Additions	-	159	159
Currency difference	(55)	(23)	(78)
Balance at December 31, 2011	\$ 618	\$ 373	\$ 991
Additions	-	121	121
Disposal	-	(3)	(3)
Currency differences	(13)	(11)	(24)
Balance at December 31, 2012	\$ 605	\$ 480	\$ 1,085
Depreciation, amortization and impairment losses:			
Balance at January 1, 2011	\$ -	\$ -	\$ -
Depreciation	-	60	60
Impairment losses	455	-	455
Currency differences	-	(2)	(2)
Balance at December 31, 2011	\$ 455	\$ 58	\$ 513
Depreciation	-	77	77
Impairment losses	90	-	90
Currency differences	(9)	(2)	(11)
Balance at December 31, 2012	\$ 536	\$ 133	\$ 669
Carrying amounts			
December 31, 2011	\$ 163	\$ 315	\$ 478
December 31, 2012	\$ 69	\$ 347	\$ 416

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At December 31, 2012, \$69 thousand (2011: \$163 thousand) of property, plant and equipment was not being depreciated. In 2012, an impairment charge of \$90 thousand was recorded to reduce the carrying amount of certain production assets in Mongolia to their estimated fair values. An assessment was performed on the production assets and it was determined that given the present condition and age of the equipment that the equipment was not suitable to meet the needs of future operations and logistical work. No borrowing costs were capitalized during the period.

12. Intangible exploration, evaluation assets

	2012	2011
Balance, beginning of year	\$ 52,805	\$ 49,741
Acquisitions (Note 7)	-	953
Additions	1,241	4,536
Impairment charges	(961)	-
Currency differences	(3,705)	(2,425)
	\$ 49,380	\$ 52,805

During the year ended December 31, 2012, the Corporation incurred exploration and evaluation costs on its mining and exploration licenses of \$1.2 million (2011: \$4.5 million), net of an adjustment of \$210 thousand arising from a change in estimate of the decommissioning liability. See note 14, Decommissioning liabilities.

In March 2012, the Corporation received notice of an administrative challenge to the validity of exploration license XV-016830, which is adjacent to the Corporation's Khotgor property (license MV-012474). In 2007 and 2008, the Mineral Resource Authority of Mongolia (MRAM) accepted a late payment of license fees by the former registered license holder and renewed the exploration license. The State Specialized Inspection Agency (SSIA) in Mongolia reviewed this matter and challenged the decision of MRAM and expressed the view that the license should be revoked. In May 2012, the Corporation, working with the vendor of the license, submitted a claim to the court in Mongolia to resolve the matter. The court ruled favourably to the Corporation's position, and both MRAM and SSIA have declined to appeal the decision of the court.

The Corporation received approvals from proper Mongolian government agencies for its 2012 exploration programs on its various mining and exploration licenses. However, in response to a politically motivated protest by a small number of individuals at the Corporation's Khotgor exploration site (licenses XV-016830 and MV-012474), the Mongolian government suspended the Corporation's exploration activities at the site in April 2012 citing the need for a detailed environmental impact assessment and land use agreement. The Corporation completed a detailed environmental impact assessment and land use agreement, and continued to engage the Mongolian government to identify and rectify any issues related to the licenses. While the process was delayed by political events in Mongolia that were out of the control of the Corporation, the Corporation felt it had resolved a number of matters that would have allowed it to resume its exploration activities. However, management was of the view that resolution came with insufficient time remaining in the 2012 drilling season to achieve meaningful

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exploration results. During the year ended December 31, 2012, the Corporation charged to exploration, evaluation expense approximately \$1.2 million of standby costs incurred during the period the exploration program was suspended. See note 25, Subsequent events.

No amounts of intangible exploration, evaluation assets were reclassified to property, plant and equipment during the year ended December 31, 2012.

A number of factors occurred during 2012 that the Corporation considered to be indicators that its asset values, including those for various mineral licenses, may be impaired. These factors include:

- The enactment by the Mongolian government of the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance. See note 24, Contingencies. The law, which is unclear and does not yet have accompanying regulations, may impact the Corporation, including its ability to consolidate its ownership in CGBEM and its ongoing level of ownership in and management of CGBEM.
- The Corporation is at the exploration phase of its development and relies on external funding to advance its business plan. See note 2, Going concern. An extensive process in 2012 to raise capital resulted in the issuance of \$10 million of common shares and warrants in June 2012, which is insufficient to advance all work on all of the Corporation's licenses. Fund raising efforts continue.
- There have been legal and administrative challenges to the ownership and validity of certain licenses. Legal matters have been resolved in favour of the Corporation, and certain administrative challenges continue to be addressed. See note 10, Refundable deposits, and note 25, Subsequent events.

Accordingly, the Corporation assessed the impairment of its assets, including its mining and exploration licenses. The Khotgor and Dalan projects have mineral resource assessments in the form of independent NI 43-101 Technical Reports. The Corporation utilized estimated pre-tax cash flows from preliminary economic assessments prepared in connection with the technical reports, updated market studies for the Khotgor project, and developed a number of scenarios that considered such matters as coal price decreases, delays to advancement of the projects, and a range of discount rates.

The recoverable amounts for various exploration licenses were considered in the context of initial geological evaluation, time to license expiry, location of the license, and relative exploration priority considering all of the licenses of the Corporation. The lack of market precedent transactions, or the lack of transparency of transactions in the country, affected the Corporation's ability to obtain data for current license values.

The results of the assessment were that the Corporation's Khotgor and Dalan projects, having an aggregate book value of \$53.7 million including the portion recorded in refundable deposits, were not impaired. Certain of the Corporation's exploration licenses were impaired and an impairment loss of \$961 thousand was recorded during the third quarter of 2012, which was recorded as an impairment charge in the Consolidated Statement of

Mongolia Minerals Corporation

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For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

Comprehensive Income. The remaining carrying value of the Corporation's intangible exploration, evaluation assets and related refundable deposits was approximately \$61.6 million as of December 31, 2012.

Key assumptions used to develop discounted pre-tax cash flows to consider the impairment of the Khotgor and Dalan projects included coal prices, project timing and discount rates. The Corporation used a pre-tax discount rate of 18%. Coal prices for the Khotgor project were based on updated market studies that identify prices in target markets in China. Khotgor coal prices are assumed to recover somewhat from recent lows and increase 50% to 60% over the next eight years, depending on coal quality. It is assumed that prices would then remain constant over the anticipated life of the project. Coal prices for the Dalan project were extrapolated using earlier market studies and conclusions from the updated Khotgor market studies. Dalan coal prices are assumed to recover somewhat from recent lows and increase 25% to 30% over the next eight years. It is assumed that prices would then remain constant over the anticipated life of the project.

The Corporation recalculated the pre-tax discounted cash flows for the Khotgor and Dalan projects to test their sensitivity to a 10% decrease in average coal prices, a 1% increase in the pre-tax discount rate, and a one-year delay in the startup of the projects, which assume the key variable moves in isolation and there is no mitigating action taken by the Corporation. The individual movements would not result in an impairment charge based on the analysis completed at December 31, 2012.

13. Accounts payable, accrued liabilities

	2012	2011
Trade, other	\$ 513	\$ 991
Value-added taxes	-	17
	\$ 513	\$ 1,008

14. Decommissioning liabilities

	2012	2011
Balance, beginning of year	\$ 224	\$ 130
Change in estimate	(210)	77
Accretion	65	34
Currency differences	(8)	(17)
	\$ 71	\$ 224

The Corporation's provisions represent decommissioning obligations resulting from its ownership interest in mining and exploration licenses and equipment. The total decommissioning obligation is determined based on the Corporation's estimate of the expected value of future costs to reclaim disturbed lands and abandon facilities, discounted to their present value based on the anticipated timing of when costs will be paid in future years.

Mongolia Minerals Corporation

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During 2012, the Corporation changed the currency used to estimate its decommissioning liabilities to the USD, and made commensurate changes to attendant discount and inflation rates. This change in estimate resulted in a reduction in the liability of \$210 thousand. The Corporation has estimated the net present value of the decommissioning obligations to be \$71 thousand as at December 31, 2012 (2011: \$224 thousand) based on an undiscounted total future liability of \$215 thousand (2011: \$216 thousand). These payments are expected to be made over the next 20 years (2011: 20 years) with the majority of costs to be incurred in 20 years (2011: 20 years). The discount factor is 8% (2011: 10%), and represents the credit-adjusted risk free rate related to the liability. The rate of inflation was assumed to be 2% (2011: 10%).

The timing of the actual decommissioning expenditures is uncertain and is dependent upon a number of factors such as the life of any mining operations, the nature of the assets, the terms and conditions of the mineral licenses, government regulations and the environmental policies of the Corporation, and the environment in which activities are undertaken. Significant judgments and estimates are involved in forecasting future activities and their timing, and the cost and present value of those activities. Judgments and estimates will change as new information becomes available, which will affect the present value of provisions.

15. Share capital

Authorized:

At December 31, 2012, the Corporation was authorized to issue the following shares:

- An unlimited number of common shares the holders of which are entitled to receive dividends as declared by the Corporation and are entitled to one vote per share.
- An unlimited number of preferred shares, issuable in series, each series to bear the designation, rights, privileges, restrictions and conditions attaching to such series of preferred shares and consist of such number of shares as may be determined by resolution of the Board of Directors of the Corporation.

Common shares issued and outstanding:

	2012		2011	
	Number of shares (000's)	\$	Number of shares (000's)	\$
Balance, beginning of year	215,022	64,374	182,084	34,604
Shares issued	9,724	9,731	32,938	33,147
Share issue costs	-	(585)	-	(3,377)
	224,746	73,520	215,022	64,374

During the year, the Corporation issued 8.0 million units consisting of one common share and one warrant to a company related to a director of the Corporation for cash consideration of \$10.0 million. The common shares had a fair market value of \$6.8 million. Also during the year, the Corporation issued 1.7 million common shares for

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

cash consideration of \$2.9 million. Share issue costs were \$585 thousand, which included commissions of \$500 thousand.

The Corporation capitalized costs incurred in conjunction with certain financing activities. Should a transaction not be completed, costs of \$222 thousand (2011: \$215 thousand) will be expensed as professional services costs in the consolidated statement of comprehensive income.

16. Share-based payments

Options:

The Corporation has an option program that entitles directors, officers and employees to purchase common shares in the Corporation. Options are granted at an exercise price equivalent to the most recent issue price of common shares at the date of grant. Options have a ten-year term and vest within three years.

Option grants were as follows:

	2012		2011	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Balance, beginning of year	19,385	\$ 0.64	9,750	\$ 0.35
Options granted	2,372	0.85	11,115	0.87
Options forfeited	(13)	0.85	(1,475)	0.45
Options expired	-	-	(5)	0.35
	21,744	\$ 0.66	19,385	\$ 0.64

During the year, the Corporation issued 2.4 million options (2011: 11.1 million) with exercise price of \$0.85 (2011: \$0.35 to \$1.25) to employees, officers and directors, some of which vested immediately, and recognized stock-based compensation expense of \$2.3 million (2011: \$6.8 million) Thirteen thousand options were forfeited during the year (2011: 1.5 million).

No options were exercised during 2012 or 2011.

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

Exercise price	Options outstanding			Options Exercisable		
	Options outstanding (000's)	Weighted average exercise price	Weighted average remaining contractual life (years)	Options outstanding and exercisable (000's)	Weighted average exercise price	Weighted average remaining contractual life
\$ 0.35	9,600	\$ 0.35	7.7	8,800	\$ 0.35	7.7
\$ 0.70	5,755	0.70	8.2	4,985	0.70	8.2
\$ 0.85	2,359	0.85	9.8	1,332	0.85	9.8
\$ 1.25	4,030	1.25	8.5	3,860	1.25	8.5
	21,744	\$ 0.66	8.2	18,977	\$ 0.60	7.4

Warrants:

Warrants issued were as follows:

	Number of warrants (000's)	Warrants (000's)	Weighted average exercise price	Number of warrants (000's)	Warrants (000's)	Weighted average exercise price
Balance, beginning of year	2,496	\$ 1,146	\$ 0.91	561	\$ 188	\$ 0.70
Warrants issued	8,000	3,200	1.25	1,935	958	0.97
Warrants expired	(791)	(263)	0.70	-	-	-
	9,705	\$ 4,083	\$ 1.21	2,496	\$ 1,146	\$ 0.91

During the year, as part of an offering of units comprised of one common share and one warrant, the Corporation issued 8.0 million warrants during the three months ended June 30, 2012. Each warrant entitles the holder to purchase at any time and from time to time one common share for \$1.25 until the date that is 12 months from the date on which the Corporation completes an initial public offering. The warrants had a fair market value of \$3.2 million. The units were issued to a company related to a director of the Corporation.

No warrants were exercised during 2012 or 2011.

Exercise price	Warrants outstanding (000's)	Expiry date
\$ 0.70	745	January 20, 2013
\$ 1.25	960	June 8, 2013
\$ 1.25	8,000	June 19, 2016
	9,705	

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

Valuation assumptions:

The fair value of the options and warrants were estimated using Black Scholes model with the following weighted average inputs:

	2012		2011	
	Warrants	Options	Warrants	Options
Fair value at grant date	\$ 0.40	\$ 0.59	\$ 0.50	\$ 0.63
Share price	0.85	0.85	0.97	0.90
Exercise price	1.25	0.85	0.97	0.87
Volatility	89%	89%	94%	89%
Estimated life, years	4	5	2	5
Dividend yield	-	-	-	-
Risk-free interest rate	1.5%	1.3%	1.6%	2.6%
Forfeiture rate	-	5%	-	10%

17. Foreign currency translation

The Corporation raises funds in Canadian dollars. Operations expenditures and investments are largely outside of Canada and are typically based in MNT or USD dollars, and the functional currency of CGBEM is the MNT. The foreign exchange loss \$4.1 million included in other comprehensive loss for the year ended December 31, 2012 is a result of a decline in the value of the MNT during the year and a prospective change in the foreign currency translation of the carried interest of the non-controlling interest in CGBEM.

18. Loss per share

Basic and diluted loss per share was calculated as follows:

	Year ended December 31 2012	Year ended December 31 2011
Net loss (income) attributed to the owners of the Corporation	\$ 9,606	\$ 13,381
Weighted average number of common shares - basic (000's)	220,845	205,917
Net loss per share - basic	\$ 0.04	\$ 0.06

The number of dilutive potential common shares excluded from earnings per share as of December 31, 2012 is 10.2 million (2011: 8.9 million) under the treasury stock method. The Corporation experienced losses and therefore, there was no dilutive effect from stock options and warrants.

Mongolia Minerals Corporation

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For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

19. Personnel expenses

The aggregate payroll expense of employees and executive management was as follows:

	Year ended December 31 2012	Year ended December 31 2011
Salaries and short-term benefits	\$ 4,052	\$ 3,887
Share-based compensation	2,308	6,769
	<u>\$ 6,360</u>	<u>\$ 10,656</u>

No personnel expenses have been capitalized during 2012 or 2011.

Remuneration of the Corporation's directors and executive officers includes, directors' fees, salaries and non-cash benefits. The executive officers include the President and Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, VP Engineering and Development, and Vice President Operations. Directors and executive officers also participate in the Corporation's stock option program. Key management personnel compensation was comprised of the following:

	Year ended December 31 2012	Year ended December 31 2011
Salaries, Directors' fees and short-term benefits	\$ 2,929	\$ 2,797
Share-based compensation	2,012	6,692
	<u>\$ 4,941</u>	<u>\$ 9,489</u>

Key management personnel have entered into employment contracts with the Corporation that provide for cash payments on a change of control or on termination without cause. At December 31, 2012, there is a maximum cash commitment of \$5.8 million.

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

20. Income tax expense

The following table reconciles income tax expense calculated at statutory rates to the actual tax provision:

	Year ended December 31 2012	Year ended December 31 2011
Net profit (loss) before tax	\$ (13,583)	\$ (17,606)
Expected tax rate	25.0%	26.5%
Expected income tax	(3,396)	(4,666)
Effect of tax rates in foreign jurisdictions	1,557	2,673
Non-deductible expenses, other	897	2,245
Current year losses for which no deferred tax asset was recognized and change in unrecognized temporary differences	1,183	(302)
Non-deductible unrealized foreign exchange	189	(188)
Adjustments to tax of prior periods	(430)	150
Reduction of Canadian tax rate	-	88
	\$ -	\$ -

Income tax in Mongolia is charged at graduated rates from 10% on the first MNT 3 billion of taxable income and 25% thereafter. The statutory tax rate in Canada decreased to 25.0% in 2012 from 26.5% in 2011, which is a continuation of phased-in reductions stemming from tax legislation enacted in 2007.

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars except per share information)

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	Year ended December 31 2012	Year ended December 31 2011
Property, plant, equipment / intangible exploration, evaluation assets	\$ 1,532	\$ 361
Decommissioning liability	71	224
Share issuance costs	4,017	4,673
Unrealized foreign exchange losses	5,901	-
Tax losses	13,960	6,635
Other	91	19
	\$ 25,572	\$ 11,912

The unrealized foreign exchange losses of \$5.9 million largely relate to prior periods and the tax-effect, at Mongolian tax rates, is included in adjustments to tax of prior periods.

Mongolian tax losses of \$9.5 million (2011: \$5.1 million) expire after 4 years, and accumulated losses expire between 2014 and 2016. Canadian tax losses of \$4.3 million (2011: \$2.4 million) expire after 20 years, and accumulated losses expire between 2030 and 2031. Losses are subject to confirmation by taxation authorities.

21. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Less than one year	\$ 94	\$ 68
Between one and five years	77	102
More than five years	-	-
	\$ 171	\$ 170

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

22. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

	Year ended December 31 2012	Year ended December 31 2011
Source (use) of cash:		
Accounts receivable	\$ 163	\$ 2,439
Prepaid expenses	(479)	(395)
Accounts payable, accrued liabilities	(497)	1,325
	\$ (813)	\$ 3,369
Related to:		
Operating activities	\$ 61	\$ (1,153)
Investing activities	\$ (813)	\$ 727
Financing activities	\$ (61)	\$ 3,795

23. Related party transactions

During the year ended December 31, 2012, the following transactions occurred with parties related to the Corporation:

- The Corporation issued \$10 million of common share and warrant units to a company related to a director of the Corporation. See note 15, Share capital.
- The Corporation paid \$1.5 million (2011: nil) to a Mongolian corporation controlled by the Corporation's Mongolian partner in connection with the reunification of an exploration license. This cost is included in exploration, evaluation expense and is not refundable.
- Consulting fees of \$30 thousand (2011: \$120 thousand) were paid to a director of the Corporation.

During the year ended December 31, 2011, the following transactions occurred with parties related to the Corporation:

- The Corporation paid \$11.2 million to Mongolian corporations controlled by the Corporation's Mongolian partner as deposits in connection with the acquisition of mineral licenses.
- The Corporation paid \$2.1 million to Mongolian corporations controlled by the Corporation's Mongolian partner in connection with the advancement of an infrastructure development opportunity in Mongolia.
- The Corporation repaid \$1.8 million in demand loans from directors. Fees of \$37 thousand were expensed and paid in connection with the loans.
- Share issue expenses of \$60 thousand were paid to a director of the Corporation in conjunction with the issuance of shares.

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

- Rent of \$32 thousand was paid to utilize a portion of office space leased by certain directors of the Corporation.

24. Contingencies:

Title to mining and exploration licenses

Subject to note 7, Acquisitions of mining and exploration licenses, and note 10, Refundable deposits, although the Corporation believes that it holds title to its mining and exploration licenses, it cannot control or completely protect itself against the risk of title disputes, litigation with respect to past ownership or activities on the subject properties, or expropriation of, or relating to, its licenses. Further, there can be no assurance that claims or challenges by third parties against the Corporation's licenses will not be asserted at a future date.

Mongolian foreign investment law

The Mongolian Parliament enacted the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance, effective May 2012. The minerals sector is designated as strategic under the law.

Key provisions of the law include, but are not limited to:

1. Parliamentary approval for foreign ownership in excess of forty-nine percent in a business entity operating in a strategic sector where the investment exceeds MNT 100 billion (approximately \$70 million); and
2. Foreign investment regulator and Cabinet approval for transactions of a foreign investor that
 - a. provide for foreign ownership of one-third or more share ownership in a business entity operating in a strategic sector,
 - b. provide the foreign investor the right to unilaterally carry out the executive management of the strategic business or appoint the majority of the management team or board of directors,
 - c. provide the foreign investor the right to veto management decisions of the strategic business,
 - d. provide the foreign investor the right to exercise management functions, determine decision of the management and carry out business operations of the strategic business,
 - e. have consequences of diluting shareholding in the strategic business by entering into agreements with others or itself or an affiliated entity or third party,
 - f. may create buyer or seller monopoly in international and Mongolian mining raw material and commodities markets transactions, and
 - g. may affect the market and price of mining export products of Mongolia.
3. Mongolian businesses to be given priority for the procurement of goods, works and services.

The provisions of the law apply equally to transactions made outside the territory of Mongolia if they relate to a direct or indirect parent company of a strategic business in Mongolia whether or not such entity is a Mongolian company. Regulations pursuant to which transactions are to be analyzed and approved or rejected have not yet been promulgated.

The law is unclear as to the full extent of its meaning, including but not limited to, conditions for approval, implementation guidance, approval timetable, taxation implications, and other matters. Further, the minerals regulator is prohibiting the transfer of exploration and mining licenses to strategic businesses with direct or

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

indirect foreign ownership. The new law has implications to the Corporation including its right to consolidate its ownership in CGBEM, ongoing ownership and management of CGBEM and the ability to acquire or dispose of strategic businesses or exploration and mining licenses. See note 25, Subsequent events. The new law is also expected to impair the Corporation's ability to raise financing. See note 2, Going concern.

Mongolian mining law

In December 2012, the government of Mongolia released a draft version of a new minerals law for public comment. The draft law contemplates a new regulatory regime with new legal concepts in areas such as license classifications; higher minimum expenditure requirements; restrictions on the transfer of licenses and pre-emptive rights for state-owned enterprises; license cancellation; tendering process for licenses; eligibility of license holders including equity ownership by Mongolia citizens of 34% or 51% in entities that hold licenses, and; extensive obligations related to environmental protection, mine closures, public consultations, feasibility studies, high-grading, public consultations, local content, and agreements with local governments. The draft law does not address any transitional provisions for existing licenses, and would weaken the security of license tenure granted under the current Minerals Law. Any new law may have implications to the Corporation, consolidation of its ownership in CGBEM, and its ability to acquire, hold and dispose of exploration and mining licenses, and may impair the Corporation's ability to raise financing.

Decommissioning liability

At the time of the acquisition of license MV-012474, a spoil of overburden had been placed on the license as a result of past operations on an adjacent license. Also, based on exploration work to date, the spoil covers mineral resources which, if developed in the future, would be moved as part of the mining sequence and not reclaimed. For these reasons, no provision has been made in the consolidated financial statements. If the area is not mined the estimated costs to reclaim the spoil and provide monitoring based on the volume of the material to be handled and anticipated labour and equipment hours is \$80 thousand in present-day dollars.

25. Subsequent events:

Consolidation of interest

Subsequent to year end, the Corporation and certain of its subsidiaries and founders entered into a securities exchange agreement with its Mongolian partner and a corporation owned by its Mongolian partner whereby the Corporation indirectly acquired all of the Mongolian partner's equity and other interests in CGBEM in exchange for the Corporation issuing 143,535,982 Series A Preferred shares. The closing of the transaction is subject to approval of the government of Mongolia under the provisions of the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance. If the transaction closes, CGBEM will be a wholly-owned subsidiary of the Corporation and the Unanimous Shareholders' Agreement will be terminated.

The Series A Preferred shares are not entitled to vote at any meeting of the shareholders of the Corporation, except in certain circumstances, and rank *pari passu* with the common shares of the Corporation with respect to the payment of any dividends. The Series A Preferred shares are entitled to a nominal preference over the common shares and other shares of the Corporation ranking junior to the Series A Preferred shares with respect to any distribution of property or assets in the event of a liquidation, dissolution or winding-up of the Corporation.

Mongolia Minerals Corporation

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For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

The Series A Preferred shares may be converted into common shares at the election of the holder in order to complete a sale of such shares to a third-party that is at arm's length to the holder. In the event that the Corporation undertakes a change of control transaction, the Series A Preferred shares may be tendered to, or may be conditionally converted into common shares, in connection with such change of control transaction. The Series A Preferred shares may also be converted into common shares at any time at the election of the Corporation. Finally, the Series A Preferred shares will automatically convert into common shares on the occurrence of any of the following events:

- a. if, at any time prior to the completion by the Corporation of an initial public offering of its securities or other listing transactions (an "IPO"), the holder of Series A Preferred shares beneficially owns or exercises control or direction over less than five percent of the then issued and outstanding common shares calculated on a fully-diluted basis,
- b. if, at any time after the completion by the Corporation of an IPO, the holder of Series A Preferred shares beneficially owns or exercises control or direction over less than ten percent of the then issued and outstanding common shares calculated on a fully-diluted basis,
- c. if the Corporation has not completed an IPO by February 25, 2018, and
- d. on February 25, 2023.

Closing of the transaction is to occur three business days after the satisfaction or waiver of the agreed upon mutual condition precedent that the parties will have received all consents, approvals and authorizations required in connection with the transaction under applicable laws in Mongolia or a legal opinion from Mongolian legal counsel that no such consents, approvals and authorizations are required.

Ownership of license XV-016830

A former shareholder of the vendor of exploration license XV-016830, the rights to which were acquired on the acquisition of ECL, made a final appeal to the Chief Justice of Mongolia challenging the validity of the sale of shares to the vendor. In January 2013, the Chief Justice of Mongolia rendered a decision favourable to the Corporation. No further appeals can be advanced by this former shareholder.

Exploration program approvals

The Corporation continues the process of obtaining approvals for license XV-016830, including approval of a detailed environmental impact assessment. It has also submitted a technical and economic report for the Powerland mining licenses (MV-013132 and MV-009517) for approval. The Corporation is experiencing an increase in scrutiny and demands associated with the process and conditions for approvals of various work plans. The Corporation expects additional work requirements and potentially higher costs as a result of fulfilling these demands, and increased difficulties retaining some of its licenses. The Corporation continues to work to identify, resolve and satisfy any outstanding issues and demands in anticipation of being able to commence exploration activities in early 2013.

License XV-016830 consists of 15,684 hectares and includes a Special Protected Area established to help protect important habitat for wild ibex and sheep. The area, making up 5,886 hectares of the license, is located along the northwestern and western extremes of the license, and is well away from coal bearing lands identified

Mongolia Minerals Corporation

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011

(tabular amounts are in thousands of Canadian dollars except per share information)

on the license. As part of obtaining approvals for the 2013 exploration program, the Corporation is in the process of turning the lands that make up the Special Protected Area back to the government of Mongolia.

Letter of intent

The Corporation entered into a non-binding letter of intent with Focused Capital Corp. to consider a reverse-take over transaction. Focused Capital is a capital pool corporation listed under the rules of the Toronto Venture Exchange. Pursuant to the letter of intent, the parties will use reasonable commercial efforts to negotiate a definitive agreement with respect to the acquisition of the Corporation, which, if completed, will be considered a reverse takeover under the rules of the exchange. Any transaction is subject to, among other things, execution of a definitive agreement, satisfactory results of due diligence investigations, and receipt of all necessary regulatory, shareholder and exchange approvals. If a transaction is completed, it would be a transaction with a party related to a director of the Corporation.



Mongolia Minerals

C O R P O R A T I O N

**Unaudited Condensed Consolidated Financial
Statements**

For the First Quarter ended March 31, 2013

Mongolia Minerals Corporation

Condensed Consolidated Balance Sheet
(unaudited)
(in thousands of Canadian dollars)

	Note	March 31 2013	December 31 2012
Assets			
Cash, cash equivalents		\$ 4,389	\$ 6,405
Accounts receivable		24	20
Prepaid expenses		933	991
Total current assets		5,346	7,416
Refundable deposits	4	14,203	14,100
Property, plant, equipment	5	402	416
Intangible exploration, evaluation assets	6	49,848	49,380
Total non-current assets		64,453	63,896
Total assets		\$ 69,799	\$ 71,312
Liabilities			
Accounts payable, accrued liabilities		\$ 1,011	\$ 513
Total current liabilities		1,011	513
Decommissioning liability		73	71
Total liabilities		1,084	584
Shareholders' Equity			
Share capital	7	73,394	73,520
Warrants	8	3,834	4,083
Contributed surplus	8	10,472	9,940
Accumulated other comprehensive (loss)		(3,770)	(4,642)
Deficit		(28,324)	(25,587)
Capital attributed to owners of			
Mongolia Minerals Corporation		55,606	57,314
Non-controlling interest		13,109	13,414
Total equity		68,715	70,728
Total liabilities and equity		\$ 69,799	\$ 71,312

Going Concern - see note 2

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Condensed Consolidated Statement of Comprehensive Income
(unaudited)
(in thousands of Canadian dollars, except per share amounts)

	Note	Three months ended March 31	
		2013	2012
Expenses			
Salaries, benefits		\$ 983	\$ 989
Share-based compensation	8	283	419
Professional services		1,005	252
Office, administration expenses		395	556
Exploration, evaluation		22	1,546
Depreciation	5	20	18
Loss from operations		2,708	3,780
Finance (income) expense			
Interest (income)		(15)	(4)
Accretion of decommissioning liabilities		1	16
Net foreign exchange (gains) losses		(4)	58
Net loss		2,690	3,850
Other comprehensive (income)			
Foreign currency translation		(520)	(1,585)
Comprehensive loss		\$ 2,170	\$ 2,265
Net (income) loss attributable to:			
Owners of Mongolia Minerals Corporation		\$ 2,737	\$ 2,521
Non-controlling interests		(47)	1,329
		\$ 2,690	\$ 3,850
Comprehensive loss attributable to:			
Owners of Mongolia Minerals Corporation		\$ 1,865	\$ 2,067
Non-controlling interests		305	198
		\$ 2,170	\$ 2,265
Net loss per share attributed to			
owners of Mongolia Minerals Corporation			
Basic and diluted	9	\$ 0.01	\$ 0.01

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Condensed Consolidated Statement of Changes in Equity
(unaudited)
(in thousands of Canadian dollars)

	Note	Three months ended March 31	
		2013	2012
Share capital	7		
Balance, beginning of period		\$ 73,520	\$ 64,374
Issue of common shares for cash		-	2,931
Share issue costs		(126)	(26)
Balance, end of period		73,394	67,279
Warrants	8		
Balance, beginning of period		4,083	1,146
Issued in connection with issue of common shares		-	-
Warrants expired		(249)	-
Balance, end of period		3,834	1,146
Contributed surplus	8		
Balance, beginning of period		9,940	7,369
Share-based payments		283	419
Warrants expired		249	-
Balance, end of period		10,472	7,788
Deficit			
Balance, beginning of period		(25,587)	(15,981)
Net (loss)		(2,737)	(2,521)
Balance, end of period		(28,324)	(18,502)
Accumulated other comprehensive income (loss)			
Balance, beginning of period		(4,642)	(1,625)
Currency translation differences		872	452
Balance, end of period		(3,770)	(1,173)
Non-controlling interests			
Balance, beginning of period		13,414	18,432
Net income (loss)		47	(1,329)
Other comprehensive income (loss)			
Currency translation differences		(352)	1,131
Balance, end of period		13,109	18,234
Total Shareholders' Equity		\$ 68,715	\$ 74,772

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Condensed Consolidated Statement of Cash Flows
(unaudited)
(in thousands of Canadian dollars)

		Three months ended March 31	
	Note	2013	2012
Cash flows from operating activities:			
Net (loss)		\$ (2,690)	\$ (3,850)
Adjustments for:			
Share-based compensation	8	283	419
Depreciation	5	20	18
Accretion of decommissioning liability		1	16
Change in non-cash working capital	10	545	91
Net cash (used in) operating activities		(1,841)	(3,306)
Cash flows from investing activities:			
Property, plant, equipment, net	5	(3)	(109)
Intangible exploration, evaluation assets	6	(54)	(928)
Change in non-cash working capital	10	1	(1,298)
Net cash (used in) investing activities		(56)	(2,335)
Cash flows from financing activities:			
Proceeds from the issue of capital	7,8	-	2,931
Share issue costs	7	(126)	(26)
Change in non-cash working capital	10	24	(54)
Net cash from (used in) financing activities		(102)	2,851
Effect of currency changes		(17)	22
Change in cash, cash equivalents		(2,016)	(2,768)
Cash, cash equivalents, beginning of period		6,405	6,500
Cash, cash equivalents, end of period		\$ 4,389	\$ 3,732
Interest paid		\$ -	\$ -
Income taxes paid		\$ -	\$ -

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

1. Reporting entity:

Mongolia Minerals Corporation (MMC) is a private corporation incorporated in Canada on April 22, 2010, and has a registered office in Alberta, Canada. The address of the principal place of business is 404, 1015 – 4 Street S.W., Calgary, Alberta, Canada.

The condensed consolidated financial statements of MMC for the three months ended March 31, 2013 are comprised of MMC and its subsidiaries (together the Corporation). The Corporation is engaged in the exploration for and ultimately the development and production of coal and other minerals from its licensed properties in Mongolia. As at March 31, 2013, the Corporation was in the exploration phase and in the process of determining its resources. To the date of these financial statements, the Corporation has incurred exploration and evaluation costs in respect of mineral licenses but has not incurred any costs with respect to developing any mineral properties.

The principal subsidiary of MMC is CGBEM LLC, a corporation incorporated in Mongolia with a registered office in Ulaanbaatar, Mongolia. CGBEM and its subsidiary corporations, which are wholly owned, hold all of the Mongolian mining and mineral exploration licenses. MMC holds 67% of the voting shares of CGBEM, which affords MMC control over the strategic direction and operating decisions of CGBEM, subject to a small number of matters pertaining to the protection of shareholders' rights that require the unanimous consent of the shareholders. The shareholders of CGBEM are parties to a unanimous shareholders' agreement. Pursuant to this agreement, MMC generally holds a 60% participating interest in CGBEM and the Corporation's Mongolian partner is entitled to up to 40% of the net profits of CGBEM following recovery by MMC of its investments in CGBEM. MMC has been appointed the operator of the assets of CGBEM. During the first quarter of 2013, the Corporation and certain of its founders entered into a securities exchange agreement whereby the Corporation indirectly acquired all of the Mongolian partner's equity and other interests in CGBEM in exchange for the Corporation issuing preferred shares. The closing of the transaction is subject to approval of the government of Mongolia. If the transaction closes, CGBEM will be a wholly-owned subsidiary of the Corporation and the Unanimous Shareholders' Agreement will be terminated. See note 12, Contingencies.

2. Going Concern:

The consolidated financial statements of the Corporation have been prepared using International Financial Reporting Standards (IFRS) that are applicable to a going concern. This basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation does not generate revenue from operating activities and has accumulated losses amounting to \$28.3 million.

In the near term, the Corporation had \$4.4 million in cash and a working capital position of \$4.3 million as at March 31, 2013. The Corporation needs to raise equity or debt financing to continue its exploration program (including completion of resource assessments for licenses in accordance with Mongolian regulations), advance its feasibility studies, consolidate mining and exploration license holdings through further acquisitions, and for general corporate purposes.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

Exploration work on license MV-012474 in the Khotgor area must be completed by the end of the 2013 exploration season to provide an updated resource assessment to the Mongolian authorities. Failure to provide the updated resource assessment may result in revocation of the license unless an extension can be obtained. The Corporation continues work to determine the expenditures required to maintain all of its licenses. Management expects that its current cash reserves will support anticipated spending, which excludes drilling activities, for approximately four months from March 31, 2013. Without additional funding, the Corporation would not be able to sufficiently advance its exploration program to ensure an updated resource assessment could be prepared.

The Corporation will continue to adjust the scope of its operations and anticipated expenditures in light of its working capital position. However, there is no assurance that any steps taken by the Corporation will be successful in this regard, and there is risk that unforeseen circumstances and expenditures will limit the time period for which cash will be available. The Corporation may not be able to raise financing of sufficient magnitude, or on a cost-effective basis. The failure of the Corporation to raise further financing would limit the ability of the Corporation to advance its business plan and carry on current activities.

The Mongolian Parliament enacted the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance (Foreign Investment Law) in 2012, and many aspects of the law are unclear. The government of Mongolia has also recently issued draft minerals laws that, if enacted in their current form, would significantly alter the legal and regulatory regime governing the mining industry in the country.

Exploration activities in the Khotgor area were suspended by the Mongolian government in 2012. The Corporation was able to resolve certain issues regarding access to the site and continues work to resolve any outstanding issues in anticipation of being able to resume exploration work in early 2013.

In addition, Mongolian national elections in June 2012 resulted in a change of government. The Democratic Party won a minority government, replacing the Mongolian People's Party, and formed a multi-party coalition government. Presidential elections are scheduled for June 2013. These and other political developments in Mongolia may have an adverse affect on the Corporation, including its ability to raise additional funds.

The matters and conditions described above indicate the existence of material uncertainties that cast significant doubt about the Corporation's ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In the longer term, the Corporation will have to sell or develop its licenses and projects in order to recover its investments in mining and exploration licenses. Until that time, the Corporation will need to continue to raise equity or debt financing to support expenditures to advance its exploration and projects. Should a decision be made to develop its projects, the Corporation will need to raise significant equity and debt financing to build project infrastructure and develop its operations.

The changing conditions of equity and debt markets and the commodity business cycle could limit the availability, timing and sufficiency of funding. Further, risks associated with operating in Mongolia, including political risks, levels of taxation, issues related to license tenure and infrastructure development, tolerance of foreign investment, and availability of skilled labour, could affect the ability of the Corporation to finance advancement

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

and development of its projects. The Corporation will seek additional funding through further offerings of equity, soliciting strategic investors and joint venture partners, and by seeking project and other debt financing. The outcome of such activities cannot be determined at this time, and there is no assurance that steps taken by the Corporation will be successful.

In 2013, the Corporation continued an extensive process to raise financing by way of private placements. Discussions with financial advisors and potential investors continue; however, such efforts may not be successful. Accordingly, the Corporation has reduced its planned exploration and other expenditures in order to conserve cash while maintaining the flexibility to proceed with its planned exploration program should sufficient funding become available.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, reported revenue and expenses, and balance sheet classifications used. These adjustments could be material.

See note 4, Refundable deposits, note 6, Intangible exploration, evaluation assets, note 12, Contingencies, and note 13, Subsequent events.

3. Basis of preparation:

The condensed consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Statements issued by the International Accounting Standards Board. The condensed consolidated financial statements were authorized for issue by the Board of Directors on May 13, 2013.

The condensed consolidated financial statements have been prepared on the same basis of accounting policies and methods of computation consistent with those applied in the Corporation's December 31, 2012 consolidated financial statements. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted, and the condensed consolidated financial statements should be read in conjunction with the Corporation's audited consolidated financial statements and notes thereto for the period ended December 31, 2012.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated financial statements include those items discussed in the Corporation's December 31, 2012 consolidated financial statements.

4. Refundable deposits

A former shareholder of the vendor of exploration license XV-016830, the rights to which were acquired on the acquisition of ECL, made a final appeal to the Chief Justice of Mongolia challenging the validity of the sale of

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

shares to the vendor. In January 2013, the Chief Justice of Mongolia rendered a decision favourable to the Corporation. No further appeals can be advanced by this former shareholder.

In March 2013, the Foreign Investment Regulations and Registration Department, which is the administrator of the Foreign Investment Law, agreed in writing to the Corporation's position that the Foreign Investment Law does not apply to the transfer of license XV-016830 because the transaction to acquire the license occurred prior to the enactment of the law. The Corporation presented the matter to the State Registration Office to effect the transfer of the license. Effective April 2013, the legal entity holding license XV-016830 was transferred to ECL, a wholly-owned subsidiary of CGBEM. Refundable deposits of \$12.3 million at March 31, 2013 will be transferred to intangible exploration, evaluation assets during the quarter ended June 30, 2013.

Costs expensed during the first quarter for exploration and evaluation work on the license were \$10 thousand.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

5. Property, plant, equipment:

	Production Assets	Other Capital Assets	Total
Cost			
Balance at January 1, 2012	\$ 618	\$ 373	\$ 991
Additions	-	121	121
Disposal	-	(3)	(3)
Currency difference	(13)	(11)	(24)
Balance at December 31, 2012	\$ 605	\$ 480	\$ 1,085
Additions	-	3	3
Disposal	-	-	-
Currency differences	4	3	7
Balance at March 31, 2013	\$ 609	\$ 486	\$ 1,095
Depreciation, amortization and impairment losses:			
Balance at January 1, 2012	\$ 455	\$ 58	\$ 513
Depreciation	-	77	77
Impairment losses	90	-	90
Currency differences	(9)	(2)	(11)
Balance at December 31, 2012	\$ 536	\$ 133	\$ 669
Depreciation	-	20	20
Impairment losses	-	-	-
Currency differences	4	-	4
Balance at March 31, 2013	\$ 540	\$ 153	\$ 693
Carrying amounts			
December 31, 2012	\$ 69	\$ 347	\$ 416
March 31, 2013	\$ 69	\$ 333	\$ 402

At March 31, 2013, \$69 thousand (2012: \$69 thousand) of property, plant and equipment was not being depreciated. No borrowing costs were capitalized during the period.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

6. Intangible exploration, evaluation assets:

	2013	2012
Opening balance	\$ 49,380	\$ 52,805
Acquisitions (Note 4)	-	-
Additions	54	1,241
Impairment charges	-	(961)
Currency differences	414	(3,705)
	\$ 49,848	\$ 49,380

During the three months ended March 31, 2013, the Corporation incurred exploration and evaluation costs on its mineral licenses of \$54 thousand.

No amounts of intangible exploration, evaluation assets were reclassified to property, plant and equipment during the three months ended March 31, 2013.

7. Share capital:

Authorized:

At March 31, 2013, the Corporation was authorized to issue the following shares:

- An unlimited number of common shares the holders of which are entitled to receive dividends as declared by the Corporation and are entitled to one vote per share.
- An unlimited number of preferred shares, issuable in series, each series to bear the designation, rights, privileges, restrictions and conditions attaching to such series of preferred shares and consist of such number of shares as may be determined by resolution of the Board of Directors of the Corporation.

Common shares issued and outstanding:

	2013		2012	
	Number of shares (000s)	\$	Number of shares (000s)	\$
Balance at beginning of period	224,746	73,520	215,022	64,374
Shares issued	-	-	9,724	9,731
Share issue costs	-	(126)	-	(585)
	224,746	73,394	224,746	73,520

The Corporation capitalized costs incurred in conjunction with certain financing activities. Should a transaction

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

not be completed, costs of \$348 thousand (2012: \$222 thousand) will be expensed as professional services costs in the consolidated statement of comprehensive income.

8. Share-based payments:

Options:

The Corporation has an option program that entitles directors, officers and employees to purchase shares in the Corporation. Options are granted at an exercise price equivalent to the most recent issue price of common shares at the date of grant. Options have a ten-year term and vest within three years.

Option grants were as follows:

	2013		2012	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Balance at beginning of period	21,744	\$ 0.66	19,385	\$ 0.64
Options granted	20	0.85	2,372	0.85
Options forfeited	-	-	(13)	0.85
Options expired	-	-	-	-
	21,764	\$ 0.66	21,744	\$ 0.66

The Corporation issued 20 thousand options during the three months ended March 31, 2013, and no options were exercised during 2012 or 2013.

Options outstanding				Options Exercisable		
Exercise price	Options outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life (years)	Options outstanding and exercisable (000s)	Weighted average exercise price	Weighted average remaining contractual life
\$0.35	9,600	\$ 0.35	7.4	9,100	\$ 0.35	7.4
\$0.70	5,755	0.70	7.9	5,005	0.70	7.9
\$0.85	2,379	0.85	9.6	1,332	0.85	9.6
\$1.25	4,030	1.25	8.3	3,860	1.25	8.3
	21,764	\$ 0.66	7.9	19,297	\$ 0.60	7.2

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

Warrants:

Warrants issued were as follows:

	2013			2012		
	Number of warrants (000s)	Warrants (000s)	Weighted average exercise price	Number of warrants (000s)	Warrants (000s)	Weighted average exercise price
Balance at beginning of period	9,705	\$ 4,083	\$ 1.21	2,496	\$ 1,146	\$ 0.91
Warrants issued	-	-	-	8,000	3,200	1.25
Warrants expired	(745)	(249)	0.70	(791)	(263)	0.70
	8,960	\$ 3,834	\$ 1.25	9,705	\$ 4,083	\$ 1.21

No warrants were exercised during 2012 or 2013.

Exercise price	Warrants outstanding (000s)	Expiry date
\$ 1.25	960	June 8, 2013
\$ 1.25	8,000	June 19, 2016
	8,960	

The 8,000,000 warrants expire one year following the date of an initial public offering,

Valuation assumptions:

The fair value of the options and warrants were estimated using Black Scholes model with the following weighted average inputs:

	2013		2012	
	Warrants	Options	Warrants	Options
Fair value at grant date	\$ -	\$ 0.58	\$ 0.40	\$ 0.59
Share price	-	0.85	0.85	0.85
Exercise price	-	0.85	1.25	0.85
Volatility	-	89%	89%	89%
Estimated life, years	-	5	4	5
Dividend yield	-	-	-	-
Risk-free interest rate	-	1.3%	1.5%	1.3%
Forfeiture rate	-	5%	-	5%

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

9. Loss per share:

Basic and diluted loss per share was calculated as follows:

	Three months ended March 31	
	2013	2012
Net loss (income) attributed to the owners of the Company	\$ 2,737	\$ 2,521
Weighted average number of common shares - basic (000s)	224,746	216,002
Net loss per share - basic	\$ 0.01	\$ 0.01

The Corporation experienced losses and there was no dilutive effect from share options and warrants.

10. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

	Three months ended March 31	
	2013	2012
Source (use) of cash:		
Accounts receivable	\$ 8	\$ 147
Prepaid expenses	(38)	(1,219)
Accounts payable, accrued liabilities	600	(189)
	\$ 570	\$ (1,261)
Related to:		
Operating activities	\$ 545	\$ 91
Investing activities	\$ 1	\$ (1,298)
Financing activities	\$ 24	\$ (54)

11. Related party transactions

During the three months ended March 31, 2013, no transactions occurred with parties related to the Corporation.

During the three months ended March 31, 2012, consulting fees of \$30 thousand were paid to a director of the Corporation.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

12. Contingencies:

Title to mining and exploration licenses

Subject to note 4, Refundable deposits, although the Corporation believes that it holds title to its mining and exploration licenses, it cannot control or completely protect itself against the risk of title disputes, litigation with respect to past ownership or activities on the subject properties, or expropriation of, or relating to, its licenses. Further, there can be no assurance that claims or challenges by third parties against the Corporation's licenses will not be asserted at a future date.

Consolidation of interest

During the first quarter, the Corporation and certain of its subsidiaries and founders entered into a securities exchange agreement with its Mongolian partner and a corporation owned by its Mongolian partner whereby the Corporation indirectly acquired all of the Mongolian partner's equity and other interests in CGBEM in exchange for the Corporation issuing 143,535,982 Series A Preferred shares. The closing of the transaction is subject to approval of the government of Mongolia under the provisions of the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance. If the transaction closes, CGBEM will be a wholly-owned subsidiary of the Corporation and the Unanimous Shareholders' Agreement will be terminated.

The Series A Preferred shares are not entitled to vote at any meeting of the shareholders of the Corporation, except in certain circumstances, and rank pari passu with the common shares of the Corporation with respect to the payment of any dividends. The Series A Preferred shares are entitled to a nominal preference over the common shares and other shares of the Corporation ranking junior to the Series A Preferred shares with respect to any distribution of property or assets in the event of a liquidation, dissolution or winding-up of the Corporation. The Series A Preferred shares may be converted into common shares at the election of the holder in order to complete a sale of such shares to a third-party that is at arm's length to the holder. In the event that the Corporation undertakes a change of control transaction, the Series A Preferred shares may be tendered to, or may be conditionally converted into common shares, in connection with such change of control transaction. The Series A Preferred shares may also be converted into common shares at any time at the election of the Corporation. Finally, the Series A Preferred shares will automatically convert into common shares on the occurrence of any of the following events:

- a. if, at any time prior to the completion by the Corporation of an initial public offering of its securities or other listing transactions (an "IPO"), the holder of Series A Preferred shares beneficially owns or exercises control or direction over less than five percent of the then issued and outstanding common shares calculated on a fully-diluted basis,
- b. if, at any time after the completion by the Corporation of an IPO, the holder of Series A Preferred shares beneficially owns or exercises control or direction over less than ten percent of the then issued and outstanding common shares calculated on a fully-diluted basis,
- c. if the Corporation has not completed an IPO by February 25, 2018, and
- d. on February 25, 2023.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

Closing of the transaction is to occur three business days after the satisfaction or waiver of the agreed upon mutual condition precedent that the parties will have received all consents, approvals and authorizations required in connection with the transaction under applicable laws in Mongolia or a legal opinion from Mongolian legal counsel that no such consents, approvals and authorizations are required.

Mongolian foreign investment law

The Mongolian Parliament enacted the Foreign Investment Law effective May 2012. The minerals sector is designated as strategic under the law. In April 2013, the government of Mongolia introduced an amendment to the law. Under the amendment, non-state owned foreign companies wanting to acquire ownership in excess of forty-nine percent of a business entity operating in a strategic sector would require the approval of the Mongolian Cabinet rather than the Mongolian Parliament.

The law remains unclear as to the full extent of its meaning, including but not limited to, conditions for approval, implementation guidance, taxation implications, and other matters. Further, the Mongolian government is prohibiting the transfer of exploration and mining licenses to companies with direct or indirect foreign ownership.

The government of Mongolia issued regulations related to the Foreign Investment Law in March 2013. The regulations issued are largely procedural in nature and provide little meaningful clarification of the law. The regulations provide a time line stating that transactions will be reviewed by the regulator who will make a recommendation to the Mongolian Cabinet within thirty days; the Cabinet will consider the proposal and make a decision within thirty days; and the regulator will notify the company of the decision of Cabinet within five days. This timeline can be expanded if advice from other government agencies is required.

The new law has implications to the Corporation including its right to consolidate its ownership in CGBEM, ongoing ownership and management of CGBEM and the ability to acquire or dispose of strategic businesses or exploration and mining licenses. See note 13, Subsequent events. The new law is also expected to impair the Corporation's ability to raise financing. See note 2, Going concern.

Mongolian minerals law

In December 2012, the government of Mongolia released a draft version of a new minerals law for public comment, and the public consultation process continues.

Any new law may have implications to the Corporation, consolidation of its ownership in CGBEM, and its ability to acquire, hold and dispose of exploration and mining licenses, and may impair the Corporation's ability to raise financing.

13. Subsequent events:

Exploration program approvals

The Corporation obtained all necessary Mongolian government approvals, including its detailed environmental impact assessment, for it to resume exploration work on license MV-012474 in 2013. However, the government approvals were contingent upon the Corporation returning to the government two small portions of land in the northwest and southeast corners of the license due to the Mongolian government's interpretation of laws related to water and forest management. The license area was decreased by 95.1 hectares, or approximately 10%, to

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three months ended March 31, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

851.9 hectares in size. The NI 43-101 Technical Report of coal resources will be updated to reflect this adjustment.

The Corporation continues the process of obtaining exploration approvals for license XV-016830, including approval of a detailed environmental impact assessment. In April 2013, as part of obtaining approvals for the 2013 exploration program, the Corporation returned to the Mongolian government 5,886 hectares of land within a Special Protected Area. The lands were located along the northwestern and western extremes of the license, and were well away from coal-bearing lands identified on the remainder of the license, which is now 9,978 hectares in size.

The Corporation is experiencing an increase in scrutiny and demands associated with the process and conditions for approvals of various work plans. The Corporation expects additional work requirements and potentially higher costs as a result of fulfilling these demands, and increased difficulties retaining some of its licenses. The Corporation continues to work to identify, resolve and satisfy any outstanding issues and demands in anticipation of being able to commence exploration activities in early 2013.

Letter of intent

In early 2013, the Corporation entered into a non-binding letter of intent with Focused Capital Corp. to consider a reverse takeover transaction. The Corporation, on advice from its investment bankers, chose not to proceed with the reverse takeover transaction in light of current adverse capital market conditions and terminated the letter of intent in April 2013.



Mongolia Minerals

C O R P O R A T I O N

Unaudited Condensed Consolidated Financial Statements

For the Second Quarter ended June 30, 2013

DRAFT

These draft condensed consolidated financial statements have not been reviewed by the corporation's external auditors.

Mongolia Minerals Corporation

Condensed Consolidated Balance Sheet
(unaudited)
(in thousands of Canadian dollars)

	Note	June 30 2013	December 31 2012
Assets			
Cash, cash equivalents		\$ 3,349	\$ 6,405
Accounts receivable		118	20
Prepaid expenses		385	991
Total current assets		3,852	7,416
Refundable deposits	4	1,925	14,100
Property, plant, equipment	5	340	416
Intangible exploration, evaluation assets	6	57,932	49,380
Total non-current assets		60,197	63,896
Total assets		\$ 64,049	\$ 71,312
Liabilities			
Accounts payable, accrued liabilities		\$ 2,585	\$ 513
Note payable	7	2,443	-
Total current liabilities		5,028	513
Decommissioning liability		75	71
Total liabilities		5,103	584
Shareholders' Equity			
Share capital	8	73,244	73,520
Warrants	9	3,200	4,083
Contributed surplus	9	11,287	9,940
Deficit		(35,526)	(25,587)
Accumulated other comprehensive (loss)		(2,709)	(4,642)
Capital attributed to owners of			
Mongolia Minerals Corporation		49,496	57,314
Non-controlling interest		9,450	13,414
Total equity		58,946	70,728
Total liabilities and equity		\$ 64,049	\$ 71,312

Going Concern - see note 2

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Condensed Consolidated Statement of Comprehensive Income
(unaudited)
(in thousands of Canadian dollars, except per share amounts)

	Note	Three months ended June 30		Six months ended June 30	
		2013	2012	2013	2012
Expenses					
Salaries, benefits		\$ 942	\$ 912	\$ 1,925	\$ 1,901
Share-based compensation	9	181	335	464	754
Professional services		1,009	562	2,014	814
Office, administration expenses		440	427	835	983
Exploration, evaluation		4	758	26	2,304
Depreciation	5	22	20	42	38
Impairment charges	6	7,452	-	7,452	-
(Gain) on sale of assets		(2)	-	(2)	-
Loss from operations		10,048	3,014	12,756	6,794
Finance (income) expense					
Interest (income)		(40)	(29)	(55)	(33)
Interest expense		47	-	47	-
Accretion of decommissioning liabilities		2	17	3	33
Net foreign exchange (gains) losses		42	(5)	38	53
Net loss		10,099	2,997	12,789	6,847
Other comprehensive (income)					
Foreign currency translation		(299)	(475)	(819)	(2,060)
Comprehensive loss		\$ 9,800	\$ 2,522	\$ 11,970	\$ 4,787
Net (income) loss attributable to:					
Owners of Mongolia Minerals Corporation		\$ 7,202	\$ 2,065	\$ 9,939	\$ 4,584
Non-controlling interests		2,897	932	2,850	2,263
		\$ 10,099	\$ 2,997	\$ 12,789	\$ 6,847
Comprehensive loss attributable to:					
Owners of Mongolia Minerals Corporation		\$ 6,141	\$ 1,073	\$ 8,006	\$ 3,140
Non-controlling interests		3,659	1,449	3,964	1,647
		\$ 9,800	\$ 2,522	\$ 11,970	\$ 4,787
Net loss per share attributed to					
owners of Mongolia Minerals Corporation					
Basic and diluted	10	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.02

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Condensed Consolidated Statement of Changes in Equity
(unaudited)
(in thousands of Canadian dollars)

		Six months ended June 30	
	Note	2013	2012
Share capital	8		
Balance, beginning of period		\$ 73,520	\$ 64,374
Issue of common shares for cash		-	9,731
Share issue costs		(276)	(557)
Balance, end of period		73,244	73,548
Warrants	9		
Balance, beginning of period		4,083	1,146
Issued in connection with issue of common shares		-	3,200
Warrants expired		(883)	-
Balance, end of period		3,200	4,346
Contributed surplus	9		
Balance, beginning of period		9,940	7,369
Share-based payments		464	754
Warrants expired		883	-
Balance, end of period		11,287	8,123
Deficit			
Balance, beginning of period		(25,587)	(15,981)
Net (loss)		(9,939)	(4,584)
Balance, end of period		(35,526)	(20,565)
Accumulated other comprehensive income (loss)			
Balance, beginning of period		(4,642)	(1,625)
Currency translation differences		1,933	1,444
Balance, end of period		(2,709)	(181)
Non-controlling interests			
Balance, beginning of period		13,414	18,432
Net income (loss)		(2,850)	(2,263)
Other comprehensive income (loss)			
Currency translation differences		(1,114)	616
Balance, end of period		9,450	16,785
Total Shareholders' Equity		\$ 58,946	\$ 82,056

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Condensed Consolidated Statement of Cash Flows
(unaudited)
(in thousands of Canadian dollars)

		Three months ended June 30		Six months ended June 30	
	Note	2013	2012	2013	2012
Cash flows from operating activities:					
Net (loss)		\$ (10,099)	\$ (2,997)	\$ (12,789)	\$ (6,847)
Adjustments for:					
Share-based compensation	9	181	335	464	754
Depreciation	5	22	20	42	38
Impairment charges	6	7,452	-	7,452	-
Accretion of decommissioning liability		2	17	3	33
(Gain) on sale of assets		(2)	-	(2)	-
Change in non-cash working capital	11	-	111	545	202
Net cash (used in) operating activities		(2,444)	(2,514)	(4,285)	(5,820)
Cash flows from investing activities:					
Additions to property, plant, equipment, net	5	(29)	(5)	(32)	(114)
Proceeds on disposal of property, plant, equipment		72		72	
Additions to intangible exploration, evaluation assets	6	(2,959)	(316)	(3,013)	(1,244)
Change in non-cash working capital	11	1,957	250	1,958	(1,048)
Net cash (used in) investing activities		(959)	(71)	(1,015)	(2,406)
Cash flows from financing activities:					
Proceeds from the issue of capital	8,9	-	10,000	-	12,931
Share issue costs	8	(150)	(531)	(276)	(557)
Note payable issue costs	7	(90)	-	(90)	-
Amortization issue costs	7	33	-	33	-
Proceeds from loan		2,500	-	2,500	-
Change in non-cash working capital	11	102	(2)	126	(56)
Net cash from (used in) financing activities		2,395	9,467	2,293	12,318
Effect of currency changes		(32)	8	(49)	30
Change in cash, cash equivalents		(1,040)	6,890	(3,056)	4,122
Cash, cash equivalents, beginning of period		4,389	3,732	6,405	6,500
Cash, cash equivalents, end of period		\$ 3,349	\$ 10,622	\$ 3,349	\$ 10,622
Interest paid		\$ 14	\$ -	\$ 14	\$ -
Income taxes paid		\$ -	\$ -	\$ -	\$ -

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

1. Reporting entity:

Mongolia Minerals Corporation (MMC) is a private corporation incorporated in Canada on April 22, 2010, and has a registered office in Alberta, Canada. The address of the principal place of business is 404, 1015 – 4 Street S.W., Calgary, Alberta, Canada.

The condensed consolidated financial statements of MMC for the three and six months ended June 30, 2013 are comprised of MMC and its subsidiaries (together the Corporation). The Corporation is engaged in the exploration for and ultimately the development and production of coal and other minerals from its licensed properties in Mongolia. As at June 30, 2013, the Corporation was in the exploration phase and in the process of determining its resources. To the date of these financial statements, the Corporation has incurred exploration and evaluation costs in respect of mineral licenses but has not incurred any costs with respect to developing any mineral properties.

The principal subsidiary of MMC is CGBEM LLC, a corporation incorporated in Mongolia with a registered office in Ulaanbaatar, Mongolia. CGBEM and its subsidiary corporations, which are wholly owned, hold all of the Mongolian mining and mineral exploration licenses. MMC holds 67% of the voting shares of CGBEM, which affords MMC control over the strategic direction and operating decisions of CGBEM, subject to a small number of matters pertaining to the protection of shareholders' rights that require the unanimous consent of the shareholders. The shareholders of CGBEM are parties to a unanimous shareholders' agreement. Pursuant to this agreement, MMC generally holds a 60% participating interest in CGBEM and the Corporation's Mongolian partner is entitled to up to 40% of the net profits of CGBEM following recovery by MMC of its investments in CGBEM. MMC has been appointed the operator of the assets of CGBEM. During the first quarter of 2013, the Corporation and certain of its founders entered into a securities exchange agreement whereby the Corporation indirectly acquired all of the Mongolian partner's equity and other interests in CGBEM in exchange for the Corporation issuing preferred shares. The closing of the transaction is subject to approval of the government of Mongolia. If the transaction closes, CGBEM will be a wholly-owned subsidiary of the Corporation and the Unanimous Shareholders' Agreement will be terminated. See note 13, Contingencies.

2. Going Concern:

To be updated.

3. Basis of preparation:

The condensed consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Statements issued by the International Accounting Standards Board. The condensed consolidated financial statements were authorized for issue by the Board of Directors on December XX, 2013.

The condensed consolidated financial statements have been prepared on the same basis of accounting policies and methods of computation consistent with those applied in the Corporation's December 31, 2012 consolidated financial statements. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted, and the condensed consolidated financial statements should be

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

read in conjunction with the Corporation's audited consolidated financial statements and notes thereto for the period ended December 31, 2012.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated financial statements include those items discussed in the Corporation's December 31, 2012 consolidated financial statements.

4. Refundable deposits

A former shareholder of the vendor of exploration license XV-016830, the rights to which were acquired on the acquisition of ECL, made a final appeal to the Chief Justice of Mongolia challenging the validity of the sale of shares to the vendor. In January 2013, the Chief Justice of Mongolia rendered a decision favourable to the Corporation. No further appeals can be advanced by this former shareholder.

In March 2013, the Foreign Investment Regulations and Registration Department, which is the administrator of the Foreign Investment Law in Mongolia, agreed in writing to the Corporation's position that the Foreign Investment Law does not apply to the transfer of license XV-016830 because the transaction to acquire the license occurred prior to the enactment of the law. The Corporation presented the matter to the State Registration Office to effect the transfer of the license. Effective April 2013, the legal entity holding license XV-016830 was transferred to ECL, a wholly-owned subsidiary of CGBEM. Refundable deposits of \$12.3 million were transferred to intangible exploration, evaluation assets during the quarter ended June 30, 2013.

Costs expensed for exploration and evaluation work on the license prior to the transfer of the license to CGBEM during the six-months ended June 30, 2013 were \$12 thousand.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

5. Property, plant, equipment:

	Production Assets	Other Capital Assets	Total
Cost			
Balance at January 1, 2012	\$ 618	\$ 373	\$ 991
Additions	-	121	121
Disposal	-	(3)	(3)
Currency difference	(13)	(11)	(24)
Balance at December 31, 2012	\$ 605	\$ 480	\$ 1,085
Additions	-	32	32
Disposals	(66)	(3)	(69)
Currency differences	6	6	12
Balance at June 30, 2013	\$ 545	\$ 515	\$ 1,060
Depreciation, amortization and impairment losses:			
Balance at January 1, 2012	\$ 455	\$ 58	\$ 513
Depreciation	-	77	77
Impairment losses	90	-	90
Currency differences	(9)	(2)	(11)
Balance at December 31, 2012	\$ 536	\$ 133	\$ 669
Depreciation	-	42	42
Disposals	-	(1)	(1)
Impairment losses	-	-	-
Currency differences	9	1	10
Balance at June 30, 2013	\$ 545	\$ 175	\$ 720
	Production Assets	Other Capital Assets	Total
Carrying amounts			
December 31, 2012	\$ 69	\$ 347	\$ 416
June 30, 2013	\$ -	\$ 340	\$ 340

No borrowing costs were capitalized during the period.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

6. Intangible exploration, evaluation assets:

	2013	2012
Opening balance	\$ 49,380	\$ 52,805
Transfer from refundable deposits (Note 4)	12,269	-
Additions	3,013	1,241
Impairment charges	(7,452)	(961)
Currency differences	722	(3,705)
	\$ 57,932	\$ 49,380

During the six months ended June 30, 2013, the Corporation incurred exploration and evaluation costs on its mineral licenses of \$3.0 million, and no amounts of intangible exploration, evaluation assets were reclassified to property, plant and equipment.

Recent fund raising efforts have not provided sufficient capital to pursue all opportunities available to the Corporation. Further, early exploration results on the Powerland licenses indicate limited resources of 1.4 million tonnes of low-quality thermal coal. Accordingly, the Corporation's strategic priorities have shifted more significantly towards the Khotgor project, which has more resources of higher quality coal and more promising development potential, and the Dalan project. The Corporation is not expected to invest significant, additional exploration funds on the Powerland licenses in the foreseeable future. Further, the Corporation has commenced the process of attempting to sell the Powerland licenses. In light of these factors, the Corporation has concluded that the Powerland licenses are likely fully impaired. The book value of the Powerland licenses written off is \$7.5 million.

7. Note payable:

On June 13, 2013, the Corporation issued a promissory note for \$2.5 million to a company related to a director of the Corporation. The note is due on or before the earlier of June 17, 2017 and an event of default and demand for repayment is made by the lender. The note bears interest at 12% per annum, calculated quarterly in arrears, and is payable on the last day of March, June, September and December. Additional interest payable at the rate of 4% is due from and after any default. The costs directly attributable to the transaction were \$90 thousand, which were capitalized and amortized using the effective interest rate method. Security for the repayment of the note is a security interest in all of the Corporation's present and after-acquired property and assets.

The promissory note was intended to be a bridge loan, to be converted into a larger, convertible debenture financing by the Corporation. The convertible debenture financing did not proceed. See note 14, Subsequent events.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

8. Share capital:

Authorized:

At June 30, 2013, the Corporation was authorized to issue the following shares:

- An unlimited number of common shares the holders of which are entitled to receive dividends as declared by the Corporation and are entitled to one vote per share.
- An unlimited number of preferred shares, issuable in series, each series to bear the designation, rights, privileges, restrictions and conditions attaching to such series of preferred shares and consist of such number of shares as may be determined by resolution of the Board of Directors of the Corporation.

Common shares issued and outstanding:

	2013		2012	
	Number of shares (000s)	\$	Number of shares (000s)	\$
Balance at beginning of period	224,746	73,520	215,022	64,374
Shares issued	-	-	9,724	9,731
Share issue costs	-	(276)	-	(585)
	224,746	73,244	224,746	73,520

The Corporation capitalized costs incurred in conjunction with certain financing activities. Should a transaction not be completed, costs of \$498 thousand (2012: \$222 thousand) will be expensed as professional services costs in the consolidated statement of comprehensive income.

9. Share-based payments:

Options:

The Corporation has an option program that entitles directors, officers and employees to purchase shares in the Corporation. Options are granted at an exercise price equivalent to the most recent issue price of common shares at the date of grant. Options have a ten-year term and vest within three years.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

Option grants were as follows:

	2013		2012	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Balance at beginning of period	21,744	\$ 0.66	19,385	\$ 0.64
Options granted	20	0.85	2,372	0.85
Options forfeited	-	-	(13)	0.85
Options expired	-	-	-	-
	21,764	\$ 0.66	21,744	\$ 0.66

The Corporation issued 20 thousand options during the three months ended March 31, 2013, and no options were exercised during 2012 or 2013.

Options outstanding				Options Exercisable		
Exercise price	Options outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life (years)	Options outstanding and exercisable (000s)	Weighted average exercise price	Weighted average remaining contractual life
\$0.35	9,600	\$ 0.35	7.2	9,600	\$ 0.35	7.2
\$0.70	5,755	0.70	7.7	5,436	0.70	7.7
\$0.85	2,379	0.85	9.3	1,846	0.85	9.3
\$1.25	4,030	1.25	8.0	3,860	1.25	8.0
	21,764	\$ 0.66	7.6	20,742	\$ 0.60	6.8

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

Warrants:

Warrants issued were as follows:

	2013			2012		
	Number of warrants (000s)	Warrants (000s)	Weighted average exercise price	Number of warrants (000s)	Warrants (000s)	Weighted average exercise price
Balance at beginning of period	9,705	\$ 4,083	\$ 1.21	2,496	\$ 1,146	\$ 0.91
Warrants issued	-	-	-	8,000	3,200	1.25
Warrants expired	(1,705)	(883)	1.01	(791)	(263)	0.70
Warrants returned	(8,000)	-	1.25	-	-	-
Warrantes re-issued	8,000	-	0.30	-	-	-
	8,000	\$ 3,200	\$ 0.30	9,705	\$ 4,083	\$ 1.21

In consideration for the advance of the \$2.5 million promissory note, 8,000,000 warrants with an exercise price of \$1.25 issued to a company related to a director of the Corporation were re-issued with an exercise price of \$0.30. See note 7, Note payable.

No warrants were exercised during 2012 or 2013.

Exercise price	Warrants outstanding (000s)	Expiry date
\$ 0.30	8,000	June 19, 2016
	8,000	

The 8,000,000 warrants expire one year following the date of an initial public offering,

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

Valuation assumptions:

The fair value of the options and warrants were estimated using Black Scholes model with the following weighted average inputs:

	2013		2012	
	Warrants	Options	Warrants	Options
Fair value at grant date	\$ -	\$ 0.58	\$ 0.40	\$ 0.59
Share price	-	0.85	0.85	0.85
Exercise price	-	0.85	1.25	0.85
Volatility	-	89%	89%	89%
Estimated life, years	-	5	4	5
Dividend yield	-	-	-	-
Risk-free interest rate	-	1.3%	1.5%	1.3%
Forfeiture rate	-	5%	-	5%

10. Loss per share:

Basic and diluted loss per share was calculated as follows:

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Net loss (income) attributed to the owners of the Company	\$ 7,202	\$ 2,065	\$ 9,939	\$ 4,584
Weighted average number of common shares - basic (000s)	224,746	217,801	224,746	216,901
Net loss per share - basic	\$ 0.03	\$ 0.01	\$ 0.04	\$ 0.02

The Corporation experienced losses and there was no dilutive effect from share options and warrants.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

11. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Source (use) of cash:				
Accounts receivable	\$ (106)	\$ (83)	\$ (98)	\$ 58
Prepaid expenses	696	360	658	(853)
Accounts payable, accrued liabilities	1,469	82	2,069	(107)
	\$ 2,059	\$ 359	\$ 2,629	\$ (902)
Related to:				
Operating activities	\$ -	\$ 111	\$ 545	\$ 202
Investing activities	1,957	250	1,958	(1,048)
Financing activities	102	(2)	126	(56)
	\$ 2,059	\$ 359	\$ 2,629	\$ (902)

12. Related party transactions

During the three months ended June 30, 2013, the Corporation issued a promissory note of \$2.5 million and paid related interest expense of \$14.0 thousand to a company related to a director of the Corporation. See note 7, Note payable. During the three months ended March 31, 2013, no transactions occurred with parties related to the Corporation.

During the three months ended March 31, 2012, consulting fees of \$30 thousand were paid to a director of the Corporation.

13. Contingencies:

Title to mining and exploration licenses

Subject to note 4, Refundable deposits, although the Corporation believes that it holds title to its mining and exploration licenses, it cannot control or completely protect itself against the risk of title disputes, litigation with respect to past ownership or activities on the subject properties, or expropriation of, or relating to, its licenses. Further, there can be no assurance that claims or challenges by third parties against the Corporation's licenses will not be asserted at a future date.

Consolidation of interest

During the first quarter, the Corporation and certain of its subsidiaries and founders entered into a securities exchange agreement with its Mongolian partner and a corporation owned by its Mongolian partner whereby the Corporation indirectly acquired all of the Mongolian partner's equity and other interests in CGBEM in exchange for the Corporation issuing 143,535,982 Series A Preferred shares. The closing of the transaction is subject to

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

approval of the government of Mongolia under the provisions of the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance. If the transaction closes, CGBEM will be a wholly-owned subsidiary of the Corporation and the Unanimous Shareholders' Agreement will be terminated.

The Series A Preferred shares are not entitled to vote at any meeting of the shareholders of the Corporation, except in certain circumstances, and rank pari passu with the common shares of the Corporation with respect to the payment of any dividends. The Series A Preferred shares are entitled to a nominal preference over the common shares and other shares of the Corporation ranking junior to the Series A Preferred shares with respect to any distribution of property or assets in the event of a liquidation, dissolution or winding-up of the Corporation. The Series A Preferred shares may be converted into common shares at the election of the holder in order to complete a sale of such shares to a third-party that is at arm's length to the holder. In the event that the Corporation undertakes a change of control transaction, the Series A Preferred shares may be tendered to, or may be conditionally converted into common shares, in connection with such change of control transaction. The Series A Preferred shares may also be converted into common shares at any time at the election of the Corporation. Finally, the Series A Preferred shares will automatically convert into common shares on the occurrence of any of the following events:

- a. if, at any time prior to the completion by the Corporation of an initial public offering of its securities or other listing transactions (an "IPO"), the holder of Series A Preferred shares beneficially owns or exercises control or direction over less than five percent of the then issued and outstanding common shares calculated on a fully-diluted basis,
- b. if, at any time after the completion by the Corporation of an IPO, the holder of Series A Preferred shares beneficially owns or exercises control or direction over less than ten percent of the then issued and outstanding common shares calculated on a fully-diluted basis,
- c. if the Corporation has not completed an IPO by February 25, 2018, and
- d. on February 25, 2023.

Closing of the transaction is to occur three business days after the satisfaction or waiver of the agreed upon mutual condition precedent that the parties will have received all consents, approvals and authorizations required in connection with the transaction under applicable laws in Mongolia or a legal opinion from Mongolian legal counsel that no such consents, approvals and authorizations are required.

Mongolian foreign investment law

The Mongolian Parliament enacted the Foreign Investment Law (SEFIL) effective May 2012. The minerals sector was designated as strategic under the law. In April 2013, the government of Mongolia introduced an amendment to the law. Under the amendment, non-state owned foreign companies wanting to acquire ownership in excess of forty-nine percent of a business entity operating in a strategic sector would require the approval of the Mongolian Cabinet rather than the Mongolian Parliament.

The law was unclear as to the full extent of its meaning, including but not limited to, conditions for approval, implementation guidance, taxation implications, and other matters. Further, the Mongolian government was prohibiting, and continues to prohibit, the transfer of exploration and mining licenses to companies with direct or indirect foreign ownership.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

The government of Mongolia issued regulations related to SEFIL in March 2013. The regulations issued were largely procedural in nature and provided little meaningful clarification of the law. The regulations provided a time line stating that transactions would be reviewed by the regulator who would make a recommendation to the Mongolian Cabinet within thirty days; the Cabinet would consider the proposal and make a decision within thirty days; and the regulator would notify the company of the decision of Cabinet within five days. This timeline could be expanded if advice from other government agencies is required.

SEFIL had implications to the Corporation including its right to consolidate its ownership in CGBEM, ongoing ownership and management of CGBEM and the ability to acquire or dispose of strategic businesses or exploration and mining licenses. See note 13, Subsequent events. SEFIL was also expected to impair the Corporation's ability to raise financing. See note 2, Going concern.

In November 2013, the government of Mongolia repealed SEFIL, replacing it with an investment law meant to apply to all domestic and foreign companies. The new investment law is meant to provide, in part, more rights to companies and certainty over taxation and similar matters for a period of years following an investment.

Mongolian minerals law

In December 2012, the government of Mongolia released a draft version of a new minerals law for public comment, and the public consultation process continues. Any new law may have implications to the Corporation, consolidation of its ownership in CGBEM, and its ability to acquire, hold and dispose of exploration and mining licenses, and may impair the Corporation's ability to raise financing.

In November 2013, the government of Mongolia announced that the draft minerals law would not be implemented and that any new law would include provisions similar to the existing minerals law.

14. Subsequent events:

Exploration program approvals

The Corporation continues the process of obtaining exploration approvals for license XV-016830, including approval of a detailed environmental impact assessment. In April 2013, as part of obtaining approvals for the 2013 exploration program, the Corporation returned to the Mongolian government 5,886 hectares of land within a Special Protected Area. The lands were located along the northwestern and western extremes of the license, and were well away from coal-bearing lands identified on the remainder of the license, which is now 9,978 hectares in size.

The Corporation is experiencing an increase in scrutiny and demands associated with the process and conditions for approvals of various work plans. The Corporation expects additional work requirements and potentially higher costs as a result of fulfilling these demands, and increased difficulties retaining some of its licenses. The Corporation continues to work to identify, resolve and satisfy any outstanding issues and demands in anticipation of being able to commence exploration activities in early 2014.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

Letter of intent

In early 2013, the Corporation entered into a non-binding letter of intent with Focused Capital Corp. to consider a reverse takeover transaction. The Corporation, on advice from its investment bankers, chose not to proceed with the reverse takeover transaction in light of current adverse capital market conditions and terminated the letter of intent in April 2013.

Financing

To be updated.



Mongolia Minerals

C O R P O R A T I O N

Unaudited Condensed Consolidated Financial Statements

For the Third Quarter ended September 30, 2013

DRAFT

These draft condensed consolidated financial statements have not been reviewed by the corporation's external auditors.

Mongolia Minerals Corporation

Condensed Consolidated Balance Sheet
(unaudited)
(in thousands of Canadian dollars)

	Note	September 30 2013	December 31 2012
Assets			
Cash, cash equivalents		\$ 2,127	\$ 6,405
Accounts receivable		51	20
Prepaid expenses		244	991
Total current assets		2,422	7,416
Refundable deposits	4	1,654	14,100
Property, plant, equipment	5	280	416
Intangible exploration, evaluation assets	6	49,494	49,380
Total non-current assets		51,428	63,896
Total assets		\$ 53,850	\$ 71,312
Liabilities			
Accounts payable, accrued liabilities		\$ 1,870	\$ 513
Notes payable	7	4,370	-
Total current liabilities		6,240	513
Decommissioning liability		66	71
Total liabilities		6,306	584
Shareholders' Equity			
Share capital	8	73,074	73,520
Warrants	9	3,200	4,083
Contributed surplus	9	11,426	9,940
Deficit		(36,822)	(25,587)
Accumulated other comprehensive (loss)		(8,883)	(4,642)
Capital attributed to owners of			
Mongolia Minerals Corporation		41,995	57,314
Non-controlling interest		5,549	13,414
Total equity		47,544	70,728
Total liabilities and equity		\$ 53,850	\$ 71,312

Going Concern - see note 2

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Condensed Consolidated Statement of Comprehensive Income
(unaudited)
(in thousands of Canadian dollars, except per share amounts)

	Note	Three months ended September 30		Nine months ended September 30	
		2013	2012	2013	2012
Expenses					
Salaries, benefits		\$ 955	\$ 881	\$ 2,880	\$ 2,782
Share-based compensation	9	19	427	483	1,181
Professional services		380	411	2,394	1,225
Office, administration expenses		399	355	1,234	1,338
Exploration, evaluation		11	444	37	2,748
Depreciation	5	21	19	63	57
Impairment charges	6	-	1,018	7,452	1,018
(Gain) on sale of assets		-	-	(2)	-
Loss from operations		1,785	3,555	14,541	10,349
Finance (income) expense					
Interest (income)		-	(1)	(55)	(34)
Interest expense		132	-	179	-
Accretion of decommissioning liabilities		1	16	4	49
Net foreign exchange (gains) losses		(13)	(3)	25	50
Net loss		1,905	3,567	14,694	10,414
Other comprehensive (income)					
Foreign currency translation		9,466	7,281	8,647	5,221
Comprehensive loss		\$ 11,371	\$ 10,848	\$ 23,341	\$ 15,635
Net (income) loss attributable to:					
Owners of Mongolia Minerals Corporation		\$ 1,296	\$ 2,484	\$ 11,235	\$ 7,068
Non-controlling interests		609	1,083	3,459	3,346
		\$ 1,905	\$ 3,567	\$ 14,694	\$ 10,414
Comprehensive loss attributable to:					
Owners of Mongolia Minerals Corporation		\$ 7,470	\$ 8,059	\$ 15,476	\$ 11,199
Non-controlling interests		3,901	2,789	7,865	4,436
		\$ 11,371	\$ 10,848	\$ 23,341	\$ 15,635
Net loss per share attributed to					
owners of Mongolia Minerals Corporation					
Basic and diluted	10	\$ 0.01	\$ 0.01	\$ 0.05	\$ 0.03

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Condensed Consolidated Statement of Changes in Equity
(unaudited)
(in thousands of Canadian dollars)

		Nine months ended September 30	
	Note	2013	2012
Share capital	8		
Balance, beginning of period		\$ 73,520	\$ 64,374
Issue of common shares for cash		-	9,731
Share issue costs		(446)	(577)
Balance, end of period		73,074	73,528
Warrants	9		
Balance, beginning of period		4,083	1,146
Value of warrant issued with common shares		-	3,200
Warrants expired		(883)	-
Balance, end of period		3,200	4,346
Contributed surplus	9		
Balance, beginning of period		9,940	7,369
Share-based payments		483	1,181
Value of conversion option of notes payable		120	-
Warrants expired		883	-
Balance, end of period		11,426	8,550
Deficit			
Balance, beginning of period		(25,587)	(15,981)
Net (loss)		(11,235)	(7,068)
Balance, end of period		(36,822)	(23,049)
Accumulated other comprehensive income (loss)			
Balance, beginning of period		(4,642)	(1,625)
Currency translation differences		(4,241)	(4,131)
Balance, end of period		(8,883)	(5,756)
Non-controlling interests			
Balance, beginning of period		13,414	18,432
Net income (loss)		(3,459)	(3,346)
Other comprehensive income (loss)			
Currency translation differences		(4,406)	(1,090)
Balance, end of period		5,549	13,996
Total Shareholders' Equity		\$ 47,544	\$ 71,615

Mongolia Minerals Corporation

Condensed Consolidated Statement of Cash Flows
(unaudited)
(in thousands of Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2013	2012	2013	2012
Cash flows from operating activities:					
Net (loss)		\$ (1,905)	\$ (3,567)	\$ (14,694)	\$ (10,414)
Adjustments for:					
Share-based compensation	9	19	427	483	1,181
Depreciation	5	21	19	63	57
Impairment charges	6	-	1,018	7,452	1,018
Accretion of decommissioning liability		1	16	4	49
(Gain) on sale of assets		-	-	(2)	-
Change in non-cash working capital	11	184	197	729	399
Net cash (used in) operating activities		(1,680)	(1,890)	(5,965)	(7,710)
Cash flows from investing activities:					
Additions to property, plant, equipment, net	5	-	(4)	(32)	(118)
Proceeds on disposal of property, plant, equipment		-	-	72	-
Additions to intangible exploration, evaluation assets	6	(716)	(145)	(3,729)	(1,389)
Change in non-cash working capital	11	(781)	193	1,177	(855)
Net cash (used in) investing activities		(1,497)	44	(2,512)	(2,362)
Cash flows from financing activities:					
Proceeds from the issue of capital	8,9	-	-	-	12,931
Share issue costs	8	(170)	(20)	(446)	(577)
Note payable issue costs	7	(100)	-	(190)	-
Amortization issue costs	7	57	-	90	-
Proceeds from loan		2,090	-	4,590	-
Change in non-cash working capital	11	89	(2)	215	(58)
Net cash from (used in) financing activities		1,966	(22)	4,259	12,296
Effect of currency changes		(11)	(8)	(60)	22
Change in cash, cash equivalents		(1,222)	(1,876)	(4,278)	2,246
Cash, cash equivalents, beginning of period		3,349	10,622	6,405	6,500
Cash, cash equivalents, end of period		\$ 2,127	\$ 8,746	\$ 2,127	\$ 8,746
Interest paid		\$ 75	\$ -	\$ 89	\$ -
Income taxes paid		\$ -	\$ -	\$ -	\$ -

The notes are an integral part of these consolidated financial statements.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

1. Reporting entity:

Mongolia Minerals Corporation (MMC) is a private corporation incorporated in Canada on April 22, 2010, and has a registered office in Alberta, Canada. The address of the principal place of business is 404, 1015 – 4 Street S.W., Calgary, Alberta, Canada.

The condensed consolidated financial statements of MMC for the three and nine months ended September 30, 2013 are comprised of MMC and its subsidiaries (together the Corporation). The Corporation is engaged in the exploration for and ultimately the development and production of coal and other minerals from its licensed properties in Mongolia. As at September 30, 2013, the Corporation was in the exploration phase and in the process of determining its resources. To the date of these financial statements, the Corporation has incurred exploration and evaluation costs in respect of mineral licenses but has not incurred any costs with respect to developing any mineral properties.

The principal subsidiary of MMC is CGBEM LLC, a corporation incorporated in Mongolia with a registered office in Ulaanbaatar, Mongolia. CGBEM and its subsidiary corporations, which are wholly owned, hold all of the Mongolian mining and mineral exploration licenses. MMC holds 67% of the voting shares of CGBEM, which affords MMC control over the strategic direction and operating decisions of CGBEM, subject to a small number of matters pertaining to the protection of shareholders' rights that require the unanimous consent of the shareholders. The shareholders of CGBEM are parties to a unanimous shareholders' agreement. Pursuant to this agreement, MMC generally holds a 60% participating interest in CGBEM and the Corporation's Mongolian partner is entitled to up to 40% of the net profits of CGBEM following recovery by MMC of its investments in CGBEM. MMC has been appointed the operator of the assets of CGBEM. During the first quarter of 2013, the Corporation and certain of its founders entered into a securities exchange agreement whereby the Corporation indirectly acquired all of the Mongolian partner's equity and other interests in CGBEM in exchange for the Corporation issuing preferred shares. The closing of the transaction is subject to approval of the government of Mongolia. If the transaction closes, CGBEM will be a wholly-owned subsidiary of the Corporation and the Unanimous Shareholders' Agreement will be terminated. See note 13, Contingencies.

2. Going Concern:

To be updated.

3. Basis of preparation:

The condensed consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Statements issued by the International Accounting Standards Board. The condensed consolidated financial statements were authorized for issue by the Board of Directors on December XX, 2013.

The condensed consolidated financial statements have been prepared on the same basis of accounting policies and methods of computation consistent with those applied in the Corporation's December 31, 2012 consolidated financial statements. Certain information and disclosures normally required in the notes to the annual financial statements have been condensed or omitted, and the condensed consolidated financial statements should be

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
(unaudited)

For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

read in conjunction with the Corporation's audited consolidated financial statements and notes thereto for the period ended December 31, 2012.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated financial statements include those items discussed in the Corporation's December 31, 2012 consolidated financial statements.

4. Refundable deposits

A former shareholder of the vendor of exploration license XV-016830, the rights to which were acquired on the acquisition of ECL, made a final appeal to the Chief Justice of Mongolia challenging the validity of the sale of shares to the vendor. In January 2013, the Chief Justice of Mongolia rendered a decision favourable to the Corporation. No further appeals can be advanced by this former shareholder.

In March 2013, the Foreign Investment Regulations and Registration Department, which is the administrator of the Foreign Investment Law in Mongolia, agreed in writing to the Corporation's position that the Foreign Investment Law does not apply to the transfer of license XV-016830 because the transaction to acquire the license occurred prior to the enactment of the law. The Corporation presented the matter to the State Registration Office to effect the transfer of the license. Effective April 2013, the legal entity holding license XV-016830 was transferred to ECL, a wholly-owned subsidiary of CGBEM. Refundable deposits of \$12.3 million were transferred to intangible exploration, evaluation assets during the quarter ended June 30, 2013.

Costs expensed for exploration and evaluation work on the license prior to the transfer of the license to CGBEM during the six-months ended June 30, 2013 were \$12 thousand.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

(unaudited)

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(tabular amounts are in thousands of Canadian dollars except per share information)

5. Property, plant, equipment:

	Production Assets	Other Capital Assets	Total
Cost			
Balance at January 1, 2012	\$ 618	\$ 373	\$ 991
Additions	-	121	121
Disposal	-	(3)	(3)
Currency difference	(13)	(11)	(24)
Balance at December 31, 2012	\$ 605	\$ 480	\$ 1,085
Additions	-	32	32
Disposals	(66)	(3)	(69)
Currency differences	(72)	(50)	(122)
Balance at September 30, 2013	\$ 467	\$ 459	\$ 926
Depreciation, amortization and impairment losses:			
Balance at January 1, 2012	\$ 455	\$ 58	\$ 513
Depreciation	-	77	77
Impairment losses	90	-	90
Currency differences	(9)	(2)	(11)
Balance at December 31, 2012	\$ 536	\$ 133	\$ 669
Depreciation	-	62	62
Disposals	-	(1)	(1)
Impairment losses	-	-	-
Currency differences	(69)	(15)	(84)
Balance at September 30, 2013	\$ 467	\$ 179	\$ 646
	Production Assets	Other Capital Assets	Total
Carrying amounts			
December 31, 2012	\$ 69	\$ 347	\$ 416
September 30, 2013	\$ -	\$ 280	\$ 280

No borrowing costs were capitalized during the period.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
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6. Intangible exploration, evaluation assets:

	2013	2012
Opening balance	\$ 49,380	\$ 52,805
Transfer from refundable deposits (Note 4)	12,269	-
Additions	3,729	1,241
Impairment charges	(7,452)	(961)
Currency differences	(8,432)	(3,705)
	\$ 49,494	\$ 49,380

During the nine months ended September 30, 2013, the Corporation incurred exploration and evaluation costs on its mineral licenses of \$3.7 million, and no amounts of intangible exploration, evaluation assets were reclassified to property, plant and equipment.

Recent fund raising efforts have not provided sufficient capital to pursue all opportunities available to the Corporation. Further, early exploration results on the Powerland licenses indicate limited resources of 1.4 million tonnes of low-quality thermal coal. Accordingly, the Corporation's strategic priorities have shifted more significantly towards the Khotgor project, which has more resources of higher quality coal and more promising development potential, and the Dalan project. The Corporation is not expected to invest significant, additional exploration funds on the Powerland licenses in the foreseeable future. Further, the Corporation has commenced the process of attempting to sell the Powerland licenses. In light of these factors, the Corporation has concluded that the Powerland licenses are likely fully impaired. The book value of the Powerland licenses written off is \$7.5 million.

7. Notes payable:

On September 30, 2013, the Corporation issued promissory notes totaling \$2.1 million to two companies related to directors of the Corporation. The notes are due on or before the earlier of January 31, 2014 and an event of default and demand for repayment is made by the lenders. The notes bear interest at 12% per annum, calculated and payable on the maturity date. Additional interest payable at the rate of 4% is due from and after any default. The notes, including the note issued in June 2013, are convertible into 100,000,000 common shares of the Corporation in the event of default at the option of the lenders. The costs directly attributable to the transactions were \$100 thousand, which were capitalized and amortized using the effective interest rate method. Security for the repayment of the loans is a security interest in all of the Corporation's present and after-acquired property and assets.

On June 13, 2013, the Corporation issued a promissory note for \$2.5 million to a company related to a director of the Corporation. The note is due on or before the earlier of June 17, 2017 and an event of default and demand for repayment is made by the lender. The note bears interest at 12% per annum, calculated quarterly in arrears, and is payable on the last day of March, June, September and December. Additional interest payable at the rate of 4% is due from and after any default. The costs directly attributable to the transaction were \$90 thousand,

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which were capitalized and amortized using the effective interest rate method. Security for the repayment of the note is a security interest in all of the Corporation's present and after-acquired property and assets.

8. Share capital:

Authorized:

At September 30, 2013, the Corporation was authorized to issue the following shares:

- An unlimited number of common shares the holders of which are entitled to receive dividends as declared by the Corporation and are entitled to one vote per share.
- An unlimited number of preferred shares, issuable in series, each series to bear the designation, rights, privileges, restrictions and conditions attaching to such series of preferred shares and consist of such number of shares as may be determined by resolution of the Board of Directors of the Corporation.

Common shares issued and outstanding:

	2013		2012	
	Number of shares (000s)	\$	Number of shares (000s)	\$
Balance at beginning of period	224,746	73,520	215,022	64,374
Shares issued	-	-	9,724	9,731
Share issue costs	-	(446)	-	(585)
	224,746	73,074	224,746	73,520

The Corporation capitalized costs incurred in conjunction with certain financing activities. Should a transaction not be completed, costs of \$592 thousand (2012: \$222 thousand) will be expensed as professional services costs in the consolidated statement of comprehensive income.

9. Share-based payments:

Options:

The Corporation has an option program that entitles directors, officers and employees to purchase shares in the Corporation. Options are granted at an exercise price equivalent to the most recent issue price of common shares at the date of grant. Options have a ten-year term and vest within three years.

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Option grants were as follows:

	2013		2012	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Balance at beginning of period	21,744	\$ 0.66	19,385	\$ 0.64
Options granted	20	0.85	2,372	0.85
Options forfeited	(167)	0.73	(13)	0.85
Options expired	(500)	0.85	-	-
	21,097	\$ 0.66	21,744	\$ 0.66

The Corporation issued 20 thousand options during the three months ended March 31, 2013, and no options were exercised during 2012 or 2013.

Options outstanding				Options Exercisable		
Exercise price	Options outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life (years)	Options outstanding and exercisable (000s)	Weighted average exercise price	Weighted average remaining contractual life
\$0.35	9,600	\$ 0.35	6.9	9,600	\$ 0.35	6.9
\$0.70	5,622	0.70	7.4	5,436	0.70	7.4
\$0.85	1,845	0.85	9.1	1,346	0.85	9.1
\$1.25	4,030	1.25	7.8	3,935	1.25	7.8
	21,097	\$ 0.66	7.4	20,317	\$ 0.60	6.8

Mongolia Minerals Corporation

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Warrants:

Warrants issued were as follows:

	2013			2012		
	Number of warrants (000s)	Warrants (000s)	Weighted average exercise price	Number of warrants (000s)	Warrants (000s)	Weighted average exercise price
Balance at beginning of period	9,705	\$ 4,083	\$ 1.21	2,496	\$ 1,146	\$ 0.91
Warrants issued	-	-	-	8,000	3,200	1.25
Warrants expired	(1,705)	(883)	1.01	(791)	(263)	0.70
Warrants returned	(8,000)	-	1.25	-	-	-
Warrantes re-issued	8,000	-	0.30	-	-	-
	8,000	\$ 3,200	\$ 0.30	9,705	\$ 4,083	\$ 1.21

In consideration for the advance of the \$2.5 million promissory note, 8,000,000 warrants with an exercise price of \$1.25 issued to a company related to a director of the Corporation were re-issued with an exercise price of \$0.30. See note 7, Note payable.

No warrants were exercised during 2012 or 2013.

Exercise price	Warrants outstanding (000s)	Expiry date
\$ 0.30	8,000	June 19, 2016
	8,000	

The 8,000,000 warrants expire one year following the date of an initial public offering,

Mongolia Minerals Corporation

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Valuation assumptions:

The fair value of the options and warrants were estimated using Black Scholes model with the following weighted average inputs:

	2013		2012	
	Warrants	Options	Warrants	Options
Fair value at grant date	\$ -	\$ 0.58	\$ 0.40	\$ 0.59
Share price	-	0.85	0.85	0.85
Exercise price	-	0.85	1.25	0.85
Volatility	-	89%	89%	89%
Estimated life, years	-	5	4	5
Dividend yield	-	-	-	-
Risk-free interest rate	-	1.3%	1.5%	1.3%
Forfeiture rate	-	5%	-	5%

10. Loss per share:

Basic and diluted loss per share was calculated as follows:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Net loss (income) attributed to the owners of the Company	\$ 1,296	\$ 2,484	\$ 11,235	\$ 7,068
Weighted average number of common shares - basic (000s)	224,746	224,746	224,746	219,535
Net loss per share - basic	\$ 0.01	\$ 0.01	\$ 0.05	\$ 0.03

The Corporation experienced losses and there was no dilutive effect from share options and warrants.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements
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(tabular amounts are in thousands of Canadian dollars except per share information)

11. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Source (use) of cash:				
Accounts receivable	\$ 67	\$ 26	\$ (31)	\$ 84
Prepaid expenses	140	258	798	(595)
Accounts payable, accrued liabilities	(715)	104	1,354	(3)
	\$ (508)	\$ 388	\$ 2,121	\$ (514)
Related to:				
Operating activities	\$ 184	\$ 197	\$ 729	\$ 399
Investing activities	(781)	193	1,177	(855)
Financing activities	89	(2)	215	(58)
	\$ (508)	\$ 388	\$ 2,121	\$ (514)

12. Related party transactions

During the three months ended September 30, 2013, the Corporation issued promissory notes for \$2.1 million to two companies related to directors of the Corporation. The Corporation paid \$75.6 thousand in interest expense related to the promissory note issued in June 2013. See note 7, Notes payable.

During the three months ended June 30, 2013, the Corporation issued a promissory note of \$2.5 million and paid related interest expense of \$14.0 thousand to a company related to a director of the Corporation. See note 7, Note payable. During the three months ended March 31, 2013, no transactions occurred with parties related to the Corporation. See note 7, Note payable.

During the three months ended March 31, 2013, no transactions occurred with parties related to the Corporation.

During the three months ended March 31, 2012, consulting fees of \$30 thousand were paid to a director of the Corporation.

13. Contingencies:

Title to mining and exploration licenses

Subject to note 4, Refundable deposits, although the Corporation believes that it holds title to its mining and exploration licenses, it cannot control or completely protect itself against the risk of title disputes, litigation with respect to past ownership or activities on the subject properties, or expropriation of, or relating to, its licenses. Further, there can be no assurance that claims or challenges by third parties against the Corporation's licenses will not be asserted at a future date.

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

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For the three and six months ended June 30, 2013

(tabular amounts are in thousands of Canadian dollars except per share information)

Consolidation of interest

During the first quarter, the Corporation and certain of its subsidiaries and founders entered into a securities exchange agreement with its Mongolian partner and a corporation owned by its Mongolian partner whereby the Corporation indirectly acquired all of the Mongolian partner's equity and other interests in CGBEM in exchange for the Corporation issuing 143,535,982 Series A Preferred shares. The closing of the transaction is subject to approval of the government of Mongolia under the provisions of the Law of Mongolia on the Regulation of Foreign Investment in Business Entities Operating in Sectors of Strategic Importance. If the transaction closes, CGBEM will be a wholly-owned subsidiary of the Corporation and the Unanimous Shareholders' Agreement will be terminated.

The Series A Preferred shares are not entitled to vote at any meeting of the shareholders of the Corporation, except in certain circumstances, and rank pari passu with the common shares of the Corporation with respect to the payment of any dividends. The Series A Preferred shares are entitled to a nominal preference over the common shares and other shares of the Corporation ranking junior to the Series A Preferred shares with respect to any distribution of property or assets in the event of a liquidation, dissolution or winding-up of the Corporation. The Series A Preferred shares may be converted into common shares at the election of the holder in order to complete a sale of such shares to a third-party that is at arm's length to the holder. In the event that the Corporation undertakes a change of control transaction, the Series A Preferred shares may be tendered to, or may be conditionally converted into common shares, in connection with such change of control transaction. The Series A Preferred shares may also be converted into common shares at any time at the election of the Corporation. Finally, the Series A Preferred shares will automatically convert into common shares on the occurrence of any of the following events:

- a. if, at any time prior to the completion by the Corporation of an initial public offering of its securities or other listing transactions (an "IPO"), the holder of Series A Preferred shares beneficially owns or exercises control or direction over less than five percent of the then issued and outstanding common shares calculated on a fully-diluted basis,
- b. if, at any time after the completion by the Corporation of an IPO, the holder of Series A Preferred shares beneficially owns or exercises control or direction over less than ten percent of the then issued and outstanding common shares calculated on a fully-diluted basis,
- c. if the Corporation has not completed an IPO by February 25, 2018, and
- d. on February 25, 2023.

Closing of the transaction is to occur three business days after the satisfaction or waiver of the agreed upon mutual condition precedent that the parties will have received all consents, approvals and authorizations required in connection with the transaction under applicable laws in Mongolia or a legal opinion from Mongolian legal counsel that no such consents, approvals and authorizations are required.

Mongolian foreign investment law

The Mongolian Parliament enacted the Foreign Investment Law (SEFIL) effective May 2012. The minerals sector was designated as strategic under the law. In April 2013, the government of Mongolia introduced an amendment to the law. Under the amendment, non-state owned foreign companies wanting to acquire ownership in excess of

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forty-nine percent of a business entity operating in a strategic sector would require the approval of the Mongolian Cabinet rather than the Mongolian Parliament.

The law was unclear as to the full extent of its meaning, including but not limited to, conditions for approval, implementation guidance, taxation implications, and other matters. Further, the Mongolian government was prohibiting, and continues to prohibit, the transfer of exploration and mining licenses to companies with direct or indirect foreign ownership.

The government of Mongolia issued regulations related to SEFIL in March 2013. The regulations issued were largely procedural in nature and provided little meaningful clarification of the law. The regulations provided a time line stating that transactions would be reviewed by the regulator who would make a recommendation to the Mongolian Cabinet within thirty days; the Cabinet would consider the proposal and make a decision within thirty days; and the regulator would notify the company of the decision of Cabinet within five days. This timeline could be expanded if advice from other government agencies is required.

SEFIL had implications to the Corporation including its right to consolidate its ownership in CGBEM, ongoing ownership and management of CGBEM and the ability to acquire or dispose of strategic businesses or exploration and mining licenses. See note 13, Subsequent events. SEFIL was also expected to impair the Corporation's ability to raise financing. See note 2, Going concern.

In November 2013, the government of Mongolia repealed SEFIL, replacing it with an investment law meant to apply to all domestic and foreign companies. The new investment law is meant to provide, in part, more rights to companies and certainty over taxation and similar matters for a period of years following an investment.

Mongolian minerals law

In December 2012, the government of Mongolia released a draft version of a new minerals law for public comment, and the public consultation process continues. Any new law may have implications to the Corporation, consolidation of its ownership in CGBEM, and its ability to acquire, hold and dispose of exploration and mining licenses, and may impair the Corporation's ability to raise financing.

In November 2013, the government of Mongolia announced that the draft minerals law would not be implemented and that any new law would include provisions similar to the existing minerals law.

14. Subsequent events:

Exploration program approvals

The Corporation continues the process of obtaining exploration approvals for license XV-016830, including approval of a detailed environmental impact assessment. In April 2013, as part of obtaining approvals for the 2013 exploration program, the Corporation returned to the Mongolian government 5,886 hectares of land within a Special Protected Area. The lands were located along the northwestern and western extremes of the license, and were well away from coal-bearing lands identified on the remainder of the license, which is now 9,978 hectares in size.

The Corporation is experiencing an increase in scrutiny and demands associated with the process and conditions for approvals of various work plans. The Corporation expects additional work requirements and

Mongolia Minerals Corporation

Notes to Condensed Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars except per share information)

potentially higher costs as a result of fulfilling these demands, and increased difficulties retaining some of its licenses. The Corporation continues to work to identify, resolve and satisfy any outstanding issues and demands in anticipation of being able to commence exploration activities in early 2014.

Letter of intent

In early 2013, the Corporation entered into a non-binding letter of intent with Focused Capital Corp. to consider a reverse takeover transaction. The Corporation, on advice from its investment bankers, chose not to proceed with the reverse takeover transaction in light of current adverse capital market conditions and terminated the letter of intent in April 2013.

Financing

To be updated.

Trust Declaration Funds

Date	Amount (CDN\$)	Description
September 20, 2013	\$251,000.00	Deposit
September 24, 2013	(\$85,486.23)	Conversion of US\$82,500 for Mongolian payroll
September 25, 2013	(\$58,280.00)	Canadian payroll
November 4, 2013	\$150,000.00	Deposit
December 18, 2013	(\$64,645.98)	Conversion of US\$60,000 for Mongolian payroll
January 10, 2014	\$64,700.00	Deposit
June 6, 2014	(\$2,530.00)	Canadian payroll
June 6, 2014	(\$78,642.85)	Conversion of US\$71,500 for Mongolian payroll
TOTAL	\$176,651.47	\$176,114.94 plus accrued interest

Note: Due to investment of funds held in trust, a simple subtraction of the above amounts from amounts deposited will not exactly match the existing balance held in trust.

THIS IS EXHIBIT " 18
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of Jul A.D. 2014
Kayla Schappert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

THIS IS EXHIBIT " 19
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2014
Jaylon Schoppert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

THE MINING LAW REVIEW

Second Edition

Editor
ERIK RICHER LA FLÈCHE

LAW BUSINESS RESEARCH LTD

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EDITOR'S PREFACE

I am pleased to have participated in the preparation of the second edition of *The Mining Law Review*. The Review is designed to be a practical, business-focused 'year in review' analysis of recent changes and developments, their effects and a look forward at expected trends.

This book gathers the views of leading mining practitioners from around the world and I warmly thank all the authors for their work and insights.

The first part of the book is divided into 23 country chapters, each dealing with mining in a particular jurisdiction. Countries were selected because of the importance of mining to their economies and to ensure broad geographical representation. Mining is global but the business of financing mining exploration, development and – to a lesser extent – production is concentrated in a few countries, with Canada and the United Kingdom being dominant. As a result, the second part of this book includes 10 country chapters focused on financing.

The advantage of a comparative work is that knowledge of the law and developments and trends in one jurisdiction may assist those in other jurisdictions. Although the chapters are laid out uniformly for ease of comparison, each author had complete discretion as to content and emphasis.

In the preface to the first edition I wrote that mining had a bright future because the demographic profile of China and other emerging markets would continue to favour accelerated economic growth. At the same time I identified economic or resource nationalism as the most important threat to the industry.

I continue to be of the opinion that mining will be a growth story for many decades to come. The world population continues to increase and projections are for the addition of at least another 2 billion individuals by 2050.

In the short and medium term, however, the mining sector must successfully navigate the complex waters of continued economic nationalism and changing investment sentiment.

Governments around the world continue to exert pressure on the sector. They want more immediate revenues and benefits for their exchequers and people. This is

true in developed as well as emerging jurisdictions. In last year's preface I suggested that the best mitigation strategy was for the industry to have a strong social licence. Unfortunately, government demands have yet to be tempered by the additional challenge faced by the industry in the last 12 months.

The relative slowing of emerging market economies has caused a shift in market sentiment away from the mining sector. Investors are less sanguine about the medium-term prospects. China and India are looking at lower growth rates. Europe and Japan continue to experience little or no growth. Recovery in North America remains tepid. The froth is gone from the sector and prices of some minerals and metals are at their lowest in recent memory. This in turn has caused many investors to rethink their involvement in mining and seek opportunity elsewhere. The resulting lower stock valuations have been particularly painful for smaller mining concerns.

Not all is dark, however.

China and certain other emerging market economies have entered into a more sustainable growth phase that should allow for more predictable planning and better adequation between the demand and offer of minerals.

As investors shift from a 'growth story' to one of 'income and performance' quality is being rewarded. Greenfield projects with strong fundamentals and sponsored by technically competent companies continue to be funded and developed. This is particularly true of those projects with reasonable transportation costs to Asia.

Mineral demand continues to rise, albeit at a slower pace, but some new supplies are being deferred, particularly as cash for exploration and development remains constrained. As a result prices should stabilise over the short and medium term and perhaps strengthen thereafter.

The changes in the mining ecosystem are attracting new entrants. Valuations are down, and capital is less plentiful and more demanding. Owners of mining assets are retrenching and selling non-core assets. Some manufacturers are once again looking at securing supplies through vertical integration. Financial investors, such as private equity firms and pension funds, are starting to look at mining. This should create numerous M&A opportunities and be welcome news to mining lawyers around the world.

As you consult this book you will find more on topics apposite to jurisdictions of specific interest to you, and I hope that you will find this book useful and relevant.

Erik Richer La Flèche
Stikeman Elliott LLP
Montreal
October 2013

Chapter 27

MONGOLIA

Sara K Phillips and David C Buxbaum¹

I INTRODUCTION

2013 has been a period of both progress and setbacks for Mongolia's burgeoning capital market. Highly anticipated amendments to the country's Securities Market Law² were passed and more significant legal developments may still be on the horizon. Currently, Mongolia's capital market is limited, with only a small number of stocks and company and government bonds being traded regularly. However, as described in the sections below, the newly amended Securities Market Law heralds a new age for Mongolia's capital market, paving the way for greater foreign investment within the country's dominant mining industry and allowing for greater diversification of the economy.

Mongolia's newly amended Securities Market Law is a far cry from its predecessor. The Law incorporates a number of important financial instruments, including futures, options and derivatives. The Law's amendments also promise to bring greater transparency to the market through the use of international disclosure requirements. Other important amendments will allow for multiple listings – which for Mongolian companies' capital-raising endeavours is of particular importance. Erdenes Tavan Tolgoi LLC, a Mongolian state-owned coal company, already anticipates a triple-listing on the London, Hong Kong and Mongolian stock exchanges once the amendments to the Securities Market Law come into force.³ As Mongolian Stock Exchange Deputy Chief Executive Officer and Chief Regulatory Officer, Saruul Ganbaatar, recently stated: '[t]he previous [version

1 Sara K Phillips is a US attorney and David C Buxbaum is senior counsel at Anderson & Anderson LLP. The authors would like to thank Altansukh Dugaraa for his contribution as a researcher for this article.

2 Law of Mongolia on the Securities Market [Securities Market Law] (revised 2013) (Mong.).

3 New securities law explained, Mongolian Exporters Association, available at www.exportmongolia.mn/?mcmodule=news&newsid=23.

of the] law was mostly prohibitive in terms of activities to be carried out in the securities market, whereas the new one introduces more flexibility, which is a necessity for the market to grow'.⁴

In the wake of Mongolia's whirlwind developments on the legal front, the country experienced a foreign investment slowdown when Phase II of the Oyu Tolgoi mining project was put on hold amid controversies surrounding Phase II's project financing, worth approximately US\$6 billion.⁵ The Oyu Tolgoi project is one of the largest copper and gold mining projects in the world, with an estimated '46 billion pounds of copper and 25 million ounces of gold in measured and indicated resources'.⁶ Phase I of the project, an open pit mining production, is already well underway. Controversy struck the project when communications between the government of Mongolia and Rio Tinto concerning the project's investment agreement, royalties and approvals necessary for Phase II financing became frustrated. The mining project is implemented through Oyu Tolgoi LLC, a company in which the government of Mongolia, through state-owned Erdenes Oyu Tolgoi LLC, is a 34 per cent shareholder, with Turquoise Hill Resources owning the remaining 66 per cent.⁷ Mining giant Rio Tinto owns 51 per cent of the 66 per cent held by Turquoise Hill.⁸

Amid the tumultuous political situation surrounding Oyu Tolgoi LLC, the government of Mongolia announced it was considering 'giving [Mongolian] citizens a stake' in the government's share of the company.⁹ In particular, the government suggested the possibility of converting its shares in Oyu Tolgoi LLC to a public company, with 10 per cent made available to the Mongolian public and 10 to 20 per cent more 'sold on the domestic market'.¹⁰ The government suggested that the initial public offering could aid in the project's financing and encourage greater domestic support of the mine.¹¹ As in many emerging markets with vast natural resources, support for the mining industry is mixed. Mongolia's government and its citizens support the country's growth, but remain wary of greater foreign influence and perceived external control over Mongolia's mineral resources. However, as seen in Mongolia's past, the country demonstrates a consistent willingness to work alongside foreign investors, and Mongolia's lawmakers continue to

4 Id.

5 Mongolia Refuses to Support Rio Tinto Financing Effort for Oyu Tolgoi, *The Wall Street Journal*, Feb. 7, 2013, <http://online.wsj.com/article/SB10001424127887324590904578289673477866106.html>.

6 Oyu Tolgoi (copper-gold) Mongolia, Turquoise Hill Resources, available at www.turquoisehill.com/s/Oyu_Tolgoi.asp.

7 Oyu Tolgoi, Rio Tinto, available at www.riotinto.com/ourbusiness/oyu-tolgoi-4025.aspx.

8 Id.

9 Mongolia Studying IPO of Stake in \$6.6 Billion Rio Mine, *Bloomberg*, Aug. 9, 2013, www.bloomberg.com/news/2013-08-09/mongolia-studying-ipo-of-stake-in-6-6-billion-rio-mine.html.

10 Id.

11 Id.

evidence an immense capacity for adaptation and development, with an eye towards the country's undoubtedly promising future.

The role of the London Stock Exchange in helping to shape the Mongolian capital market's future cannot be understated. Cooperation between the entities began in 2011, when the London Stock Exchange Group agreed to administer management, training and oversight to the Mongolian Stock Exchange. In addition, the London Stock Exchange was to provide information technology services via its MilleniumIT platform, which would serve to bolster Mongolia's 'trading and surveillance infrastructure'.¹² The London Stock Exchange's services have not come cheap. In return for London's services to manage and develop the country's capital market, the Mongolian Stock Exchange agreed to pay US\$14.2 million.¹³

Already, the collaboration between the two exchanges appears to have been beneficial. Mongolia's parliament has succeeded in passing greatly needed amendments to the Securities Market Law, which will undoubtedly allow for enhanced cooperation between the London and Mongolian Stock Exchanges. Altai Khangai, Chief Executive Officer of the Mongolian Stock Exchange, has praised the Securities Market Law's new amendments, stating that such improvements will 'open up a new era of development in the capital markets in the country'.¹⁴ Regulations and procedures must still be implemented under the newly amended Law, and this sizeable task has been delegated to Mongolia's Financial Regulatory Commission. However, with the London Stock Exchange's continued support, it is hoped that the country will soon see a market with greater liquidity. Many in the country believe that the Mongolian Stock Exchange could even see listings worth US\$45 billion in the coming decade.¹⁵ Thus, in spite of the country's recent economic troubles, for many investors the future seems wide open in the Mongolian capital market.

II CAPITAL RAISING

i General overview of the legal framework

A handful of laws govern capital raising for mining activities in Mongolia. These laws form the legal foundation of the country's ever-transforming foreign investment

12 LSE signs agreement to restructure, develop Mongolian Stock Exchange, *Banking Business Review*, Jan. 19, 2011, available at <http://ecnandexchanges.banking-business-review.com/news/lse-signs-agreement-to-restructure-develop-mongolian-stock-exchange-190111> [Banking Business Review].

13 MSE will pay USD 14.2 million to LSE for its management, *Business-Mongolia*, Apr. 12, 2011, www.business-mongolia.com/mongolia/2011/04/12/mse-will-pay-usd-14-2-million-for-lse-for-its-management/.

14 Mongolia exchange seeks deeper ties with LSE, *Mongolia and Economy Finance blog*, <http://mongoliaeconomy.blogspot.com/2013/05/mongolia-exchange-seeks-deeper-ties.html> (May 29, 2013, 9:00 AM).

15 LSE hopes to benefit from the MSE growth, *Adamas Mining*, Mar. 15, 2013, available at <http://adamasmining.mn/lse-hopes-to-benefit-from-the-mse-growth/>.

environment, and include the newly amended Securities Market Law, the Law on the Regulation of Foreign Investment in Entities Operating in Strategic Sectors (SEFIL), the Foreign Investment Law, the Law on Asset-backed Securities, the Company Law, the Civil Code and the Minerals Law. In addition to Mongolia's revamped and overhauled Securities Market Law, other dramatic legal changes are on the country's law-making horizon. These changes, discussed more thoroughly in Section III *infra*, are demonstrative of Mongolia's growing pains as an emerging market, and of the country's struggles to balance the objectives of encouraging consistent and additional foreign investment alongside continually evolving state goals concerning economic growth and development, many of which have been perceived as nationalist in nature.

The recent passing of amendments to the Securities Market Law constitutes one of the most significant advancements in Mongolia's capital market legal framework. As described in *The Mining Law Review* first edition,¹⁶ on 7 April 2011 the State Property Committee,¹⁷ the Mongolian Stock Exchange and the London Stock Exchange signed a master services agreement (MSA), with the purpose of 'transforming the [Mongolian Stock Exchange into] a world-class exchange operator and developing the Mongolian capital market as a whole'.¹⁸ As its primary objectives, the MSA was to accomplish the following: develop a securities market framework of international standards; incorporate new trading and surveillance technologies; develop a 'sustainable business model' for Mongolia's stock exchange; and train the country's workforce so as to ensure efficient operation and management, and to support effective regulation and oversight of the market as a whole.¹⁹ To accomplish the MSA's objectives, the London Stock Exchange agreed to appoint a managerial team to oversee the Mongolian Stock Exchange's development and transformation.²⁰ The team would provide training, assistance, and act in an advisory capacity regarding regulations, laws, and procedures governing Mongolia's new capital market structure.²¹ In a presentation at the 2012 Mongolia Investment Summit in Hong Kong, the Mongolian Stock Exchange's Altai Khangai outlined the government's underlying motivations for reshaping the country's Securities Market Law. As Khangai described, the newly amended Securities Market Law would seek to serve as 'the gateway to promoting the principles of [a] fair, transparent and efficient market,

16 Yancy Cottrill & David C. Buxbaum, Capital Markets: Mongolia, in *The Mining Law Review*, 282 (Erik Richer La Flèche ed., 2012).

17 The State Property Committee of Mongolia is the organization responsible for implementing Mongolian government policies regarding state-owned property, including overseeing the management, use, and protection of such properties. See State Property Committee, www.spc.gov.mn/ (Mongolian only).

18 Altai Khangai, Mongolian Stock Exchange, Mongolian Stock Exchange: Unlocking Mongolian Capital Market Growth Potential 2 (2012), www.beaconevents.com/2012/MongoliaInvestmentSummit2012/DLPP/Papers/30Oct12_1445_Altai_Khangai_MSE_Mongolia_investment_summit.pdf.

19 *Id.* at 3, 7.

20 Banking Business Review, *supra* note 12.

21 *Id.*

creating a robust capital market and achieving ambitious growth and development objectives in Mongolia'.²²

Enacted on 24 May 2013, amendments to the Securities Market Law,²³ which will enter into force on 1 January 2014,²⁴ create an ambitious piece of legislation for Mongolia. The newly amended Law promises to usher in significant improvements to the areas of transparency, capital raising, and overall market participation, among others. Such improvements, it is hoped, will see a Mongolian Stock Exchange with greater liquidity and increased market capitalisation. Although amendments to the Securities Market Law represent a semi-overhaul of its former framework in an effort to bring more of Mongolia's legislation in line with existing international standards, only those changes most pertinent to capital raising will be discussed herein.

The first notable change found within Mongolia's new securities market legislation is the Law's incorporation of a greater variety of financial instruments, including options, futures, derivatives and convertible securities.²⁵ The Law also provides for the issuance of depositary receipts, both Mongolian and global.²⁶ Article 14.1 defines a Mongolian depositary receipt as 'a financial instrument registered and issued by a depositary receipts issuer for sale on the regulated securities market of Mongolia on the basis of the deposit, with a legal entity licensed to undertake custodial services, of an underlying security registered with a stock exchange in another jurisdiction'. A global depositary receipt, as is commonly traded on other non-Mongolian exchanges, is defined by Article 15 as a 'financial instrument issued only by a depositary receipts issuer on the basis of securities issued in Mongolia through an entity authorized to undertake custodial services'.²⁷

The inclusion of futures and depositary receipts into Mongolia's securities market structure marks a step forward in Mongolian companies' ability to conduct capital raising on a global scale. Thus far in Mongolia's capital market development, futures have yet to be included or traded on the marketplace. However, the country's banking institutions have and are utilising forward foreign currency contracts. In view of Mongolia's rich metal and coal resources, futures trading may be a very important part of the country's continued development. Even the country's Ministry of Food, Agriculture and Light Industry has stated that it will incorporate futures into its economic growth plan. The Ministry plans to use futures contracts by the year 2015 for the country's agricultural commodities. It is likely that the country will create a separate market to allow for futures trading; however, to date, there is no publicly available plan demonstrating how the Financial Regulatory Commission will move forward with the multitude of changes

22 Khangai, *supra* note 18 at 8.

23 Securities Market Law (revised 2013) (Mong.).

24 Id. at art. 90.1.

25 See Securities Market Law, arts. 4.1.6, 4.1.7, 4.1.10, 4.1.11, 10.5.12, 13.2 (revised 2013) (Mong.). It should be noted that the 2002 version of the Securities Market Law did recognise and include 'derivative securities' within its text and definitions. See e.g., Securities Market Law, art. 3.1.4 (2002) (Mong.).

26 Securities Market Law, arts. 13.11.1, 13.11.2 (revised 2013) (Mong.).

27 Id. at art. 15.1.

included within the amended Securities Market Law. The Mongolian Stock Exchange has indicated that it expects all regulations and procedures for the Law's full implementation, including for futures trading, to be in place prior to its coming into force on 1 January 2014. Given the Mongolian Stock Exchange's continued cooperation with the London Stock Exchange, such an ambitious goal may not be out of reach.

In addition to futures, the existence of Mongolian depositary receipts will allow companies registered outside of Mongolia greater access to the Mongolian Stock Exchange. Article 18 of the newly amended Securities Market Law specifically provides a legal entity 'registered in a foreign jurisdiction'²⁸ with the ability to 'register with the Mongolian Stock Exchange and trade its securities'.²⁹ The foreign legal entity must obtain permission from Mongolia's Financial Regulatory Commission prior to registering with the Stock Exchange;³⁰ however, the newly amended Law does expressly provide for the opportunity for dual or secondary listings by foreign entities.³¹ In addition, for those domestic Mongolian entities already listed on the Mongolian Stock Exchange, the amended Securities Market Law allows for listings on other international markets.³² Although the 2002 Securities Market Law did previously provide for the possibility of dual listing 'in the market of a foreign country',³³ it is hoped that the Securities Market Law's new amendments will see the practice greatly increase.

The enhanced ability to dual list by foreign and domestic entities will no doubt add to the liquidity of Mongolia's capital market. For Mongolian-registered businesses in particular, the introduction of global depositary receipts and the bolstered capacity to dual list promises to decrease the hurdles currently associated with capital raising in the country. Mongolia has traditionally relied on various forms of asset-based financing to access foreign capital for a variety of infrastructure and development projects, including mineral resource development. Laborious and time consuming, Mongolian-based companies have consistently struggled to obtain project financing, which has occurred primarily through direct foreign investment. In 2010, for example, 'the ratio of stock market capitalization to GDP was merely 16 [per cent] at its peak'.³⁴ Furthermore, Mongolia's financial sector has been consistently monopolised by commercial banking institutions.³⁵ According to a 2011 report by the International Monetary Fund, 'in September 2010, the 14 registered commercial banks accounted for 96 [per cent] of total

28 Id. at art. 18.

29 Id. at art. 18.1.

30 Id.

31 Id. at art. 18.1.

32 Id. at art. 17.1.

33 Securities Market Law, art. 5.2 (2002) (Mong.).

34 E. Asia and Pac. Region Vice Presidency & Fin. and Private Sector Dev. Vice Presidency, Financial Sector Assessment, Mongolia 10 (2012), available at www.mongolbank.mn/documents/moneypolicy/worldbank/developmentmodule/04.pdf.

35 Int'l Monetary Fund, Mongolia: Financial System Stability Assessment 8 (2011), available at www.imf.org/external/pubs/ft/scr/2011/cr11107.pdf.

financial assets' in the country.³⁶ Equity financing via a reliable market of international standards is certainly one avenue by which capital raising can be encouraged and the financial sector diversified.

Other improvements to the legal regime governing Mongolia's securities market include the incorporation of the common law concepts of nominal (i.e., legal) and beneficial ownership into the amended Securities Market Law. Nominal and beneficial ownership, both recognised concepts within common law jurisdictions, are a novel design for Mongolia's civil law jurisdiction. Nevertheless, incorporation of these concepts into Mongolia's market structure will help bring the country in line with international practices. The Law defines a 'nominal owner' to be 'a regulated entity, registered in the register of securities ownership rights as the custodian of securities, who is not the owner (beneficial owner) of the concerned securities'.³⁷ As for the beneficial owner of securities, the Law incorporates an equally conventional definition, stating that a beneficial owner is 'the actual owner of securities that has registered securities in its ownership in the name of the nominee [...] and that has the right to enjoy the benefits attaching to the concerned securities'.³⁸ The benefits of these varied forms of ownership are great. Nominal and beneficial ownership will allow for the use of trust companies, banks and brokerages in the issuing and trading of depositary receipts.

Despite the many improvements recently made to Mongolia's securities market legal framework, certain restrictions on foreign investment in the mining sector remain. At the time of writing, the SEFIL, the Foreign Investment Law and the Minerals Law were all in effect, though as indicated in Section III *infra*, changes are on the near horizon. The SEFIL is particularly problematic when it comes to encouraging foreign investment in Mongolia and has been controversial since its passing in 2012.³⁹ The SEFIL applies to those commercial sectors deemed to be of strategic importance to Mongolia's 'national security', and include mining, banking and finance, and media, information and communications.⁴⁰ For state-owned or partly state-owned foreign investors, any investment in an entity operating within one of the above-designated strategic sectors that 'exceeds 49 per cent' is subject to parliamentary approval.⁴¹ For private investors, cabinet (not parliamentary) approval is required.⁴² Other restrictions contained in the SEFIL in relation to the mining sector include the need to obtain a permit before a foreign entity may acquire one-third or more shares of any entity operating within

36 Id.

37 Securities Market Law, arts. 4.1.25 (revised 2013) (Mong.).

38 Id. at 4.1.26.

39 U.S. Embassy in Ulaanbaatar, Mongolia, 2012 Mongolia Investment Climate Statement 3 (2012), available at http://photos.state.gov/libraries/mongolia/662225/pdfs/2012_mongolia_investment_climate_statement.pdf.

40 Law of Mongolia on the Regulation of Foreign Investment in Entities Operating in Strategic Sectors [SEFIL], art. 5 (2012) (Mong.).

41 Id. at art. 4.7.

42 Id.

Mongolia's mining sector.⁴³ The permit must be obtained through the country's Foreign Investment Regulations and Registration Department (FIRRD), in accordance with the FIRRD's regulations.⁴⁴

Restrictions on foreign investment reside in the country's Minerals Law as well. Articles 5.4 and 5.5 permit the state to own a certain percentage of 'shares in an investment to be made by a licence holder in a mineral deposit of strategic importance'.⁴⁵ The percentage of the state's allowable participation is determined by the source of funds used during the survey and exploration phase of resource development. For example, if government funding was used, the state is permitted to own up to 50 per cent of the shares in a given deposit.⁴⁶ If funding was derived from a source other than the Mongolian government, the Minerals Law permits the state up to a 34 per cent ownership stake.⁴⁷ However, the Minerals Law, Article 29 does provide for the employment of investment agreements between the government and mining licence holders for resource development projects.⁴⁸

The final restrictions on foreign investment in Mongolia's mining industry to be discussed herein are related to the Law to Limit and Prohibit Mineral Exploration and Mining Operations at Headwaters of Rivers, Protected Water Reservoir Zones, and Forested Areas (the Long Name Law), enacted in July of 2009.⁴⁹ Once passed, the Long Name Law effectively cancelled over 200 exploration and mining licences – primarily in the gold mining field – that fell within the Law's restricted boundary lines.⁵⁰ As indicated by the Long Name Law's title, the Law aims to restrict mineral resource development operations from occurring near or within Mongolia's water and forest resources.⁵¹ Regulations under the Law are still being drafted with the goal to define those areas where mining operations will be restricted, and to establish additional protected areas

43 Id. at art. 6.1.1.

44 Id. at art. 6.2; see generally The Ministry of Economic Development, Foreign Investment Regulations and Registration Department, <http://investmongolia.com/fifanew/index.php?lang=Eng>.

45 Minerals Law of Mongolia [Minerals Law], art. 5.5 (2006) (Mong.).

46 Id. at art. 5.4.

47 Id. at art. 5.5. It is important to note that, according to the Minerals Law, all minerals present 'on and under the earth's surface in Mongolia are property of the state'. The state grants permission for survey, exploration, and mining activities to foreign entities, with an agreement reached beforehand as to what per centage of ownership the state will be entitled (id. at arts. 5.1, 5.2, 5.3).

48 Minerals Law, art. 29 (2006) (Mong.).

49 Law to Limit and Prohibit Mineral Exploration and Mining Operations at Headwaters of Rivers, Protected Water Reservoirs Zones, and Forested Areas [Long Name Law], (2009) (Mong.).

50 Medee Jargalsaikhany, Major Revisions of Mongolian Mining Regulations is Underway, The Jamestown Foundation, Mar. 6, 2013, available at www.jamestown.org.

51 Long Name Law, art. 4.1 (2009) (Mong.).

throughout the country.⁵² Unmistakably, the Long Name Law may present significant issues for would-be investors, as it may be possible that investments in certain mining operations could, in the future, be obstructed due to additional conservation areas being established under the Long Name Law's regulations. In addition, Article 4.5 of the Law specifically states that new exploration and exploitation licences shall not be issued for lands regulated under Article 4.1 of the Law. The determination of exactly which areas of land are to be included and regulated under Article 4.1 has not yet been conclusively established.⁵³ It remains to be seen exactly how the country will balance the somewhat competing objectives of resource development and environmental conservation – a predicament even the most developed countries face.

ii Market overview

According to the FIRRD's – a department under Mongolia's Ministry of Economic Development – 2010 calculations, the 'geology, mining and research' sector accounted for approximately 65 per cent of the country's direct foreign investment, with trade accounting for nearly 20 per cent.⁵⁴ Investment was dominated by China, which accounted for 50.9 per cent of direct foreign investment, and Canada, the country's second-largest investor, with 8.2 per cent.⁵⁵ Other countries of note included the Netherlands with 6 per cent, Korea with 5.2 per cent, the British Virgin Islands with 4.6 per cent, and Japan with 2.8 per cent.⁵⁶ Despite recent setbacks concerning Mongolia's foreign investment legal environment, over a 10-year time period, direct foreign investment within the country has increased dramatically, from US\$90.6 million in 2000 to US\$1.026 billion in 2010.⁵⁷

iii Structural considerations

The newly amended Securities Market Law contains a number of considerations for structuring a capital raising transaction, in addition to those described above. Many of the Securities Market Law's components have yet to be regulated by Mongolia's Financial Regulatory Commission, which, under the language of the Securities Market Law, has a number of duties related to establishing effective procedural and regulatory guidelines. It should be noted that despite the Mongolian parliament's approval of the amended Securities Market Law, the country's other laws governing foreign investment remain in place. Certain restrictions contained within the SEFIL, in particular, could prove problematic. The SEFIL's requirement for governmental approval for a variety of

52 See e.g., Government Resolution 174 (2011) (Mong.); Government Resolution 194 (2012) (Mong.).

53 Long Name Law, art. 4.5 (2009) (Mong.).

54 The Ministry of Economic Development, Foreign Investment Regulations and Registration Department, FDI in Mongolia, available at <http://investmongolia.com/fifanew/contents.php?id=1&sid=2&lang=Eng>.

55 Id.

56 Id.

57 Id.

foreign investment transactions will undoubtedly hinder the Securities Market Law's ability to encourage liquidity in the marketplace. However, as described in Section III *infra*, the parliament may be on the way to remedying such seemingly incompatible legal requirements.

Generally, the Securities Market Law has incorporated important strengthened requirements related to increased transparency and ease of capitalisation. Applications to register securities for approval for a public offering must contain an application form, a detailed securities prospectus, documentation which evidences 'payment of [a] regulatory service fee', and other additional items to be later determined by the Financial Regulatory Commission's implementing regulations.⁵⁸ The Securities Market Law, Article 10 outlines the information to be included within a securities prospectus, and includes 'information concerning the amount of share capital of the securities issuer, the number, type, and par value of securities that were previously authorized, issued, and redeemed, [and] the net asset value and information concerning the securities issuer's tangible and intangible assets'.⁵⁹ Other requirements include the securities issuer's financial statements⁶⁰ and 'details of the contracts and transactions having a value of an amount equal to [5 per cent] or more of the share capital of the securities issuer'.⁶¹ In addition, Article 10.6 requires that securities prospectuses be reviewed for accuracy by an authorised law firm or legal entity.⁶² These firms will thereafter issue an opinion regarding the veracity and accuracy of the information included, which will form a part of the prospectus for later review by potential buyers.⁶³

Article 5 of the amended Securities Market Law stipulates what financial instruments are subject to regulation under the Law. The Article lists nine different instruments, including shares of an open joint stock company,⁶⁴ company debt instruments,⁶⁵ debt instruments issued by the government or the governors of aimags or the capital city,⁶⁶ shares or unit rights in an investment fund,⁶⁷ depositary receipts,⁶⁸ asset-backed securities,⁶⁹ rights to purchase a certain number of shares or debt instruments that are offered by a securities issuer to an investor, within a certain period of time and at an agreed price,⁷⁰ derivative financial instruments,⁷¹ and such other financial instruments

58 Securities Market Law, art. 9.5 (revised 2013) (Mong.).

59 Id. at art. 10.5.5.

60 Id. at art. 10.5.6.

61 Id. at art. 10.5.7.

62 Id. at art. 10.6.

63 Id. at arts. 10.6, 10.7.

64 Id. at art. 5.1.1.

65 Id. at art. 5.1.2.

66 Id. at art. 5.1.3.

67 Id. at art. 5.1.4.

68 Id. at art. 5.1.5.

69 Id. at art. 5.1.6.

70 Id. at art. 5.1.7.

71 Id. at art. 5.1.8.

as may be deemed by the Financial Regulatory Commission to be securities.⁷² During an initial public offering for shares in an open joint-stock company, a securities issuer will be required to engage a legal entity to carry out underwriting activities.⁷³ In addition, any prospective buyers of securities generally, will be entitled to view the issuer's securities prospectus free of charge.⁷⁴ The amended Securities Market Law also contains reporting requirements for securities sold on the country's primary and secondary markets, which should evidence that the issuer is in compliance with all legal and regulatory guidelines.⁷⁵

As stated previously, many of the procedures to be implemented under the newly amended Securities Market Law have not yet been drafted. The Financial Regulatory Commission is responsible for devising a plethora of regulatory activities, which include, but are not limited to the following:

- a* approving procedures related to issuing securities via a public offer;
- b* application requirements for the registration of securities;
- c* establishing regulations related to issuing and registering depositary receipts;
- d* establishing regulations related to registering company debt instruments; and
- e* issuing regulations pertaining to the purchasing and sale of shares in a listed company.

The above-listed responsibilities of Mongolia's Financial Regulatory Commission cover only a fraction of those regulatory obligations with which the Commission has been tasked. It is likely that it will take the Commission some time to fully implement the Securities Market Law in its entirety; however, the structural foundation has been laid and the Securities Market Law's new amendments mark a decisive improvement to Mongolia's overall capital market framework.

Despite the established improvements to Mongolia's securities market legal structure, a 2013 report from Behre Dolbear Group, Inc downgraded Mongolia's investment potential, labelling the country a riskier venture than its 2012 report.⁷⁶ In particular, the report cited Mongolia's less than stable political system and resultant 'uncertainty regarding mining policies'⁷⁷ as chief among the reasons for Mongolia's lowered position in the rankings. The Behre Dolbear report also cited the previously discussed issues surrounding Mongolia's Oyu Tolgoi mining project as representative of the country's unstable political environment and the resultant effects (sometimes severe) on foreign investors.⁷⁸ Some of these issues are now being addressed by the government, which will hopefully satisfy many of the requirements of foreign investors. Additionally,

72 Id. at art. 5.1.9.

73 Id. at art. 11.3.

74 Id. at art. 11.4.

75 See generally, Securities Market Law, art. 12 (revised 2013) (Mong.).

76 Behre Dolbear Group Inc., 2013 Rankings of Countries for Mining Investment: 'Where Not to Invest', 2 (2013), available at www.dolbear.com/news-resources/documents.

77 Id. at 5.

78 Id. at 9.

Mongolia's recent national elections were evidence of the country's increasing political sophistication and stability.

iv Tax considerations

Mongolia's tax framework offers many advantages for entities operating in the mining sector. In particular, the country's corporate tax rates are considerably attractive to foreign investors. If a corporate entity's taxable income is 3 billion togrogs or less, the entity is taxed at a rate of merely 10 per cent. For annual taxable income that exceeds 3 billion togrogs, the tax rate is 300 million togrogs plus 25 per cent of the entity's income that exceeds 3 billion togrogs. Income derived from dividends, royalties and interest income is also taxed at the 10 per cent rate. For representative offices of foreign entities that transfer income outside Mongolia, such transferred income is taxed at a rate of 20 per cent; however, if income is transferred to a country with which Mongolia has a double taxation treaty, the tax rate may be even lower.

The capacity to conclude stability agreements with the government is another important tax advantage available to foreign investors in Mongolia's mining industry. The country's stability agreements are primarily governed by the Foreign Investment Law, Articles 19 and 20,⁷⁹ and are available to those foreign entities seeking to make a sizeable investment in the country. In order to qualify for consideration under Articles 19 and 20, an investment venture must not be less than US\$20 million.⁸⁰ Foreign investors meeting this criterion are eligible to establish a stability agreement with the government for the duration of 10 years.⁸¹ An investment of US\$50 million qualifies for an agreement of 15 years.⁸²

As the name implies, Mongolia's stability agreements are designed to create a stable environment within which foreign entities can securely invest large amounts of capital in the country. In theory, the agreements allow foreign investors to negotiate stable tax conditions for a designated period of time, so as to definitively establish the tax parameters within which a large foreign investment project will operate.⁸³ Although stability agreements need not be carried out solely in the mining sector, the most well-known investment agreement to date exists between the government, Turquoise Hill Resources (formerly Ivanhoe Mines) and Rio Tinto.⁸⁴ Concluded in 2009, the agreement was created to enhance development of the Oyu Tolgoi project and has been the recent source of great controversy, proving less than reliable in its ability to ensure smooth, uninhibited extraction operations.

79 Foreign Investment Law, arts. 19, 20 (amended 2008) (Mong.).

80 *Id.* at art. 19.1.

81 *Id.* at art. 19.3.

82 *Id.*

83 *Id.* at art. 19.2.

84 See Investment Agreement between the Government of Mongolia and Ivanhoe Mines Mongolia Inc. LLC and Ivanhoe Mines Ltd. and Rio Tinto International Holdings Limited (2009), available at www.turquoisehill.com/i/pdf/Oyu_Tolgoi_IA_ENG.PDF.

Currently, there is no unique tax structure that applies specifically to the mining industry in Mongolia. Corporate mining entities, whether domestic or foreign-invested, will be taxed in accordance with the provisions of the Law on Economic Entity Income Tax.⁸⁵ This Law applies to any economic entities formed under the laws of Mongolia, their subsidiaries, and representative offices,⁸⁶ foreign economic entities with headquarters located in Mongolia,⁸⁷ and foreign economic entities or their subsidiaries earning income in Mongolia.⁸⁸ Gross taxable income deductions, many of which may be utilised by mining entities, are found in Article 12.⁸⁹ The deductions are numerous and include a variety of expenses, including social and health insurance premiums,⁹⁰ raw materials, primary and auxiliary materials,⁹¹ and employee bonuses, incentives, and allowances for housing and transportation.⁹² Corporate entities may also deduct for maintenance expenses, lease payments, loan interest, customs duties, transport and labour safety expenses, and more.⁹³

Tax advantages are also contained within Mongolia's Minerals Law⁹⁴ and the two laws intersect in a number of ways that relate specifically to the mining sector. Article 12.1.5 of the Law on Economic Entity Income Tax provides for the deduction of depreciation and amortisation expenses on noncurrent assets.⁹⁵ The Minerals Law, Article 61 outlines legislative specifics of mining industry finance and accounting, with guidelines related to the depreciation of assets and costs related to social and industrial infrastructure,⁹⁶ and amortisation of exploration costs and expenses, and costs related to licence acquisitions.⁹⁷ The Minerals Law further provides that losses incurred by entities operating within the mining sector may be deducted from taxable income for two years following the year in which the loss was incurred.⁹⁸ Finally, operating and repair costs for a given year may be expensed, and are tax deductible, in accordance with the Minerals Law, Articles 61.5 and 61.6.⁹⁹

85 Law on Economic Entity Income Tax (2006) (Mong.).

86 *Id.* at art. 3.1.1.

87 *Id.* at art. 3.1.2.

88 *Id.* at art. 3.1.3.

89 *Id.* at art. 12.

90 *Id.* at art. 12.1.3.

91 *Id.* at art. 12.1.1.

92 *Id.* at art. 12.1.4.

93 *Id.* at arts. 12.1.6, 12.1.7, 12.1.10, 12.1.14, 12.1.21, 12.1.23.

94 Minerals Law (revised 2006) (Mong.).

95 Law on Economic Entity Income Tax, art. 12.1.5 (2006) (Mong.).

96 Minerals Law, arts. 61.3, 61.5 (revised 2006) (Mong.).

97 *Id.* at arts. 61.1, 61.2.

98 *Id.* at art. 61.4.

99 *Id.* at arts. 61.5, 61.6.

III DEVELOPMENTS

There are a number of developments related to Mongolia's mining sector on the country's legal horizon. Of particular significance are the anticipated changes to the country's foreign investment legal and regulatory framework. The uneasiness that has permeated Mongolia's foreign investment environment following postponement of Phase II of the Oyu Tolgoi mining project has resulted in a prompt response by the country's parliament. On 19 August 2013, the Mongolian parliament's Department of Press and Promotion announced that the parliament would convene a special session to discuss much-needed changes to the country's foreign investment laws.¹⁰⁰ The special session convened on 16 September and will run for two weeks until 27 September 2013.¹⁰¹ Members of Parliament will discuss the repeal of the SEFIL and Foreign Investment Law discussed above in favour of a newly drafted, but not yet released, Law on Investment. A draft of the Law has recently been circulated within Mongolia's legal community; however, it is still unknown when the Law will be in its final form. If the parliament succeeds in repealing the laws that currently form the framework for its foreign investment activities, it may serve to illustrate the country's continued dedication to encouraging Mongolia's growth through increased investment despite the most recent events surrounding Oyu Tolgoi. Repeal of the SEFIL, in particular, could have significant positive effects on the mining industry, especially in the event that Members of Parliament choose to discard the existing legislative hurdles associated with investing in sectors of strategic importance. The draft Law on Investment essentially removes all previous impediments associated with non-state-owned entities' investment in Mongolia.

Other significant legal changes are also set to occur following the parliament's return to regular session in October 2013. The country's draft Minerals Law is still on the table, including a bill regarding enactment of the state's policy on mineral resources, which is still in draft form. The parliament will also review the country's Law on Natural Resources, and look to make Mongolia's investment agenda for the years 2014 through 2018 official. Altogether, Members of Parliament are set to consider 349 issues from the President, parliamentary standing committees, political parties, ministries, and Members of Parliament¹⁰² during the upcoming autumn session.

Of all the legal developments occurring within Mongolia, the evolution of the capital market continues to be one to watch. With a newly amended Securities Market Law in place, the country must still undertake the task of promulgating regulations and procedures for the various new components that will be incorporated into Mongolia's

100 New Bill on Foreign Investment Law of Mongolia Will be Discussed During Irregular Plenary Session of the Parliament on September 02-06, 2013, InfoMongolia, Aug. 19, 2013, www.infomongolia.com.

101 Mongolian economy suffers as another row erupts over flagship mining project, Business New Europe, Sep. 16 2013, www.bne.eu/story5349/Mongolian_economy_suffers_as_another_row_erupts_over_flagship_mining_project.

102 Autumn Session of Parliament to Discuss 349 Issues, Montsame, July 4, 2013, www.montsame.gov.mn/en/index.php/politics/item/1372-autumn-session-of-parliament-to-discuss-349-issues.

renovated marketplace. If the Securities Market Law's implementation goes according to plan, the country's new securities market could be fully functioning by early January 2014. The prospect of a capital market that is in line with international standards is an exciting one for Mongolia. Through its continued cooperation with the London Stock Exchange, the Mongolian Stock Exchange appears to be on the right path towards ensuring the country's enduring prosperity and growth.

Appendix 1

ABOUT THE AUTHORS

SARA K PHILLIPS

Anderson & Anderson LLP

Sara K Phillips is a US attorney in the Ulaanbaatar, Mongolia office of Anderson & Anderson LLP. Her legal practice focuses upon mineral resource development, foreign investment, project finance, secured transactions, environmental law and land use. Ms Phillips is licensed to practise law in the state of New York. She holds a BA from the University of Colorado at Boulder, a JD from Vermont Law School, and a LLM from McGill University in Montreal, Canada. Ms Phillips has published in peer-reviewed journals, presented at legal conferences, and completed her LLM thesis on topics related to mineral resource extraction and development. She has also researched and authored advisory reports on Mongolia's foreign investment environment as it relates to the mining sector, including review of the legal framework governing the country's securities market. In addition, Ms Phillips has advised international banking institutions and potential investors on project finance and structuring within Mongolia.

Ms Phillips is a member of the American Bar Association, Section on Environment, Energy and Resources, including a member of the Association's Oil and Gas Committee and the International Law Committee. She is also a member of the New York State Bar Association and is a firm representative with the Business Council of Mongolia Capital Markets Working Group, the Legislative Working Group and the Environmental Working Group.

DAVID C BUXBAUM

Anderson & Anderson LLP

David C Buxbaum is senior counsel at Anderson & Anderson LLP. He has been an active law practitioner in China since 1972 and Mongolia since 1992. Mr Buxbaum, who is active in the securities market in the United States and elsewhere, worked with attorneys at the firm's Ulaanbaatar, Mongolia office to assist the Trade and Development Bank to offer their bonds on the Singapore Exchange, and assisted two Canadian corporations

with investments in Mongolia to go public on one of the Canadian exchanges. He has advised international corporations on the acquisition of mineral interests within Mongolia, and has also assisted asset-management organisations to navigate Mongolia's legal environment. In addition, Mr Buxbaum is an active litigator, and has litigated matters pertaining to international business disputes as well as energy, commodities and securities. His work in the energy field spans a spectrum that includes coal-fired power plants, mining, oil and gas, and nuclear power. He has been Honorary Counsel to the Independent Power Producers Forum since 2000. Until 2007, Mr Buxbaum was the primary author and editor of the *Mongolia Law Digest* for the Martindale-Hubbell directory.

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THIS IS EXHIBIT " 20
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2014
Taylor Schoppert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

June 13, 2014

Ernst & Young Inc.

1000, 440-2nd Ave SW

Calgary AB T2P 5E9

Attention: Neil Narfason, Senior Vice President

Dear Sir:

Re: **Proceedings under the Companies' Creditors Arrangements Act ("CCAA")**

Responsibilities/Obligations and Disclosure with Respect to Cash Flow Projections

In connection with the application by Mongolia Minerals Corporation ("MMC"), for the commencement of proceedings under the CCAA in respect of MMC, the management of MMC has prepared the attached Cash-Flow Projection and the assumptions on which the Cash-Flow Statement is based.

MMC confirms that:

1. The hypothetical assumptions are reasonable and consistent with the purpose of the projections described in Notes 1 to 5, and the probable assumptions are suitably supported and consistent with the plans of the debtor company and provide a reasonable basis for the projections. All such assumptions are disclosed in Notes 1 to 5.
2. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.
3. The projections have been prepared solely for the purpose described in Notes 1 to 5, using the probable and hypothetical assumptions set out in Notes 1 to 5. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Yours Truly,


William J. Foster
President and Chief Executive Officer

A	B	C	D	E	F	G	H	I	J	N
2	Mongolia Minerals Corporation									
3	Cash Flow Projection									
4	\$CAD, unaudited									
5										
6										
7	For the week commencing:	16-Jun	23-Jun	1-Jul	7-Jul	14-Jul	21-Jul	28-Jul	Total	Notes
8										
9	Cash receipts									
10	Operating receipts	-	-	-	-	-	-	-	-	1
11	Other receipts	30,000	-	-	-	-	-	-	30,000	1
12	Total cash receipts	30,000	-	-	-	-	-	-	30,000	
13										
14	Cash disbursements									
15	Personnel costs	10,446	123,483	100	2,100	-	-	43,184	179,313	2
16	Administrative expenditures	-	26,379	32,650	200	-	-	52,100	111,329	3
17	Operating costs	-	3,342	1,350	200	-	-	-	7,892	4
18	Maintenance capital expenditures	-	-	-	-	-	-	23,412	23,412	4
19	Total cash disbursements	10,446	153,204	34,100	2,500	-	-	121,496	321,746	
20										
21	Net cash flows	19,554	(153,204)	(34,100)	(2,500)	-	-	(121,496)	(291,746)	
22										
23	Opening cash balance	361,651	381,205	228,001	193,901	191,401	191,401	191,401	361,651	5
24	Net cash flows	19,554	(153,204)	(34,100)	(2,500)	-	-	(121,496)	(291,746)	
25	Closing cash balance	381,205	228,001	193,901	191,401	191,401	191,401	69,905	69,905	
26										
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Notes to the cash flow projection:

Management of Mongolia Minerals Corporation ("MMC") have prepared this Cash Flow Projection based on the probable and hypothetical assumptions detailed in Notes 1 to 5. Consequently, actual results will likely vary from performance projected and such variations may be material.

- MMC is an exploration-stage mining company, and, as such, has no operating revenues. MMC has redeemed an investment and anticipates receiving the proceeds the week commencing June 16, 2014.
- Personnel costs include payroll in Mongolia as well as all statutory payroll remittances.
- Administrative costs include office rental, IT costs, consultant and professional costs. Administrative costs also include payment of professional fees of MMC's legal counsel, the Monitor, and the Monitor's legal counsel.
- MMC has endeavoured to minimize its operating and capital expenditures to preserve its financial resources. The costs included in the projection include license fees and land lease fees which must be paid in order to preserve the value of MMC's assets.
- MMC's opening cash balance includes cash held by MMC and cash held in trust with its counsel, the use of which is restricted for salaries, wages, payroll remittances and director's insurance. Of the opening cash balance held by MMC, approximately \$66,000 is held in Mongolia with the remainder held in Canada.

THIS IS EXHIBIT "A"
referred to in the Affidavit of

June 13, 2014

Date

William J. Foster
President and Chief Executive Officer

Sworn before me this

day of A.D.

NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA

COURT FILE NUMBER

COURT

COURT OF QUEEN'S BENCH OF ALBERTA IN
BANKRUPTCY AND INSOLVENCY

JUDICIAL CENTRE

CALGARY

IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, as
Amended

AND IN THE MATTER OF A PLAN OF
COMRPOMISE OR ARRANGEMENT OF MONGOLIA
MINERALS CORPORATION

APPLICANT

MONGOLIA MINERALS CORPORATION

DOCUMENT

CONSENT TO ACT AS MONITOR

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

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Ernst & Young Inc. hereby consents to being appointed as Monitor for the Applicant, Mongolia Minerals Corporation, in these proceedings if so appointed by this Honourable Court.

DATED at the City of Calgary, in the Province of Alberta, this 13th day of June, 2014.



Neil Narfason
Senior Vice President, Ernst & Young Inc.

THIS IS EXHIBIT 21
referred to in the Affidavit of
William J. Foster
Sworn before me this 13th
day of June A.D. 2014
Naylor Schoppert
NOTARY PUBLIC / COMMISSIONER FOR OATHS
IN AND FOR THE PROVINCE OF ALBERTA