

Approved – May 25, 2005  
Amended – November 15, 2005  
Reviewed – April 11, 2006  
Reviewed – November 25, 2008  
Reviewed – August 5, 2009  
Reviewed – August 4, 2010  
Reviewed – August 2, 2011  
Amended – March 14, 2012  
Amended: November 5, 2013  
Amended: November 4, 2014  
Reviewed: November 10, 2015  
Amended: November 8, 2017  
Reviewed: November 8, 2018  
Amended: March 27, 2019



**SouthGobi**  
RESOURCES

**SOUTHGOBI RESOURCES LTD.**

南戈壁資源有限公司\*

*(A company continued under the laws of British Columbia, Canada with limited liability)*

(Hong Kong Stock Code: 1878)

(Toronto Stock Code: SGQ)

## **Audit Committee**

### **Charter**

#### **I. Purpose**

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

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

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

\* For identification purposes only

## **II. Organization**

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

The members of the Committee and the Chair of the Committee shall be appointed (and may be replaced) by the Board on the recommendation of the Nominating & Corporate Governance Committee. The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of shareholders at which directors are elected, provided that if the appointment of members of the Committee is not so made, the directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.

Members of the Committee shall not simultaneously serve on the audit committees of more than two other public companies, unless the Board first determines that such simultaneous service will not impair the ability of the relevant member to effectively serve on the Committee.

Members of the Committee must be financially literate, as the Board interprets such qualification in its business judgment, and all members shall be able to read and understand the Company's financial statements and to understand the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

No member of the Committee shall have (i) been a partner of or otherwise have had a financial interest in the Auditors during the past two years; or (ii) participated in the preparation of the financial statements of the Company or any current subsidiary at any time during the past three years. At least one member of the Committee shall have past employment experience in finance or accounting of public companies, requisite professional certification in accounting, or any other comparable experience or background which results in such individual's financial sophistication (including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities).

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director of the Company. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board on the recommendation of the Nominating & Corporate Governance Committee.

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

## **III. Meetings**

The Committee shall meet as frequently as the Committee deems necessary to carry out its duties effectively, but not less frequently than four times per year. The Committee shall meet at least quarterly with management, the Company's financial and accounting officer(s) and the Auditors in separate sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. Meetings may be held in person, by telephone, by video-conference or by

any combination of any of the foregoing, to the extent permitted by the Company's constating documents and applicable corporate law.

A majority of the members of the Committee, present in person, by video-conference, by telephone or by a combination thereof, shall constitute a quorum. Matters decided by the Committee shall be decided by a majority vote. The Chair of the Committee shall have an ordinary vote and not a casting vote.

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

The Committee will appoint a Secretary who will keep full minutes of all meetings. The Secretary may be the Company's Corporate Secretary or another person who does not need to be a member of the Committee. Draft and final versions of the meeting minutes shall be sent to all members of the Committee within a reasonable time following such meetings, which, in the case of draft meeting minutes, shall be circulated no later than 21 days following the date of the applicable meeting.

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

#### **IV. Authority and Responsibilities**

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

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

The Committee shall have the following responsibilities:

##### **(a) Auditors**

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

and the shareholders the termination of the appointment of the Auditors, if and when advisable.

2. When there is to be a change of the Auditors, (i) review all issues related to the change, including any notices required under applicable law, stock exchange rules or policies, or other regulatory requirements, and the planned steps for an orderly transition; and (ii) be primarily responsible for questions relating to such change.
3. Review and discuss with the Auditors their audit plan, scope, staffing, materiality threshold, and general audit approach.
4. Review and monitor the Auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the Auditors the nature and scope of the audit and reporting obligations prior to the commencement of the audit.
5. Review on an annual basis the performance of the Auditors, including the lead audit partner.
6. Take reasonable steps to confirm the independence of the Auditors, which include:
  - (a) ensuring receipt from the Auditors of a formal written statement in accordance with applicable regulatory requirements delineating all relationships between the Auditors and the Company;
  - (b) considering and discussing with the Auditors any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the Auditors;
  - (c) developing and implementing a policy on the provision of non-audit related services provided by the Auditors to the Company or its subsidiaries and approving in advance the provision of and the fees for such services, with a view to ensure independence of the Auditors, and in accordance with applicable regulatory standards, including applicable stock exchange requirements with respect to approval of non-audit related services performed by the Auditors (for the purposes of this Part IV(a)(6)(c), Auditors include any entity that is under common control, ownership or management with the Auditors or any entity that a reasonable and informed third party knowing all the relevant information would reasonably conclude to be part of the Auditors, nationally or internationally); and
  - (d) as necessary, taking or recommending that the Board take appropriate action to oversee the independence of the Auditors.
7. Review and approve any disclosures required to be included in periodic reports under applicable securities laws, rules and regulations and stock exchange and other regulatory requirements with respect to non-audit services provided by the Auditors.

8. Confirm with the Auditors and receive written confirmation at least once per year: (i) indicating that the Auditors are a member in good standing with the Canadian Public Accountability Board (CPAB) and comparable bodies elsewhere to the extent required and disclosing any sanctions or restrictions imposed by the CPAB and such other comparable bodies; and (ii) responding to any other reasonable request of the Committee for confirmation as to their qualifications to act as the Company's Auditors.
9. Consider the tenure of the lead audit partner on the engagement in light of applicable law, stock exchange rules and policies or other regulatory requirements.
10. Review all reports required to be submitted by the Auditors to the Committee under applicable laws, rules and regulations, stock exchange rules and policies or other regulatory requirements.
11. Receive and consider all recommendations and explanations which the Auditors place before the Committee.
12. Ensure that the provision of any non-audit related services by the Auditors does not impair their independence or objectivity and develop and implement any necessary policies in that regard.

**(b) Financial Statements and Financial Information**

13. Review and discuss with management, the financial and accounting officer(s) of the Company and the Auditors, the Company's annual audited financial statements, including the disclosure made in Management's Discussion and Analysis relating thereto and the Auditor's report thereon, prior to filing or distribution of such statements, and recommend to the Board, if appropriate, that the Company's audited financial statements be included in the Company's annual reports distributed and filed under applicable laws and regulatory requirements.
14. Review and discuss with management, the financial and accounting officer(s) of the Company and the Auditors, the Company's interim financial statements, including the disclosure made in Management's Discussion and Analysis relating thereto and the Auditors' review of such interim financial statements, prior to filing or distribution of such statements.
15. Review any earnings press release of the Company before the Company publicly discloses this information.
16. Be satisfied that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of these procedures.

17. Discuss with the Auditors and review the matters required to be discussed by applicable auditing standards requirements relating to the conduct of the audit, including:
- (a) the adoption of, or changes to, the Company's significant auditing and accounting principles and practices, including significant assumptions and qualifications;
  - (b) the management letter provided by the Auditors and the Company's timely response to that letter;
  - (c) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management; and
  - (d) any material queries raised by the Auditors to management about accounting records, financial accounts or systems of control and management's response.
18. Discuss with management and the Auditors any major issues regarding accounting principles used in the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, at least twice a year. Review and discuss analyses prepared by management and/or the Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles.
19. Review any report under applicable securities law, stock exchange rules or policies or other regulatory requirements, including any reports required to be included in statutory filings, including in the Company's annual proxy statement.

**(c) Ongoing Reviews and Discussions with Management and Others**

20. Obtain and review an annual report from management relating to the accounting principles used in the preparation of the Company's financial statements, including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof.
21. Periodically review separately with each of management, the financial and accounting officer(s) of the Company and the Auditors: (a) any significant disagreement between management and the Auditors in connection with the preparation of the financial statements; (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information; and (c) management's response to each.
22. Periodically discuss with the Auditors, without management being present: (a) their judgments about the quality, integrity and appropriateness of the Company's accounting principles and financial disclosure practices as applied in its financial reporting; and (b) the completeness and accuracy of the Company's financial statements.

23. Monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and review significant financial reporting judgments contained therein. In reviewing such reports before submission to the Board, the Committee's review shall include a review of:
- (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from the audit;
  - (d) going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with applicable stock exchange regulations and other legal requirements relating to financial reporting.
24. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the Auditors or management and the resulting financial statement impact. Review with the Auditors or management the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
25. Review and discuss with management, the Auditors and the Company's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including applicable changes in accounting standards or rules, or compliance with applicable laws and regulations, inquiries received from regulators or government agencies and any pending material litigation.
26. Discuss with the Company's financial and accounting officer(s) and the Auditors any matters which should be brought to the attention of the Committee concerning accounting, financial and operating practices and controls and accounting practices of the Company and give due consideration to such matters.
27. Review the principal control risks to the business of the Company, its subsidiaries and joint ventures; and verify that effective control systems are in place to manage and mitigate these risks.
28. Review and discuss with management any earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies, before the Company publicly discloses this information. Such discussions may be done generally (*i.e.*, discussion of the types of information to be disclosed and the types of presentations made).
29. Review and discuss with management any material off-balance sheet transactions, significant or unusual items, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may need to be reflected in the reports or accounts, or may have a material current or future effect on financial condition, changes in financial condition, results of operations,

liquidity, capital resources, capital reserves or significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.

30. Review and discuss with management the Company's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including the Company's risk assessment and risk management guidelines and financial and accounting policies.

#### **(d) Risk Management and Internal Controls**

31. Review, based upon the recommendation of the Auditors and management, the scope and plan of the work to be done by the Company's financial and accounting group and the responsibilities, budget and staffing needs of such group.
32. Discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. Such discussions should include adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.
33. Ensure that management has designed and implemented effective systems of risk management and internal controls and, at least annually, review and assess the effectiveness of such systems.
34. Approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk.
35. In consultation with the Auditors and management, review the adequacy of the Company's internal control structure and procedures designed to ensure compliance with applicable laws and regulations, and discuss the responsibilities, budget and staffing needs of the Company's financial and accounting group.
36. Establish and review procedures for: (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns, including without limitation, concerns with respect to internal controls, financial reporting and questionable accounting or auditing matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of such matters and for appropriate follow-up.
37. Ensure coordination between the Auditors and the Company's internal audit team and ensure that the internal auditor function is adequately resourced and has appropriate standing within the Company; Maintain a direct reporting relationship with the Company's internal audit team and review: (i) the internal control reports prepared by management, including management's assessment of the effectiveness of the Company's internal control structure and procedures for financial reporting; (ii) the Auditors' attestation and report on the assessment made by management; and (iii) the performance of the Company's internal audit team on an annual basis.

38. Review the appointment of the Chief Financial Officer and any key financial executives involved in the financial reporting process and recommend to the Nominating and Corporate Governance Committee and to the Board any changes in such appointments.
39. Review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and act as the key representative body for overseeing the Company's relations with the Auditors.

**(e) Other Responsibilities**

40. Create an agenda and timetable for the Committee for the ensuing year.
41. Review and approve related-party transactions if required under applicable law, stock exchange or other regulatory requirements.
42. Consider major investigation findings with respect to risk management and internal control matters, as delegated by the Board or on its own initiative, and management's response to such findings.
43. Review and approve: (a) any change or waiver in the Company's code of ethics applicable to senior financial officers; and (b) any disclosures made under applicable law, stock exchange or other regulatory requirements regarding such change or waiver.
44. Establish, review and approve policies for the hiring of partners, former partners, employees, or former employees of the Auditors or the Company's former independent auditors.
45. Review and reassess the adequacy of, and the duties and responsibilities set out in, this Charter annually and recommend to the Nominating and Corporate Governance Committee and to the Board any changes deemed appropriate by the Committee.
46. Review its own performance annually, seeking input from management and the Board.
47. Confirm to the Board annually that all responsibilities outlined in this Charter have been carried out.
48. Perform any other activities consistent with this Charter, the Company's constituting documents and governing law, as the Committee or the Board deems necessary or appropriate.

**V. Reporting**

The Committee shall report regularly to the Board, including on matters set out in applicable stock exchange regulations, and shall submit the minutes of all meetings of the Committee to the Board (which minutes shall ordinarily be included in the papers for the next full board meeting after the relevant meeting of the Committee). The Committee shall also report to the Board on the proceedings and deliberations of the Committee at such times and in such manner as the Board may require. The Committee shall review with the full Board any issues that have arisen with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory

requirements, the performance or independence of the Auditors or the performance of the Company's financial and accounting group.

## **VI. Resources and Access to Information**

The Committee shall be provided with sufficient resources by the Company to perform its duties. The Committee shall have the authority to: (i) retain, at the expense of the Company, independent legal, accounting and other advisors or consultants to advise the Committee, as it determines necessary to carry out its duties; and (ii) approve the terms and conditions of the arrangement (including, the fees and other retention terms) with such outside advisors.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities. The Committee has direct and unrestricted access to any officer, employee or consultant of the Company and its subsidiaries. The Committee may request any officer, employee or consultant of the Company or its subsidiaries, the Company's outside counsel or the Auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee with or without the presence of management. In the performance of any of its duties and responsibilities, the Committee shall have unrestricted access to any and all books and records of the Company and its subsidiaries necessary for the execution of the Committee's obligations.

The Committee shall determine the extent of funding necessary for payment of: (a) compensation to the Company's independent public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (b) compensation to any independent legal, accounting and other advisors or consultants retained to advise the Committee; and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.