



**Management Information Circular**  
**May 1, 2014**

**PROPHECY COAL CORP.  
(the “Company”)**

**2nd Floor, 342 Water Street  
Vancouver, B.C. Canada, V6B 1B6  
Telephone No.: (604) 569-3661/Fax No.: (604) 569-3617**

**MANAGEMENT INFORMATION CIRCULAR**  
as at May 1, 2014 *(except as otherwise indicated)*

**This Management Information Circular (the “Information Circular”) is furnished in connection with the solicitation of proxies by the management of the Company for use at the annual general meeting (the “Meeting”) of its shareholders to be held on June 19, 2014 at the time and place and for the purposes set forth in the accompanying Notice of the Meeting. In this Information Circular, references to “the Company”, “we” and “our” refer to Prophecy Coal Corp. “Common Shares” means the common shares without par value in the capital of the Company.**

The Company is utilizing the notice-and-access mechanism (the “**Notice-and-Access Provisions**”), that came into effect February 11, 2013 for meetings held on or after March 1, 2013, under National Instrument 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”) and National Instrument 51-102 *Continuous Disclosure Obligations* (“**NI 51-102**”) for distribution of this Information Circular to both registered and non-registered shareholders of the Company. See *General Proxy Information – Notice-and-Access* for further information.

**GENERAL PROXY INFORMATION**

**Solicitation of Proxies**

The solicitation of proxies by management will be conducted primarily by mail, but proxies may be solicited personally or by telephone by directors, officers and employees of the Company. The Company will bear all costs of this solicitation. We have arranged for intermediaries to forward the meeting materials to beneficial owners of the Common Shares held of record by those intermediaries and we may reimburse the intermediaries for their reasonable fees and disbursements in that regard.

**Appointment of Proxyholders**

The individuals named in the accompanying form of proxy (the “**Proxy**”) are directors or officers of the Company. **If you are a shareholder entitled to vote at the Meeting, you have the right to appoint a person or company other than either of the persons designated in the Proxy, who need not be a shareholder, to attend and act for you and on your behalf at the Meeting. You may do so either by inserting the name of that other person in the blank space provided in the Proxy or by completing and delivering another suitable form of proxy. If your Common Shares are held in physical (i.e. paper) form and actually registered in your name, then you are a registered shareholder (“Registered Shareholder”). However, if like most shareholders you keep your Common Shares in a brokerage account, then you are a beneficial shareholder (“Beneficial Shareholder”). The manner for voting is different for Registered and Beneficial**

**Shareholders and you need to carefully read the instructions below.** “Beneficial Shareholders” means shareholders who do not hold Common Shares in their own name and “intermediaries” refers to brokers, investment firms, clearing houses and similar entities that own securities on behalf of Beneficial Shareholders.

### **Voting by Proxyholder**

The persons named in the Proxy will vote or withhold from voting the Common Shares represented thereby in accordance with your instructions on any ballot that may be called for. If you specify a choice with respect to any matter to be acted upon, your Common Shares will be voted accordingly. The Proxy confers discretionary authority on the persons named therein with respect to:

- (a) each matter or group of matters identified therein for which a choice is not specified;
- (b) any amendment to or variation of any matter identified therein; and
- (c) any other matter that may properly come before the Meeting.

**In respect of a matter for which a choice is not specified in the Proxy, the persons named in the Proxy will vote the Common Shares represented by the Proxy for the approval of such matter.**

### **Registered Shareholders**

Registered Shareholders may wish to vote by proxy whether or not they are able to attend the Meeting in person. Registered Shareholders electing to submit a proxy may do so by:

- (a) completing, dating and signing the enclosed form of proxy and returning it to the Company’s transfer agent, Computershare Investor Services Inc. (“**Computershare**”), by fax within North America at 1-866-249-7775, outside North America at 1-416-263-9524, or by mail to the 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 or by hand delivery at 2nd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9;
- (b) using a touch-tone phone to transmit voting choices to a toll free number. Registered shareholders must follow the instructions of the voice response system and refer to the enclosed proxy form for the toll free number, the holder’s account number and the proxy access number; or
- (c) using the internet through the website of the Company’s transfer agent at [www.computershare.com/ca/proxy](http://www.computershare.com/ca/proxy). Registered Shareholders must follow the instructions that appear on the screen and refer to the enclosed proxy form for the holder’s account number and the proxy access number.

In all cases ensuring that the proxy must be received at least 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting or any adjournment thereof at which the proxy is to be used.

### **Notice-and-Access**

As noted above, the Company is utilizing Notice-and-Access Provisions that came into effect on February 11, 2013 under NI 54-101 and NI 51-102 for distribution of this Information Circular to shareholders.

The Notice-and-Access Provisions are a new set of rules that allow reporting issuers to post electronic versions of proxy-related materials (such as proxy circulars and annual financial statements) on-line, via the System for Electronic Document Analysis and Retrieval (“**SEDAR**”) and at least one other website, rather than mailing paper copies of such materials to shareholders. Electronic copies of this Information Circular, annual financial statements of the Company for the year ended December 31, 2013 and management’s discussion and analysis of the Company’s results of operations and financial condition for the year ended December 31, 2013 may be found under the Company’s profile at [www.SEDAR.com](http://www.SEDAR.com), on the Company’s website at [www.prophecycoal.com](http://www.prophecycoal.com) under “Investors – Shareholders Meetings – 2014 AGM” and, and on Computershare’s website at [www.envisionreports.com/ProphecyCoalAGM2014](http://www.envisionreports.com/ProphecyCoalAGM2014).

The Company will not use procedures known as “stratification” in relation to the use of Notice-and-Access Provisions. Stratification occurs when a reporting issuer using the Notice-and-Access Provisions provides a paper copy of this Information Circular to some shareholders with the notice package.

In relation to the Meeting, shareholders will receive the required documentation under the Notice-and-Access Provisions, which will not include a paper copy of this Information Circular. Shareholders are reminded to review this Information Circular.

### **Beneficial Shareholders**

**The following information is of significant importance to shareholders who do not hold their Common Shares in their own name.** Beneficial Shareholders should note that the only proxies that can be recognized and acted upon at the Meeting are those deposited by registered shareholders (those whose names appear on the records of the Company as the registered holders of Common Shares) or as set out in the following disclosure.

If Common Shares are listed in an account statement provided to a shareholder by a broker, then in almost all cases those Common Shares will not be registered in the shareholder’s name on the records of the Company. Such Common Shares will more likely be registered under the names of the shareholder’s broker or an agent of that broker. In the United States, the vast majority of such Common Shares are registered under the name of Cede & Co. as nominee for The Depository Trust Company (which acts as depository for many U.S. brokerage firms and custodian banks), and in Canada, under the name of CDS & Co. (the registration name for The Canadian Depository for Securities Limited, which acts as nominee for many Canadian brokerage firms).

Intermediaries are required to seek voting instructions from Beneficial Shareholders in advance of shareholders’ meetings. Every intermediary has its own mailing procedures and provides its own return instructions to clients.

There are two kinds of Beneficial Owners - those who object to their name being made known to the issuers of securities which they own (called OBOs for Objecting Beneficial Owners), and those who do not object to the issuers of the securities they own knowing who they are (called NOBOs for Non-Objecting Beneficial Owners).

The Company is taking advantage of the provisions of NI 54-101 that permit it to deliver proxy-related materials directly to its NOBOs. As a result, NOBOs can expect to receive a scannable Voting Information Form (“**VIF**”) from Computershare, our transfer agent. The VIF is to be

completed and returned to Computershare in the envelope provided or by facsimile to the number provided in the VIF. In addition, Computershare provides both telephone voting and internet voting as described on the VIF itself which contain complete instructions. Computershare will tabulate the results of the VIFs received from NOBOs and will provide appropriate instructions at the Meeting with respect to the shares represented by the VIFs they receive.

The Meeting Materials are being sent to both Registered Shareholders and Beneficial Shareholders who are NOBOs. If you are a Beneficial Shareholder, and the Company or its agent sent these materials directly to you, your name, address and information about your holdings of securities were obtained in accordance with applicable securities regulatory requirements from the intermediary holding securities on your behalf.

By choosing to send the Meeting Materials to you directly, the Company (and not the intermediary holding Common Shares on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your VIF as specified in the request for voting instructions sent to you.

The Company is taking advantage of the provisions of NI 54-101 that permit it to deliver proxy-related materials indirectly through intermediaries to its OBOs. The Company will pay these intermediaries to deliver Meeting Materials to OBOs. Intermediaries are responsible for delivering the Meeting materials to OBOs unless the OBO has waived the right to receive them. Beneficial Shareholders who are OBOs should follow the instructions of their intermediary carefully to ensure that their Common Shares are voted at the Meeting.

The form of proxy supplied to you by your broker will be similar to the Proxy provided to Registered Shareholders by the Company. However, its purpose is limited to instructing the intermediary on how to vote on your behalf. Most brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**") in the United States and in Canada. Broadridge mails a VIF in lieu of a proxy provided by the Company. The VIF will name the same persons as the Company's Proxy to represent your Common Shares at the Meeting. You have the right to appoint a person (who need not be a shareholder of the Company) different from the persons designated in the VIF, to represent your Common Shares at the Meeting, and that person may be you. To exercise this right, insert the name of the desired representative (which may be you) in the blank space provided in the VIF. The completed VIF must then be returned to Broadridge by mail or facsimile or given to Broadridge by phone or over the internet, in accordance with Broadridge's instructions. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting and the appointment of any shareholder's representative. **If you receive a VIF from Broadridge, it must be completed and returned to Broadridge in accordance with Broadridge's instructions, well in advance of the Meeting in order to: (a) have your Common Shares voted as you instruct; or (b) have any alternate representative you may choose duly appointed to attend the Meeting and vote your Common Shares.**

Alternatively, you can request in writing that your broker send you a proxy which would enable you, or a person designated by you, to attend the Meeting and vote your Common Shares.

## Notice to Shareholders in the United States

The solicitation of proxies and the transactions contemplated in this Information Circular involve securities of an issuer located in Canada and are being effected in accordance with the corporate laws of the Province of British Columbia, Canada and securities laws of the provinces of Canada. The proxy solicitation rules under the United States *Securities Exchange Act* of 1934, as amended, are not applicable to the Company or this solicitation, and this solicitation has been prepared in accordance with the disclosure requirements of the securities laws of the provinces of Canada. Shareholders should be aware that disclosure requirements under the securities laws of the provinces of Canada differ from the disclosure requirements under United States securities laws.

The enforcement by shareholders of civil liabilities under United States federal securities laws may be affected adversely by the fact that the Company is incorporated under the *Business Corporations Act* (British Columbia) (the “BCBCA”), as amended, certain of its directors and its executive officers are residents of Canada and its assets and the assets of such persons are located outside the United States. Shareholders may not be able to sue a foreign company or its officers or directors in a foreign court for violations of United States federal securities laws. It may be difficult to compel a foreign company and its officers and directors to subject themselves to a judgment made by a United States court.

## Revocation of Proxies

In addition to revocation in any other manner permitted by law, a Registered Shareholder who has given a proxy may revoke it by:

- (a) executing a proxy bearing a later date or by executing a valid notice of revocation, either of the foregoing to be executed by the Registered Shareholder or the Registered Shareholder’s authorized attorney in writing or, if the shareholder is a corporation, under its corporate seal by an officer or attorney duly authorized, and by delivering the proxy bearing a later date to Computershare at the address shown on the preceding page or at the address of the registered office of the Company at 2nd Floor, 342 Water Street, Vancouver, BC Canada V6B 1B6 at any time up to and including the last business day that precedes the day of the Meeting or, if the Meeting is adjourned, the last business day that precedes any reconvening thereof, or to the chairman of the Meeting on the day of the Meeting or any reconvening thereof, or in any other manner provided by law, or
- (b) personally attending the Meeting and voting the Registered Shareholder’s Common Shares.

Beneficial Shareholders who wish to change their votes must arrange for their respective intermediaries to revoke the proxy on their behalf.

A revocation of a proxy will not affect a matter on which a vote is taken before the revocation.

## INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

**Other than as set out herein, no director or executive officer of the Company, or any person who has held such a position since the beginning of the last completed financial year of the Company, nor any nominee for election as a director of the Company, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the**

## Meeting other than the election of directors.

### RECORD DATE, VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The board of directors (the “**Board**”) of the Company has fixed May 1, 2014 as the record date (the “**Record Date**”) for determination of persons entitled to receive notice of and vote their Common Shares at the Meeting. Only shareholders of record at the close of business on the Record Date who either attend the Meeting personally or complete, sign and deliver a form of proxy in the manner and subject to the provisions described above will be entitled to vote or to have their Common Shares voted at the Meeting.

The Common Shares of the Company commenced trading on the Toronto Stock Exchange (“**TSX**”) on October 19, 2011. Prior thereto the Common Shares were listed on the TSX Venture Exchange (“**TSXV**”). The Company is authorized to issue an unlimited number of Common Shares, and as of the Record Date, there were 249,387,569 Common Shares issued and outstanding, each carrying the right to one vote. No group of shareholders has the right to elect a specified number of directors, nor are there cumulative or similar voting rights attached to the Common Shares.

To the knowledge of the directors and executive officers of the Company the following are the registered holders of Common Shares carrying more than 10% of the voting rights:

Shareholder Name <sup>(1)(2)</sup>	Number of Shares Held <sup>(1)(2)</sup>	Percentage of Issued Shares <sup>(1)(2)</sup>
CDS & CO (NCI)	223,904,739	89.78%

**Notes:**

- (1) CDS & CO is a share depository, the beneficial ownership of which is unknown to the Company.  
(2) The above information was supplied by the Company’s transfer agent, Computershare.

### FINANCIAL STATEMENTS

The audited consolidated financial statements of the Company for the fiscal year ended December 31, 2013, report of the auditor, and related management discussion and analysis will be placed before the Meeting. These documents have been filed with the securities commissions or similar regulatory authorities in each of Alberta, British Columbia and Ontario. Copies of the documents may be obtained upon request without charge from the Company via mail at: Prophecy Coal Corp., 2nd Floor, 342 Water Street, Vancouver, British Columbia, V6B 1B6, Attention: Investor Relations, via telephone at: (604) 563-0699, via fax at: (604) 569-3617 or via email: at [investorrelations@prophecycoal.com](mailto:investorrelations@prophecycoal.com). These documents are also available under the Company’s profile at [www.SEDAR.com](http://www.SEDAR.com).

### VOTES NECESSARY TO PASS RESOLUTIONS

A simple majority of affirmative votes cast at the Meeting is required to pass the resolutions described herein. Some resolutions must be passed by disinterested shareholders only; disinterested shareholders are shareholders who have no interest in the subject matter of the resolutions.

If there are more nominees for election as directors than there are vacancies to fill, those nominees receiving the greatest number of votes will be elected or appointed, as the case may be, until all such vacancies have been filled. If the number of nominees for election or appointment is equal to the number of vacancies to be filled, all such nominees will be declared

elected or appointed by acclamation. See also *Majority Voting Policy* below.

## DIRECTORS

### NUMBER OF DIRECTORS

The Company currently has five directors. The Board proposes that the number of directors remain fixed at five. Shareholders will therefore be asked to approve an ordinary resolution that the number of directors elected be fixed at five, and that the Board be authorized to appoint new directors as necessary to fill any vacancies on the Board.

**Management of the Company recommends that you vote IN FAVOUR of fixing the number of directors at five, and authorizing the Board to appoint new directors to fill any vacancies on the Board. In the absence of instructions to the contrary, the Company’s proxyholders will vote the Common Shares represented by each form of proxy, properly executed, FOR fixing the number of directors at five, and authorizing the Board to appoint new directors as necessary to fill any vacancies on the Board.**

### ELECTION OF DIRECTORS

The term of office of each of the current directors will end at the conclusion of the Meeting. Unless the director’s office is vacated earlier in accordance with the provisions of the BCBCA, each director elected at the Meeting will hold office until the conclusion of the next annual meeting of the Company’s shareholders or if no director is then elected, until a successor is elected.

The Board has determined that five directors be elected to the Board at the Meeting. The following disclosure and accompanying biographical information sets out the names of management’s nominees for election as directors, all major offices and positions with the Company and any of its significant affiliates each now holds, each nominee’s principal occupation, business or employment for the five preceding years, the period of time during which each has been a director of the Company, and the number of Common Shares of the Company beneficially owned by each, directly or indirectly, or over which each exercised control or direction. The information as to Common Shares owned or controlled as at the Record Date has been provided by each of the nominees.

Name of Nominee, Current Position with the Company, and Residence <sup>(1)</sup>	Period as a Director of the Company	Common Shares Beneficially Owned or Controlled
John Lee Executive Chairman, Interim CEO and Director Taipei, Taiwan	Since June 13, 2011 (Director of Pre-amalgamated company <sup>(2)</sup> since October 21, 2009)	12,529,728 <sup>(3)</sup>
Greg Hall <sup>(4)</sup> Director Vancouver, British Columbia, Canada	Since June 13, 2011 (Director of Pre-amalgamated company since October 21, 2009)	1,590,000
Harald Batista <sup>(4)</sup> Director Los Altos Hills, California, USA	Since July 27, 2012 (Special Advisor to Pre-amalgamated company since January 5, 2010)	150,000



Name of Nominee, Current Position with the Company, and Residence <sup>(1)</sup>	Period as a Director of the Company	Common Shares Beneficially Owned or Controlled
Chuluunbaatar Baz Director Ulaanbaatar, Mongolia	Since June 13, 2011 (Director of Pre-amalgamated company since October 29, 2009)	10,300,000
Masa Igata <sup>(4)</sup> Director New Territories, Hong Kong	Since April 23, 2014	1,248,217 <sup>(5)</sup>

**Notes:**

- (1) For more information about each director, please see Biographical Information of Management's Nominees for Director below.
- (2) Northern Platinum Ltd., Prophecy Holdings Inc. and Prophecy Resource Corp. were amalgamated on June 13, 2011 as one company under the name Prophecy Resource Corp. Prophecy Resource Corp. changed its name to Prophecy Coal Corp. on June 14, 2011.
- (3) 9,230,170 of these Common Shares are held by Merit Holdings Ltd., a private company wholly owned and controlled by Mr. Lee.
- (4) Member of the Audit Committee and CGCC.
- (5) These Common Shares are held by Sophir Asia Limited, a private company wholly owned and controlled by Mr. Igata.

### Biographical Information of Management's Nominees for Director

The following information as to principal occupation, business or employment is not within the knowledge of the management of the Company and has been furnished by the respective nominees. Each nominee has held the same or a similar principal occupation with the organization indicated or a predecessor thereof for the last five years unless otherwise indicated.

**John Lee** is the Interim CEO, Executive Chairman and a Director of the Company. He has been a mining analyst and accredited investor in the resource industry since 2001. He is a speaker at major resource conferences, including Mines and Money, China Mining, Terrapinn, and Cambridge House. Mr. Lee is a CFA charter holder and has degrees in economics and engineering from Rice University.

**Greg Hall** is a self-employed businessman with over 25 years' experience as a broker, senior executive officer and founder of several successful Vancouver-based brokerage firms. Mr. Hall previously served as a director of Silvercorp Metals (NYSE), the largest primary silver producer in China.

**Chuluunbaatar Baz** is President and Chairman of the Monnis Group of companies, Mongolia, a group of companies headquartered in Ulaanbaatar, Mongolia and one of Mongolia's largest industrial holding companies with over 1,000 employees and 12 subsidiaries.

**Harald Batista** is a businessman actively involved with his family's extensive group of Brazilian companies. He has an MBA from the University of Santa Clara, CA and has an impressive background in international sales and marketing.

**Masa Igata** is Founder and CEO of Frontier LLC, the first foreign investment Bank in Mongolia. With more than 25 years' experience in financial markets, he focuses primarily on advising resource companies in Mongolia. Mr. Igata received his Graduate of Law from Kyoto University, and he is a member of the Securities Analysts Association of Japan and Mongolian Stock

Exchange.

No director or officer of the Company is as of the date hereof, or has been within the past 10 years, a director or officer of any company that, while that person was acting in that capacity, was the subject of a cease trade order, penalties, sanctions or bankruptcy, during the time the individual was a director or within one year period thereafter, or was a director or officer of a company during the time in which an event occurred which led to a cease trade order, penalties, sanctions or bankruptcy subsequent to the individual ceasing to act as a director or officer.

A shareholder can vote for all of the above nominees, vote for some of the above nominees and withhold for other of the above nominees, or withhold for all of the above nominees.

**Management of the Company recommends that you vote IN FAVOUR of the election of each of the above nominees to the Board. In the absence of instructions to the contrary, the Company's proxyholders will vote the Common Shares represented by each form of proxy, properly executed, FOR the election of each of the above nominees to the Board.**

### **Majority Voting Policy**

The Board adopted a majority voting policy on March 25, 2014. The policy stipulates that if the votes in favour of the election of an individual director nominee at a meeting of shareholders represent less than the number that voted "withheld" in respect of such election, the nominee will submit his or her resignation promptly after the Meeting for the consideration of the Corporate Governance and Compensation Committee (the "CGCC"). The CGCC will make a recommendation to the Board after reviewing the matter, and the Board will then decide whether to accept or reject the resignation. The Board's decision to accept or reject the resignation offer will be disclosed to the public. The nominee will not participate in any CGCC deliberations on the resignation offer. The policy does not apply in circumstances involving contested director elections.

### **Advance Notice Policy**

The Board adopted an advance notice policy (the "**Advance Notice Policy**") on March 25, 2014. The Advance Notice Policy provides for advance notice to the Company in circumstances where nominations of persons for election to the Board are made by shareholders of the Company other than pursuant to (i) a requisition of a meeting made pursuant to the provisions of the BCBCA or (ii) a shareholder proposal made pursuant to the provisions of the BCBCA.

The purpose of the Advance Notice Policy is to foster a variety of interests of the shareholders and the Company by ensuring that all shareholders - including those participating in a meeting by proxy rather than in person - receive adequate notice of the nominations to be considered at a meeting and can thereby exercise their voting rights in an informed manner. Among other things, the Advance Notice Policy fixes a deadline by which holders of Common Shares must submit director nominations to the Company prior to any annual or special meeting of shareholders and sets forth the minimum information that a shareholder must include in the notice to the Company for the notice to be in proper written form.

The Board intends to place the provisions of the Advance Notice Policy before the shareholders of the Company as an amendment to the Articles of the Company for approval at the Meeting. If the

approval of the amendment is not received at the Meeting by ordinary resolution of shareholders, the Advance Notice Policy will terminate and be of no further force and effect following the termination of the Meeting.

The foregoing is merely a summary of the Advance Notice Policy, is not comprehensive and is qualified by the full text of such policy, a copy of which is attached to this Information Circular as Schedule "A". See also *Particulars of Additional Matters to be Acted Upon – Advance Notice Provisions*.

As of the date of the Information Circular, the Company has not received notice of a nomination in compliance with the Advance Notice Policy.

### **APPOINTMENT OF AUDITOR**

Davidson & Company LLP, Chartered Accountants, of 1200 – 609 Granville Street, Vancouver, British Columbia, V7Y 1G6, will be proposed at the Meeting for appointment as auditor of the Company until the close of business at the next annual meeting, at remuneration to be fixed by the directors. The Audit Committee and Board approved Davidson & Company LLP, who have been auditors for the Company since November 21, 2013, to replace the Company's former auditors, Ernst & Young LLP, Chartered Accountants, who the Company is not proposing for re-appointment.

There is no event to be declared relating to the proposed change of auditors and no auditors' report with qualifications was issued by Ernst & Young LLP during the past two fiscal years.

A copy of the reporting package, including: (i) the notice of change of auditor (the "Notice"); (ii) the letter from Ernst & Young LLP, confirming their agreement with the information found in the Notice; and (iii) the letter from Davidson & Company LLP, confirming their agreement with the statements found in the Notice, all as filed with the Alberta, British Columbia and Ontario Securities Commissions is attached hereto as Schedule "B" to this Information Circular for review and consideration.

### **AUDIT COMMITTEE AND RELATIONSHIP WITH AUDITOR**

#### **Audit Committee Charter**

The Audit Committee's charter sets out the Audit Committee's mandate and responsibilities. The charter is attached to the Company's 2013 Annual Information Form filing which can be found under the Company's profile at [www.SEDAR.com](http://www.SEDAR.com).

The Audit Committee currently consists of Greg Hall (Chairman), Harald Batista and Masa Igata. All members of the Audit Committee are independent and financially literate.

The Audit Committee reviews all financial statements of the Company prior to their publication, reviews audits, considers the adequacy of audit procedures, recommends the appointment of independent auditors, reviews and approves the professional services to be rendered by them and reviews fees for audit services. The Audit Committee charter has set criteria for membership which all members of the Audit Committee are required to meet consistent with National Instrument 52-110, *Audit Committees* and other applicable regulatory requirements. The Audit

Committee, as needed, meets separately (without management present) with the Company's auditors to discuss the various aspects of the Company's financial statements and the independent audit.

### Relevant Education and Experience

As a result of their education and experience, each member of the Audit Committee has familiarity with, an understanding of, or experience in:

- the accounting principles used by the Company to prepare its financial statements;
- the ability to assess the general application of those principles in connection with estimates, accruals and reserves;
- reviewing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements; and
- an understanding of internal controls and procedures for financial reporting.

See disclosure under *Biographical Information of Management's Nominees for Director* for relevant education and experience of members of the Audit Committee.

### Pre-Approval Policies for Non-audit Services

The Company's auditor, Davidson & Company LLP, has not provided any material non-audit services during the most recently completed fiscal year other than tax fees captioned below.

The Company has procedures for the review and pre-approval of any services performed by its auditor. The procedures require that all proposed engagements of its auditor for audit and non-audit services be submitted to the Audit Committee for approval prior to the beginning of any such services. The Audit Committee considers such requests and, if acceptable to a majority of the Audit Committee members, pre-approves such audit and non-audit services by a resolution authorizing management to engage the Company's auditor for such audit and non-audit services, with set maximum dollar amounts for each itemized service. During such deliberations, the Audit Committee assesses, among other factors, whether the services requested would be considered "prohibited services" as contemplated by the regulations of the US Securities and Exchange Commission, and whether the services requested and the fees related to such services could impair the independence of the auditors.

### External Auditor Service Fees

The Audit Committee has reviewed the nature and amount of the audit and non-audit services provided by Davidson & Company LLP, Chartered Accountants to the Company to ensure auditor independence. Fees incurred with Davidson & Company LLP and Ernst & Young LLP for audit and non-audit services in the last two fiscal years are outlined in the following table.

Nature of Services	Year Ended December 31, 2013 Davidson & Company LLP	Year Ended December 31, 2012 Ernst & Young LLP
Audit Fees <sup>(1)</sup>	\$180,000	\$381,600
Audit-Related Fees <sup>(2)</sup>	\$0	\$50,000

Tax Fees <sup>(3)</sup>	\$15,000	\$41,000
All Other Fees <sup>(4)</sup>	\$0	\$0
<b>Total</b>	<b>\$195,000</b>	<b>\$472,600</b>

**Notes:**

- (1) *“Audit Fees” are the aggregate fees billed by our independent auditor for the audit of our annual consolidated financial statements, reviews of interim consolidated financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.*
- (2) *“Audit-Related Fees” include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.*
- (3) *“Tax Fees” include fees for all tax services other than those included in “Audit Fees” and “Audit-Related Fees”. This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.*
- (4) *“All Other Fees” include all other non-audit services.*

## **CORPORATE GOVERNANCE**

### **Mandate of the Board of Directors**

The Board has a formal mandate as outlined in the Corporate Governance Policies and Procedures Manual (the “**Manual**”). The Manual mandates the Board to: (i) oversee management of the Company, (ii) exercise business judgment, (iii) understand the Company and its business, (iv) establish effective systems, (v) protect confidentiality and proprietary information, and (vi) prepare for and attend Board, committee and shareholder meetings. The Manual also includes written charters for each committee and it contains a Code of Ethics, policies dealing with issuance of news releases and disclosure documents, as well as share trading black-out periods. Further, in the Manual, the Board encourages but does not require continuing education for all the Company’s directors.

### **Composition of the Board**

Applicable governance policies require that a listed issuer’s board of directors determine the status of each director as independent or not, based on each director’s interest in or other relationship with the Company. Applicable governance policies recommend that a board of directors be constituted with a majority of directors who qualify as independent directors (as defined below). A board of directors should also examine its size with a view to determining the impact of the number of directors upon the effectiveness of the board of directors, and the board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the Company in appropriate circumstances. The Company’s policies permit retention of independent advisors for members of the board of directors and committees when they consider it advisable.

An “independent” director is one who “has no direct or indirect material relationship” with the Company. Generally speaking, a director is independent if he or she is free from any employment, business or other relationship which could, or could reasonably be expected to materially interfere with the exercise of the director’s independent judgement. A material relationship includes having been (or having a family member who has been) within the last three years an employee or executive of the Company or employed by the Company’s external auditor. An individual who (or whose family member) is or has been within the last three years, an executive officer of such an entity is deemed to have a material relationship as is any individual who (or

whose family members or partners) received directly or indirectly, any consulting, advisory, accounting or legal fee or investment banking compensation from the Company (other than compensation for acting as a director or as a part time chairman or vice-chairman).

The Board is proposing five nominees to be elected to the office of director, of whom four of the nominees, being a majority of the Board, can be considered “independent” directors. The “independent” nominees are: Chuluunbaatar Baz, Harald Batista, Greg Hall and Masa Igata. These nominees are considered independent by virtue of not being executive officers of the Company and having received no compensation other than in their role as directors. The sole non-independent director is John Lee, who is Executive Chairman of the Board and Interim Chief Executive Officer of the Company.

### **Committees of the Board**

Applicable regulatory governance policies require that (i) committees of the Board be composed of at least a majority of independent directors (ii) the Board expressly assume responsibility, or assign to a committee of the Board, responsibility for the development of the Company’s approach to governance issues, (iii) the Board’s Audit Committee be composed only of independent directors, and the role of the Audit Committee be specifically defined and include the responsibility for overseeing management’s system of internal controls, (iv) the Audit Committee have direct access to the Company’s external auditor, and (v) the Board appoint a committee, composed of a majority of independent directors, with the responsibility for proposing new nominees to the Board and for assessing directors on an on-going basis.

#### ***Corporate Governance and Compensation Committee***

The Board has a CGCC (as previously defined) that formalizes the process of ensuring high calibre directors and proper director succession planning. The CGCC considered and recommended re-election of each member of the current Board at the Meeting. The CGCC currently consists of Greg Hall (Chairman), Harald Batista and Masa Igata. All members are “independent” and have direct experience relevant to their responsibilities on the CGCC.

The Board monitors the activities of the senior management through regular meetings and discussions amongst the Board and between the Board and senior management. The Board is of the view that its communication policy between senior management, members of the Board and shareholders is good. The CGCC also recommends compensation for the directors and executive officers of the Company. See further disclosure under *Statement of Executive Compensation*. The CGCC charter is available for review on request.

The function of the CGCC further includes the review, on an annual basis, of the compensation paid to the Company’s executive officers and directors, to review the performance of the Company’s executive officers and to make recommendations on compensation to the Board.

The CGCC periodically considers the grant of stock options. Options have been granted to the executive officers, directors, employees and certain other service providers taking into account competitive compensation factors and the belief that options help align the interests of executive officers, directors, employees and service providers with the interests of shareholders.

## Disclosure Protocol

The Company has a Corporate Disclosure Policy and Procedures that seeks input from senior management, independent directors and legal counsel to assess material relating to disclosure matters and regulatory requirements. The Corporate Disclosure Policy and Procedures are available for review on request.

## Board Decisions

Any responsibility which is not delegated to senior management or to a Board committee remains with the full Board, which is addressed through board discussions, meetings and resolutions.

## Recruitment of New Directors and Assessment of Board of Directors Performance

Good governance policies include that (i) the board of directors implement a process for assessing the effectiveness of the Board and its committees, and the contribution of individual directors, (ii) provide an orientation and education program for new directors, and (iii) review the adequacy and form of compensation of directors to reflect the responsibilities and risks involved in being an effective director.

Please see the discussion concerning the CGCC above.

The following table sets forth the record of attendance of Board and Audit Committee and CGCC meetings by Directors for the year ended December 31, 2013.

Director	Board of Directors Meetings	Audit Committee	Corporate Governance and Compensation Committee
John Lee	22/22	N/A	N/A
Greg Hall <sup>(1)(2)</sup>	22/22	5/5	5/5
Michael Deats <sup>(3)</sup>	20/22	5/5	5/5
Chuluunbaatar Baz <sup>(4)</sup>	0/22	N/A	N/A
Harald Batista <sup>(5)</sup>	22/22	5/5	5/5

### Notes:

- (1) *Audit Committee Chairman.*
- (2) *CGCC Chairman.*
- (3) *Michael Deats was appointed as a member of the Audit Committee and CGCC in December 2012 and ceased upon his death, to be a member of both on February 18, 2014.*
- (4) *Notwithstanding Mr. Chuluunbaatar has not attended formal meetings, he is regularly consulted, participates in resolving issues and has executed all directors resolutions by consent.*
- (5) *Harald Batista was appointed to the Board of Directors July 27, 2012 and as a member of the Audit Committee and CGCC in November 2012.*

## Directorships

The following director is currently serving on the board of the following other reporting company as set out below:

Name of Director	Name of Reporting Issuer	Exchange Listed
Greg Hall	Intertainment Media Inc.	TSXV

## Orientation and Continuing Education

The Company has traditionally retained experienced mining and public company professionals as directors and hence any orientation needed is minimized. When new directors are appointed, they are acquainted with the Company's mineral projects and the expectations of directors. Board meetings generally include presentations by the Company's senior management and project staff in order to give the directors insight into the Company's operations and plans.

## Position Descriptions

Written position descriptions have been developed by the Board for the Chairman of the Board and the CEO of the Company.

The position description for the Chairman of the Board delegates to him the responsibility for, among other things, leadership of the Board of Directors, ensuring its effectiveness including:

- Preparation for, and the conduct of, Board meetings
- Ensuring quality, quantity and timeliness of the information that goes to Board members
- Formation of Board committees and the integration of their activity with the work of the Board
- Evaluation of the Board's effectiveness and implementation of improvements
- Development of the Board, including Director recruitment, evaluation and compensation, and the ongoing formal and informal communication with and among Directors
- Chairing annual and special meetings of the shareholders
- Meeting with various groups (such as major shareholder groups), governments, the financial press, industry associates, etc.

The position description for the CEO delegates to him the responsibility for, among other things, executing the strategy agreed by the Board and developing the Company's objectives through leadership of the senior executive team including:

- Participation in the development of the Company's vision, strategic agenda, and business plan to facilitate communication and understanding between management and the Board
- Ensuring operations conform with the Board's view on company policy
- Ensuring, in consultation with the committees and the full Board, that succession plans are in place at senior executive levels
- Participation in external relationships which fulfill the Company's obligations as a member of industry and the community
- Providing the key link between the Board and management, and as a result, has a significant communication, coaching and team-building responsibility
- Ensuring that the Company's risks are adequately addressed and appropriate internal controls are in place
- Representing the shareholders and Board to management and management to the shareholders and Board
- Carrying out special assignments in collaboration with management or the Board of Directors

The Company does not maintain separate written descriptions of the roles of the Chairs of each of the committees of the Board. Instead, it has developed written charters for each of the



committees which are available for review on request by contacting the Company. The Chair of each committee is responsible for ensuring that the applicable committee fulfils its responsibilities and duties under its governing charter.

### **Code of Business Conduct and Ethics**

The Board adopted a Code of Business Conduct and Ethics on March 27, 2013 which is available for review upon request by contacting the Company. The Board also believes that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual directors' participation in decisions of the Board in which the director has a material interest have been sufficient to ensure that the Board operates independently of management and in the best interests of the Company.

### **Nomination of Directors**

The Board considers its size each year when it considers the number of directors to recommend to the shareholders for election at the Company's annual meeting of shareholders, taking into account the number required to carry out the Board's duties effectively and to maintain a diversity of views and experience. The CGCC is composed entirely of independent directors, and is responsible for the identification of new director candidates for Board nomination.

### **Assessments**

The Board monitors the adequacy of information given to directors, communication between the Board and management and the strategic direction and processes of the Board and its committees. The CGCC oversees the performance of the Board and its Audit Committee.

## **STATEMENT OF EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

As indicated above, the CGCC assists the Board in carrying out its responsibilities and decision making process relating to executive and director compensation for the Company and its subsidiaries. The CGCC has the following duties, responsibilities and authority:

- (a) to recommend to the Board the form and amount of compensation to be paid by the Company to directors for service on the Board and on its committees. The CGCC shall review director compensation at least annually;
- (b) to annually review the Company's base compensation structure and the Company's incentive compensation, stock option and other equity-based compensation programs and recommend changes in or additions to such structure and plans to the Board as needed;
- (c) to recommend to the Board the annual base compensation of the Company's executive officers and senior managers (collectively the "**Officers**");
- (d) to recommend to the Board annual corporate goals and objectives under any incentive compensation plan adopted by the Company for Officers and non-Officer personnel providing services to the Company, and recommend incentive compensation participation levels for Officers and non-Officer personnel providing services to the Company under any such incentive compensation plan. In determining the incentive component of

compensation, the CGCC will consider the Company's performance and relative shareholder return, the values of similar incentives at comparable companies and the awards given in past years;

- (e) to evaluate the performance of Officers generally and in light of annual corporate goals and objectives under any incentive compensation plan;
- (f) to periodically review with the Chairman and Chief Executive Officer their assessments of corporate officers and senior managers and succession plans and make recommendations to the Board of Directors regarding appointment of officers and senior managers;
- (g) to provide oversight of the performance evaluation and incentive compensation of non-Officer personnel providing services to the Company;
- (h) to administer the Company's stock option and other equity-based compensation plans and determine the annual and periodic grants of stock options and other equity-based compensation; and
- (i) to recommend to the CGCC the qualifications and criteria for membership on the CGCC.

See disclosure under *Biographical Information of Management's Nominees for Director* for relevant education and experience of members of the CGCC.

The CGCC has not considered the implications of the risks associated with the Company's compensation program.

### **Named Executive Officers**

In this section "Named Executive Officer" (or "**NEO**") means each of the following individuals:

- (a) the Chief Executive Officer (the "**CEO**");
- (b) the Chief Financial Officer (the "**CFO**");
- (c) each of the three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than \$150,000 for that financial year; and
- (d) each individual who would be an NEO under paragraph (c) but for the fact that the individual was neither an executive officer of the company, nor acting in a similar capacity, at December 31, 2013.

The following disclosure sets out the compensation that the Board intended to pay, make payable, award, grant, give or otherwise provide to each NEO and director of the Company or its subsidiaries for the financial year ended December 31, 2013.

Although an NEO or director may purchase financial instruments that are designed to hedge or offset a decrease in market value of Common Shares granted as compensation or held, directly or indirectly, by the NEO or director, no such persons currently hold or plan to purchase such financial instruments.

### **Report on Executive Compensation**

This report on executive compensation has been approved by the CGCC. The Board assumes responsibility for reviewing and monitoring the long-range compensation strategy for the Company's senior management, although the CGCC guides it in this role. As part of its mandate,

the Board determines the type and amount of compensation for the Company's NEOs. In addition, the Board reviews the methodology utilized by the Company for setting salaries of employees throughout the organization.

The CGCC receives competitive market information on compensation levels for executives. The Company's compensation policies and programs are designed to be competitive with similar mining exploration and development companies and to recognize and reward executive performance consistent with the success of the Company's business.

### ***Philosophy and Objectives***

The Company's senior management compensation program is designed to ensure that the level and form of compensation achieves certain objectives, including:

- (a) attracting and retaining talented, qualified and effective executives;
- (b) motivating the short and long-term performance of these executives; and
- (c) aligning their interests with those of the Company's shareholders.

In compensating its senior management, the Company employs a combination of base salary, bonus compensation and equity participation through its stock option plan.

### ***Base Salary/Compensation***

In the Board's view, paying compensation that is competitive in the markets in which the Company operates is a first step to attracting and retaining talented, qualified and effective executives. The NEOs are remunerated in order to ensure that the compensation package offered by the Company is in line with that offered by other companies in our industry, and as an immediate means of rewarding the NEO for efforts expended on behalf of the Company.

The compensation to be paid to a particular NEO is determined by gathering competitive information on comparable companies within the industry from a variety of sources, including surveys conducted by independent consultants and national and international list publications. The Company does not engage in formal benchmarking. Payment of cash compensation fits within the objective of the compensation program since it rewards each NEO for performance of his duties and responsibilities.

Compensation of the CEO is approved by the Board. Base compensation and bonus levels are determined taking into account independent market survey data.

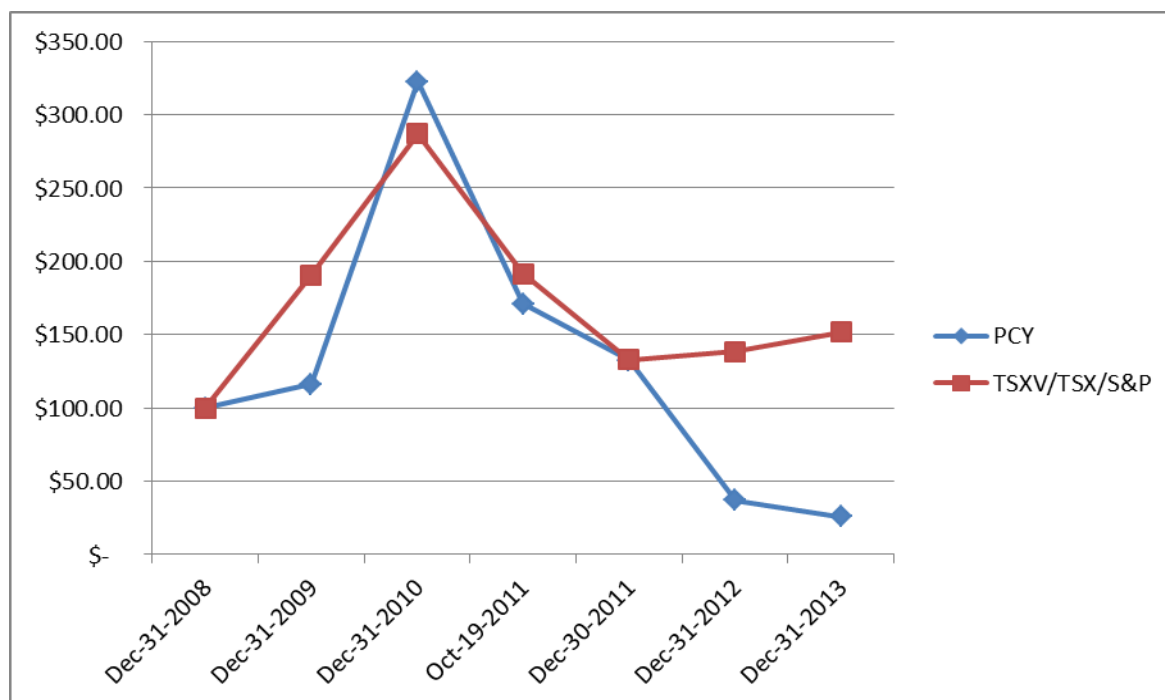
### ***Bonus Compensation***

There are currently no specific performance goals set by the Company for executive bonus compensation. Bonus compensation is awarded at the discretion of the Board and the Board considers performance of the individual and the Company, competitive factors and other matters in awarding bonuses. The Company's objective is to achieve certain strategic objectives and milestones. The Board will consider executive cash and share bonus compensation dependent upon the Company meeting the Company's strategic objectives and milestones and sufficient cash resources being available. See *Particulars of Additional Matters to be Acted Upon* in connection with a proposed share-based compensation plan for employees, directors, officers and

consultants.

### Performance Graph

The following graph compares the cumulative shareholder return on an investment of \$100 in the Common Shares of the Company for the past five years (on the TSXV from December 31, 2008 until October 18, 2011, and from October 19, 2008 being the date the Company's Common Shares became listed on the TSX to December 31, 2013) with the S&P/TSX Composite Index from December 31, 2008 to December 31, 2013.



**Note:** The Company does not, nor is it contemplating in the near term, paying a dividend on its Common Shares.

Compensation levels for NEOs over the period indicated above are generally consistent with the trend of total return on investment charted for the Company in the performance graph. A significant proportion of compensation for the Company's NEOs continues to be "at risk" compensation in the form of option grants, with the value of such options being directly affected by changes in share price. However, base salaries are not determined on benchmarks, performance goals or specific formula but are set to be competitive with industry levels. Discretionary cash bonuses may also be paid based upon a review of various operational and other objectives of the Company, the results of which may not have necessarily been reflected in the Company's share price in a particular year. In addition, the trading price of the Common Shares may be affected by various factors not related to the results of the Company such as changes in commodity prices and general economic conditions. Accordingly, it is difficult to specifically correlate total compensation to the trends shown in totality in the above performance graph. Over the period December 31, 2008 through December 31, 2010, total compensation received by the NEOs generally increased in line with industry standards and in line with total return on the Common Shares which generally trended upward significantly over that period. In the latest three fiscal years, total return on the Common Shares was relatively volatile and generally trended down. In the latest fiscal year, compensation levels for Officers generally trended down as a result.

## Equity Participation – Option-Based Awards

The Company has a rolling stock option plan in place (the “**2013 Plan**”), under which the Company may grant share purchase options to acquire a maximum of 20 percent (20%) of the issued and outstanding Common Shares at the time of each grant and settle the options by issuance of the Company’s Common Shares. As at the date of this Information Circular, there are 28,963,750 options outstanding under the 2013 Plan, which constitutes 11.61% of the total issued and outstanding Common Shares of the Company.

The 2013 Plan was approved by the Company’s shareholders at the July 30, 2013 annual general and special meeting. The 2013 Plan was established to provide incentive to qualified parties being directors, Officers, employees and service providers, to increase their proprietary interest in the Company through equity participation and foster their continued association with the Company. The Company believes that encouraging its directors, Officers and employees to become shareholders is the best way of aligning their interests with those of its shareholders. Stock options are granted to staff taking into account a number of factors, including the amount and term of options previously granted, base salary and bonuses and competitive compensation factors. Options vest according to terms established by the 2013 Plan. At least annually, the CGCC reviews grants of stock options to directors, Officers, employees and consultants.

The Company’s long term incentives are designed to foster and promote the long-term financial success of the Company by strengthening the ability of the Company to attract and retain directors, officers and qualified employees, motivate performance through incentive compensation, promote greater alignment of interests between employees and shareholders in creating long-term shareholder value, and enable employees to participate in the long-term growth and financial success of the Company. The Black-Scholes method is used to value stock options. Stock options provide employees with the opportunity to participate in the growth of the Company’s share price as well as benefit from the favourable tax treatment applicable to this form of compensation.

The CGCC approves stock options to facilitate consideration of targeted direct compensation to Officers. Options are generally granted to directors and Officers annually as part of the annual compensation review. Options are granted at other times of the year to individuals commencing employment with the Company. The exercise price for the options is set in accordance with TSX policies and is based on the five-day volume weighted average trading price prior to the date of grant.

See disclosure under *Securities Authorized for Issuance under Equity Compensation Plans* for material terms of the Company’s current option compensation plan and disclosure under *Particulars of Additional Matters to Be Acted Upon* for material terms of the Company’s proposed new share-based compensation plan.

## SUMMARY COMPENSATION TABLE

The compensation paid to the NEOs during the Company’s three most recently completed financial years ended December 31 is as set out below and expressed in Canadian dollars unless otherwise noted:

Name and principal position	Year	Salary (\$)	Non-equity incentive plan compensation (\$)				Pension value (\$)	All other compensation (\$)	Total compensation (\$)
			Share-based awards <sup>(1)</sup> (\$)	Option-based awards <sup>(2)</sup> (\$)	Annual incentive plans (\$)	Long-term incentive plans			
John Lee <sup>(3)</sup> Interim CEO	2013	Nil	98,000	114,846	Nil	Nil	Nil	525,011	737,857
	2012	Nil	92,000	158,969	Nil	Nil	Nil	945,000	1,195,969
	2011	Nil	Nil	779,336	Nil	Nil	Nil	480,000	1,259,336
Irina Plavutska <sup>(4)</sup> CFO	2013	45,315	5,950	4,338	Nil	Nil	Nil	Nil	55,603
	2012	Nil	4,600	12,985	Nil	Nil	Nil	68,250	85,835
	2011	Nil	Nil	72,582	Nil	Nil	Nil	32,500	105,082
Jeffrey Mason <sup>(5)</sup> Former CFO	2013	203,950	Nil	39,868	Nil	Nil	Nil	Nil	243,818
	2012	20,611	Nil	28,214	Nil	Nil	Nil	Nil	48,825
David Jan <sup>(6)</sup> Former CFO	2011	Nil	Nil	34,446	Nil	Nil	Nil	50,800	85,246
Tony Wong <sup>(7)</sup> Corporate Secretary	2013	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Joseph Li <sup>(8)</sup> Former General Manager and Corporate Secretary	2012	Nil	29,900	66,192	Nil	Nil	Nil	223,000	319,092
	2011	Nil	Nil	35,546	Nil	Nil	Nil	24,272	59,818
Chris Kravits <sup>(9)</sup> Manager of Geology	2013	Nil	Nil	Nil	Nil	Nil	Nil	173,957	173,957
	2012	Nil	Nil	Nil	Nil	Nil	Nil	150,060	150,060
Orgil Sukhee <sup>(10)</sup>	2013	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**Notes:**

- (1) The value of Share-Based awards is the fair market value of the Bonus Shares as at July 30, 2013.
- (2) The options are governed by the 2013 Plan. Includes the incremental fair value of re-issued and re-priced options determined by using the Black-Scholes option pricing model of approximately \$10,000.
- (3) Mr. Lee was appointed as the Company's CEO upon amalgamation on June 13, 2011. Mr. Lee's services were provided pursuant to an agreement between the Company and Mau Capital Management LLC ("Mau"), a personal holding company of Mr. Lee. Mau initially received a base fee of \$40,000, which was reduced to \$35,000 per month effective January 1, 2012. On November 6, 2012, the Mau Agreement was terminated by the Company, and a termination payment of \$525,000 was paid to Linx Partners Ltd ("Linx") (another personal holding company of Mr. Lee) at Mau's direction. On January 24, 2013 the Board of Directors accepted, ratified and approved termination of the Mau Agreement and payment of the termination payment as at November 6, 2012, and approved a new consulting agreement between Mau and the Company (the "New Mau Agreement"). Under the New Mau Agreement, effective November 7, 2012, a base fee of \$35,000 per month is paid to Linx for services rendered by John Lee as Executive Chairman of the Board, and a further \$1 per month is paid to Linx for services rendered by Mr. Lee as Interim CEO of the Company. In addition, the Company entered into discussions with Mau to amend the New Mau Agreement so that it may be terminated by either party by providing the other party with at least 90 days written notice to that effect. The CGCC is conducting a search for a new permanent CEO for the Company.
- (4) Ms. Plavutska was appointed as interim CFO on August 11, 2011 and resigned November 11, 2012. She was appointed as CFO on September 11, 2013.
- (5) Mr. Mason was appointed as CFO on November 12, 2012 and resigned August 30, 2013. On October 8, 2013, the

- Company granted a severance payment of \$98,250 to Mr. Mason by way of transferring 196,500 common shares of Wellgreen Platinum to Mr. Mason at a deemed price per share of \$0.50.*
- (6) *Mr. Jan was appointed as CFO upon the Company's amalgamation on June 13, 2011 and resigned on August 10, 2011.*
  - (7) *Mr. Wong was appointed as General Counsel and Corporate Secretary on February 3, 2014.*
  - (8) *Mr. Li was appointed as General Manager and Corporate Secretary on March 2, 2011 and resigned both positions on October 31, 2012. On October 31, 2012, the Company granted a severance payment of \$125,000 to Mr. Li which was paid to JWL Investments Corp. (a private company controlled by Mr. Li).*
  - (9) *Mr. Kravits was appointed as Manager of Geology on January 1, 2012. 100,000 bonus shares issued to Mr. Kravits in 2012 has been returned to treasury.*
  - (10) *Mr. Sukhee was appointed as Executive Director of Red Hill Mongolia LLC, a subsidiary of the Company, on April 21, 2014.*

The Company has calculated the "grant date fair value" amounts in the 'Option-based Awards' column using the Black-Scholes model, a mathematical valuation model that ascribes a value to a stock option based on a number of factors in valuing the option-based awards, including the exercise price of the options, the price of the underlying security on the date the option was granted, and weighted average assumptions with respect to the volatility of the price of the underlying security and the risk-free rate of return. For the year ended December 31, 2013, the following weighted average assumptions were used: Risk-free interest rate – 1.85%, expected life options in years – 5 years, expected volatility – 74.6%, expected forfeiture rate – 12%.

On June 18, 2012, further to the voluntary forfeiture of share purchase options held by certain directors, officers, employees and consultants with expiry dates on June 13, 2016, August 30, 2016, January 9, 2017, February 3, 2017, and March 22, 2017 at exercise prices ranging from \$0.425 to \$0.77, the Company granted 5,315,000 new share purchase options to such individuals with an expiry date of June 18, 2017 at an exercise price of \$0.28 per share subject to a two year vesting schedule whereby 50% of the options granted vest at the end of the each of the first and second years. Also, on June 18, 2012, the Company amended the exercise price of 18,358,050 options that had previously been granted to directors, officers, employees and consultants with expiry dates ranging from January 23, 2014 to February 14, 2016 by reducing the exercise prices (which ranged from \$0.38 to \$0.93) to \$0.28. There were no changes to the expiry dates and vesting periods of these options.

The re-issuing and re-pricing of these options were approved by the shareholders at the Company's annual general and special meeting held on July 30, 2013; consequently the incremental fair value of these options was determined using the Black-Scholes option pricing model.

## **INCENTIVE PLAN AWARDS**

### **Outstanding Share-based Awards and Option-based Awards**

The Company currently only has an option-based awards plan (i.e. the 2013 Plan) and does not have any share-based awards plans, although it has for the last two years granted bonus shares to its personnel and currently proposes that shareholders adopt the attached Share-Based Compensation Plan (see *Particulars of Additional Matters to be Acted Upon – Approval of Share-Based Compensation Plan*) which contains provisions for the award of shares as compensation. The following table sets out the option-based awards and share-based awards outstanding as at December 31, 2013, for each NEO:

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options <sup>(1)</sup> (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$) <sup>(1)</sup>	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
John Lee	500,000	0.25	Oct 29, 2014	Nil	350,000	49,000	Nil
	350,000	0.28	May 10, 2015				
	125,000	0.28	Sep 21, 2015				
	1,000,000	0.28	Dec 24, 2015				
	1,100,000	0.28	Jun 18, 2017				
	1,430,000	0.18	Aug 22, 2017				
Irina Plavutska	1,200,000	0.12	Aug 16, 2018	Nil	21,250	2,975	Nil
	50,000	0.28	Sep 21, 2015				
	100,000	0.28	Dec 24, 2015				
	130,000	0.28	Jun 18, 2017				
	50,000	0.18	Aug 22, 2017				
200,000	0.12	Aug 16, 2018	Nil	Nil	Nil	Nil	
Nil	Nil	Nil					
Joseph Li	100,000	0.28					Dec 24, 2015
	100,000	0.28					Feb 14, 2016
	350,000	0.28	Jun 18, 2017				
	300,000	0.18	Aug 22, 2017				
Jeffrey Mason	250,000	0.13	Jul 22, 2018	Nil	Nil	Nil	Nil
David Jan	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Chris Kravits	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Orgil Sukhee	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**Note:**

(1) The value at December 31, 2013 is calculated by determining the difference between the closing price on the TSX of the Common Shares at December 31, 2013 (\$0.08 per Common Share) and the exercise price of the options.

**Incentive Plan Awards – Value Vested or Earned During the Year**

No incentive plan awards vested or earned during the year ended December 31, 2013 for any NEO, would have realized any dollar value if exercised.

**PENSION PLAN BENEFITS**

The Company has no pension, defined contribution, or deferred compensation plans for its NEOs, directors, officers or employees.

**DIRECTOR COMPENSATION**

Independent directors are paid varying amounts depending on the degree to which they are active on behalf of the Company. See the table below for amounts paid in 2013.



The compensation provided to directors who were not an NEO for the Company's most recently completed financial year of December 31, 2013, is:

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Michael Deats	55,298	21,000	12,189	Nil	Nil	Nil	88,487
Chuluunbaatar Baz	39,546	42,000	33,762	Nil	Nil	Nil	115,308
Greg Hall	82,200	21,000	22,490	Nil	Nil	60,000	185,690
Harald Batista	67,410	21,000	8,414	Nil	Nil	Nil	96,824

The following table sets out all option-based and share-based awards outstanding as at December 31, 2013, for directors who were not an NEO for the Company's most recently completed financial year of December 31, 2013:

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options <sup>(1)</sup> (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$) <sup>(1)</sup>	Number of shares or units of shares that have not vested (#) <sup>(2)</sup>	Market or payout value of share-based awards that have not vested (\$) <sup>(1)</sup>	Market or payout value of vested share-based awards not paid out or distributed (\$) <sup>(1)</sup>
Michael Deats	200,000	0.28	Dec 24, 2015	Nil	75,000	10,500	Nil
	200,000	0.28	Jun 18, 2017				
	150,000	0.18	Aug 22, 2017				
	250,000	0.12	Aug 16, 2018				
Chuluunbaatar Baz	1,000,000	0.28	Dec 24, 2015	Nil	150,000	21,000	Nil
	400,000	0.28	Jun 18, 2017				
	400,000	0.18	Aug 22, 2017				
	500,000	0.12	Aug 16, 2018				
Greg Hall	300,000	0.25	Oct 29, 2014	Nil	75,000	10,500	Nil
	75,000	0.28	May 10, 2015				
	25,000	0.28	Sep 21, 2015				
	80,000	0.28	Dec 24, 2015				
	250,000	0.28	Jun 18, 2017				
	300,000	0.18	Aug 22, 2017				
	600,000	0.12	Aug 16, 2018				
Harald Batista	150,000	0.28	Jan 29, 2015	Nil	75,000	10,500	Nil
	100,000	0.28	Jun 18, 2017				
	150,000	0.18	Aug 22, 2017				
	250,000	0.12	Aug 16, 2018				

**Notes:**

- (1) The value at December 31, 2013 is calculated by determining the difference between the closing price on the TSX of the Common Shares at December 31, 2013 (\$0.08 per Common Share) and the exercise price of the options.
- (2) Share-based awards by way of bonus shares issued at market value at the date of grant.

The following table sets out the value vested or earned under incentive plans during the year ended December 31, 2013, for directors, excluding a director who is already set out in disclosure for an NEO for the Company:

Name	Option-based awards – Value vested during the year (\$) <sup>(1)</sup>	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Michael Deats	Nil	6,000	Nil
Chuluunbaatar Baz	Nil	12,000	Nil
Greg Hall	Nil	6,000	Nil
Harald Batista	Nil	6,000	Nil

**Note:**

(1) The value at December 31, 2013 is calculated by determining the difference between the closing price on the TSX of the Common Shares at December 31, 2013 (\$0.08 per Common Share) and the exercise price of the options.

### TERMINATION AND CHANGE OF CONTROL BENEFITS

Other than as set out below, there are no contracts, agreements, plans or arrangements that provide for payments to a NEO following or in connection with any termination (whether voluntary, involuntary or constructive), resignation, retirement, change of control of the Company or change in responsibilities of the NEO following a change of control of the Company.

#### *John Lee, Interim Chief Executive Officer and Executive Chairman*

On January 1, 2010 the Company entered into a consulting agreement with a holding company solely owned by Mr. Lee, at an annual fee of \$16,000 (as amended). On November 6, 2012 this agreement was terminated and on November 7, 2012 a new consulting agreement was entered into (aggregately, referred to as previously disclosed, as the New Mau Agreement). For further information regarding Mr. Lee's agreements with the Company, refer to the disclosure under *Summary Compensation Table – Narrative Discussion*.

The New Mau Agreement is for an indefinite term. The New Mau Agreement may be terminated by the Company for any reason other than for cause upon 30 days' written notice. The Company has the option of paying the consulting fees due under the New Mau Agreement for that 30-day period in lieu thereof. In an event of termination due to a change of control, Mr. Lee may elect to terminate his Agreement with the Company in writing, no later than 30 calendar days following the occurrence of the event of termination. Upon receipt of notice, the Company will immediately terminate Mr. Lee's employment without cause and will provide to Mr. Lee all amounts due and owing pursuant to the termination awards provisions contained in the New Mau Agreement which by amendment, will include a payment equivalent to two years' worth of his annual consulting fees (currently \$420,000). In any case of a change of control of the Company all of Mr. Lee's unvested rights in any stock option or other benefit plans will immediately vest in full.

#### *Irina Plavutska, Chief Financial Officer*

Ms. Plavutska entered into an employment agreement with the Company effective July 1, 2013. The employment agreement is for an indefinite term, and provides for: (1) salary; (2) bonus, at the discretion of the Company; (3) stock options; (4) employee benefits; and (5) vacation pay (see *Summary Compensation Table*). The employment agreement also provides that in the event of a significant change in the affairs of the Company such as a take-over bid, change of control of the Board, the sale, exchange or other disposition of a majority of the outstanding Common Shares, the merger or amalgamation or other corporate restructuring of the Company in a transaction or

series of transactions in which the Company's shareholders receive less than 51% of outstanding Common Shares of the new or continuing company (a "Change of Control"), Ms. Plavutska may elect to continue to be employed by the Company or give notice of termination of her employment to the Company within 6 months from the Change in Control event and elect to receive from the Company an immediate payment equal to two years of her annual salary (currently \$102,000).

*Tony Wong, General Counsel and Corporate Secretary*

Mr. Wong entered into an employment agreement with the Company effective February 3, 2014. The employment agreement is for an indefinite term, and provides for: (1) salary; (2) bonus, at the discretion of the Company; (3) stock options; (4) employee benefits; and (5) vacation pay (see *Summary Compensation Table*). The employment agreement also provides that in the event of a Change of Control, Mr. Wong may elect to continue to be employed by the Company or give notice of termination of his employment to the Company within 6 months from the Change in Control event and elect to receive from the Company an immediate payment equal to two years of his annual salary (currently \$150,000).

The criteria used to determine the amounts payable to the NEOs is based on industry standards and the Company's financial circumstances. The agreements with the NEOs and subsequent changes were accepted by the Board based on recommendations of the CGCC.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The 2013 Plan, a rolling stock option plan was approved by shareholders at the Company's annual general and special meeting on July 30, 2013. The purpose of the 2013 Plan is to allow the Company to grant options to directors, officers, employees and service providers, as additional compensation, and as an opportunity to participate in the success of the Company. **See *Particulars of Other Matters to be Acted Upon with regard to the Board's recommendation that shareholders approve a share-based compensation plan which will include the granting of stock options.***

Pursuant to the 2013 Plan, the Board may from time to time authorize the issuance of options to directors, officers, employees and service providers of the Company, or a subsidiary of the Company, or employees of companies providing management or consulting services to the Company. The maximum term for an option granted under the 2013 Plan is 10 years. There are no individual award limits under the 2013 Plan. In addition, the number of Common Shares which may be:

- (a) reserved for issuance to all optionees under the 2013 Plan and all other security based compensation arrangements of the Company in aggregate shall not exceed 20% of the total number of issued and outstanding Common Shares as at the date of grant; and
- (b) issued (i) to insiders, within any one year period; and (ii) issuable to insiders at any time, under the Plan and under all other security based compensation arrangements of the Company, if any, shall not exceed 10% of the number of Common Shares that are outstanding from time to time.

If any option holder dies, becomes disabled, retires, voluntarily resigns from employment with the Company or whose employment with the Company is terminated without cause, ceases to be a

director, or whose consulting agreement with the Company is terminated (any of which, is an “**Accelerating Event**”), the option, if vested, may be exercised prior to the earlier of the expiry date shown on the relevant notice of grant or the date that is 90 days after the date of the Accelerating Event subject to any extension granted by the Board in its sole discretion. Options that have not yet vested pursuant to the applicable vesting schedule prior to an Accelerating Event, will immediately terminate and become null and void.

Options (and any rights thereunder) are not assignable or transferable, except upon the death of the option holder.

The Board may amend, suspend or terminate the 2013 Plan, or the terms of any previously granted option, without obtaining shareholder approval provided that no such amendment to the terms of any previously granted option may, except as expressly provided in the 2013 Plan, or with the written consent of the option holder, adversely alter or impair the terms or conditions of such option. Any amendment is subject to compliance with all applicable laws, rules, regulations and policies, including receipt of any required approvals. If the 2013 Plan is terminated, its provisions and any administrative guidelines or other rules adopted by the Board and in force at the time of such termination, shall continue in effect as long as any options under the 2013 Plan or any rights pursuant thereto remain outstanding. Notwithstanding such termination of the 2013 Plan, the Board may make any amendments to the 2013 Plan or to the terms of any outstanding options that it would be entitled to make if the 2013 Plan were still in effect.

Any options granted under the 2013 Plan vest quarterly at 12.5% for the first two years following the date of grant unless otherwise determined by the Board. The 2013 Plan provides that if a substitution event, as defined therein, occurs, the Board may, in its discretion, accelerate the vesting date of any outstanding options, and which may thereupon be exercised in whole or in part by the option holder.

The following table sets out equity compensation plan information as at the end of the financial year ended December 31, 2013.

**Equity Compensation Plan Information**

	Number of securities issuable upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
<b>Plan Category</b>	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>
Equity compensation plans approved by security holders - (2013 Plan)	31,565,550	\$0.26	18,109,214 <sup>(1)</sup>
Equity compensation plans not approved by security holders- (See <i>Particulars of Other Matters to be Acted Upon</i> )	Nil	Nil	Nil
<b>Total</b>	<b>31,565,550</b>		<b>18,109,214</b>

**Note:**

(1) The 2013 Plan is a rolling stock option plan under which the Company may grant options to acquire up to 20% of the total issued and outstanding Common Shares at the time of each grant. This amount is derived by calculating the number of options available for grant under the 2013 Plan, which in this case is 49,674,764 options (20% of the 248,373,819 Shares issued and outstanding), and subtracting the number of options in column (a).

## **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

No directors, proposed nominees for election as directors, executive officers or their respective associates or affiliates, or other management of the Company were indebted to the Company as of the end of the most recently completed financial year or as at the date hereof.

## **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

To the knowledge of management of the Company, no informed person (a director, officer or holder of 10% or more of the Common Shares) or nominee for election as a director of the Company or any associate or affiliate of any informed person or proposed director had any interest in any transaction which has materially affected or would materially affect the Company or any of its subsidiaries during the year ended December 31, 2013, or has any interest in any material transaction in the current year other than as set out in a document already disclosed to the public.

## **PARTICULARS OF ADDITIONAL MATTERS TO BE ACTED UPON**

### **A. APPROVAL OF SHARE-BASED COMPENSATION PLAN**

Shareholders of the Company most recently approved the 2013 Plan on July 30, 2013. There are currently 28,963,750 stock options, representing 11.61% of the total issued and outstanding Common Shares of the Company, outstanding under the 2013 Plan. See *Statement of Executive Compensation – Equity Participation – Option-Based Awards* above.

Subject to shareholder and regulatory approval, the Company wishes to implement a new share-based compensation plan (the “**Share-Based Compensation Plan**”) in order to promote the long term success of the Company by providing certain employees, directors, officers and consultants with greater incentive to further develop and promote the Company’s business and financial success. The new Share-Based Compensation Plan provides for the granting of stock options, bonus shares and stock appreciation rights, in accordance with the terms and conditions of the Share-Based Compensation Plan.

If shareholder and regulatory approval of the Share-Based Compensation Plan is obtained, the 2013 Plan will continue in full force and effect for the sole purpose of governing stock options previously issued under the 2013 Plan, but no further options will be granted under the 2013 Plan. All stock options and other share-based awards granted by the Company upon approval of the Share-Based Compensation Plan will be issued under, and governed by, the terms and conditions of the Share-Based Compensation Plan. If shareholder and regulatory approval of the Share-Based Compensation Plan is not obtained, the 2013 Plan will continue in full force and effect until it is terminated by the Board.

In accordance with the requirements of the TSX, the Company must obtain disinterested shareholder approval in order to adopt the Share-Based Compensation Plan. Disinterested shareholder approval is the approval by a majority of the votes cast by all shareholders excluding votes attached to Common Shares beneficially owned by insiders who are eligible to participate in the Share-Based Compensation Plan. The number of Common Shares held by interested parties and thus, excluded from voting on this particular resolution is 25,817,945.

At the Meeting, disinterested shareholders will be asked to consider, and if deemed advisable, to pass an ordinary resolution approving the adoption of the Share-Based Compensation Plan in the following form:

**“BE IT RESOLVED, as an ordinary resolution of the disinterested shareholders of the Company, THAT:**

- (1) subject to regulatory approval, the Share-Based Compensation Plan as described in the information circular of Prophecy Coal Corp. (the “**Company**”) dated May 1, 2014 be and is hereby approved and adopted;
- (2) notwithstanding that this resolution has been passed by the shareholders of the Company, the board of directors of the Company may revoke such resolution at any time before it has been effected without further action by the shareholders; and
- (3) any one director or officer of the Company be and is hereby authorized, for and on behalf of the Company, to execute and deliver all other documents and instruments and do all such acts or things, including making all necessary revisions or amendments to the Share-Based Compensation Plan as required by the TSX, and making all necessary filings with applicable regulatory bodies and stock exchanges, as such director or officer may determine to be necessary or desirable to carry out the foregoing resolution.”

**Management of the Company believes that the Share-Based Compensation Plan is in the Company’s best interests and recommends that disinterested shareholders vote IN FAVOUR of approving the plan. In the absence of instructions to the contrary, the Company’s proxyholders will vote the Common Shares represented by each form of proxy, properly executed, FOR approving the Share-Based Compensation Plan.**

The following is a summary of certain provisions of the Share-Based Compensation Plan and is qualified in its entirety by the full text of the Share-Based Compensation Plan, a copy of which is attached as Schedule “C” hereto, subject to any revisions or amendments deemed necessary by the Board.

#### *Purpose*

The purpose of the Share-Based Compensation Plan is to promote the interests and long-term success of the Company by: (i) providing certain employees, directors, officers and consultants with greater incentive to further develop and promote the Company’s business and financial success; (ii) furthering the alignment of interests of persons to whom Awards (as defined below) may be granted with those of the shareholders generally through a proprietary ownership interest in the Company; and (iii) assisting the Company in attracting, retaining and motivating its employees, directors, officers and consultants.

#### *Eligible Persons*

Awards may be granted to an employee, director, officer or consultant of the Company or any of its subsidiaries (an “**Eligible Person**”). A participant (“**Participant**”) is an Eligible Person to whom an Award has been granted. An “**Award**” means any Option, Bonus Share or Stock Appreciation Right (each as defined below) granted under the Share-Based Compensation Plan.

### ***Number of Common Shares Available for Awards***

Subject to the adjustment provisions provided for in the Share-Based Compensation Plan and the applicable rules and regulations of all regulatory authorities to which the Company is subject (including the Stock Exchange, defined in the Share-Based Compensation Plan to mean: “such stock exchange or other organized market on which the Common Shares are principally listed or posted for trading from time to time, and which, for greater certainty, is the TSX” as at the date of this Information Circular), the aggregate number of Common Shares issuable pursuant to Awards granted under the Share-Based Compensation Plan, plus the aggregate number of Common Shares issuable pursuant to outstanding stock options granted under the 2013 Plan, must not exceed 49,877,513, being 20% of the total issued and outstanding Common Shares of the Company. There are currently 28,963,750 stock options outstanding under the 2013 Plan. Therefore, provided that such number does not change, if the Share-Based Compensation Plan is approved and implemented, the Company would have available for issuance an additional 20,913,763 Common Shares under the Share-Based Compensation Plan. See *Statement of Executive Compensation – Equity Participation – Option-Based Awards* above. Common Shares available under the Share-Based Compensation Plan may be used for any Option, Bonus Share or Stock Appreciation Right.

For purposes of the above, if an Award entitles the holder to receive or purchase Common Shares, the number of Common Shares covered by such Award or to which such Award relates will be counted on the date of grant of such Award against the aggregate number of Common Shares available for granting Awards under the Share-Based Compensation Plan as follows: (a) every Common Share subject to a stock option to purchase Common Shares granted under the Share-Based Compensation Plan (an “**Option**”) will be counted as one Common Share for every Common Share subject to such Option; (b) every Common Share that may be issued on account of a Bonus Share will be counted as one Common Share for every Common Share that may be issued on account of such Bonus Share; and (c) every Common Share that may be issued on account of a Stock Appreciation Right will be counted as one Common Share for every Common Share that may be issued on account of such Stock Appreciation Right.

If an outstanding Award for any reason expires or is terminated or cancelled without having been exercised or settled in full, or if Common Shares acquired pursuant to an Award are forfeited, the Common Shares will again be available for issuance under the Share-Based Compensation Plan. Common Shares will not be deemed to have been issued pursuant to the Share-Based Compensation Plan with respect to any portion of an Award that is settled in cash.

### ***Number of Common Shares under Award Grant***

Subject to complying with all requirements of the Stock Exchange and the provisions of the Share-Based Compensation Plan, the number of Common Shares that may be purchased under any Award will be determined and fixed by the CGCC at the date of grant.

### ***Maximum Award Grant***

There are no maximum award grant limits under the Share-Based Compensation Plan for individuals or insiders in the aggregate.

### *Exercise Price of Options*

The exercise price per Common Share under each Option will be the volume weighted average trading price of the Common Shares as reported on the Stock Exchange for the five (5) trading days immediately preceding the day on which the Option is granted, or such greater amount as the CGCC may determine; provided, however, that the exercise price of an Option shall not be less than the Current Market Price (as such term is defined in the Share-Based Compensation Plan) calculated on the Award date.

### *Vesting and Restrictions*

Options vest according to the terms of the Option Agreement (as such term is defined in the Share-Based Compensation Plan) under which they are granted.

Except as determined from time to time by the CGCC and Board, all Options will cease to vest as at the date upon which the Participant ceases to be an Eligible Person (which, in the case of an employee or consultant of the Company or its subsidiaries, will be the date on which active employment or engagement, as applicable, with the Company or its subsidiaries terminates, specifically without regard to any period of reasonable notice or any salary continuance).

Notwithstanding the above, in the event of the death of a Participant prior to the Participant ceasing to be an Eligible Person, all Options of such Participant will become immediately vested.

### *Term of Options and Causes of Cessation*

Subject to s. 8.3 of the Share-Based Compensation Plan that deals with extensions for blackout periods and the requirements of the Stock Exchange, each Option will expire (the “**Expiry Date**”) on the earlier of:

- (a) the date determined by the CGCC and specified in the Option Agreement pursuant to which such Option is granted, provided that such date may not be later than the earlier of: (i) the date which is the tenth anniversary of the date on which such Option is granted, and (ii) the latest date permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange;
- (b) in the event the Participant ceases to be an Eligible Person for any reason, other than the death of the Participant or the termination of the Participant for cause, such period of time after the date on which the Participant ceases to be an Eligible Person as may be specified by the CGCC, which date must not exceed 90 days following the termination of the Participant’s employment with the Company, or in the case of Options granted to a director, officer or consultant, 90 days following the Participant ceasing to be a director, officer or a consultant, unless the CGCC otherwise determines, and which period will be specified in the Option Agreement with the Participant with respect to such Option;
- (c) in the event of the termination of the Participant as an officer, employee or consultant of the Company or a subsidiary for cause, the date of such termination;
- (d) in the event that a director is subject to any order, penalty or sanction by an applicable securities regulatory authority which relates to such director’s activities in relation to the Company, and the CGCC determines that such director’s Options should be cancelled, the



- date of such determination;
- (e) in the event of the death of a Participant prior to: (i) the Participant ceasing to be an Eligible Person; or (ii) the date which is the number of days specified by the CGCC pursuant to subparagraph (b) above from the date on which the Participant ceased to be an Eligible Person; the date which is one year after the date of death of such Participant or such earlier date as may be specified by the CGCC and which period will be specified in the Option Agreement with the Participant with respect to such Option; and
  - (f) notwithstanding the foregoing provisions of subparagraphs (b), (c), (d) and (e) above, the CGCC may, subject to the Share-Based Compensation Plan and to regulatory approval, at any time prior to expiry of an Option, extend the period of time within which an Option may be exercised by a Participant who has ceased to be an Eligible Person, but such an extension must not be granted beyond the earlier to occur of: (i) the date that is one year from the date such extension was granted; and (ii) the original expiry date of the Option as provided for in subparagraph (a) above.

### ***Blackout Extension***

Where the Expiry Date for an Option occurs during a blackout period, the Expiry Date for such Option shall be extended to the date which is ten business days following the end of such blackout period, provided that, the Expiry Date for an Option will not be extended if the Eligible Person or the Company is subject to a cease trade order (or similar order under securities laws) in respect of the Company's securities.

### ***Share Bonus Plan***

The CGCC will have the right to issue, or reserve for issuance, for no cash consideration, to any Eligible Person, as a discretionary bonus, any number of Common Shares ("**Bonus Shares**") as the CGCC may determine. The price at which such Bonus Shares are issued will be equal to the Current Market Price.

"**Current Market Price**" means: (a) in respect of Options, the volume weighted average trading price of the Common Shares as reported on the Stock Exchange for the five (5) trading days immediately preceding the day on which the Option is granted, or such greater amount as the CGCC may determine; provided, however, that the Exercise Price of an Option shall not be less than the minimum Exercise Price required by the applicable rules of the Stock Exchange; (b) in respect of Bonus Shares, means the most recent closing price of the Common Shares on the Stock Exchange immediately prior to the grant of the Bonus Shares; and (c) in respect of Stock Appreciation Rights which are exercised: (i) the closing price of the Common Shares on the Stock Exchange on the date the notice of exercise in respect thereof is received by the Company, if such day is a Trading Day and the notice of exercise is received by the Company after regular trading hours; or (ii) the closing price of the Common Shares on the Stock Exchange on the Trading Day immediately prior to the date the notice of exercise in respect thereof is received by the Company, if the notice of exercise is received by the Company during regular trading hours, or on a non-Trading Day.

### ***Stock Appreciation Rights Plan***

The CGCC has the right, subject to the paragraphs below, to grant to any Eligible Person stock appreciation rights ("**Stock Appreciation Rights**"), with the specific terms and conditions thereof

to be as provided in the Share-Based Compensation Plan and in the award agreement entered into in respect of such grant.

A Stock Appreciation Right will entitle the Participant to receive from the Company the number of Common Shares, disregarding fractions, as determined on the following basis:

$$\text{Number of Common Shares} = \text{Number of Stock Appreciation Rights} \times (\text{Current Market Price} - \text{SAR Exercise Price}) / \text{Current Market Price}, \text{ less any amount withheld on account of income taxes}$$

The exercise price per Common Share under each Stock Appreciation Right (“**SAR Exercise Price**”) will be the fair market value of the Common Shares, expressed in terms of money, as determined by the CGCC, in its sole discretion, provided that such price may not be less than the SAR Fair Market Value or such other minimum price as may be permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange. Subject to the foregoing, the fair market value (the “**SAR Fair Market Value**”) of any Common Share for the purpose of determining the SAR Exercise Price for any Stock Appreciation Right will be, unless otherwise determined by the CGCC in their discretion, the trading price at which the Common Shares traded on the Stock Exchange as of close of market on the day immediately prior to the date such Stock Appreciation Right is granted.

The obligation of the Company to issue and deliver any Stock Appreciation Rights pursuant to an Award or to deliver any Common Shares pursuant to the exercise thereof will be subject to receipt of all necessary approvals of any applicable securities regulatory authority and the Stock Exchange.

#### ***Non-Transferability of Awards***

Each Award Agreement will provide that the Award granted thereunder is not transferable or assignable to anyone other than by will or by the laws governing the devolution of property, to the Participant’s executor, administrator or other personal representative in the event of death of the Participant.

#### ***Procedure for Suspending, Amending or Terminating the Share-Based Compensation Plan***

Subject to the provisions of the Share-Based Compensation Plan and the requirements of the Stock Exchange, the CGCC has the right at any time to suspend, amend or terminate the Share-Based Compensation Plan or any Award agreement, including, but not limited to, the right without approval of the shareholders, to: (a) make amendment of a clerical nature, including, but not limited to, the correction of grammatical or typographical errors or clarification of terms; (b) make amendments to reflect any requirements of any regulatory authorities to which the Company is subject, including the Stock Exchange; (c) make amendments to vesting provisions of Awards; (d) extend the term of any Award held by non-insiders of the Company; and (e) reduce the exercise price per Common Share under any Award held by non-insiders of the Company, or replace such Award with a lower exercise price per Common Share under such replacement Award.

### *Other Material Information*

Subject to the provisions of the Share-Based Compensation Plan, appropriate adjustments to the Share-Based Compensation Plan and to Awards will be made, and will be conclusively determined, by the CGCC, to give effect to adjustments in the number of Common Shares resulting from subdivisions, consolidations, substitutions, or reclassifications of the Common Shares, the payment of share dividends by the Company (other than dividends in the ordinary course) or other changes in the capital of the Company or from a Merger and Acquisition Transaction (as defined in the Share-Based Compensation Plan). In the event of a Merger and Acquisition Transaction, or a proposed Merger and Acquisition Transaction, the CGCC will: (a) in an appropriate and equitable manner, determine any adjustment to the number and type of Common Shares (or other securities or other property) that thereafter will be made the subject of Awards; (b) in an appropriate and equitable manner, determine the number and type of Common Shares (or other securities or other property) subject to outstanding Awards; (c) in an appropriate and equitable manner, determine the exercise price with respect to any Award, provided, however, that the number of securities covered by any Award or to which such Award relates will always be a whole number; (d) in an appropriate and equitable manner, determine the manner in which all unexercised rights granted under the Share-Based Compensation Plan will be treated including, without limitation, requiring the acceleration of the time for the exercise of such rights by the Participants, the time for the fulfilment of any conditions or restrictions on such exercise, and the time for the expiry of such rights; (e) offer any Participant the opportunity to obtain a new or replacement Award over any securities into which the Common Shares are changed or are convertible or exchangeable, on a basis proportionate to the number of Common Shares under the Award and the exercise price (and otherwise substantially upon the terms of the Award being replaced, or upon terms no less favourable to the Participant); and (f) commute for or into any other security or any other property or cash, any Award that is still capable of being exercised, upon giving to the Participant to whom such Award has been granted at least 30 days' written notice of its intention to commute such Award, and during such period of notice, the Award, to the extent it has not been exercised, may be exercised by the Participant without regard to any vesting conditions attached thereto, and on the expiry of such period of notice, the unexercised portion of the Award will lapse and be cancelled.

### **B. APPROVAL OF DEBT SETTLEMENT UNITS**

On January 6, 2014, the Board resolved to issue units as payment for outstanding debt owing by the Company to some of the Company's directors, officers, employees and consultants (the "**Creditors**"), subject to TSX and disinterested shareholder approval (the "**Debt Settlement Units**"). It is proposed that an aggregate of 2,541,065 Debt Settlement Units be issued at a price of \$0.075 per Debt Settlement Unit (being the market price for the Company's Common Shares as of December 30, 2013, the effective date of the Debt Settlement Agreements i.e. \$0.083, with a 9.64% discount applied) to the Creditors and in the amounts as listed in the table below. Each Debt Settlement Unit is to be comprised of one Common Share of the Company and one share purchase warrant (each a "**Warrant**") of the Company entitling the holder thereof to purchase, upon exercise of a Warrant, one additional Common Share at a price of \$0.10 per Common Share for a period of two years from the date of issuance of the Debt Settlement Units. As a result, up to a total of 5,082,130 Common Shares may ultimately be issued in connection with the Debt Settlement Units if all of their underlying Warrants are exercised.

Name of Creditor	Position	Nature of Debt	Number of Units
Greg Hall <sup>(1)</sup>	Director	Director Fees	372,000
Makevco Consulting Inc. <sup>(2)</sup>	N/A	Consulting Fees	400,000
Harald Batista <sup>(1)</sup>	Director	Director Fees	375,273
John Lee <sup>(1)</sup>	Interim CEO and Executive Chairman	Consulting Fees	1,213,333
Bekzod Kasimov	Business Development Manager	Consulting Fees	142,689
Nomin-Erdene Gendenpurev	Procurement Manager	Salary	37,770
<b>TOTAL:</b>			<b><u>2,541,065</u></b>

**Note:**

(1) This person is an insider of the Company.

(2) Greg Hall beneficially owns and controls this company.

The TSX provided its conditional approval of the transaction on January 24, 2014, and the Debt Settlement Units will be distributed to the Creditors after the Meeting upon receipt of disinterested shareholder approval. Because the Debt Settlement Units relate to debt incurred for services provided in the year ending December 31, 2013, all of the Debt Settlement Units as set out above will be issued. The Board believes that the equity dilution to shareholders of up to 2.03% (with up to 4,721,212 Common Shares or 1.89% going to insiders of the Company) is outweighed by the benefits to the Company which will be received from rewarding and incentivizing the continued efforts of these persons.

At the Meeting, disinterested shareholders (meaning shareholders not receiving Debt Settlement Units and named above, holding approximately 223,509,624 Common Shares) will be asked to vote on the following ordinary resolution, with or without variation:

**“BE IT RESOLVED, as an ordinary resolution of the disinterested shareholders of the Company, THAT the allotment and issuance by the Board of up to 2,541,065 Debt Settlement Units to be granted as payment for outstanding debt owing to certain directors, officers, employees and consultants of the Company as set out in the Information Circular dated May 1, 2014 be approved.”**

**Management of the Company recommends that you vote IN FAVOUR of the Debt Settlement Units resolution. In the absence of instructions to the contrary, the Company’s proxyholders will vote the Common Shares represented by each form of proxy, properly executed, FOR approving the Debt Settlement Units.**

### **C. APPROVAL OF ADVANCE NOTICE PROVISIONS**

#### **Background**

Effective March 25, 2014, the Board determined that it would be appropriate and in the best interests of the Company to implement a requirement for advance notice in connection with the election of directors and amend the Company’s current Articles to include advance notice provisions (“**Advance Notice Provisions**”). The following is a summary of the proposed Advance Notice Provisions and is subject to the full text of the Advance Notice Provisions set forth in

Schedule “D” to this Information Circular.

***Purpose of the Advance Notice Provisions***

The purpose of the Advance Notice Provisions is to provide shareholders, directors and management of the Company with direction on the procedures for shareholder nomination of directors. The Advance Notice Provisions are the framework pursuant to which the Company fixes a deadline by which holders of record of Common Shares must submit director nominations to the Company prior to any annual or special meeting of shareholders and set forth the information that a shareholder must include in the notice to the Company for the nomination notice to be in proper written form.

***Effect of the Advance Notice Provisions***

Subject to the BCBCA, the Advance Notice Provisions incorporated into the Company’s Articles provide that only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Company. Nominations of persons for election to the Board may be made with respect to any annual meeting of shareholders or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors:

- (a) by or at the direction of the board, including pursuant to a notice of meeting;
- (b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the BCBCA; or
- (c) by any person (a “**Nominating Shareholder**”):
  - (i) who, at the close of business on the date of the giving of the notice provided for below and on the record date for notice of such meeting, is entered in the securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and
  - (ii) who complies with the notice procedures set forth below.

In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the Corporate Secretary of the Company at the principal executive offices of the Company.

To be timely, a Nominating Shareholder’s notice to the Corporate Secretary of the Company must be made:

- (a) annual meeting of shareholders, not less than 30 nor more than 65 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is to be held on a date that is less than 50 days after the date (the “**Notice Date**”) on which the first public announcement of the date of the annual meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the tenth (10th) day following the Notice Date; and
- (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the special meeting of shareholders was made.

In no event shall any adjournment or postponement of a meeting of shareholders or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described above.

To be in proper written form, a Nominating Shareholder's notice to the Corporate Secretary of the Company must set forth the name, age, business address, residential address and principal occupation or employment of the proposed nominee, and the security holdings of the Company which are controlled or which are owned beneficially or of record by the person. In addition, the notice by the Nominating Shareholder must also disclose any other information relating to the proposed nominee as well as any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Company and any other information relating to such Nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of directors pursuant to the BCBCA and Applicable Securities Laws (as defined below).

The Company may require any proposed nominee to furnish such other information as may reasonably be requested by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed nominee. No person shall be eligible for election as a director of the Company unless nominated in accordance with the provisions of the Advance Notice Provisions; provided, however, that nothing in the Advance Notice Provisions shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a meeting of shareholders of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the BCBCA.

The Chairman of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded.

Notwithstanding any other provision of the Advance Notice Provisions, notice given to the Corporate Secretary of the Company pursuant to the Advance Notice Provisions may only be given by personal delivery, facsimile transmission or by email (at such email address as stipulated from time to time by the Corporate Secretary of the Company for purposes of this notice), and shall be deemed to have been given and made only at the time it is served by personal delivery, email (at the address as aforesaid) or sent by facsimile transmission (provided that - receipt of confirmation of such transmission has been received) to the Corporate Secretary at the address of the principal executive offices of the Company; provided that if such delivery or electronic communication is made on a day which is a not a business day or later than 5:00 p.m. (Vancouver time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the subsequent day that is a business day.

The Advance Notice Provisions apply to the Company so long as the Company is a public company.

A complete copy of the proposed new Articles 14.2 and 14.3 incorporating the Advance Notice Provisions are attached as Schedule "D" to this Information Circular. A complete copy of the Company's Articles, as amended, may be inspected at the registered office of the Company, at 2nd Floor, 342 Water Street, Vancouver, British Columbia V6B 1B6 during normal business hours and at the Meeting. In addition, a complete copy of the proposed Articles, as amended, will be mailed,

free of charge, to any holder of Common Shares who requests a copy, in writing, from the Corporate Secretary of the Company. Any such requests should be mailed to the Company, at its head office, to the attention of the Corporate Secretary.

In order to implement the Advance Notice Provisions, the shareholders of the Company will be asked to consider and, if thought fit, pass an ordinary resolution (the “**Advance Notice Resolution**”), with or without variation, to amend the Company’s current Articles, the text of which is attached as Schedule “D” to this Information Circular. If the Advance Notice Resolution is passed, the amendment to the Articles will become effective on the date and time that the resolution is received for deposit at the Company’s records office, which the Company anticipates will be immediately after the Meeting.

Approval of the Advance Notice Provisions requires the approval of the shareholders by ordinary resolution, being not less than one-half of the votes cast by Shareholders on the Advance Notice Resolution. If the Advance Notice Resolution is not approved by the requisite number of shareholders, the Articles will not be amended.

**Management of the Company recommends that you vote IN FAVOUR of the Advance Notice Resolution. In the absence of instructions to the contrary, the Company’s proxyholders will vote the Common Shares represented by each form of proxy, properly executed, FOR approving the Advance Notice Resolution.**

#### **D. APPROVAL OF DEEMED RE-PRICING OF STOCK OPTIONS**

On May 1, 2014, following the voluntary forfeiture of incentive stock options held by certain directors, officers and consultants, the Company granted an aggregate of 3,575,000 new incentive stock options to such individuals under the 2013 Plan with an expiry date of May 1, 2019 at an exercise price of \$0.065 per Common Share subject to a two-year vesting schedule whereby 12.5% of the options granted vest per quarter as described in the following tables:

Table “A”

Subject Participant	Original Date Of Grant	# of Original Options Granted	Original Exercise Price	Original Expiry Date	Date Original Options Forfeited	# of New Options Granted	New Option Exercise Price	New Option Expiry Date
Chuluunbaatar Baz*	Dec. 24/10	1,000,000	\$0.28	Dec. 24/15	Feb. 21/14	1,000,000	\$0.065	May 1/19
	Jun. 18/12	400,000	\$0.28	Jun. 18/17	Feb. 21/14			
John Lee*	Dec. 24/10	1,000,000	\$0.28	Dec. 24/15	Mar. 5/14	1,500,000	\$0.065	May 1/19
	Oct. 29/09	500,000	\$0.25	Oct. 19/14	Mar. 18/14			
	May 10/10	350,000	\$0.28	May 10/15	Mar. 18/14			
	Sep. 21/10	125,000	\$0.28	Sep. 21/15	Mar. 18/14			
Greg Hall*	Dec. 24/10	80,000	\$0.28	Dec. 24/15	Mar. 4/14	400,000	\$0.065	May 1/19
	Oct. 29/09	300,000	\$0.25	Oct. 29/14	Mar. 19/14			
	May 10/10	75,000	\$0.28	May 10/15	Mar. 19/14			
	Sep. 21/10	25,000	\$0.28	Sep. 21/15	Mar. 19/14			
Harald Batista*	Jan. 29/10	150,000	\$0.28	Jan. 26/15	Mar. 20/14	200,000	\$0.065	May 1/19

Irina Plavutska*	Sep. 21/10	50,000	\$0.28	Sep. 21/15	Mar. 18/14	150,000	\$0.065	May 1/19
	Dec. 24/10	100,000	\$0.28	Dec. 24/15	Mar. 18/14			
<b>TOTAL:</b>		<b><u>4,155,000</u></b>				<b><u>3,250,000</u></b>		

\*Currently an Insider and interested party

Table "B"

Subject Participant	Original Date Of Grant	# of Original Options Granted	Original Exercise Price	Original Expiry Date	Date Original Options Forfeited	# of New Options Granted	New Option Exercise Price	New Option Expiry Date
Karsten Busche	May 10/10	50,000	\$0.28	May 10/15	Mar.18/14	50,000	\$0.065	May 1/19
Helmut Bollinger	May 10/10	50,000	\$0.28	May 10/15	Mar. 18/14	50,000	\$0.065	May 1/19
Michael Minder	May 10/10	125,000	\$0.28	May 10/15	Apr. 8/14	125,000	\$0.065	May 1/19
Olaf Hordenbach	May 10/10	50,000	\$0.28	May 10/15	Apr. 9/14	50,000	\$0.065	May 1/19
Marcus Kaemper	May 10/10	50,000	\$0.28	May 10/15	Apr. 9/14	50,000	\$0.065	May 1/19
<b>TOTAL:</b>		<b><u>325,000</u></b>				<b><u>325,000</u></b>		

As the above individuals have been granted new stock options within three months of having previous stock options cancelled, the TSX considers the circumstances of such grants to be a deemed re-pricing for purposes of their rules. As a result, disinterested shareholder (meaning shareholders not receiving deemed re-priced stock options and named above, holding approximately 224,775,341 Common Shares) approval is required for the above options to be granted to insiders in Table "A". Options to be granted to non-insiders in Table "B", although also considered a deemed re-pricing, do not require shareholder approval because such amended grants were made in accordance with the amendment provisions of the 2013 Plan. Insiders who hold options which are proposed to be approved hold 24,612,228 Common Shares, and may not vote their Common Shares in respect of this Deemed Re-Pricing of Stock Options resolution. No financial assistance will be provided by the Company to any option holder listed above to facilitate the exercise of the options described above.

At the Meeting, disinterested shareholders will be asked to vote on the following ordinary resolution, subject to TSX approval and with or without variation:

**"BE IT RESOLVED** as an ordinary resolution of the disinterested shareholders, that:

- (1) The issuance of an aggregate of 3,250,000 incentive stock options held by officers and directors of the Company, as described in Table "A" of this Information Circular, be and the same is hereby approved; and
- (2) Any one of the officers or directors of the Company is hereby authorized and directed to do all such things as may be necessary or desirable, in the opinion of such officer or director to give effect thereto."

**Management of the Company recommends that you vote IN FAVOUR of the Deemed Re-Pricing of Stock Options resolution. In the absence of instructions to the contrary, the**



**Company's proxyholders will vote the Common Shares represented by each form of proxy, properly executed, FOR approving the Deemed Re-Pricing of Stock Options resolution.**

#### **ADDITIONAL INFORMATION**

Additional information relating to the Company is included in the Company's Annual Information Form, comparative annual audited financial statements for the years ended December 31, 2013 and 2012, auditor's report, and related management discussion and analysis for 2013 filed under the Company's profile at [www.SEDAR.com](http://www.SEDAR.com). Copies of the Company's most recent interim financial statements and related management discussion and analysis, and additional information, may also be obtained from [www.SEDAR.com](http://www.SEDAR.com) or upon request from the Company via telephone at (604) 569-3661 or via fax at (604) 569-3617.

#### **OTHER MATTERS**

The Board is not aware of any other matters which it anticipates will come before the Meeting as of the date of mailing of this Information Circular.

**DATED** at Vancouver, British Columbia this 1<sup>st</sup> day of May, 2014.

#### **BY ORDER OF THE BOARD**

*"John Lee"*

**John Lee**  
**Interim Chief Executive Officer**

**Schedule "A"**  
**Advance Notice Policy**

**PROPHECY COAL CORP.**  
(the "Company")

**ADVANCE NOTICE POLICY**  
(Initially adopted by the Board of Directors on March 25, 2014)

**BACKGROUND**

This advance notice policy (the "**Policy**") has been adopted by the board of directors of the Company with a view towards providing shareholders, directors and management of the Company with a fair and transparent procedure for nominating directors. This Policy establishes a deadline on or before which a holder(s) of record of the Company's common shares must submit, in writing, director nominations to the Company prior to any annual or special meeting of shareholders and the information that such holder(s) must include with such nominations in order for any director nominee to be eligible for election at any annual or special meeting of shareholders.

By adopting this Policy, the Company seeks to: (i) establish an orderly and efficient process for electing directors at annual general or, if applicable, special meetings of the shareholders of the Company; (ii) ensure all shareholders receive adequate notice of the director nominations and sufficient information with respect to all nominees; and (iii) allow shareholders to register an informed vote with respect to the election of directors after having been afforded reasonable time and information for appropriate deliberation.

The Company believes this Policy is in the best interests of the Company, its shareholders and other stakeholders.

**INTERPRETATION**

1. For purposes of this Policy:

- (a) "**Annual Meeting**" means any annual meeting of Shareholders;
- (b) "**Applicable Securities Laws**" means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such laws and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission or similar securities regulatory authority of each province and territory of Canada;
- (c) "**BCBCA**" means the *Business Corporations Act* (British Columbia), as amended;
- (d) "**Board**" means the board of directors of the Company as constituted from time to time;
- (e) "**Common Shares**" means common shares in the capital of the Company;
- (f) "**Effective Date**" means March 25, 2014.

- (g) “**Nominating Shareholder**” has the meaning ascribed to such term in paragraph 2(c) below;
- (h) “**Notice Date**” has the meaning ascribed to such term in paragraph 4(a) below;
- (i) “**Public Announcement**” means disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Company or its agents under its profile on the System of Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com);
- (j) “**Shareholder**” means a holder of Commons Shares; and
- (k) “**Special Meeting**” means any special meeting of Shareholders if one of the purposes for which such meeting is called is the election of directors.

## **NOMINATIONS OF DIRECTORS**

2. Nominations of persons for election to the Board may be made at any Annual Meeting or any Special Meeting if one of the purposes for which the meeting was called is the election of directors. In order to be eligible for election to the Board at any Annual Meeting or Special Meeting of shareholders of the Company, persons must be nominated in accordance with one of the following procedures:
  - (a) by or at the direction of the Board or an authorized officer, including pursuant to a notice of meeting;
  - (b) by or at the direction or request of one or more shareholders pursuant to a “proposal” made in accordance with the provisions of the BCBCA, or a requisition of the shareholders made in accordance with the provisions of the BCBCA; or
  - (c) by any person (a “**Nominating Shareholder**”):
    - i. who, at the close of business on the date of giving by the Nominating Shareholder of the notice provided for below and at the close of business on the record date for notice of such meeting, is entered in the central securities register of the Company as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and
    - ii. who complies with the notice procedures set forth in this Policy.
3. In addition to any other requirements under applicable laws, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must give notice, which is both timely (in accordance with paragraph 4) and in proper written form (in accordance with paragraph 5), to the Corporate Secretary of the Company at the principal executive offices of the Company.
4. A Nominating Shareholder’s notice to the Corporate Secretary of the Company will be deemed to be timely if:
  - (a) in the case of an Annual Meeting, such notice is made not less than 30 nor more than 65 days prior to the date of the Annual Meeting; provided, however, that in the event that the Annual Meeting is to be

held on a date that is less than 50 days after the date (the “**Notice Date**”) on which the first Public Announcement of the date of the Annual Meeting is made, notice by the Nominating Shareholder is made not later than the close of business on the tenth (10th) day following the Notice Date; and

- (b) in the case of a Special Meeting (which is not also an Annual Meeting) called for the purpose of electing directors (whether or not called for other purposes), such notice is made not later than the close of business on the fifteenth (15th) day following the day on which the first Public Announcement of the date of the Special Meeting is made.

Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement of this paragraph 4.

For greater certainty, the time periods for the giving of notice by a Nominating Shareholder as aforesaid shall, in all cases, be determined based on the original date of the applicable Annual Meeting or Special Meeting, and in no event shall any adjournment or postponement of an Annual Meeting or Special Meeting or the announcement thereof commence a new time period for the giving of such notice.

5. A Nominating Shareholder’s notice to the Corporate Secretary of the Company will be deemed to be in proper written form if:

- (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director, such notice sets forth:

- i. the name, age, business address and residential address of the person;
- ii. the principal occupation or employment of the person;
- iii. the class or series and number of Common Shares which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and
- iv. any other information relating to the person that would be required to be disclosed in a dissident’s proxy circular in connection with solicitations of proxies for election of directors pursuant to the BCBCA and Applicable Securities Laws; and

- (b) as to the Nominating Shareholder giving the notice, such notice sets forth full particulars regarding any proxy, contract, agreement, arrangement or understanding pursuant to which such Nominating Shareholder has a right to vote or direct the voting of any shares of the Company and any other information relating to such Nominating Shareholder that would be required to be made in a dissident’s proxy circular in connection with solicitations of proxies for election of directors pursuant to the BCBCA and Applicable Securities Laws.

The Company shall have the right to require any proposed nominee for election as a director to furnish such additional information as may reasonably be requested by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable Shareholder’s understanding of the independence, or lack thereof, of such proposed nominee.

6. No person shall be eligible for election as a director of the Company unless nominated in accordance with the provisions of this Policy. Notwithstanding the foregoing, nothing contained in this Policy shall be

deemed to restrict or preclude discussion by a Shareholder (as distinct from the nomination of directors) at an Annual Meeting or Special Meeting of any matter that is properly before such meeting pursuant to the provisions of the BCBCA or the discretion of the meeting Chairman. The Chairman of any Annual Meeting or Special Meeting shall have the power and duty to determine whether any nomination for election of a director has been made in accordance with the procedures set forth in this Policy and, if any proposed nomination is not in compliance with such procedures, to declare such nomination defective and that it be disregarded.

7. Notwithstanding any other provision of this Policy, notice given to the Corporate Secretary of the Company pursuant to this Policy may only be given by personal delivery, facsimile transmission or by email (at such email address as may be stipulated from time to time by the Corporate Secretary of the Company for purposes of this notice), and shall be deemed to have been given and made only at the time it is served by personal delivery to the Corporate Secretary at the address of the principal executive offices of the Company, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received); provided that if such delivery or electronic communication is made on a day which is not a business day or later than 5:00 p.m. (Pacific Standard Time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the next following day that is a business day.
8. Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirement of this Policy.

#### **EFFECTIVE DATE**

This Policy was approved and adopted by the Board on the Effective Date and is and shall be effective and in full force and effect in accordance with its terms and conditions from and after such date. Notwithstanding the foregoing, if this Policy is not approved by ordinary resolution of shareholders of the Company present in person or voting by proxy at the next Annual Meeting or Special Meeting validly held following the Effective Date, then this Policy shall terminate and be void and of no further force and effect following the termination of such meeting of Shareholders.

This Policy will be subject to review by the Board, and will reflect changes as required from time to time by securities regulatory agencies or stock exchanges, or so as to conform to industry standards.

#### **GOVERNING LAW**

This Policy shall be interpreted and enforced in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein.

#### **CURRENCY**

This Policy was last revised and approved by the Board on March 25, 2014.

**Schedule "B"**  
**Change of Auditor Reporting Package**

Please see attached to this Schedule "B" of the Company's Information Circular dated May 1, 2014 the following:

- 1) Change of Auditor Notice;
- 2) Letter from Former Auditor addressed to Securities Regulators; and
- 3) Letter from Successor Auditor addressed to Securities Regulators.

NOTICE OF CHANGE OF AUDITOR ("Notice")

TO: BRITISH COLUMBIA SECURITIES COMMISSION  
ALBERTA SECURITIES COMMISSION  
ONTARIO SECURITIES COMMISSION


At the request of Prophecy Coal Corp. (the "Company") Ernst & Young LLP, Chartered Accountants, resigned as the Company's auditor effective November 14, 2013. Davidson & Company LLP, Chartered Accountants, have been appointed as the Company's successor auditors. In accordance with National Instrument 51-102 ("NI 51-102") we confirm that:

- (a) Ernst & Young LLP, Chartered Accountants, was asked to resign as auditor of the Company to facilitate the appointment of Davidson & Company LLP Chartered Accountants, of 1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada V7Y 1G6;
- (b) Ernst & Young LLP, Chartered Accountants, has not expressed any reservation in its reports for the most recently completed fiscal year of the Company, nor for any period subsequent thereto for which an audit report was issued and preceding the date hereof;
- (c) The resignation of Ernst & Young LLP, Chartered Accountants and the appointment of Davidson & Company LLP, Chartered Accountants as auditor of the Company were considered and approved by the Board of Directors of the Company;
- (d) There have been no reportable events, being "disagreements", "consultations" or "unresolved issues" as those terms are defined in National Instrument 51-102; and
- (e) The Notice of Resignation, and the appointment of Davidson & Company LLP, Chartered Accountants, has been reviewed by the Audit Committee and the Board of Directors.

November 21, 2013

PROPHECY COAL CORP.

PER



Irina Plavutska, Chief Financial Officer



Ernst & Young LLP  
Pacific Centre  
700 West Georgia Street  
PO Box 10101  
Vancouver, BC V7Y 1C7

Tel: +1 604 891 8200  
Fax: +1 604 643 5422  
ey.com

25 November 2013

British Columbia Securities Commission  
Alberta Securities Commission  
Ontario Securities Commission

Dear Sirs/Mesdames:

**Re: Prophecy Coal Corp.  
Change of Auditor Notice dated 21 November 2013**

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Pursuant to National Instrument 51-102 (Part 4.11), we have read the above-noted Change of Auditor Notice and confirm our agreement with the information contained in the Notice pertaining to our firm.

Yours sincerely,

*Ernst & Young LLP*

cc: The Board of Directors, **Prophecy Coal Corp.**



November 22, 2013

**British Columbia Securities Commission**  
PO Box 10142, Pacific Centre  
701 West Georgia Street  
Vancouver, BC  
V7Y 1L2

**Ontario Securities Commission**  
20 Queen Street West, 19<sup>th</sup> Floor, Box 55  
Toronto Ontario  
M5H 3S8

**Alberta Securities Commission**  
600, 250 – 5<sup>th</sup> Street S.W.  
Calgary, AB  
T2P 0R4

Dear Sirs / Mesdames:

**Re: Prophecy Coal Corp. (the "Company")**  
**Notice Pursuant to NI 51-102 - Change of Auditor**

As required by the National Instrument 51-102 and in connection with our proposed engagement as auditor of the Company, we have reviewed the information contained in the Company's Notice of Change of Auditor, dated November 21, 2013 and agree with the information contained therein, based upon our knowledge of the information relating to the said notice and of the Company at this time.

Yours very truly,

*Davidson & Company LLP*

**DAVIDSON & COMPANY LLP**  
Chartered Accountants

**cc: TSX Venture Exchange**



Schedule "C"  
Share-Based Compensation Plan

# Prophecy Coal Corp.

## SHARE-BASED COMPENSATION PLAN

Effective June 19, 2014

**Prophecy Coal Corp.**  
(the “Company”)

**SHARE-BASED COMPENSATION PLAN**  
(the “Plan”)

**1. PURPOSE OF THIS PLAN**

**1.1 Purpose of this Plan.** The purpose of this Plan is to promote the interests and long-term success of the Company by:

- (a) furnishing certain Employees, directors, officers and Consultants of the Company, or its Subsidiaries, and other Persons as the CGCC may determine, with greater incentive to further develop and promote the business and financial success of the Company;
- (b) furthering the alignment of interests of Persons to whom Awards may be granted with those of the shareholders of the Company generally through a proprietary ownership interest in the Company; and
- (c) assisting the Company in attracting, retaining and motivating its Employees, directors, officers and Consultants.

The Company believes that these purposes may best be effected by granting Awards and affording such Persons an opportunity to acquire a proprietary interest in the Company.

**2. DEFINITIONS AND INTERPRETATION**

**2.1 Definitions.** In this Plan, unless there is something in the subject matter or context inconsistent therewith, capitalized words and terms will have the following meanings:

- (a) “**2013 Plan**” means the Company’s stock option plan which was approved by the Company’s shareholders on July 30, 2013;
- (b) “**Affiliate**” means an affiliate as defined in the Securities Act;
- (c) “**Associate**” means an associate as defined in the Securities Act;
- (d) “**Award**” means any Option, Bonus Share or Stock Appreciation Right granted under this Plan;
- (e) “**Award Agreement**” means (i) in respect of an Option, an Option Agreement; and (ii) in respect of any other Award, the written agreement, contract or other instrument or document evidencing the Award granted. Each Award Agreement shall be subject to the applicable provisions of this Plan and any other terms and conditions (not inconsistent with this Plan) determined by the CGCC;
- (f) “**Blackout Period**” means an interval of time during which the Company has determined that one or more Participants may not trade any securities of the Company because they may be in

possession of undisclosed material information pertaining to the Company, or otherwise prohibited by law from trading any securities of the Company;

- (g) **“Board of Directors”** means the board of directors of the Company as constituted from time to time;
- (h) **“Bonus Share”** means any Common Share granted under Section 9 of this Plan;
- (i) **“Business Day”** means a day other than a Saturday, Sunday or a statutory or civic holiday in Vancouver, British Columbia;
- (j) **“Cause”** in respect of any Participant means:
  - (i) if “Cause” is defined in an employment agreement between such Participant and the Company, the meaning of “Cause” as provided for in such employment agreement; and
  - (ii) if “Cause” is not so defined, a circumstance that would entitle or require the Company, at law, to terminate the employment or services of such Participant at law without notice or compensation as a result of such termination;
- (k) **“CGCC”** means the Corporate Governance and Compensation Committee of the Board of Directors;
- (l) **“Change in Control”** means:
  - (i) any transaction in which voting securities of the Company possessing more than 50% of the total combined voting power of the Company’s outstanding securities are transferred to a Person or Persons different from the Persons holding those securities immediately prior to such transaction and the composition of the Board of Directors following such transaction is such that the directors of the Company prior to the transaction constitute less than 50% of the number of directors comprising the Board of Directors following the transaction;
  - (ii) any acquisition, directly or indirectly, by a Person or Related Group of Persons (other than a Person that is a registered dealer as described in Subsection 2.1(dd)(iii) of this Plan and other than the Company or a Person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership of voting securities of the Company possessing more than 50% of the total combined voting power of the Company’s outstanding securities;
  - (iii) any acquisition, directly or indirectly, by a Person or Related Group of Persons of the right to appoint a majority of the directors of the Company or the right or ability to otherwise directly or indirectly control the management, affairs and business of the Company;
  - (iv) any sale, transfer or other disposition of all or substantially all of the assets of the Company;
  - (v) a complete liquidation or dissolution of the Company; or

- (vi) any transaction or series of transactions involving the Company or any of its Affiliates that the Board of Directors, acting reasonably, deems to be a Change in Control;

provided however, that a Change in Control shall not be deemed to have occurred if such Change in Control results solely from the issuance, in connection with a *bona fide* financing or series of financings by the Company or any of its Affiliates, of voting securities of the Company or any of its Affiliates, or any rights to acquire voting securities of the Company or any of its Affiliates which are convertible into voting securities;

- (m) **“Common Shares”** means the common shares in the capital of the Company as constituted on the Effective Date, provided that if the rights of any Participant are subsequently adjusted pursuant to Section 18 hereof, **“Common Shares”** thereafter means the shares or other securities or property which such Participant is entitled to purchase after giving effect to such adjustment;
- (n) **“Company”** means Prophecy Coal Corp. and includes any successor company thereto;
- (o) **“Consultant”** means any individual consultant, or a company or partnership of which the individual consultant is an employee, shareholder or partner (other than an Employee, director or officer) that:
  - (i) is engaged, to provide on an ongoing *bona fide* basis, consulting, technical, management or other services to the Company or any of its Affiliates other than services provided in relation to a Distribution (as defined in the Securities Act);
  - (ii) provides the services under a written contract between the Company or any of its Affiliates and the individual, company or partnership;
  - (iii) in the reasonable opinion of the Company, spends or will spend a significant amount of time and attention on the affairs and business of the Company or any of its Affiliates; and
  - (iv) has a relationship with the Company or any of its Affiliates that enables the individual to be knowledgeable about the business and affairs of the Company;
- (p) **“Current Market Price”** means:
  - (i) in respect of Options, the volume weighted average trading price of the Common Shares as reported on the Stock Exchange for the five (5) trading days immediately preceding the day on which the Option is granted, or such greater amount as the CGCC may determine; provided, however, that the Exercise Price of an Option shall not be less than the minimum Exercise Price required by the applicable rules of the Stock Exchange;
  - (ii) in respect of Bonus Shares, the most recent closing price of the Common Shares on the Stock Exchange immediately prior to the grant of the Bonus Shares; and
  - (iii) in respect of Stock Appreciation Rights which are exercised: (A) the closing price of the Common Shares on the Stock Exchange on the date the notice of exercise in respect thereof is received by the Company, if such day is a Trading Day and the notice of exercise is

received by the Company after regular trading hours; or (B) the closing price of the Common Shares on the Stock Exchange on the Trading Day immediately prior to the date the notice of exercise in respect thereof is received by the Company, if the notice of exercise is received by the Company during regular trading hours, or on a non-Trading Day;

- (q) **“Effective Date”** has the meaning ascribed thereto by Section 3 of this Plan;
- (r) **“Eligible Person”** means an Employee, director, officer or Consultant of the Company or any of its Subsidiaries;
- (s) **“Employee”** means:
  - (i) an individual who is considered an employee of the Company or its Subsidiary under the *Income Tax Act* (Canada) (i.e. for whom income tax, employment insurance and CPP deductions must be made at source);
  - (ii) an individual who works full-time for the Company or one of its Subsidiaries providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions are not made at source; or
  - (iii) an individual who works for the Company or one of its Subsidiaries on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Company over the details and methods of work as an employee of the Company, but for whom income tax deductions are not made at source;
- (t) **“Exercise Price”** means the price per Common Share at which a Participant may purchase Common Shares pursuant to an Option, provided that if such price is adjusted pursuant to Section 18 of the Plan, **“Exercise Price”** thereafter means the price per Common Share at which such Participant may purchase Common Shares pursuant to such Option after giving effect to such adjustment;
- (u) **“Expiry Date”** has the meaning ascribed thereto by Subsection 8.2 of this Plan;
- (v) **“Insider”** means an insider as defined in the Securities Act;
- (w) **“Merger and Acquisition Transaction”** means:
  - (i) any merger;
  - (ii) any acquisition;
  - (iii) any amalgamation;
  - (iv) any offer for shares of the Company which if successful would entitle the offeror to acquire all

of the voting securities of the Company; or

(v) any arrangement or other scheme of reorganization;

in each case that results in a Change in Control;

- (x) **“Notice of Exercise”** means the notice of exercise to be appended to each Option Agreement, which notice must be submitted, under, and in accordance with, the terms of the Option Agreement, to the Company by a Participant that wishes to exercise any of his or her Options under this Plan;
- (y) **“Option Agreement”** means an agreement evidencing an Option, entered into by and between the Company and an Eligible Person;
- (z) **“Options”** means stock options granted hereunder to purchase Common Shares from the Company, pursuant to the terms and conditions hereof and as evidenced by an Option Agreement and **“Option”** means any one of them;
- (aa) **“Participant”** means an Eligible Person to whom an Award has been granted;
- (bb) **“Person”** means and includes an individual, corporation, partnership, trust, fund and an association, syndicate, organization or other organized group of persons, whether incorporated or not;
- (cc) **“Plan”** means this Share-Based Compensation Plan, as the same may from time to time be supplemented or amended and in effect;
- (dd) **“Related Group of Persons”** means:
  - (i) Persons and any one or more of their respective Associates and Affiliates; and
  - (ii) any two or more Persons who have an agreement, commitment or understanding, whether formal or informal, with respect to:
    - (A) the acquisition of or the intention to acquire, directly or indirectly, beneficial ownership of, or control and direction over, Voting Shares; or
    - (B) the exercise of voting rights attached to the securities of the Company beneficially owned by such Persons, or over which such Persons have control and direction, on matters regarding the appointment of directors or control of the management, affairs and business of the Company;
  - (iii) notwithstanding Subsection 2.1(dd)(ii)(A) above, a registered dealer acting solely in an agency capacity for a person or Related Group of Persons in connection with the acquisition of beneficial ownership of, or control and direction over, securities of the Company, and not executing principal transactions for its own account or performing services beyond customary dealer’s functions, shall not be deemed solely by reason of such agency relationship to be a related person for the purposes of the definition of Related Group of

Persons;

- (ee) **“SAR Exercise Price”** has the meaning ascribed thereto in Subsection 10.3;
- (ff) **“SAR Fair Market Value”** means, for the purpose of determining the SAR Exercise Price for any Stock Appreciation Right, unless otherwise determined by the CGCC in their discretion, the trading price at which the Common Shares traded on the Stock Exchange as of close of market on the day immediately prior to the date such Stock Appreciation Right is granted;
- (gg) **“Securities Act”** means the *Securities Act* (Ontario);
- (hh) **“Stock Appreciation Right”** has the meaning ascribed thereto in Subsection 10.1;
- (ii) **“Stock Exchange”** means such stock exchange or other organized market on which the Common Shares are principally listed or posted for trading from time to time, and which, for greater certainty, is the TSX as at the Effective Date;
- (jj) **“Subsidiary”** means a subsidiary as defined in the Securities Act;
- (kk) **“Trading Day”** means any day on which the Stock Exchange is open for regular securities trading business;
- (ll) **“TSX”** means the Toronto Stock Exchange; and
- (mm) **“Voting Shares”** means a security of the Company that:
  - (i) is not a debt security; and
  - (ii) carries a voting right either under all circumstances or under some circumstances that have occurred and are continuing.

**2.2 Interpretation.** In this Plan, except as otherwise expressly provided:

- (a) any reference in this Plan to a designated **“Section”** or **“Subsection”** is a reference to the designated Section or Subsection of this Plan;
- (b) the recitals hereto are incorporated into and form part of this Plan;
- (c) the words **“herein”**, **“hereof”** and **“hereunder”** and other words of similar import refer to this Plan as a whole and not to any particular Section or Subsection(s) of this Plan;
- (d) the headings are for convenience only and do not form a part of this Plan and are not intended to interpret, define or limit the scope, extent or intent of this Plan;
- (e) words importing the singular number only shall include the plural and vice versa and words importing the use of any gender shall include any other gender, the word **“or”** is not exclusive and the word **“including”** is not limiting whether or not non-limiting language (such as **“without**



**limitation” or “but not limited to”** or words of similar import) is used with reference thereto;

- (f) unless otherwise provided, all amounts are stated and are to be paid in Canadian dollars;
- (g) where the time for doing an act falls or expires on a day which is not a Business Day, the time for doing such act is extended to the next Business Day; and
- (h) unless otherwise stated, any reference to a statute includes and is a reference to such statute and to the regulations made pursuant to it, with all amendments thereto and in force from time to time, and to any statute or regulations that may be passed which supplement or supersede such statute or regulation.

### **3. EFFECTIVE DATE OF PLAN**

The effective date (the “**Effective Date**”) of this Plan is June 19, 2014.

### **4. ADMINISTRATION OF PLAN**

**4.1 Administration of Plan.** The Board of Directors may at any time appoint the CGCC to, among other things, interpret, administer and implement this Plan on behalf of the Board of Directors in accordance with such terms and conditions as the Board of Directors may prescribe, consistent with this Plan (provided that if at any such time such a committee has not been appointed by the Board of Directors, this Plan will be administered by the Board of Directors, and in such event references herein to the CGCC shall be construed to be references to the Board of Directors). The Board of Directors will take such steps that in its opinion are required to ensure that the CGCC has the necessary authority to fulfill its functions under this Plan.

**4.2 Powers of the CGCC.** The CGCC is authorized, subject to the provisions of this Plan and the rules and policies of the Stock Exchange, to establish from time to time such rules and regulations, make such determinations and to take such steps in connection with this Plan as in the opinion of the CGCC are necessary or desirable for the proper administration of this Plan. For greater certainty, without limiting the generality of the foregoing, the CGCC will have the power, where consistent with the general purpose and intent of this Plan and subject to the specific provisions of this Plan and any approvals or requirements of any regulatory authorities to which the Company is subject, including the Stock Exchange:

- (a) to delegate such duties and powers as the CGCC may see fit with respect to this Plan (including, for greater certainty, the powers set out in Subsections 4.2(c) through (q) below, pursuant to guidelines approved by the CGCC, and in such event and in respect of those powers so delegated, references herein to the CGCC shall be construed to be references to those Persons to whom such powers have been so delegated);
- (b) to interpret and construe this Plan and any Award Agreement and to determine all questions arising out of this Plan and any Award Agreement, and any such interpretation, construction or determination made by the CGCC will be final, binding and conclusive for all purposes;
- (c) to determine Persons who are Eligible Persons;

- (d) to grant Awards to Eligible Persons;
- (e) to determine the type or types of Awards to be granted to each Eligible Person;
- (f) to determine the time or times when Awards will be granted;
- (g) to determine the number of Common Shares covered by each Award (or the then method by which payments or other rights are to be determined in connection therewith);
- (h) to determine whether, to what extent and under what circumstances Awards may be exercised in cash, Common Shares, other securities, other Awards or other property, or cancelled, forfeited or suspended;
- (i) to enter into an Award Agreement evidencing each Award which will incorporate such terms as the CGCC in its discretion deems consistent with this Plan;
- (j) to prescribe the form of the instruments relating to the grant, exercise and other terms and conditions of an Award;
- (k) to determine the Exercise Price for each Option, subject to Subsection 8.1 of this Plan;
- (l) to determine the time or times when Options will vest and be exercisable and to determine when it is appropriate to accelerate when Options otherwise subject to vesting may be exercised;
- (m) to determine if the Common Shares that are subject to an Option will be subject to any restrictions upon the exercise of such Option, including, where applicable, the endorsement of a legend on any certificate representing Common Shares acquired on the exercise of any Option to the effect that such Common Shares may not be offered, sold or delivered except in compliance with the applicable securities laws and regulations of Canada, the United States and any other applicable country and if any rights or restrictions exist they will be described in the applicable Option Agreement;
- (n) to determine the expiration date for each Option, subject to Section 8;
- (o) to take such steps and require such documentation from each Eligible Person which in its opinion are necessary or desirable to ensure compliance with the rules and regulations of the Stock Exchange and all applicable laws;
- (p) to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the provisions of the laws of Canada, the United States and other countries in which the Company or its Affiliates may operate to ensure the viability and maximization of the benefits from the Awards granted to Participants residing in such countries and to meet the objectives of this Plan; and
- (q) to do all such other matters as provided for herein.

Unless otherwise expressly provided in this Plan, all designations, determinations, interpretations and other decisions under or with respect to this Plan or any Award shall be within the sole discretion of the CGCC, may be made at any time and shall be final, conclusive and binding upon any Eligible Person and any holder or beneficiary of any Award.

## **5. SHARES AVAILABLE FOR AWARDS**

**5.1 Common Shares Available.** Subject to adjustment as provided in Section 18 and the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange, the aggregate number of Common Shares issuable pursuant to Awards granted under this Plan, plus the aggregate number of Common Shares issuable pursuant to outstanding stock options granted under the 2013 Plan, shall not exceed 49,877,513 Common Shares available under this Plan may be used for any Option, Bonus Share or Stock Appreciation Right.

**5.2 Accounting for Awards.** For purposes of Subsection 5.1 and subject to Subsection 5.4, if an Award entitles the holder thereof to receive or purchase Common Shares, the number of Common Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Common Shares available for granting Awards under this Plan as follows:

- (a) every Common Share subject to an Option shall be counted as one Common Share for every Common Share subject to such Option;
- (b) every Common Share that may be issued on account of a Bonus Share shall be counted as one Common Share for every Common Share that may be issued on account of such Bonus Share; and
- (c) every Common Share that may be issued on account of a Stock Appreciation Right shall be counted as one Common Share for every Common Share that may be issued on account of such Stock Appreciation Right.

**5.3 Other Accounting for Awards.** If an outstanding Award for any reason expires or is terminated or cancelled without having been exercised or settled in full, or if Common Shares acquired pursuant to an Award are forfeited, the Common Shares shall again be available for issuance under this Plan. Common Shares shall not be deemed to have been issued pursuant to this Plan with respect to any portion of an Award that is settled in cash.

**5.4 No Fractional Shares.** No fractional Common Shares may be purchased or issued under this Plan.

## **6. GRANT OF AWARDS**

Subject to the rules set out below, the CGCC (or in the case of any proposed Participant who is a member of the CGCC, the Board of Directors) may from time to time grant to any Eligible Person one or more Awards as the CGCC deems appropriate. A Participant, who holds any Award at the time of granting an Award, may hold more than one type of Award.

**6.1 Date Award Granted.** The date on which an Award will be deemed to have been granted under this Plan will be the date on which the CGCC authorizes the grant of such Award.

- 6.2 Number of Common Shares under Award Grant.** Subject to complying with all requirements of the Stock Exchange and the provisions of this Plan, the number of Common Shares that may be purchased under any Award will be determined and fixed by the CGCC at the date of grant.
- 6.3 Maximum Award Grant.** There are no maximum Award grant limits under this Plan for individuals or Insiders in the aggregate.
- 6.4 Award Agreements.** Each Award will be evidenced by an Award Agreement which incorporates such terms and conditions as the CGCC in its discretion deems appropriate and consistent with the provisions of this Plan (and the execution and delivery by the Company of an Award Agreement with a Participant shall be conclusive evidence that such Award Agreement incorporates terms and conditions determined by the CGCC and is consistent with the provisions of this Plan). Each Award Agreement will be executed by the Participant to whom the Award is granted and on behalf of the Company by any member of the CGCC or any officer of the Company or such other Person as the CGCC may designate for such purpose.

## **7. ELIGIBILITY**

Any Eligible Person shall be eligible to be designated a Participant. In determining which Eligible Person shall receive an Award and the terms of any Award, the CGCC may take into account the nature of the services rendered or to be rendered by the respective Eligible Person, their present and potential contributions to the success of the Company or such other factors as the CGCC, in its discretion, deems relevant. In the case of Awards granted to Employees or Consultants, the CGCC and the recipient of the Award(s) shall ensure and confirm that the recipient is a *bona fide* Employee or Consultant, as the case may be.

## **8. OPTIONS**

- 8.1 Exercise Price.** The Exercise Price per Common Share under each Option shall be the volume weighted average trading price of the Common Shares as reported on the Stock Exchange for the five (5) trading days immediately preceding the day on which the Option is granted, or such greater amount as the CGCC may determine; provided, however, that the Exercise Price of an Option shall not be less than the Current Market Price calculated on the Award date.
- 8.2 Term of Options.** Subject to Subsection 8.3 and to the requirements of the Stock Exchange, each Option will expire (the “**Expiry Date**”) on the earlier of:
- (a) the date determined by the CGCC and specified in the Option Agreement pursuant to which such Option is granted, provided that such date may not be later than the earlier of: (i) the date which is the tenth anniversary of the date on which such Option is granted, and (ii) the latest date permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange;
  - (b) in the event the Participant ceases to be an Eligible Person for any reason, other than the death of the Participant or the termination of the Participant for Cause, such period of time after the date on which the Participant ceases to be an Eligible Person as may be specified by the

CGCC, which date shall not exceed 90 days following the termination of the Participant's employment with the Company, or in the case of Options granted to a director, officer or a Consultant, 90 days following the Participant ceasing to be a director, officer or a Consultant, unless the CGCC otherwise determines, and which period will be specified in the Option Agreement with the Participant with respect to such Option;

- (c) in the event of the termination of the Participant as an officer, Employee or Consultant of the Company or a Subsidiary for Cause, the date of such termination;
- (d) in the event that a director is subject to any order, penalty or sanction by an applicable securities regulatory authority which relates to such director's activities in relation to the Company, and the CGCC determines that such director's Options should be cancelled, the date of such determination;
- (e) in the event of the death of a Participant prior to: (i) the Participant ceasing to be an Eligible Person; or (ii) the date which is the number of days specified by the CGCC pursuant to subparagraph (b) above from the date on which the Participant ceased to be an Eligible Person, the date which is one year after the date of death of such Participant or such earlier date as may be specified by the CGCC and which period will be specified in the Option Agreement with the Participant with respect to such Option; and
- (f) notwithstanding the foregoing provisions of subparagraphs (b), (c), (d) and (e) of this Subsection 8.2, the CGCC may, subject to Section 17 and to regulatory approval, at any time prior to the expiry of an Option, extend the period of time within which an Option may be exercised by a Participant who has ceased to be an Eligible Person, but such an extension shall not be granted beyond the earlier to occur of (i) the date that is one year from the date such extension was granted, and (ii) the original expiry date of the Option as provided for in subparagraph (a) above.

**8.3 Blackout Extension.** Where the Expiry Date for an Option occurs during a Blackout Period, the Expiry Date for such Option shall be extended to the date which is ten Business Days following the end of such Blackout Period, provided that, the Expiry Date for an Option will not be extended if the Eligible Person or the Company is subject to a cease trade order (or similar order under securities laws) in respect of the Company's securities.

**8.4 Vesting and Exercise of Options and Other Restrictions.** Options will vest according to the terms of the Option Agreement under which they are granted. Subject to the provisions of this Plan, the CGCC may impose such limitations or conditions on the exercise or vesting of any Option as the CGCC in its discretion deems appropriate, including limiting the number of Common Shares for which any Option may be exercised during any period as may be specified by the CGCC so long as the requirements of the Stock Exchange in regards to exercise or vesting are met. The number of Common Shares for which such Option may be exercised in any period will be specified in the Option Agreement with respect to such Option.

**8.5 Ceasing to Vest.** Except as determined from time to time by the CGCC, all Options will cease to vest as at the date upon which the Participant ceases to be an Eligible Person (which, in the case of an Employee or Consultant of the Company or its Subsidiaries, shall be the date on which active employment or engagement, as applicable, with the Company or its Subsidiaries terminates, specifically

without regard to any period of reasonable notice or any salary continuance).

**8.6 Accelerated Vesting of Options Upon Death.** Notwithstanding Subsection 8.5 above, in the event of the death of a Participant prior to the Participant ceasing to be an Eligible Person, all Options of such Participant shall become immediately vested.

**8.7 Exercise of Options.** Each Option Agreement will provide that the Option granted thereunder may be exercised only by a Notice of Exercise delivered to the Company and signed by the Participant, or the legal representative or committee or attorney, as the case may be (the “**Legal Representative**”), of the Participant, and accompanied by full payment for the Common Shares being purchased. Such consideration may be paid in any combination of the following: bank draft, certified cheque or wire transfer.

As soon as practicable after any exercise of an Option, a certificate or certificates will be delivered by the Company to the Participant or the Legal Representative of the Participant representing the Common Shares in respect of which such Option is exercised.

**8.8 Hold Periods.** Options and any Common Shares issued on the exercise of the Options may be subject to resale restrictions under securities laws and, where appropriate, will be legended with applicable resale restrictions.

## **9. SHARE BONUS PLAN**

The CGCC shall have the right to issue, or reserve for issuance, for no cash consideration, to any Eligible Person, as a discretionary bonus, any number of Common Shares (“**Bonus Shares**”) as the CGCC may determine. The price at which such Bonus Shares are issued shall be equal to the Current Market Price.

## **10. STOCK APPRECIATION RIGHTS PLAN**

**10.1 Stock Appreciation Rights.** The CGCC shall have the right to grant to any Eligible Person stock appreciation rights (“**Stock Appreciation Rights**”), with the specific terms and conditions thereof to be as provided in this Plan and in the Award Agreement entered into in respect of such grant.

**10.2 Exercise.** A Stock Appreciation Right shall entitle the Participant to receive from the Company the number of Common Shares, disregarding fractions, as determined on the following basis:

$$\text{Number of Common Shares} = \text{Number of Stock Appreciation Rights} \times (\text{Current Market Price} - \text{SAR Exercise Price}) / \text{Current Market Price, less any amount withheld on account of income taxes}$$

**10.3 SAR Exercise Price.** The exercise price per Common Share under each Stock Appreciation Right (“**SAR Exercise Price**”) shall be the fair market value of the Common Shares, expressed in terms of money, as determined by the CGCC, in its sole discretion, provided that such price may not be less than the SAR Fair Market Value or such other minimum price as may be permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange.

**10.4 Necessary Approvals.** The obligation of the Company to issue and deliver any Stock Appreciation Rights pursuant to an Award made under this Section 10, or to deliver any Common Shares pursuant to the exercise thereof, will be subject to all necessary approvals of any applicable securities regulatory authority and the Stock Exchange.

## **11. GENERAL TERMS OF AWARDS**

**11.1 Consideration for Awards.** Awards may be granted for no cash consideration or for any cash or other consideration as determined by the CGCC and required by applicable law.

**11.2 Awards May Be Granted Separately or Together.** Awards may, in the discretion of the CGCC, be granted either alone or in addition to, in tandem with any other Award or any award granted under any plan of the Company or any Subsidiary. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Subsidiary may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

**11.3 Restrictions, Securities Exchange Listing.** All Common Shares or other securities delivered under this Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the CGCC may deem advisable under this Plan, applicable Canadian provincial, or foreign securities laws and regulatory requirements, and applicable corporate law, and the CGCC may direct appropriate stop transfer orders and cause other legends to be placed on the certificates for such Common Shares or other securities to reflect such restrictions. If the Common Shares or other securities are traded on the Stock Exchange, the Company shall not be required to deliver any Common Shares or other securities covered by an Award unless and until such Common Shares or other securities have been admitted for trading on the Stock Exchange.

**11.4 Income Tax.** With respect to any other Award granted to a Participant employed in Canada, the CGCC shall have the right, but not the obligation, to take account of Canadian income tax considerations in determining the terms and conditions of the Award or any other amendment thereto.

## **12. CHANGE IN STATUS**

A change in the status, office, position or duties of a Participant from the status, office, position or duties held by such Participant on the date on which the Award was granted to such Participant will not result in the termination of the Award granted to such Participant provided that such Participant remains an Eligible Person.

## **13. NON-TRANSFERABILITY OF AWARDS**

Each Award Agreement will provide that the Award granted thereunder is not transferable or assignable to anyone other than by will or by the laws governing the devolution of property, to the Participant's executor, administrator or other personal representative in the event of death of the Participant.

## **14. REPRESENTATIONS AND COVENANTS OF PARTICIPANTS**

**14.1 Representations and Covenants.** Each Award Agreement will be deemed to contain representations and covenants of the Participant that:

- (a) the Participant is a *bona fide* Employee, director, officer or Consultant of the Company or its Subsidiaries or a Person otherwise determined as an Eligible Person under this Plan by the CGCC;
- (b) the Participant has not been induced to enter into such Award Agreement by the expectation of employment or continued employment with the Company or its Subsidiaries;
- (c) the Participant is aware that the grant of the Award and the issuance by the Company of Common Shares thereunder are exempt from the obligation under applicable securities laws to file a prospectus or other registration document qualifying the distribution of the Awards or the Common Shares to be distributed thereunder under any applicable securities laws;
- (d) upon each exercise of an Award, the Participant, or the Legal Representative of the Participant, as the case may be, will, if requested by the Company, represent and agree in writing that the Person is, or the Participant was, an Employee, director, officer or Consultant of the Company or its Subsidiaries or a Person otherwise determined as an Eligible Person under this Plan by the CGCC and has not been induced to purchase the Common Shares by expectation of employment or continued employment with the Company or its Subsidiaries, and that such Person is not aware of any commission or other remuneration having been paid or given to others in respect of the granting of the Award; and
- (e) if the Participant or the Legal Representative of the Participant exercises an Award, the Participant or the Legal Representative, as the case may be, will, prior to and upon any sale or disposition of any Common Shares purchased pursuant to the exercise of an Award, comply with all applicable securities laws and all applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange, and will not offer, sell or deliver any of such Common Shares, directly or indirectly, in the United States or to any citizen or resident of, or any company, partnership or other entity created or organized in or under the laws of, the United States, or any estate or trust the income of which is subject to United States federal income taxation regardless of its source, except in compliance with the securities laws of the United States.

**14.2 Provisions Relating to Common Share Issuances under an Award Agreement.** Each Award Agreement will contain such provisions as in the opinion of the CGCC are required to ensure that no Common Shares are issued on the exercise of an Award unless the CGCC is satisfied that the issuance of such Common Shares will be exempt from all registration or qualification requirements of applicable securities laws and will be permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange. In particular, if required by any regulatory authority to which the Company is subject, including the Stock Exchange, an Award Agreement may provide that shareholder approval to the grant of an Award must be obtained prior to the exercise of the Award or to the amendment of the Award Agreement.

## **15. WITHHOLDING TAX**

The Participant will be solely responsible for paying any applicable taxes (for greater certainty includes any tax under the *Income Tax Act* (Canada), and any other applicable tax statute or regulation) arising from the grant, vesting or exercise of any Award and payment is to be made in a manner satisfactory to the Company.



Notwithstanding the foregoing, the Company will have the right to withhold from any Award or any Common Shares issuable pursuant to an Award or from any cash amounts otherwise due or to become due from the Company to the Participant, an amount equal to any such taxes.

## **16. CONDITIONS**

Notwithstanding any of the provisions of this Plan or in any Award Agreement, the Company's obligation to issue Common Shares to a Participant pursuant to the exercise of an Award or the granting of any Award will be subject to, if applicable:

- (a) completion of such registration or other qualification of such Common Shares or to the approval of such governmental authority as the Company may determine to be necessary or advisable in connection with the authorization, issuance or sale thereof; and
- (b) the receipt from the Participant of such representations, agreements and undertakings, including as to future dealings in such Common Shares, as the Company or its counsel determines to be necessary or advisable in order to safeguard against the violation of the securities laws of any jurisdiction.

## **17. SUSPENSION, AMENDMENT OR TERMINATION OF PLAN**

**17.1 Suspension, Amendment or Termination of Plan.** Subject to the provisions of this Plan (including, but not limited to, Subsection 17.2) and the requirements of the Stock Exchange, the CGCC will have the right at any time to suspend, amend or terminate this Plan, including, but not limited to, the right:

- (a) with approval of shareholders of the Company, by ordinary resolution, to make any amendment to any Award Agreement or this Plan; and
- (b) without approval of shareholders of the Company to make the following amendments to any Award Agreement or this Plan:
  - (i) amendments of a clerical nature, including, but not limited to, the correction of grammatical or typographical errors or clarification of terms;
  - (ii) amendments to reflect any requirements of any regulatory authorities to which the Company is subject, including the Stock Exchange;
  - (iii) amendments to vesting provisions of Awards;
  - (iv) extend the term of any Award held by non-Insiders of the Company; and
  - (v) reduce the exercise price per Common Share under any Award held by non-Insiders of the Company or replace such Award with a lower exercise price per Common Share under such replacement Award.

Notwithstanding the foregoing, all procedures and necessary approvals required under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock

Exchange, shall be complied with and obtained in connection with any such suspension, termination or amendment to this Plan or amendments to any Award Agreement.

**17.2 Limitations.** In exercising its rights pursuant to Subsection 17.1, the CGCC will not have the right to:

- (a) without obtaining prior approval of shareholders (which must be disinterested shareholder approval) and except as permitted pursuant to Section 18, (i) extend the term of an Award held by an Insider of the Company; or (ii) reduce the exercise price per Common Share under any Award held by an Insider of the Company; or (iii) cancel any Award held by an Insider and replace such Award within three months of the cancellation;
- (b) affect in a manner that is adverse or prejudicial to, or that impairs, the benefits and rights of any Participant under any Award previously granted under this Plan (except as permitted pursuant to Section 18 and except for the purpose of complying with applicable securities laws or the bylaws, rules and regulations of any regulatory authority to which the Company is subject, including the Stock Exchange);
- (c) decrease the number of Common Shares which may be purchased pursuant to any Award (except as permitted pursuant to Section 18) without the consent of such Participant;
- (d) set the Exercise Price of any Options below the Current Market Price of such Options on the date of grant;
- (e) set the SAR Exercise Price of any Stock Appreciation Rights below the SAR Fair Market Value of such Stock Appreciation Rights on the date of grant;
- (f) set the exercise price of any Award below the Current Market Price (or below such other minimum price as may be permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange) of such Award on the date of grant;
- (g) increase the exercise price at which Common Shares may be purchased pursuant to any Award (except as permitted pursuant to Section 18) without the consent of such Participant;
- (h) extend the term of any Option beyond a period of ten years or the latest date permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchange; or
- (i) grant any Award if this Plan is suspended or has been terminated.

**17.3 Powers of CGCC Survive Termination.** The full powers of the CGCC as provided for in this Plan will survive the termination of this Plan until all Awards have been exercised or settled in full or have otherwise expired.

## **18. ADJUSTMENTS**

**18.1 Adjustments.** Subject to the provisions of this Plan, appropriate adjustments to this Plan and to Awards shall be made, and shall be conclusively determined, by the CGCC to give effect to adjustments

in the number of Common Shares resulting from subdivisions, consolidations, substitutions, or reclassifications of the Common Shares, the payment of share dividends by the Company (other than dividends in the ordinary course) or other changes in the capital of the Company or from a Merger and Acquisition Transaction. Any dispute that arises at any time with respect to any such adjustment will be conclusively determined by the CGCC, and any such determination will be binding on the Company, the Participant and all other affected parties.

**18.2 Merger and Acquisition Transaction.** Subject to the provisions of this Plan, in the event of a Merger and Acquisition Transaction or proposed Merger and Acquisition Transaction:

- (a) the CGCC shall, in an appropriate and equitable manner, determine any adjustment to the number and type of Common Shares (or other securities or other property) that thereafter shall be made the subject of Awards;
- (b) the CGCC shall, in an appropriate and equitable manner, determine the number and type of Common Shares (or other securities or other property) subject to outstanding Awards;
- (c) the CGCC shall, in an appropriate and equitable manner, determine the exercise price with respect to any Award; *provided, however*, that the number of securities covered by any Award or to which such Award relates shall always be a whole number;
- (d) the CGCC shall, in an appropriate and equitable manner, determine the manner in which all unexercised rights granted under this Plan will be treated including, without limitation, requiring the acceleration of the time for the exercise of such rights by the Participants, the time for the fulfillment of any conditions or restrictions on such exercise, and the time for the expiry of such rights;
- (e) the CGCC, or any company which is or would be the successor to the Company, or which may issue securities in exchange for Common Shares upon the Merger and Acquisition Transaction becoming effective, may offer any Participant the opportunity to obtain a new or replacement Award over any securities into which the Common Shares are changed or are convertible or exchangeable, on a basis proportionate to the number of Common Shares under the Award and the exercise price (and otherwise substantially upon the terms of the Award being replaced, or upon terms no less favourable to the Participant) including, without limitation, the periods during which the Award may be exercised and the expiry date; and in such event, the Participant shall, if he or she accepts such offer, be deemed to have released his or her Award over the Common Shares and such Award shall be deemed to have lapsed and be cancelled; and
- (f) the CGCC may commute for or into any other security or any other property or cash, any Award that is still capable of being exercised, upon giving to the Participant to whom such Award has been granted at least 30 days' written notice of its intention to commute such Award, and during such period of notice, the Award, to the extent it has not been exercised, may be exercised by the Participant without regard to any vesting conditions attached thereto, and on the expiry of such period of notice, the unexercised portion of the Award shall lapse and be cancelled.

Subsections (a) through (f) of this Subsection 18.2 may be utilized independently of, successively with, or in combination with each other and Subsection 18.1, and nothing therein contained shall be construed

as limiting or affecting the ability of the CGCC to deal with Awards in any other manner. All determinations by the CGCC under this Section 18 will be final, binding and conclusive for all purposes.

**18.3 Cancellation.** The CGCC may, in its sole discretion:

- (a) Cancel without consideration, any or all outstanding Awards that are out of the money; or
- (b) (i) pay to the holders of any or all outstanding Awards that are in the money and otherwise vested, in cash, the value of such Awards based upon their intrinsic value; or  
  
(ii) exchange the Award with the holders of any or all outstanding Awards that are in the money and otherwise vested, for the same consideration to be received by shareholders of the Company in such events contemplated in Subsection 18.1, based upon the intrinsic value of the Award.

**18.4 No Limitation.** For greater certainty, the grant of any Awards will in no way affect the Company's right to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, amalgamate, reorganize, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets or engage in any like transaction.

**18.5 No Fractional Shares.** No adjustment or substitution provided for in this Section 18 will require the Company to issue a fractional share in respect of any or other Awards and the total substitution or adjustment with respect to each Award will be limited accordingly.

## **19. GENERAL**

**19.1 No Rights as Shareholder.** For greater certainty, nothing herein or otherwise shall be construed so as to confer on any Participant any rights as a shareholder of the Company with respect to any Common Shares reserved for the purpose of any Award.

**19.2 No Effect on Employment.** For greater certainty, nothing in this Plan or any Award Agreement will confer upon any Participant any right to continue in the employ of or under contract with the Company or its Subsidiary or affect in any way the right of the Company or any such Subsidiary to terminate his or her employment at any time or terminate his or her consulting contract, nor will anything in this Plan or any Award Agreement be deemed or construed to constitute an agreement, or an expression of intent, on the part of the Company or any such Subsidiaries to extend the employment of any Participant beyond the time that he or she would normally be retired pursuant to the provisions of any present or future retirement plan of the Company or its Subsidiaries or any present or future retirement policy of the Company or its Subsidiaries, or beyond the time at which he or she would otherwise be retired pursuant to the provisions of any contract of employment with the Company or its Subsidiaries. Neither any period of notice nor any payment in lieu thereof upon termination of employment shall be considered as extending the period of employment for the purposes of this Plan.

**19.3 No Fettering of Directors' Discretion.** For greater certainty, nothing contained in this Plan will restrict or limit or be deemed to restrict or limit the right or power of the Board of Directors in connection with any allotment and issuance of Common Shares which are not allotted and issued under this

Plan including, without limitation, with respect to other compensation arrangements.

- 19.4 No Representation or Warranty.** The Company makes no representation or warranty as to the future market value of Common Shares issued in accordance with the provisions of this Plan or to the effect of the *Income Tax Act* (Canada) or any other taxing statute governing the Awards or the Common Shares issuable thereunder or the tax consequences to a Participant. Compliance with applicable securities laws as to the disclosure and resale obligations of each Participant is the responsibility of each Participant and not the Company.
- 19.5 Applicable Law.** Other than for the limited purpose of defining certain terms as specified and contained in Section 2.1 of this Plan, this Plan and any Award Agreement granted hereunder will be governed, construed and administered in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein.

**Schedule "D"**  
**Advance Notice Provisions**

**ADVANCE NOTICE RESOLUTION**

WHEREAS the Company wishes to amend its Articles and to add certain provisions to provide shareholders, directors and management of the Company with direction on the procedure for shareholder nomination of directors and to provide a framework under which a deadline is fixed by which holders of record of common shares of the Company must submit written director nominations to the Company prior to any annual or special meeting of shareholders and to set forth the information that a shareholder must include in the written nomination notice to the Company in order for that notice to be in proper written form.

**NOW THEREFORE BE IT RESOLVED, as an ordinary resolution of the shareholders of the Company, THAT** Article 14 of the Company's Articles be amended by adding the new subsections, Section 14.2 and 14.3 below, in which the procedures for the nomination of directors of the Company be implemented, the current sections 14.2 through 14.11 be changed to 14.4 through 14.13:

**14.2 Nomination of Directors**

- (1) Nominations of persons for election to the Board may be made at any Annual Meeting of shareholders or at any Special Meeting of shareholders if one of the purposes for which the Special Meeting was called was the election of directors. In order to be eligible for election to the Board at any Annual Meeting or Special Meeting of shareholders, persons must be nominated in accordance with one of the following procedures:
  - (i) by or at the direction of the Board or an authorized officer, including pursuant to a notice of meeting;
  - (ii) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the Business Corporations Act (British Columbia) (the "BCBCA"), or a requisition of the shareholders made in accordance with the provisions of the BCBCA; or
  - (iii) by any person (a "Nominating Shareholder"): (A) who, at the close of business on the date of the giving by the Nominating Shareholder of the notice provided for below in this Article 14.2 and at the close of business on the record date for notice of such meeting, is entered in the central securities register of the Company as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and (B) who complies with the notice procedures set forth below in this Article 14.2.
- (2) In addition to any other requirements under applicable laws, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must give notice which is both timely (in accordance with paragraph (3) below) and in proper written form (in accordance with paragraph (4) below) to the Corporate Secretary of the Company at the principal executive offices of the Company.
- (3) A Nominating Shareholder's notice to the Corporate Secretary of the Company will be deemed to be timely if:

- (a) in the case of an Annual Meeting of shareholders, such notice is made not less than 30 nor more than 65 days prior to the date of the Annual Meeting of Shareholders; provided, however, that in the event that the Annual Meeting of Shareholders is to be held on a date that is less than 50 days after the date (the “**Notice Date**”) on which the first public announcement of the date of the Annual Meeting is made, notice by the Nominating Shareholder is made not later than the close of business on the tenth (10th) day following the Notice Date; and
- (b) in the case of a Special Meeting (which is not also an Annual Meeting) of Shareholders called for the purpose of electing directors (whether or not called for other purposes), such notice is made not later than the close of business on the fifteenth (15th) day following the day on which the first public announcement of the date of the Special Meeting of Shareholders was made. Notwithstanding the foregoing, the Board may, in its sole discretion, waive any requirements of this paragraph (3).

For greater certainty, the time periods for the giving of notice by a Nominating Shareholder as aforesaid shall, in all cases, be determined based on the original date of the applicable Annual Meeting or Special Meeting, and in no event shall any adjournment or postponement of an Annual Meeting or Special Meeting or the announcement thereof commence a new time period for the giving of such notice.

- (4) A Nominating Shareholder’s notice to the Corporate Secretary of the Company will be deemed to be in proper form if:
  - (a) as to each person whom the Nominating Shareholder proposes to nominate for election as a director, such notice sets forth: (A) the name, age, business address and residential address of the person; (B) the principal occupation or employment of the person; (C) the class or series and number of shares in the capital of the Company which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and (D) any other information relating to the person that would be required to be disclosed in a dissident’s proxy circular in connection with solicitations of proxies for election of directors pursuant to the BCA and Applicable Securities Laws (as defined below); and
  - (b) as to the Nominating Shareholder giving the notice, such notice sets forth any proxy, contract, arrangement, understanding or relationship pursuant to which such Nominating Shareholder has a right to vote any shares of the Company and any other information relating to such Nominating Shareholder that would be required to be made in a dissident’s proxy circular in connection with solicitations of proxies for election of directors pursuant to the Business Corporations Act and Applicable Securities Laws (as defined below).
- (5) The Company may require any proposed nominee for election as a Director to furnish such additional information as may reasonably be requested by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable shareholder’s understanding of the independence, or lack thereof, of such proposed nominee.
- (6) No person shall be eligible for election as a director of the Company unless nominated in accordance

with the provisions of this Article 14.2; provided, however, that nothing in this Article 14.2 shall be deemed to restrict or preclude discussion by a shareholder (as distinct from the nomination of directors) at an Annual Meeting or Special Meeting of any matter that is properly brought before such meeting pursuant to the provisions of the BCA or at the discretion of the Chairman of the meeting. The Chairman of the meeting shall have the power and duty to determine whether any nomination for election of a director was made in accordance with the procedures set forth in this Article 14.2 and, if any proposed nomination is not in compliance with such procedures, to declare such nomination defective and that it be disregarded.

(7) For purposes of this Article 14.2:

- (a) **“Annual Meeting”** means any annual meeting of Shareholders;
- (b) **“Applicable Securities Laws”** means the applicable securities legislation of each relevant province and territory of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such laws and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commission or similar securities regulatory authority of each province and territory of Canada;
- (c) **“BCBCA”** means the *Business Corporations Act* (British Columbia), as amended;
- (d) **“Board”** means the board of directors of the Company as constituted from time to time;
- (e) **“Common Shares”** means common shares in the capital of the Company;
- (f) **“Public Announcement”** means disclosure in a press release reported by a national news service in Canada, or in a document publicly filed by the Company under its profile on the System of Electronic Document Analysis and Retrieval (SEDAR) at [www.SEDAR.com](http://www.SEDAR.com);
- (g) **“Shareholder”** means a holder of Commons Shares; and
- (h) **“Special Meeting”** means any special meeting of Shareholders if one of the purposes for which such meeting is called is the election of directors.

(8) Notwithstanding any other provision of this Article 14.2, notice given to the Corporate Secretary of the Company pursuant to this Article 14.2 may only be given by personal delivery, facsimile transmission or by email (at such email address as may be stipulated from time to time by the Corporate Secretary of the Company for purposes of this Article 14.2), and shall be deemed to have been given and made only at the time it is served by personal delivery to the Corporate Secretary at the address of the principal executive offices of the Company, email (at the address as aforesaid) or sent by facsimile transmission (provided that receipt of confirmation of such transmission has been received); provided that if such delivery or electronic communication is made on a day which is a not a business day or later than 5:00 p.m. (Vancouver time) on a day which is a business day, then such delivery or electronic communication shall be deemed to have been made on the next following day that is a business day.



### **14.3 Application**

- (1) Article 14.2 does not apply to the Company in the following circumstances:
  - (a) if and for so long as the Company is not a public company; or
  - (b) to the election or appointment of a director or directors in the circumstances set forth in Article 14.9.
  
- (2) Any director or officer of the Company is hereby authorized and directed for and in the name of and on behalf of the Company to execute or cause to be executed, whether under corporate seal of the Company or otherwise, and to deliver or make or cause to be delivered or made all such filings and documents, and to do or cause to be done all such acts and things, as in the opinion of such director or officer may be necessary or desirable in connection with the foregoing.