



**SANDSTORM METALS & ENERGY LTD.**

**ANNUAL INFORMATION FORM  
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2013**

**MARCH 10, 2014**

**Suite 1400, 400 Burrard Street  
Vancouver, B.C. V6C 3A6**

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## INTRODUCTORY NOTES

### Cautionary Note Regarding Forward-Looking Information

This Annual Information Form (“**Annual Information Form**” or “**AIF**”) contains “forward-looking statements” or “forward-looking information” within the meaning of applicable securities legislation. Forward-looking information is provided as of the date of this Annual Information Form and Sandstorm Metals & Energy Ltd. (“**Sandstorm Metals**” or the “**Corporation**”) does not intend, and does not assume any obligation, to update this forward-looking information, except as required by law.

Generally, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward-looking information is based on reasonable assumptions that have been made by Sandstorm Metals as at the date of such information and is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Sandstorm Metals to be materially different from those expressed or implied by such forward-looking information, including but not limited to: the impact of general business and economic conditions; the absence of control over mining operations from which Sandstorm Metals will purchase certain commodities or from operations from which it will receive royalty payments, and risks related to those mining and oil and gas operations, including risks related to international operations, government and environmental regulation, delays in mine construction and operations or natural gas well production, actual results of mining and current exploration activities, conclusions of economic evaluations and changes in project parameters as plans continue to be refined; problems inherent to the marketability of minerals and natural gas; industry conditions, including fluctuations in the price of the primary commodities mined at such operations, fluctuations in foreign exchange rates and fluctuations in interest rates; government entities interpreting existing tax legislation different from the way Sandstorm Metals does or enacting new tax legislation in a way which adversely affects Sandstorm Metals; stock market volatility; competition; as well as those factors discussed in the section entitled “Risk Factors” herein.

Forward-looking information in this Annual Information Form includes, among other things, disclosure regarding: Sandstorm Metals’ existing two Commodity Streams (as hereinafter defined) plus its three net smelter return royalties as well as its future outlook and the mineral reserve and mineral resource estimates for the Bracemac-McLeod Mine (as hereinafter defined). Forward-looking information is based on assumptions management believes to be reasonable, including but not limited to the continued operations from which Sandstorm Metals will purchase commodities or receive royalty payments, no material adverse change in the market price of commodities, that the mining and oil and gas operations will operate in accordance with their public statements and achieve their stated production outcomes, and such other assumptions and factors as set out herein.

Although Sandstorm Metals has attempted to identify important factors that could cause actual actions, events or results to differ materially from those contained in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

### Currency Presentation

All dollar amounts referenced, unless otherwise indicated, are expressed in United States dollars.

## CORPORATE STRUCTURE

The Corporation was incorporated under the *Business Corporations Act* (British Columbia) on January 4, 2010 under the name “Sandstorm Energy & Base Metals Ltd.” as a wholly-owned subsidiary of Sandstorm Resources Ltd. (subsequently renamed as “Sandstorm Gold Ltd.”) (TSXV: SSL) (“**Sandstorm Gold**”). Effective April 7, 2010, the Corporation changed its name to Sandstorm Metals & Energy Ltd. Effective May 13, 2010, pursuant to a plan of arrangement, Sandstorm Gold distributed all of its common shares held in the Corporation to Sandstorm Gold shareholders. As a result of the plan of arrangement, the Corporation ceased being a subsidiary of Sandstorm Gold. On May 13, 2010, the common shares of the Corporation (the “**Common Shares**”) began trading on the TSX Venture Exchange (“**TSXV**”) under the symbol “SND”.

The Corporation’s head, registered and records office are located at Suite 1400, 400 Burrard Street, Vancouver, British Columbia, V6C 3A6.

The Corporation has six principal wholly-owned subsidiaries, Sandstorm Metals & Energy (Canada) Ltd., 0905896 B.C. Ltd., 0915677 B.C. Ltd. and 0955615 B.C. Ltd. (each incorporated under the laws of the Province of British Columbia) and Sandstorm Metals & Energy (US) Inc. and 0955615 US Inc. (each incorporated under the laws of the State of Delaware). As used in this Annual Information Form, except as otherwise required by the context, reference to “Sandstorm” or the “Corporation” means, collectively, Sandstorm Metals & Energy Ltd. and its subsidiaries.

## GENERAL DEVELOPMENT OF THE BUSINESS

### Plan of Arrangement

On May 13, 2010, the Corporation completed a plan of arrangement with Sandstorm Gold whereby Sandstorm Gold transferred its option agreement on the Eagle Lake property owned by Eagle Plains Resources Ltd. located in Saskatchewan, Canada and working capital of C\$500,000 to the Corporation in exchange for 6,836,810 Common Shares of the Corporation. Sandstorm Gold thereafter distributed all of its Common Shares held in the Corporation to Sandstorm Gold shareholders. As a result, the Corporation ceased being a subsidiary of Sandstorm Gold.

Sandstorm Gold focuses on gold purchase agreements and the Corporation focuses on base metals and energy purchase agreements (each a “**Commodity Stream**”).

### Commodity Streams

#### **NovaDx - Coal Stream**

On November 26, 2010 (as amended), the Corporation entered into a Commodity Stream with NovaDx Ventures Corp. (“**NovaDx**”) and its subsidiary, MCoal Corporation (“**MCoal**”) (the “**NovaDx Coal Stream**”), pursuant to which the Corporation agreed to purchase an amount of coal equal to 25% of the coal produced from surface mining from NovaDx’s Rosa mine (the “**Rosa Mine**”) and Rex mine (the “**Rex Mine**”) (the Rosa Mine and the Rex Mine collectively referred to herein as the “**NovaDx Mines**”) up to 950,000 tons of metallurgical coal equivalent (ie. one ton of metallurgical coal or three tons of thermal coal), and 16% of the coal produced thereafter, for an upfront payment of \$30 million in cash (which has been paid), plus ongoing per ton payments equal to the lesser of: (a) \$75 for metallurgical coal and \$55 for thermal coal, both of which are subject to certain price adjustments (the “**NovaDx Fixed Price**”), and (b) the prevailing market prices for metallurgical coal and thermal coal, respectively. In accordance with such adjustments, if any coal extracted or produced from the NovaDx Mines is sold to an off-taker at the applicable pit mouth, then the NovaDx Fixed Price shall be reduced by \$10 per ton for metallurgical coal and \$5 per ton for thermal coal. The agreement is subject to an area of interest of 30 miles around the boundaries of the NovaDx Mines. The Corporation must pay a price equal to the applicable percentage payable factor of coal of the area of interest acquisition price (i.e. 25% or 16% or some lesser number if the buy-back option is exercised in whole or in part) in order for any area of interest property acquired by NovaDx to form a part of the NovaDx Mines.

The Corporation is not required to contribute to any capital or exploration expenditures in respect of the mining operations of the NovaDx Mines. Sandstorm Metals is owed \$2.7 million from a 2011 minimum cash flow guarantee which has not yet been paid. Sandstorm Metals has provided NovaDx an extension for payment of this amount.

In September 2012, the Corporation announced a proposed restructuring of NovaDx which includes new management, an equity offering, a restructuring of the NovaDx Coal Stream and a change of NovaDx's name to Blackpaw Coal Corp. As part of the restructuring, NovaDx entered into an agency agreement to launch an offering of special warrants at a price of C\$0.05 per special warrant, with the intention of raising gross proceeds of between C\$15 million and C\$25 million (the "**Offering**"). The Corporation agreed to subscribe for up to C\$5 million of the Offering and, included in the Corporation's commitment is a secured credit facility of up to C\$2 million to fund NovaDx's ongoing working capital requirements until the Offering is completed (all of which had been drawn down by December 31, 2012). The credit facility bears interest at 8% per annum, has a one year term and will automatically convert into equity of NovaDx on the same terms as the Offering, at the closing of the Offering. In the event that NovaDx is successful in securing not less than C\$15 million in external financing, the Corporation has agreed, subject to the approval of NovaDx's shareholders, to restructure the existing NovaDx Coal Stream and related receivables with NovaDx on the following basis:

- (a) \$10 million will convert into NovaDx equity, at an effective price of C\$0.05 per share;
- (b) \$10 million will convert into a secured debenture of NovaDx, due five years from the closing date of the Offering and bearing interest at 8% per annum, which is not payable until maturity. The Corporation has the option to convert the debenture into equity of NovaDx at C\$0.10 per share. NovaDx may repay the principal and interest outstanding, in whole or in part, subject to the Corporation's conversion right; and
- (c) \$12.5 million will convert into a gross overriding royalty ("**Royalty**") at the rate of \$4.50 per ton of coal sold from the NovaDx Mines, for the life of the mines, until such time as the Corporation receives Royalty income of \$10 million plus an after-tax internal rate of return of 14%, at which time the Royalty rate will decrease to \$2.00 per ton of coal.

#### Write-Down of NovaDx Coal Stream

The progress of the Offering and other operational delays prompted the Corporation to evaluate its investment in NovaDx. As a result of its review and circumstances specific to certain assets, the Corporation recorded an impairment charge to the NovaDx Coal Stream and other related assets in the amounts of \$27.8 million and \$5.2 million, respectively.

Management continues to work diligently and believe that any future restructuring associated with NovaDx will provide the Corporation with the opportunity to extract value from its initial investment.

#### Justice Assets Acquisition

During the fourth quarter of 2012, the Corporation, together with NovaDx, completed the acquisition of certain coal properties and assets (the "**Justice Acquisition**") located in Campbell and Scott Counties, Tennessee generally known as Mine 12, the Turley Rail Load-Out facility and the Smokey Junction Preparation Plant, including the Jordan Ridge refuse facility (the "**Tennessee Properties**"). The Tennessee Properties were acquired from Premium Coal Company, National Coal, LLC and Jacksboro Coal Company, LLC for an aggregate purchase price of \$8.5 million (the "**Purchase Price**").

The Justice Acquisition was completed through a newly-incorporated Sandstorm Metals entity ("**US Inc.**") which is initially owned by the Corporation. NovaDx will operate US Inc. and has a one year option (the "**Option Period**") to acquire the Corporation's interest in US Inc. at cost. NovaDx is responsible for the costs of any operations until the expiry of the Option Period. The Purchase Price was paid through a cash payment of \$3 million contributed by the Corporation, \$2 million paid through the issuance of 4,377,675 Common Shares and a five year promissory note issued by US Inc. in the amount of \$3.5 million with annual installments of \$0.7 million plus interest based on the U.S. prime rate (the "**Note**"). The Note is payable by US Inc. but may be paid through the issuance of Common Shares of the Corporation, at the option of the Corporation. The \$3 million contributed by the Corporation to the

Purchase Price forms part of the Corporation's earlier described commitment to subscribe for up to \$5 million under NovaDx's Offering. During the year ended December 31, 2013, the Corporation and the other parties restructured the payment terms of the Note such that the \$0.7 million plus interest payment which was due on December 31, 2013 was deferred over multiple payment dates, the last of these dates being May 1, 2014 (the "**Deferred Payments**"). Concurrently, the Corporation entered into an agreement with NovaDx pursuant to which NovaDx agreed to remit the Deferred Payments on US Inc.'s behalf.

Mine 12 is contiguous with NovaDx's existing Rex coal reserves and will provide a second mine entry into the coal seam and potentially add to the mineral reserves and mineral resources and extend the mine life. In addition, the Smokey Junction Preparation Plant should facilitate a more rapid start-up of mining operations at the Rex No. 1 mine. The Turley Rail Load-Out facility will bring improved market access, both domestic and export. The Corporation believes that the Justice Acquisition improves NovaDx's asset package and marketability.

### ***Terrex - Energy Stream***

On March 18, 2011, the Corporation entered into a Commodity Stream with Terrex Energy Inc. ("**Terrex**") (the "**Terrex Energy Stream**") to purchase (a) 25% of all oil and natural gas for the life of the Two Creek Jurassic A property and for five years of the Two Creek Jurassic B property (the Two Creek Jurassic A property and the Two Creek Jurassic B property together referred to as the "**Two Creek Properties**"), and (b) 15% of all oil and natural gas produced from the Strathmore property (the "**Strathmore Property**"). All properties are located in Alberta, Canada. As consideration, the Corporation made an upfront payment of C\$14.7 million (\$15.0 million) and also agreed to make ongoing per unit payments of C\$15.00 per barrel of oil delivered and C\$1.00 per 1,000 cubic feet ("**Mcf**") of gas delivered. The Two Creek Properties included approximately 16 active wells in two separate oil pools on 4,320 acres of land and the Strathmore Property included approximately ten producing wells in one main oil pool on 3,131 acres of land.

#### **Write-Down of Terrex Energy Stream**

During 2012, the Corporation provided written notice to Terrex indicating that it was in default under the terms of its agreement with the Corporation due to Terrex's failure to fulfill certain drilling obligations. Pursuant to the agreement, if Terrex did not remedy the default to the Corporation's reasonable satisfaction, the Corporation had the right to, among other things, realize on its security interest in all of Terrex's material assets. These circumstances and other operational delays prompted the Corporation to evaluate its investment in Terrex. As a result of its review and circumstances specific to certain assets, the Corporation recorded an impairment charge to the Terrex Energy Stream in the amount of \$5.1 million.

#### **Restructuring of the Terrex Energy Stream**

During 2013, Terrex completed a business combination with Anterra Energy Inc. ("**Anterra**") whereby, effective March 14, 2013, Anterra acquired 100% of the issued and outstanding common shares in the capital of Terrex. In connection with the completion of the business combination, Terrex and Anterra entered into a settlement agreement (the "**Settlement Agreement**") with the Corporation. Under the Settlement Agreement, the two Terrex commodity streams were sold for total consideration of approximately \$10.4 million, comprised of:

- (a) a cash payment of \$3.26 million by Anterra;
- (b) the delivery of certain equipment from Terrex having a value of approximately \$2.6 million (which the Corporation subsequently sold during the year ended December 31, 2013);
- (c) the issuance by Anterra of C\$4.0 million principal amount, five year secured convertible debenture maturing on March 13, 2018 (bearing interest at 6% per annum, convertible into shares of Anterra at C\$0.10 per Anterra share) (the "**Anterra Debenture**"); and
- (d) 9.326 million shares in the capital of Anterra (the "**Anterra Shares**").

### ***Thunderbird - Energy Stream***

On July 13, 2011 (as amended), the Corporation entered into a Commodity Stream with Gordon Creek Energy Inc. (formerly known as Thunderbird Energy Corporation) (the “**Thunderbird Energy Stream**”) to purchase 35% of all natural gas for the life of: (i) existing operating wells and five net wells that are to be subject to workover operations, located on mineral interests leased by Thunderbird located in the Gordon Creek Area, Carbon County, Utah, United States (the “**Gordon Creek Property**”); and (ii) an additional 50 net wells that Thunderbird must drill at locations of its choice within the Gordon Creek Property. For consideration, the Corporation agreed to make upfront payments totaling \$25 million, of which \$15 million was paid in fiscal 2011. The remaining \$10 million was originally scheduled to be paid in May 2013, but was amended such that the Corporation advanced \$3 million to Thunderbird in July 2012 and the scheduled May 2013 payment was reduced to \$7 million (the “**Remaining Purchase Price**”). In consideration for the accelerated payment, the Thunderbird Energy Stream covered an expanded area of interest. The Corporation agreed to make ongoing per unit payments (the “**Thunderbird Fixed Price**”) of \$1.00 per Mcf of natural gas delivered plus 20% of the marketing price received by Thunderbird that is above \$4.00 per Mcf of natural gas delivered. The Corporation also agreed to be responsible for certain production taxes. The Corporation was not required to contribute any further capital, exploration or operating expenditures to Thunderbird.

During 2012, the Corporation and Thunderbird amended the Thunderbird Energy Stream whereby all minimum cash flow guarantees and drilling commitments at the Gordon Creek Property were deferred by one year. As consideration for the deferral, in March 2013, Thunderbird issued 17,922,724 Thunderbird shares (resulting in subsequent holdings of 1,194,848 Thunderbird shares due to a 15:1 consolidation by Thunderbird in October 2013) which was equal to C\$2.55 million at a deemed price per share of C\$0.142 (pre-consolidation), resulting in the Corporation owning approximately 17.1% of Thunderbird’s issued and outstanding shares. Under the terms of the amendment, Thunderbird provided a cash flow guarantee that the Corporation would receive minimum before tax cash flows of \$2.3 million by December 31, 2013, \$5.1 million in 2014, \$4.6 million in 2015, \$4.2 million in 2016, \$3.8 million in 2017, \$3.3 million in 2018 and \$1.7 million in 2019.

#### **Write-Down of Thunderbird Energy Stream**

During 2013, the Corporation was in discussions with Thunderbird to modify the terms of the Thunderbird Energy Stream to better allow Thunderbird to raise additional third party capital. These factors and the lack of progress with respect to Thunderbird’s drilling commitments prompted the Corporation to evaluate its investment in Thunderbird. As a result of its review and circumstances specific to certain assets, the Corporation recorded an impairment charge to the Thunderbird Energy Stream in the amount of \$12.1 million during the three months ended June 30, 2013. Subsequently, the Corporation re-evaluated its investment and, as a result of this review and taking into consideration Thunderbird’s change in financial circumstances, during the fourth quarter of 2013, the Corporation reversed \$3.8 million of the previously recorded impairment charge.

For further information on the Gordon Creek Property, see the “*Reserves Data for Sandstorm Metals & Energy Ltd. Relating to the Agreement with Thunderbird Energy Corporation*” dated March 26, 2013 (the “**Thunderbird Reserves Data**”), available at [www.sedar.com](http://www.sedar.com) under the Corporation’s profile and incorporated by reference in this Annual Information Form. The Gordon Creek Property reserves set forth in the Thunderbird Reserves Data are not reserves of the Corporation.

### ***Colossus - Palladium Stream***

On September 18, 2012, the Corporation entered into an agreement (the “**Colossus Palladium Stream**”) with Colossus Minerals Inc. (“**Colossus**”) via a back-to-back agreement with Sandstorm Gold to purchase, for a period of 40 years (which may be extended), an amount equal to 35% of the palladium produced from the Serra Pelada mine located in Para, Brazil (the “**Serra Pelada Mine**”). For consideration, the Corporation made a \$15 million cash payment to Sandstorm Gold in March of 2013. In addition, the Corporation was required to make ongoing per ounce payments equal to the lesser of \$100 per ounce of palladium and the then prevailing market price per ounce of palladium (subject to a 1%

annual inflationary adjustment beginning in September 2015). The Corporation was not required to contribute any further capital, exploration or operating expenditures to Colossus.

Colossus guaranteed certain minimum annual deliveries for the initial 10 year period, commencing in 2013, so long as the Serra Pelada Mine was in operation. Colossus also provided a guarantee that if the Serra Pelada Mine shut down for a period of 24 months and Sandstorm Gold had not recognized cash flow equal to their initial upfront deposit, then Colossus would refund the balance to Sandstorm Gold. In addition, Colossus agreed to refund a pro-rata portion of the initial upfront deposit if the Serra Pelada Mine did not achieve a completion test within 48 months of funding.

#### Restructuring of the Colossus Palladium Stream

In 2013, Colossus announced its inability to secure the necessary financing required to bring the Serra Pelada Mine into production. Sandstorm Gold and a group of holders of Colossus Convertible Gold Linked Notes (the “**Gold Linked Notes**”) proposed a restructuring plan for Colossus which proposal provided for a restructuring of Colossus’ capital structure through the conversion of its Gold Linked Notes and Sandstorm Gold’s gold/platinum stream into equity (the “**Restructuring**”). Colossus filed a notice of intention to make a proposal under the *Bankruptcy and Insolvency Act* (Canada) which allowed it to pursue the Restructuring and a sale process with the benefit of creditor protection and under Court supervision. As part of the Restructuring, Sandstorm Gold agreed to cancel its gold/platinum stream in exchange for a 1.6% net smelter return royalty (“**NSR**”) on the Serra Pelada Mine plus common shares of Colossus. When the Restructuring is completed (which is expected to be in mid to late March 2014) Sandstorm Gold expects to own approximately 31% of the issued and outstanding shares of Colossus and, upon completion of the Restructuring, Sandstorm Gold will also cancel the Corporation’s back-to-back agreement with respect to the Colossus Palladium Stream and the Corporation will receive a 0.4% NSR on the Serra Pelada Mine and approximately 8% of the outstanding common shares of Colossus.

#### Write-Down of Colossus Palladium Stream

Given the development delays at the Serra Pelada Mine and the additional capital required to bring the mine into production, the Corporation re-evaluated its investment in Colossus. As a result of its review and circumstances specific to certain assets, the Corporation recorded an impairment charge to the Colossus Palladium Stream in the amount of \$13.1 million during the year ended December 31, 2013.

#### **Entrée - Copper Metal Credits Agreement**

On February 14, 2013, the Corporation entered into a purchase agreement (the “**Entrée Copper Metal Credits Agreement**”) with Entrée Gold Inc. (“**Entrée**”) via a back-to-back agreement with Sandstorm Gold to purchase, for a period of 50 years (which may be extended), an amount equal to:

- (a) 0.50% of the copper produced from the Hugo North Extension (Lower Level);
- (b) 0.75% of the copper produced from the Hugo North Extension (Upper Level);
- (c) 0.50% of the copper produced from the Heruga Deposit (Lower Level); and
- (d) 0.75% of the copper produced from the Heruga Deposit (Upper Level),

(all of which are subject to adjustment upon the occurrence of certain stated events). The Hugo North Extension and the Heruga Deposit are both located in the South Gobi desert of Mongolia (the entire Hugo North Extension and the entire Heruga Deposit are collectively referred to herein as the “**Entrée JV Project**”).

The consideration for the Entrée Copper Metal Credits Agreement is an upfront payment of \$5.0 million, which the Corporation satisfied by issuing 1,113,333 (post-consolidation) Common Shares to Sandstorm Gold at a post-consolidation price of C\$4.50 per Common Share. In addition, the Corporation is required to make ongoing payments for the copper production which it purchases under the Entrée Copper Stream equal to the lesser of the prevailing market price and \$0.50 per pound, until approximately 9.1 billion pounds of copper have been produced from the Entrée JV Project (the “**Initial Fixed Price**”). Thereafter, the ongoing payments will increase to the lesser of the prevailing market price and \$1.10 per pound for the copper (the “**Subsequent Fixed Price**”). The Initial Fixed Price is subject to a 1% annual

inflationary adjustment beginning on the fourth anniversary of the date upon which the Corporation commences receiving payable copper. The Subsequent Fixed Price is subject to a 1% annual inflationary adjustment beginning on the first anniversary of the date upon which the fixed price which the Corporation pays for the copper is adjusted from the Initial Fixed Price to the Subsequent Fixed Price. The Entrée Copper Metal Credits Agreement does not require the delivery of physical metal and Entrée may use future cash flows from any of its mineral property interests to delivery metal credits to the Corporation to fulfill its requirements under the Entrée Copper Metal Credits Agreement. The Corporation is not required to contribute any further capital, exploration or operating expenditures to Entrée.

The Hugo North Extension has a rich porphyry copper-gold deposits and the Heruga Deposit is a copper-gold-molybdenum porphyry deposit. Both are located in the South Gobi desert of Mongolia, approximately 570 kilometres south of the capital city of Ulaanbaatar and 80 kilometres north of the border with China. The Hugo North Extension and the Heruga Deposit are part of the Oyu Tolgoi mining complex and are being developed by Oyu Tolgoi LLC, a subsidiary of Turquoise Hill Resources and the Government of Mongolia, and its project manager Rio Tinto PLC. Entrée retains a 20% interest in the resource deposits of the Hugo North Extension and the Heruga Deposit. The first development production from Entrée's joint venture ground is expected in 2015.

## **Royalties**

### ***Donner - Copper Royalty***

On July 12, 2011 (as amended), the Corporation entered into a Commodity Stream with Donner Metals Ltd. ("**Donner**") (the "**Donner Copper Stream**") pursuant to which the Corporation agreed to purchase from Donner 24.5% of the gross amount of copper in the concentrate produced (or if concentrate is not produced, in the ore produced) from the Bracemac-McLeod project (the "**Bracemac-McLeod Mine**") which is owned and operated by a subsidiary of Glencore Xstrata plc ("**Glencore**"), situated in the Matagami Camp, Matagami, Quebec and a 3.2 kilometre radius around claim block 5244047. The Corporation also entered into an agreement with Donner to purchase 24.5% of the life of mine gold and gold equivalent produced from the Bracemac-McLeod Mine, for an upfront payment of \$5.0 million (the "**Donner Gold Stream**"). Concurrently, on July 12, 2011, the Corporation entered into a similar back-to-back agreement with Sandstorm Gold to sell all of the gold and gold equivalent ounces purchased from Donner in return for Sandstorm Gold remitting the \$5.0 million upfront payment which was remitted in June 2012. As part the agreement and upon receipt of the \$5.0 million upfront payment, Donner issued to the Corporation \$1.3 million (C\$1.4 million) worth of common shares in June 2012. During the year ended December 31, 2011, the Corporation made an upfront payment to Donner of \$17.75 million and subscribed for 6,428,571 common shares in the capital of Donner for \$2.25 million.

During the year ended December 31, 2012, the Corporation made an additional upfront payment to Donner of \$10 million to increase the stream from the initially agreed upon 17.75% to 24.5%. The back-to-back agreement was amended in November 2012 and Sandstorm Gold remitted an additional \$3 million, which formed part of the \$10 million paid to Donner by the Corporation during the year ended December 31, 2012.

### **Restructuring of the Donner Copper Stream**

Donner held a 35% participating interest in the Bracemac-McLeod Mine but, during the summer of 2013, Donner announced their inability to meet the cash calls under their operating agreement with Glencore. Accordingly, on August 30, 2013, Glencore granted the Corporation a 3.0% NSR on 100% of the production from the Bracemac-McLeod Mine which was split between the Corporation and Sandstorm Gold based on the respective funds contributed to Donner in relation to the Donner Copper Stream and the Donner Gold Stream, resulting in the Corporation receiving 80% of the proceeds from the 3.0% NSR (equivalent to a 2.4% NSR) and Sandstorm Gold receiving 20% of the proceeds from the 3.0% NSR (equivalent to a 0.6% NSR) (collectively the "**Glencore NSR**") and the Corporation and Sandstorm Gold relinquished their copper and gold streams, respectively, on the Bracemac-McLeod Mine. After the proceeds from the Glencore NSR exceed \$49 million, from that point forward, the Corporation and Sandstorm Gold will pay a combined 1.0% NSR to Donner out of the proceeds of the Glencore NSR. The

Corporation issued 1,333,334 (post-consolidation) Common Shares (at a deemed price of \$1.50 per share) to Donner and Donner provided each of Glencore and the Corporation with an irrevocable and unconditional release and discharge of any claim by Donner against Glencore or the Corporation.

As a result of the conversion of the Donner Copper Stream into a 2.4% NSR, the Corporation recorded an impairment charge of \$6.3 million during the year ended December 31, 2013.

For further details regarding the Bracemac-McLeod Mine, see "TECHNICAL INFORMATION – Bracemac-McLeod Mine, Quebec, Canada" below.

### ***Canadian Zinc Royalty***

On May 31, 2013, the Company entered into an agreement (the "**Canadian Zinc Royalty**") with Canadian Zinc Corporation pursuant to which it purchased, in perpetuity, a 1.2% NSR on Canadian Zinc's Prairie Creek zinc-silver-lead project in the Northwest Territories, Canada ("**Prairie Creek Project**") (the "**Prairie Creek NSR**") for \$6.8 million for the base metals portion (zinc/lead) and \$3.2 million for the silver portion, for an aggregate of \$10 million. Concurrently, the Corporation entered into a similar back-to-back agreement with Sandstorm Gold to sell all of the silver purchased from Canadian Zinc to Sandstorm Gold in return for Sandstorm Gold remitting the \$3.2 million portion of the upfront payment.

Canadian Zinc provided the Corporation with a right of first refusal on any future royalty or metals stream financing for the Prairie Creek Project. The Corporation also provided Canadian Zinc with a 30 month buy back option entitling Canadian Zinc to repurchase 100% of the Prairie Creek NSR at face value provided that Canadian Zinc enters into a metal stream agreement with the Corporation having an upfront deposit of greater than \$90 million.

Canadian Zinc has reported that the Prairie Creek Project contains a proven and probable mineral reserve of 5.2 million tonnes averaging 9.4% zinc, 9.5% lead and 151 grams per tonne silver. The project is an underground operation which will utilize multiple mining methods to access readily available ore. Canadian Zinc reports that it has the infrastructure in place, including a 1,000 tonne per day mill, five kilometres of underground workings and related equipment, a heavy duty and light duty surface fleet, three exploration diamond drills and a 1,000 metre airstrip. They hold permits for the exploration and development of the Prairie Creek Project and have recently received the Type A Water Licence which is the last significant permit required to construct and operate the mine. Concentrates will be produced at site and then transported to a smelter and exploration drilling around the mine site and north of the existing resources is ongoing.

### **Other**

The Corporation has a licensing agreement with a mining contractor who mined certain components of the Corporation's coal assets in Kentucky, United States. Under this agreement, for each ton of coal mined and sold from within a specified leased property area, the Corporation received a range of 12% - 15% of the gross sales price and also pays landowners underlying royalties which are calculated on either a quantity per ton basis (averaging \$0.50 per ton) or gross revenue basis ranging from 8% - 10% of the gross sales price.

As of December 31, 2013, the Corporation evaluated its coal investments based on available restructuring alternatives. As a result of its review and circumstances specific to certain coal assets, the Corporation recorded an impairment charge to the coal assets in the amount of \$3.9 million during the year ended December 31, 2013. The fair value of the coal assets, for impairment purposes, was determined including a liquidation scenario.

### **Financings**

On December 23, 2010, the Corporation completed a C\$100,035,000 equity financing. The Corporation issued 222,300,000 special warrants, which were automatically exercised into 222,300,000 Common Shares and 111,149,990 common share purchase warrants when, on January 17, 2011, the

Corporation filed a final prospectus which qualified all of the Common Shares and common share purchase warrants issued upon exercise. Each warrant entitled the holder to acquire one common share at a price of \$0.70 until December 23, 2012. The warrants (the “**Listed Warrants**”) were listed and traded on the TSXV under the symbol “SND.WT” until they expired in December 2012.

On August 3, 2011, the Corporation completed a public offering of 88,650,000 units at a price of C\$0.55 per unit for gross proceeds of C\$48,757,500 (the “**August 2011 Offering**”). Each unit was comprised of one Common Share and one-half of one Listed Warrant. A portion of the net proceeds were or will be used to fund the Thunderbird Energy Stream and the Donner Copper Stream, as described above. The remaining net proceeds were or will be used for working capital purposes.

### **Consolidation of Common Shares**

On May 15, 2013, the Common Shares were consolidated on a 10:1 basis.

## **DESCRIPTION OF THE BUSINESS**

The Corporation is a non-operating commodity streaming company which generates 100% of its operating revenue from the sale of base metals and from receipt of payments under its royalty agreements.

The Corporation currently has a portfolio of two Commodity Streams and three NSR royalty agreements on properties which are under development.

The Corporation seeks to acquire Commodity Streams from companies which have advanced stage development or operating projects. In return for making an upfront payment(s) to acquire a Commodity Stream, the Corporation receives the right to purchase, at a fixed price per unit, a percentage of a project's production for the life of the project. The commodity streaming business model minimizes the typical downside risks in mining investment because there is no obligation for the Corporation to contribute additional capital after the upfront payment is made and the Corporation's ongoing cash costs are fixed. The Corporation is focused on acquiring Commodity Streams for projects with low production costs, significant exploration potential and strong management teams.

A royalty is a payment to a royalty holder by a property owner or an operator of a property and is typically based on a percentage of the minerals or other products produced or the revenues or profits generated from the property. Royalties are not typically working interests in a property and, depending on the nature of a royalty interest and the laws applicable to it and the project, the royalty holder is generally not responsible for, and has no obligation to contribute additional funds for any purpose, including, but not limited to, operating or capital costs or environmental or reclamation liabilities. An NSR royalty is generally based on the value of production or net proceeds received by an operator from a smelter or refinery. These proceeds are usually subject to deductions or charges for transportation, insurance, smelting and refining costs as set out in the specific royalty agreement. For copper, zinc and lead royalties, the deductions are generally minimal. NSR's generally provide cash flow which is free of any operating or capital costs and environmental liabilities. A smaller percentage NSR in a project can effectively equate to the economic value of a larger percentage profit or working interest in the same project.

Commodity Streams and royalties are an alternative to other more conventional forms of financing including equity, convertible securities and debt financings which can be used to finance mineral projects. The Corporation competes directly with these other sources of capital to provide financing and assists other companies in the resource industry to grow their businesses, while acquiring attractive assets in the process.

## **Principal Product**

The Corporation's principal products are copper, zinc, lead, [coal?] and natural gas which it has agreed to purchase pursuant to its Commodity Stream or for which it expects to receive payments pursuant to its royalty agreements.

## **Competitive Conditions**

The Corporation competes with other companies to identify suitable Commodity Streams and enter into agreements for the purchase of base metals and energy. The ability of the Corporation to acquire additional base metals and energy in the future will depend on its ability to select suitable properties and enter into similar Commodity Streams. See "Risk Factors – Competition".

## **Operations**

### ***Raw Materials***

The Corporation expects to receive:

- royalty payments with respect to copper production from Glencore's Bracemac-McLeod Mine;
- royalty payments with respect to zinc/lead production from Canadian Zinc's Prairie Creek Project;
- natural gas production from Thunderbird's Gordon Creek Property; and
- copper from the Entrée JV Property for the lesser of the Initial Fixed Price of \$0.50 per pound and the then prevailing market price per pound (subject to the applicable annual inflationary adjustment) and thereafter the lesser of the Subsequent Fixed Price of \$1.10 per pound and the then prevailing market price per pound (subject to the applicable inflationary adjustment).

### ***Employees***

As of December 31, 2013, the Corporation and its subsidiaries had one employee. No management functions of the Corporation are performed to any substantial degree by a person other than the directors or executive officers of the Corporation.

### ***Foreign Interests***

The Corporation currently purchases or expects to be purchasing copper or expects to receive payments under its royalty agreements from operations in the United States, Brazil, Mongolia and Canada. Any changes in legislation, regulations or shifts in political attitudes in the United States, Brazil or Mongolia are beyond the control of the Corporation and may adversely affect its business. The Corporation may be affected in varying degrees by such factors as government legislation and regulations (or changes thereto) with respect to the restrictions on production, export controls, income and other taxes, expropriation of property, repatriation of profits, environmental legislation, land use, water use, land claims of local people and mine safety. The effect of these factors cannot be accurately predicted. See "Description of the Business – Risk Factors – Risks Relating to the Mining Operations – *International Interests*" and "Description of the Business – Risk Factors – Risks Relating to the Oil and Gas Operations - *International Interests*".

## **RISK FACTORS**

The operations of the Corporation are speculative due to the nature of its business which is principally the investment in Commodity Streams. These risk factors could materially affect the Corporation's future operating results and could cause actual events to differ materially from those

described in forward-looking statements relating to the Corporation. The risks described herein are not the only risks facing the Corporation. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently deems immaterial, may also materially and adversely affect its business.

## **Risks Relating to the Corporation**

### ***Global Financial Conditions***

Global financial conditions have always been subject to volatility. Access to public financing has been negatively impacted by sovereign debt concerns in Europe and emerging markets, as well as concerns over global growth rates and conditions. These factors may impact the ability of the Corporation to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Corporation. Increased levels of volatility and market turmoil can adversely impact the Corporation's operations and the value and the price of the Common Shares could to be adversely affected.

### ***Market Price of the Common Shares***

The Common Shares are listed and posted for trading on the TSXV. The Corporation's business is in an early stage of development and an investment in the Corporation's securities is highly speculative. Securities of companies involved in the resource industry have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. The price of the Common Shares is also likely to be significantly affected by short-term changes in commodity prices or in the Corporation's financial condition or results of operations as reflected in its quarterly and annual financial statements, currency exchange fluctuations and other risk factors identified herein.

### ***Acquisition Strategy***

As part of the Corporation's business strategy, it has sought and will continue to seek to purchase Commodity Streams from third party natural resource companies. In pursuit of such opportunities, the Corporation may fail to select appropriate acquisition candidates or negotiate acceptable arrangements, including arrangements to finance the acquisitions. The Corporation cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favourable terms, or that any acquisitions or business arrangements completed will ultimately benefit the Corporation.

### ***Taxes and Accounting Rules***

Changes to taxation laws in Canada, Barbados, Luxembourg, the United States, Brazil and Mongolia or any of the countries in which the Corporation has or may establish subsidiaries to enter into the Commodity Streams and royalty agreements could result in some or all of the Corporation's profits being subject to increased levels of income tax.

The introduction of new tax laws or regulations, or changes to, or differing interpretation of, or application of, existing tax laws or regulations in Canada, Barbados, Luxembourg, the United States, Brazil or Mongolia or any of the countries in which the Mining Operations are located or to which shipments of base metals or other commodities are made, could result in an increase in the Corporation's taxes, or other governmental charges, duties or impositions. The Company's international transactions have not yet been reviewed by the Canada Revenue Agency and, should such transactions be reviewed, no assurances can be given that the tax matters will be resolved favourably.

No assurance can be given that new tax laws or regulations will not be enacted or that existing tax laws or regulations will not be changed, interpreted or applied in a manner which could have a material adverse effect on the Company.

In addition, the introduction of new tax laws or regulations or accounting rules or policies, or changes to, or differing interpretations of, or application of, existing tax laws or regulations or accounting

rules or policies, could make Commodity Streams less attractive to counterparties. Such changes could adversely affect the Corporation's ability to enter into new Commodity Streams.

### ***Credit and Liquidity Risk***

The Corporation is exposed to counterparty risks and liquidity risks including, but not limited to: (i) through the companies with which the Corporation has Commodity Streams or royalty agreements; (ii) through financial institutions that hold the Corporation's cash and cash equivalents; (iii) through companies that have payables to the Corporation; (iv) through the Corporation's insurance providers; and (v) through the Corporation's lenders. The Corporation is also exposed to liquidity risks in meeting its operating expenditure requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the ability of the Corporation to obtain loans and other credit facilities in the future and, if obtained, on terms favourable to the Corporation. If these risks materialize, the Corporation's operations could be adversely impacted and the trading price of its Common Shares could be adversely affected.

### ***Dependence Upon Key Management Personnel***

The Corporation is dependent upon the services of a small number of key management personnel who are highly skilled and experienced. The Corporation's ability to manage its activities will depend in large part on the efforts of these individuals. The Corporation faces intense competition for qualified personnel, and there can be no assurance that the Corporation will be able to attract and retain such personnel. The loss of the services of one or more of such key management personnel could have a material adverse effect on the Corporation.

### ***Competition***

The Corporation competes with other companies for Commodity Streams and similar transactions, some of which may possess greater financial and technical resources. Such competition may result in the Corporation being unable to enter into desirable Commodity Streams or similar transactions, to recruit or retain qualified employees or to acquire the capital necessary to fund its Commodity Streams. Existing or future competition in the mining and oil and gas industries could materially adversely affect the Corporation's prospects for entering into additional Commodity Streams, royalties and similar transactions in the future.

### ***Dividend Policy***

No dividends on the Common Shares have been paid by the Corporation to date. The Corporation does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Corporation's Board of Directors after taking into account many factors including the Corporation's operating results, financial condition and current and anticipated cash needs.

### ***Equity Price Risk***

The Corporation held investments in other exploration and mining companies with a combined market value as at December 31, 2013 of approximately \$4.6 million.

The Corporation is exposed to equity price risk as a result of holding long-term investments in these companies. The daily exchange traded volume of shares held may not be sufficient for the Corporation to liquidate its position in a short period of time without potentially affecting the market value of such shares. Just as investing in the Corporation is inherent with risks such as those set out in this AIF, by investing in these other companies, the Corporation is exposed to the risks associated with owning equity securities and those risks inherent in the investee companies. The Corporation does not actively trade these investments.

### ***Conflicts of Interest***

Certain of the directors and officers of the Corporation also serve as directors and/or officers of other companies involved in natural resource exploration, development and mining operations and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Corporation and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the *Business Corporations Act* (British Columbia) and other applicable laws.

### ***Future Sales or Issuances of Securities***

The Corporation may issue additional securities to finance future activities. The Corporation cannot predict the size of future issuances of securities or the effect, if any, that future issuances and sales of securities will have on the market price of the Common Shares. Sales or issuances of substantial numbers of Common Shares, or the perception that such sales could occur, may adversely affect prevailing market prices of the Common Shares. With any additional sale or issuance of Common Shares, investors will suffer dilution to their voting power and the Corporation may experience dilution in its earnings per share.

The Corporation may in the future grant to some or all of its directors, officers, employees and consultants options to purchase Common Shares at exercise prices equal to market prices at times when the public market is depressed. To the extent that significant numbers of such options are granted and exercised, the interests of then existing shareholders of the Corporation will be subject to additional dilution.

### ***Subject to the Same Risk Factors as the Bracemac-McLeod Mine, the NovaDx Mines, the Serra Pelada Mine, the Entrée JV Project and the Prairie Creek Project***

To the extent that they relate to the production from, or the continued operation of the Bracemac-McLeod Mine, the NovaDx Mines, the Serra Pelada Mine, the Entrée JV Project or the Prairie Creek Project, the Corporation will be subject to the same risk factors applicable to the operators of such mines or projects, as set forth below under “Risks Relating to the Mining Operations.”

In the sections below, the “Mining Companies” refers to Glencore, NovaDx, Colossus, Entrée and Canadian Zinc and “Mining Operations” refers to the projects (i.e. the Bracemac-McLeod Mine, the NovaDx Mines, the Serra Pelada Mine, the Entrée JV Project and the Prairie Creek Project) operated by the Mining Companies.

### ***No Control Over Mining Operations***

The Corporation has agreed to purchase a certain percentage of the base metals produced from certain of the Mining Operations and also expects to receive payments under its NSR royalty agreements from certain of the Mining Operations.

The Corporation is not directly involved in the ownership or operation of mines and has no contractual rights relating to the operation or development of the Mining Operations. Except under limited circumstances, the Corporation will not be entitled to any material compensation if any of the Mining Operations do not meet their forecasted production targets in any specified period or if the operations shut down or discontinue their operations on a temporary or permanent basis. The Mining Operations may not commence commercial production within the time frames anticipated, if at all, and there can be no assurance that the production from such Mining Operations will ultimately meet forecasts or targets. At any time, any of the operators of the Mining Operations or their successors may decide to suspend or discontinue operations. The Corporation is subject to the risk that the Mining Operations may shut down on a temporary or permanent basis due to issues including but not limited to economic conditions, lack of financial capital, floods, fire, weather related events, mechanical malfunctions, community or social related issues, social unrest, the failure to receive permits or having permits revoked, exploration and

other risks. These issues are common in the mining industry and can occur frequently. There is a risk that the carrying values of the Corporation's assets may not be recoverable if the Mining Companies operating the Mining Operations cannot raise additional finances to continue to develop those assets. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Mining Operations becoming uneconomic resulting in their shutdown and closure. The Corporation is not entitled to purchase base metals from the Mining Operations if no base metals are produced from the Mining Operations. Currently the NovaDx Mines and the Serra Pelada Mine are shut down and there is no guarantee that they will re-start.

### ***Volatility of Copper, Lead and Zinc Prices***

The price of the Common Shares and the Corporation's financial results may be significantly adversely affected by a decline in the price of copper, lead or zinc. The price of copper, lead and zinc fluctuates widely, and is affected by numerous factors beyond the Corporation's control such as international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot be accurately predicted. The price of copper, lead and zinc has fluctuated widely in recent years and if the market price of these commodities falls or remains depressed, the Corporation may experience losses or asset impairments.

### ***Volatility of Coal Prices***

The price of the Common Shares and the Corporation's financial results may be significantly adversely affected by a decline in the price of coal. The market price of coal is volatile and is affected by numerous factors that are beyond the Corporation's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events, as well as a range of other market forces. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration and development activities to be undertaken by the Mining Operations.

Reduced coal consumption by North American electric power generators could result in lower prices for coal, which could reduce revenues and adversely impact the Corporation's earnings. The amount of coal consumed for United States electric power generation is affected primarily by the overall demand for electricity, the location, availability, quality and price of competing fuels for power such as natural gas, nuclear, fuel oil and alternative energy sources such as hydroelectric power, technological developments, and environmental and other governmental regulations.

Weather patterns can also greatly affect electricity generation. Extreme temperatures, both hot and cold, cause increased power usage and, therefore, increased generating requirements from all sources. Mild temperatures, on the other hand, result in lower electrical demand, which allows generators to choose the lowest-cost sources of power generation when deciding which generation sources to dispatch. Accordingly, significant changes in weather patterns could reduce the demand for coal. Overall economic activity and the associated demands for power by industrial users can have significant effects on overall electricity demand.

### ***Subject to the Same Risk Factors as the Gordon Creek Property***

To the extent that they relate to the production of natural gas from, or the continued operation of, the Gordon Creek Property (the "**Oil and Gas Operations**"), the Corporation will be subject to the risk factors applicable to the operator of such property, as set forth below under "Risks Relating to the Oil and Gas Operations." In the sections below and in the section "Risks Relating to the Oil and Gas Operations", the "Oil and Gas Company" refers to Thunderbird.

### ***No Control over Oil and Gas Operations***

The Corporation expects to purchase natural gas produced from the Gordon Creek Property. The Corporation has no contractual rights relating to the operation or development of the Oil and Gas

Properties. The Corporation will not be entitled to any material compensation if any of the Oil and Gas Operations shut down or discontinue their operations on a temporary or permanent basis. At any time, the operators of the Oil and Gas Operations or their successors may decide to suspend or discontinue operations.

### ***Volatility of Natural Gas Prices***

The Corporation's financial performance is sensitive to prevailing prices of natural gas. Fluctuations in natural gas prices could have a material adverse effect on the Corporation's operations and financial condition. Prices for natural gas fluctuate in response to changes in the supply of and demand for natural gas, market uncertainty and a variety of additional factors that are largely beyond the Corporation's control. Most natural gas prices realized by the Corporation are affected primarily by North American supply and demand, weather conditions and by prices of alternative sources of energy.

A substantial and extended decline in the price of natural gas could result in delay or cancellation of drilling, development or construction programs, or curtailment in production by the Oil and Gas Company, all of which could have a material adverse impact on the Corporation.

Gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies And the ongoing credit and liquidity concerns. Volatile gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

### ***Operating Model Risk***

The Corporation is not directly involved in the ownership or operation of mines or natural gas properties. The Commodity Streams or royalty agreements that the Corporation enters into are subject to most of the significant risks and rewards of a mining or a natural gas corporation, as the case may be, with the primary exception that, under such agreements, the Corporation acquires base metals at a fixed cost or receives royalty payments under its royalty agreements. As a result of the Corporation's operating model, the cash flow of the Corporation is dependent upon the activities of third parties which creates the risk that at any time those third parties may: (a) have business interests or targets that are inconsistent with those of the Corporation, (b) take action contrary to the Corporation's policies or objectives, (c) be unable or unwilling to fulfill their obligations under their agreements with the Corporation, or (d) experience financial, operational or other difficulties, including insolvency, which could limit a third party's ability to perform its obligations under the third party arrangements. In addition, the termination of one or more of the Corporation's Commodity Streams or royalty agreements could have a material adverse effect on the results of operations or financial condition of the Corporation.

## **Risks Relating to the Mining Operations**

### ***Exploration, Development and Operating Risks***

Mining operations generally involve a high degree of risk. The Mining Operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of metals, including weather related events, unusual and unexpected geology formations, seismic activity, rock bursts, cave-ins, pit-wall failures, flooding, environmental hazards and the discharge of toxic chemicals, explosions and other conditions involved in the drilling, blasting and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to property, injury or loss of life, environmental damage, work stoppages, delays in production, increased production costs and possible legal liability. Any of these hazards and risks and other acts of God could shut down mining operations temporarily or permanently. Milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability for the owners or operators of the Mining Operations.

The exploration for, development, mining and processing of coal and mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenditures may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned by the owners or operators of the Mining Operations will result in profitable commercial mining operations.

There can be no guarantee that the estimates of quantities and qualities of coal and other mineral deposits disclosed will be available to extract. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Coal and mineral exploration is speculative in nature and there can be no assurance that any coal and minerals discovered will result in an increase in the resource base of the Mining Operations.

Establishment of a coal reserve and development of a coal mine does not assure a profit on the investment or recovery of costs. In addition, mining hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological, geotechnical and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices which are highly cyclical; government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; and political stability. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in one or more of the Mining Operations not receiving an adequate return on invested capital or causing the Mining Operations to become uneconomic resulting in their shutdown or closure. Accordingly, there can be no assurance that the Mining Operations which are not currently in production will be brought into a state of commercial production.

### ***Dependence on the Steel Industry – Mining Operations Relating to Coal***

Metallurgical coal demand is a function of growth and steel production. The steel industry is cyclical in nature and demand is affected by a number of factors, including international economic conditions, interest rates, the cyclical nature of the business, technological developments and the availability of substitute products. Materials such as aluminum composites and plastics are substitutes for steel and an increase in their usage could adversely affect the demand for steel, and consequently, the demand for metallurgical coal, which would have a material adverse effect on the Mining Operations relating to coal. Similarly, if less expensive ingredients could be used in substitution for metallurgical coal in the integrated steel mill process, the demand for metallurgical coal would materially decrease, which would also materially adversely affect those Mining Operations.

### ***Environmental Risks and Hazards***

All phases of the Mining Operations are subject to government regulation, including environmental regulation in the various jurisdictions in which they operate. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and heightened responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Mining Operations. Also, environmental hazards may exist on the properties which are unknown to the owners or operators of the Mining Operations at present which were caused by previous or existing owners or operators of the properties and which could impair the commercial success, levels of production and continued feasibility

and project development and mining operations on these properties. One or more of the Mining Companies may become liable for such environmental hazards caused by previous owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

### ***Government Regulation, Permits and Licenses***

The exploration and development activities related to the Mining Operations are subject to extensive laws and regulations governing exploration, development, production, exports, taxes, labour standards, waste disposal, protection and remediation of the environment, reclamation, historic and cultural resources preservation, mine safety and occupational health, handling, storage and transportation of hazardous substances and other matters.

The costs of discovering, evaluating, planning, designing, developing, constructing, operating and closing the Mining Operations in compliance with such laws and regulations are significant. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that the owners or operators of the Mining Operations would not proceed with the development of or continue to operate a mine. Moreover, it is possible that future regulatory developments, such as increasingly strict environmental protection laws, regulations and enforcement policies thereunder and claims for damages to property and persons resulting from the Mining Operations could result in substantial costs and liabilities for the owners or operators of the Mining Operations in the future such that they would not proceed with the development of, or continue to operate, a mine.

Government approvals, licences and permits are currently, and will in the future be, required in connection with the Mining Operations. To the extent such approvals are required and not obtained, the Mining Operations may be curtailed or prohibited from proceeding with planned operations, which could have an impact on the business and financial condition of the Corporation. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Mining Operations, resulting in increased capital expenditures or production costs, reduced levels of production at producing properties or abandonment or delays development of properties.

### ***Permitting***

The Mining Operations are subject to receiving and maintaining permits from appropriate governmental authorities. Although the Corporation believes that, other than as discussed elsewhere herein, the owners and operators of the Mining Operations currently have all required permits for their respective operations as currently conducted, there is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the existing operations, additional permits for any possible future changes to operations or additional permits associated with new legislation. Prior to any development on any of the properties, permits from appropriate governmental authorities may be required. There can be no assurance that the owners or operators of the Mining Operations will continue to hold all permits necessary to develop or continue operating at any particular property.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures,

installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws, may have a material adverse impact on the owners or operators of the Mining Operations, resulting in increased capital expenditures or production costs, reduced levels of production at producing properties or abandonment or delays in development of properties.

See “Permitting, Construction, Development and Expansion Risk” for additional permitting risks associated with developmental projects.

### ***Infrastructure***

Natural resource exploration, development and mining activities are dependent on the availability of mining, drilling and related equipment in the particular areas where such activities are conducted. A limited supply of such equipment or access restrictions may affect the availability of such equipment to the owners and operators of the Mining Operations and may delay exploration, development or extraction activities. Certain equipment may not be immediately available, or may require long lead time orders. The lack of availability on acceptable terms or the delay in the availability of any one or more of these items could prevent or delay exploration, development or production at the Mining Operations.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Mining Operations.

### ***Uncertainty of Mineral Resource and Mineral Reserve Estimates***

The life-of-mine estimates for the Mining Operations may not be correct. The figures for mineral resources and mineral reserves presented in this AIF and derived from the technical report filed in respect of the Bracemac-McLeod Mine are estimates only and no assurance can be given that the estimated mineral reserves and mineral resources will be recovered or that they will be recovered at the rates estimated. Mineral reserve and mineral resource estimates are based on limited sampling and geological interpretation, and, consequently, are uncertain because the samples may not be representative. Mineral reserve and mineral resource estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain mineral reserves and mineral resources uneconomic and may ultimately result in a restatement of estimated mineral reserves and/or mineral resources.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Due to the uncertainty of inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to proven and probable mineral reserves as a result of continued exploration.

### ***Replacement of Depleted Mineral Reserves***

Because mines have limited lives based primarily on proven and probable mineral reserves, the Mining Companies which own and/or operate the Mining Operations must continually replace and expand their mineral reserves depleted by their mine's production to maintain production levels over the long-term. Mineral reserves can be replaced by expanding known ore bodies, locating new deposits or making acquisitions. Exploration is highly speculative in nature. Once a site with mineralization is discovered, it may take several years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish Proven and Probable Mineral Reserves and to construct mining and processing facilities. As a result, there is no assurance that current or future exploration programs will be successful. There is a risk that depletion of mineral reserves will not be offset by discoveries or acquisitions.

## ***Competition***

The Mining Companies which own and/or operate the Mining Operations each face competition from a number of large established companies with substantial capabilities, and greater financial and technical resources. The Mining Companies compete with these other mining companies for the acquisition of prospective, explored, developing and developed mining and mineral properties, as well as for the recruitment and retention of qualified directors, professional management, employees and contractors.

## ***Dependence on Good Relations with Employees***

Production at the Mining Operations depends on the efforts of its employees. There is intense competition for geologists and persons with mining expertise. The ability of the Mining Companies to hire and retain geologists and persons with mining expertise is key to the Mining Operations. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in the jurisdictions in which the Mining Operations are conducted. Changes in such legislation or otherwise in the Mining Companies' relationships with their employees may result in strikes, lockouts or other work stoppages, any of which could have a material adverse effect on the Mining Operations, results of operations and financial condition.

## ***Uninsured Risks***

The mining industry is subject to significant risks that could result in damage to, or destruction of, mineral properties or producing facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Where each of the Mining Companies considers it practical to do so, it maintains insurance in amounts that it believes to be reasonable, including insurance for workers' compensation, theft, general liability, all risk property, automobile, directors and officers liability and fiduciary liability and others. Such insurance, however, contains exclusions and limitations on coverage. Accordingly, the Mining Companies' insurance policies may not provide coverage for all losses related to their business (and specifically do not cover environmental liabilities and losses). The occurrence of losses, liabilities or damage not covered by such insurance policies could have a material adverse effect on the Mining Companies' profitability, results of operations and financial condition.

## ***Land Title***

Although title to the Mining Operations has been reviewed by or on behalf of the Corporation, no assurances can be given that there are no title defects affecting the properties and mineral claims owned or used by the Mining Operations. The Mining Companies may not have conducted surveys of the claims in which they hold direct or indirect interests; therefore, the precise area and location of such claims may be in doubt. It is possible that the Mining Operations may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects. In addition, the Mining Companies may be unable to operate the Mining Operations as permitted or to enforce their rights with respect to the Mining Operations which may ultimately impair the ability of these owners and operators to fulfill their obligations under their agreements with the Corporation.

## ***NovaDx Mines Off-Take Agreements***

NovaDx is required by contract to sell all coal produced from the NovaDx Mines to a third party off-taker. Access to the facilities is regulated by an off-take agreement agreed to between NovaDx and the third party processor. The off-take agreement establishes the price paid for the coal. The third party processor and the Corporation may need to enter into an agreement or agreements that are similar (as to payment terms) to the payment terms contained in the off-take agreements between NovaDx and the third party processor. Such a form of agreement will streamline the payment process as between the third party processor and NovaDx, and the third party processor and the Corporation.

### ***International Interests***

The Mining Operations are or will be conducted in the United States, Canada, Brazil and Mongolia and as such the operations are all exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism, hostage taking, military repression, crime, political instability, currency controls, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts, illegal mining, changes in taxation and mining laws, regulations and policies, restrictions on foreign exchange and repatriation, and changing political conditions and governmental regulations relating to foreign investment and the mining business. Certain of the countries have experienced political, social and economic unrest in the past and protestors have from time to time targeted foreign mining companies.

Changes, if any, in mining or investment policies or shifts in political attitude may adversely affect the operations or profitability of the Mining Operations in these countries. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use, mine safety and the rewarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation, cancellation or dispute of licenses or entitlements which could result in substantial costs, losses and liabilities in the future.

The occurrence of these various factors and uncertainties related to the economic and political risks for operations in foreign jurisdictions cannot be accurately predicted and could have an adverse effect on the Mining Operations resulting in substantial costs, losses and liabilities in the future.

In particular, any changes or unfavourable assessments with respect to (i) the validity, ownership or existence of the Entrée concessions; as well as (ii) the validity or enforceability of Entrée's joint venture agreement with Oyu Tolgoi LLC may adversely affect the Corporation's profitability or profits realized under the Entrée Copper Metal Credits Agreement. The Corporation's interest in the Serra Pelada Mine may be adversely impacted if the Cooperativa de Mineração dos Garimpeiros de Serra Pelada, which holds a 25% interest in the Serra Pelada Mine, takes any unfavourable actions. In addition, Colossus Brazil has payables in excess of \$30 million and accordingly, there is a risk that they may be unable to repay their debts, resulting in their insolvency.

### ***Permitting, Construction, Development and Expansion Risk***

Some of the Mining Operations are currently in various stages of permitting, construction, development and expansion. Construction, development and expansion of such projects is subject to numerous risks, including, but not limited to: delays in obtaining equipment, material and services essential to completing construction of such projects in a timely manner; delays or inability to obtain all required permits; changes in environmental or other government regulations; currency exchange rates; labour shortages; and fluctuation in metal prices. There can be no assurance that the owners or operators of such projects will have the financial, technical and operational resources to complete the permitting, construction, development and expansion of such projects in accordance with current expectations or at all.

### ***Indigenous Peoples***

Various international and national laws, codes, resolutions, conventions, guidelines, and other materials relate to the rights of indigenous peoples. The Corporation holds streaming interests on operations located in some areas presently or previously inhabited or used by indigenous peoples. Many of these materials impose obligations on government to respect the rights of indigenous people. Some mandate that government consult with indigenous people regarding government actions which may affect

indigenous people, including actions to approve or grant mining rights or permits. The obligations of government and private parties under the various international and national materials pertaining to indigenous people continue to evolve and be defined. The Mining Companies' current or future operations are subject to a risk that one or more groups of indigenous people may oppose continued operation, further development, or new development on those projects or operations on which the Corporation holds a streaming interest. Such opposition may be directed through legal or administrative proceedings or protests, roadblocks or other forms of public expression against the Corporation or the owner/operator's activities. Opposition by indigenous people to such activities may require modification of or preclude operation or development of projects or may require the entering into of agreements with indigenous people. Claims and protests of indigenous people may disrupt or delay activities of the owners/operators of the Corporation's streaming or royalty assets.

## **Risks Relating to the Oil and Gas Operations**

### ***Exploration, Development and Production Risks***

The exploration for and development of natural gas reserves involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties that are explored are ultimately developed into producing properties. There can be no guarantee that the reserve estimates of natural gas disclosed will be available to extract. With all natural gas operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Natural gas exploration is speculative in nature and there can be no assurance that any natural gas discovered will result in an increase in the reserves base of the Oil and Gas Operations.

Establishment of natural gas reserves and development of a natural gas property does not assure a profit on the investment or recovery of costs. In addition, extraction hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from natural gas properties. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological, geotechnical and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Oil and Gas Company not receiving an adequate return on invested capital or causing the Oil and Gas Operations to become uneconomic resulting in their shutdown or closure.

The Oil and Gas Operations are subject to all of the hazards and risks normally encountered in the exploration, development and production of natural gas. These include hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, seismic activity, flooding, power failures, the inability to obtain suitable or adequate equipment or machinery, labour disputes, or adverse weather conditions and other conditions involved in the extraction of natural gas, any of which could result in substantial damage to natural gas wells, production facilities, other property and the environment or personal injury.

### ***Environmental***

All phases of the natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Oil and Gas Company to incur costs to remedy such

discharge. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed. Parties engaged in natural gas operations or in the exploration or development of natural gas properties may be required to compensate those suffering loss or damage by reason of the natural gas activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

### ***Government Regulation, Permits and Licenses***

The exploration and development activities related to the Oil and Gas Operations are subject to various federal, provincial and local laws governing prospecting, development, production, taxes, labour standards and occupational health, toxic substance and other matters. Exploration, development and natural gas activities are also subject to various federal, provincial and local laws and regulations relating to the protection of the environment. These laws mandate, among other things, the maintenance of air and water quality standards and land reclamation. These laws also place limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Although the Corporation is not aware that the Oil and Gas Operations are not currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development, or that more stringent implementation thereof could have a substantial adverse impact on the Oil and Gas Operations.

Government approvals, licenses and permits are currently, and will in the future be, required in connection with the Oil and Gas Operations. To the extent such approvals are required and not obtained, the Oil and Gas Operations may be curtailed or prohibited from proceeding with planned operations, which could have an impact on the business and financial condition of the Corporation. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed.

Amendments to current laws, regulations and permits governing operations and activities of natural gas companies, or more stringent implementation thereof, could have a material adverse impact on the Oil and Gas Operations and cause reduction in levels of production or require abandonment or delays in operations at the Oil and Gas Operations.

### ***Permitting***

The Oil and Gas Operations are subject to receiving and maintaining permits from appropriate governmental authorities. Although the Corporation believes that, other than as discussed elsewhere herein, the owners and operators of the Oil and Gas Operations currently have all required permits for their respective operations as currently conducted, there is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the existing operations, additional permits for any possible future changes to operations or additional permits associated with new legislation. Prior to any development on any of the properties, permits from appropriate governmental authorities may be required. There can be no assurance that the owners or operators of the Oil and Gas Operations will continue to hold all permits necessary to develop or continue operating at any particular property.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in natural gas operations may be required to compensate those suffering loss or damage by reason of the natural gas activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws, may have a material adverse impact on the owners or operators of the Oil and Gas Operations, resulting in increased capital expenditures or production costs, reduced levels of production at producing properties or abandonment or delays in development of properties.

### ***Reserve Estimates***

There are numerous uncertainties inherent in estimating quantities of natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth in the reserves data and other gas information contained within the Thunderbird Reserves Data are estimates only. In general, estimates of economically recoverable natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. The Oil and Gas Company's actual production, and the Corporation's revenues and taxes, with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, the Corporation's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized in the Thunderbird Reserves Data. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for natural gas, curtailments or increases in consumption by natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Corporation's natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Oil and Gas Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Corporation's reserves since that date.

### ***Replacement of Depleted Reserves***

The Oil and Gas Company must continually replace natural gas reserves depleted by production to maintain production levels over the long-term. Natural gas reserves can be replaced by locating new wells or making acquisitions. Exploration is highly speculative in nature. Once a site with natural gas is discovered, it may take several years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish Proved and Probable Reserves and to construct wells and processing facilities. As a result, there is no assurance that current or future exploration programs will be successful. There is a risk that depletion of natural gas reserves will not be offset by discoveries or acquisitions.

## ***Hydraulic Fracturing***

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate hydrocarbon (natural gas) production. The use of hydraulic fracturing is necessary to produce commercial quantities of natural gas from many reservoirs. The U.S. Environmental Protection Agency has commenced a study of the potential environmental impacts of hydraulic fracturing, including the impacts on drinking water sources and public health. In addition, some states have and others are considering adopting regulations that could restrict hydraulic fracturing in certain circumstances. Any new laws, regulation or permitting requirements regarding hydraulic fracturing could lead to operational delay or increased operating costs or third party or governmental claims, and could increase Thunderbird's costs of compliance and doing business as well as delay the development of shale gas resources from shale formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of natural gas that the Oil and Gas Company is ultimately able to produce from its reserves.

## ***Competition***

The Oil and Gas Company faces competition from a number of large established companies with substantial capabilities, and greater financial and technical resources. The Oil and Gas Company competes with these other gas companies for the acquisition of prospective, explored, developing and developed natural gas properties, as well as for the recruitment and retention of qualified directors, professional management, employees and contractors.

## ***Dependence on Good Relations with Employees***

Production at the Oil and Gas Operations depends on the efforts of its employees. There is intense competition for geologists and persons with natural gas expertise. The ability of the Oil and Gas Company to hire and retain geologists and persons with natural gas expertise is key to the Oil and Gas Operations. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in the jurisdictions in which the Oil and Gas Operations are conducted. Changes in such legislation or otherwise in the Oil and Gas Company's relationships with its employees may result in strikes, lockouts or other work stoppages, any of which could have a material adverse effect on the Oil and Gas Operations, results of operations and financial condition.

## ***Uninsured Risks***

The natural gas industry is subject to significant risks that could result in damage to, or destruction of, natural gas properties or producing facilities, personal injury or death, environmental damage, delays in production, monetary losses and possible legal liability. Where the Oil and Gas Company considers it practical to do so, it maintains insurance in amounts that it believes to be reasonable, including insurance for workers' compensation, theft, general liability, all risk property, automobile, directors and officers liability and fiduciary liability and others. Such insurance, however, contains exclusions and limitations on coverage. Accordingly, the Oil and Gas Company's insurance policies may not provide coverage for all losses related to their business (and specifically do not cover environmental liabilities and losses). The occurrence of losses, liabilities or damage not covered by such insurance policies could have a material adverse effect on the Oil and Gas Company's profitability, results of operations and financial condition.

## ***Land Title***

Although title to the Oil and Gas Operations has been reviewed by or on behalf of the Corporation, no assurances can be given that there are no title defects affecting the Oil and Gas Operations. The Oil and Gas Company may not have conducted surveys of the claims in which it holds direct or indirect interests; therefore, the precise area and location of such claims may be in doubt. It is possible that the Oil and Gas Operations may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things,

undetected defects. In addition, the Oil and Gas Company may be unable to operate the Oil and Gas Operations as permitted or to enforce its rights with respect to the Oil and Gas Operations.

### ***International Interests***

The Oil and Gas Operations will be conducted in the United States and as such the operations are all exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, crime, political instability, currency controls, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts, changes in taxation policies, restrictions on foreign exchange and repatriation, and changing political conditions and governmental regulations relating to foreign investment and the oil and gas business.

Changes, if any, in natural gas or investment policies or shifts in political attitude in the United States may adversely affect the operations or profitability of the Oil and Gas Operations. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and the rewarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Failure to comply strictly with applicable laws, regulations and local practices relating to natural gas right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Oil and Gas Operations.

### ***Construction Risk***

The Oil and Gas Operations are currently at the construction stage of their project development. Development of the projects are subject to numerous risks, including, but not limited to, delays in obtaining equipment, material and services essential to developing the projects in a timely manner; changes in environmental or other government regulations; currency exchange rates; labour shortages; and fluctuation in metal prices. There can be no assurance that the Oil and Gas Operations will have the financial, technical and operational resources to complete the development of the Oil and Gas Operations in accordance with current expectations or at all.

### ***Project Risks***

The Oil and Gas Company will manage a variety of small and large projects in the conduct of their business. Project delays may delay expected revenues from operations. Significant project cost over runs could make a project uneconomic. The Oil and Gas Company's ability to execute projects and market natural gas will depend upon numerous factors beyond the Oil and Gas Company's control, including: (i) the availability of processing capacity; (ii) the availability and proximity of pipeline capacity; (iii) the availability of storage capacity; (iv) the supply of and demand for natural gas; (v) the availability of alternative fuel sources; (vi) the effects of inclement weather; (vii) the availability of drilling and related equipment; (viii) unexpected cost increases; (ix) accidental events; (x) currency fluctuations; (xi) changes in regulations; (xii) the availability and productivity of skilled labour; and (xiii) the regulation of the natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Oil and Gas Company could be unable to execute projects on time, on budget or at all, and the Corporation may not be able to effectively market the natural gas that it receives from the Oil and Gas Company.

## **Seasonality**

The level of activity in the natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity of the Oil and Gas Company.

## **TECHNICAL INFORMATION**

### **CIM Standards Definitions**

The estimated Mineral Reserves and Mineral Resources for the Mining Operations have been calculated in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum (“**CIM**”) — Definitions adopted by CIM Council on November 27, 2010 (the “**CIM Standards**”).

The term “**Mineral Resource**” is a concentration or occurrence of diamonds, natural, solid, inorganic material or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

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

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

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

The term “**Mineral Reserve**” is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.

The term “**Probable Mineral Reserve**” is the economically mineable part of an Indicated Mineral Resource and, in some circumstances, a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing,

metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

The term “**Proven Mineral Reserve**” is the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

#### **Cautionary Note to United States Investors Concerning Estimates of Measured, Indicated and Inferred Mineral Resources**

This section and elsewhere in this AIF use the terms “Measured”, “Indicated” and “Inferred” Mineral Resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission (“**SEC**”) does not recognize them. “Inferred Mineral Resources” have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. **United States investors are cautioned not to assume that all or any part of Measured or Indicated Mineral Resources will ever be converted into Mineral Reserves. United States investors are also cautioned not to assume that all or any part of an Inferred Mineral Resource exists, or is economically or legally mineable.**

The below described mine is considered to be a **material** mineral property to the Corporation.

#### **Bracemac-McLeod Mine, Quebec, Canada**

The following description of the Bracemac-McLeod Mine has largely been summarized from the independent technical report prepared in accordance with NI 43-101 entitled “Technical Report and Feasibility Study for the Bracemac-McLeod Project, Matagami Area, Quebec” dated September 21, 2010 (the “**Bracemac-McLeod Report**”) prepared jointly by GENIVAR Limited Partnership and Xstrata Zinc Canada (now known as Glencore Canada Corporation), which was filed on October 18, 2010 at [www.sedar.com](http://www.sedar.com) under Donner’s profile.

Readers should consult the Bracemac-McLeod Report to obtain further particulars regarding the Bracemac-McLeod Mine. This summary is qualified in its entirety by reference to the complete text of the Bracemac-McLeod Report. Information that updates the information in the Bracemac-McLeod Report has been provided by Glencore and subsequently reported by Donner.

**NOTE:** Please refer to “*Restructuring of the Donner Copper Stream*” in this AIF for details of Donner’s current interest in the Bracemac-McLeod Mine. In August of 2013, Donner relinquished its interest in the Bracemac-McLeod Mine to Glencore.

#### ***Property Description and Location***

Up to December 2013, Donner and Glencore were parties to the Matagami Lake Option and Joint Venture Agreement (“**MLOJVA**”). Further, Donner and Glencore were parties to the Development and Operating Agreement (“**DOA**”) on Bracemac-McLeod up to August 2013. Both agreements governed exploration and mining activities on the Matagami project (which included the Bracemac-McLeod deposit). The original project covered a 4,737 square kilometre area roughly centered on the town of Matagami, Quebec and encompassed the Matagami Mining Camp, which has seen mining activity almost continuously since 1963. The agreement covered all of Glencore’s mineral rights and an extensive area of mutual interest which was in effect until May 31, 2013. As of August, 2013, the property consisted of 2,710 direct mineral titles (claims, mining concessions and a Mining Lease) covering 686 square kilometres. Glencore’s Perseverance Mine and the immediately surrounding area were not included under this agreement. Glencore was operator of all activities under the MLOJVA and the DOA.

The town of Matagami is located approximately 250 kilometres north of Val-d'Or, Quebec. The town was built following the discovery of the Matagami Lake deposit in 1957. Glencore and its predecessors have been operating at Matagami since 1963. Production began at the Bracemac-McLeod Mine in May of 2013 following initial cessation of production from Glencore's wholly owned Persévérance Mine. Activities at Bracemac-McLeod were governed under the DOA.

Under the MLOJVA, the Matagami project was initially divided into five regions that cover the area of interest and that are the basis for five separate joint venture areas between Glencore and Donner. The joint venture areas are comprised of existing mineral title plus any ground acquired within the area of interest during its term. Following the expiry of the area of interest, the joint ventures were comprised of only claims and other mineral title held by Donner and Glencore.

Donner's earn-in in the Matagami project was based on spending \$25 million on the project by May 31, 2011. Future exploration and development costs as well as any revenue derived from the property were to be divided in accordance with the relative joint venture interests. Donner exercised its option on the Matagami project under the MLOJVA as contemplated in the Bracemac-McLeod Report and earned an initial 50% interest in all property under the MLOJVA.

Under the MLOJVA, Glencore held a separate back-in right in each of the five joint venture regions within the Matagami project area. Under this right, Glencore may earn back a 15% interest within a region by completing a bankable feasibility study. Should Glencore complete a bankable feasibility study, the joint venture interest in that region will become Glencore 65% and Donner 35%.

Glencore earned an additional 15% interest in the South Flank joint venture area by completing a bankable feasibility study on Bracemac-McLeod in September 2010. A sixth joint venture area was subsequently created from the South Flank JV on Bracemac-McLeod and governed by the DOA. In May of 2013, the Area of Interest under the OJVA expired. The number of claims, and the area covered by those claims, as of August 30, 2013 in each of the joint ventures is summarized below:

| <b>Joint Venture</b> | <b>Number of Claims</b> | <b>Area Km<sup>2</sup></b> | <b>Donner Interest</b> | <b>Glencore Interest</b> | <b>Agreement</b> |
|----------------------|-------------------------|----------------------------|------------------------|--------------------------|------------------|
| Bracemac-McLeod JV   | 179                     | 29                         | 35%                    | 65%                      | DOA              |
| South Flank JV       | 644                     | 113                        | 35%                    | 65%                      | MLOJVA           |
| North Flank JV       | 792                     | 128                        | 50%                    | 50%                      | MLOJVA           |
| Central JV           | 754                     | 279                        | 50%                    | 50%                      | MLOJVA           |
| West Camp JV         | 178                     | 77                         | 50%                    | 50%                      | MLOJVA           |
| East JV              | 163                     | 60                         | 50%                    | 50%                      | MLOJVA           |
| <b>TOTAL:</b>        | <b>2710</b>             | <b>686</b>                 |                        |                          |                  |

The Bracemac-McLeod deposit and development project is located on a portion of the South Flank Joint Venture area in which Donner earned an initial 50% interest. Subsequent to the completion of the Bracemac-McLeod Report, Glencore increased its interest to 65% in the South Flank Joint Venture area with Donner holding the remaining 35% interest as contemplated in the Bracemac-McLeod Report. These interests will apply to costs (capital and operations), and to revenue sharing also as contemplated in the Bracemac-McLeod Report. Following Donner's earn-in and Glencore's completion of its earn-back, a sixth joint venture area, called the Bracemac-McLeod Joint Venture Area, was carved out of the South Flank Joint Venture area to govern the development and future production from the Bracemac-McLeod deposit. This new joint venture area is governed by the DOA pursuant to, and superseding, the MLOJVA. The Bracemac-McLeod deposit, as well as the surrounding land within a 3.2 kilometre radius of the Bracemac-McLeod deposit, is the only interest that the Corporation initially had in the Matagami project.

The Bracemac-McLeod deposit is comprised of five massive/semi-massive sulphide lenses and one stringer sulphide zone. Massive and semi-massive sulphides contain elevated grades of zinc, copper, silver and gold while the stringer zone exhibits only elevated copper grades. A new

massive/semi massive sulphide deposit discovered in 2010 called McLeod Deep occurs down-dip from the McLeod portion of the Bracemac-McLeod Deposit. This area was the subject of exploratory drilling from surface during 2012 and 2013. Under the Bracemac-McLeod Report, the Bracemac KT, Bracemac Main, Upper Bracemac and McLeod massive/semi-massive sulphide lenses were incorporated in the mineral reserves. The West McLeod zone and the McLeod Deep deposit require additional drilling. There remains good exploration potential to expand the deposit and to connect the McLeod Zone with McLeod Deep. Information with respect to drilling on McLeod Deep and areas in proximity to the Bracemac-McLeod Mineral Reserves has been reported by Donner throughout 2012 and 2013.

#### *Permits*

The environmental permit required for the mining operation is a certificate of authorization under section 22 of the Quebec Environment Quality Act. In addition, any component which may impact the environment is likely subject to a certificate of authorization or other permit.

Other permits and documents that are required under various provincial and federal Acts are:

- mining lease (Mining Act);
- closure plan (Mining Act);
- timber cutting permit (Forest Act);
- intervention permit for work on Highway 109 (Highway Act);
- high risk petroleum equipment (Building Act);
- explosive ownership and utilization (Federal Explosive Act); and
- propane tank emergency plan (Canadian Environmental Protection Act).

A permit register was prepared on March 29, 2010. Since such time, Glencore has assumed responsibility for follow-up on the permitting process.

#### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The Bracemac and McLeod deposit is accessed by a newly constructed mine access road, which meets the main Highway 109 approximately 12 kilometres south of the town of Matagami. This new road accesses the Bracemac-McLeod ramp portal and mine offices 2.6 kilometres east of Highway 109. The surface area of the deposit is reached from the portal by a new 2.5 kilometre road constructed to support mine ventilation infrastructure. Most of the drill rig setups for the exploration drilling on the McLeod and McLeod Deep areas are across the Vêract River. Access across the river in winter is by an ice bridge capable of supporting trucks, and access in the summer is by boat. Access is limited during the spring thaw. Underground access is currently under construction via a ramp collared in the old Bell Allard South Pit located 4.3 kilometres by direct ore haulage road from the Matagami Mill as contemplated in the Bracemac-McLeod Report. From this point, a 2.3 kilometre ramp has been constructed at a slope of approximately 15 degrees to the Bracemac zones. As of August 2013, two ramps were under construction to the McLeod zone located 1.2 kilometres from the Bracemac zone.

The Matagami area is well serviced by established infrastructure including the town of Matagami, power, a permitted and operating tailings facility, railway, airport and well developed road and highway networks. Electricity to the mine and Matagami town is supplied by Hydro Quebec from the Figuery sub-station, which is powered by the Rapid 7 dam and/or the James Bay hydroelectric complex. The mine site buildings and related infrastructure for Persévérance were moved to Bracemac-McLeod throughout 2012 and 2013 as contemplated in Bracemac-McLeod Report.

Zinc concentrates produced at Matagami are shipped via rail and refined at the Noranda Income Fund zinc refinery in Valleyfield, Québec. Copper concentrates are shipped via truck to Rouyn Noranda where they are smelted at Glencore's Horne smelter in Rouyn-Noranda and subsequently shipped to, and refined at, Xstrata's Canadian Copper Refinery in Montreal, Québec.

The Bracemac-McLeod Mine benefits from its location which contains existing infrastructure, an operational and permitted processing and tailings disposal facility, as well as from mining equipment and skilled miners from the Persévérance mining operation. The Bracemac-McLeod Mine ore is processed at

Glencore's Matagami Lake Mill ("**MLM**") zinc and copper mineral processing plant. Under the terms of MLOJVA, Glencore elected to process Donner's ores from Bracemac-McLeod at the Matagami Mill as contemplated in the Bracemac-McLeod Report.

Industrial water will be supplied to the Bracemac-McLeod Mine by the MLM site via a buried line. Water will be returned to the MLM plant via a buried pipe, prior to being discharged into the tailings pond. A 15,000 cubic metre capacity sump located into the Bell-Allard South ("**BAS**") mining pit will act as a contingency buffer. Underground water will be pumped, via a pump box, to the MLM plant and the overflow of the pump box will be sent to the BAS pit, if needed. No garage or oil bay will be built underground as one lube truck will supply petroleum products underground.

The Matagami area is generally flat with minor local relief. The maximum relief in the area is 70 metres, and the deposit is situated below terrain that is 10 to 30 metres above the rivers and streams. The area is classified as having a cold, moist boreal climate. The annual average temperature is around 0 degrees Celsius, with 133 days below zero and 30 days below minus 30 degrees Celsius. The average high in July is 23 degrees Celsius and the average low in January is minus 27 degrees Celsius. Average precipitation is approximately 900 millimetres per year, including 314 centimetres of snow. Average snow depth in February is 65 centimetres.

The forest in the area has been exploited for timber, and is primarily juvenile growth of black spruce, with balsam fir, birch and poplar underlain by moss and lichens in organic soils. Pleistocene clays cap a quaternary sequence of poorly-sorted glacial deposits overlying the relatively impermeable Archean basement rocks. High precipitation, low relief, and poor drainage mean that more than 50% of the area is swampy, and is characterized by bogs.

Development and mining activities occur year-round and exploration activities are only restricted during spring break-up.

## **History**

The original Bracemac (32 claims) and McLeod (35 claims) properties were staked in June 1957 by four Ontarian prospectors and developers soon after the discovery of the Matagami Lake ore body. Between the first staking of claims and 2004, various companies have optioned or re-staked the properties and performed various exploration work. In 2006, the MLOJVA between Falconbridge Limited ("**Falconbridge**") and Donner reactivated exploration on properties in the Matagami Camp. Later that year, Xstrata Plc. bought Falconbridge and assumed Falconbridge's rights and obligations under the MLOJVA through Xstrata Canada Corporation. In 2013, Glencore bought Xstrata Plc. All work conducted under the MLOJVA was done under Glencore management.

### *Bracemac Properties*

The northern block (Bracemac) was transferred to Bracemac Mines Ltd. ("**Bracemac Mines**"). Eight holes were drilled trying to locate the favourable tuffaceous contact. The property was first optioned to Ventures Ltd. in 1959; they drilled 25 holes to systematically test the Key Tuffite ("**KT**") every 120 metres over a distance of 2,100 metres. Most of these holes were stopped in the Bracemac Rhyolite because they misinterpreted the Bracemac Tuffite as the KT. Their best result was a zone containing 2.5% zinc over 1.5 metres at the KT level. The option was dropped, and Bracemac Mines drilled 15 more holes on the property in 1964 and 1965 with no significant results.

Cominco Ltd., owner of the adjoining McLeod property, optioned the Bracemac area between 1967 and 1971. Eight holes were drilled east of and very close to Bracemac KT zone. Then, Asarco Exploration optioned the whole area in 1972 and drilled three holes on the Bracemac Mines site.

Finally, Explorations Noranda Itée ("**Noranda**") (which became Noranda Inc. then Falconbridge Ltd. then Xstrata Zinc Canada, then Glencore) optioned the claim block in 1974 and became 100% owner of the 32 claims in 1976 after executing all commitments (C\$6,000 in cash and C\$150,000 in work) and buying back all remaining rights for a lump sum of C\$7,500. Noranda conducted a series of geophysical surveys between 1974 and 1978, followed by an inactive period until their first drilling campaign in 1984,

not returning any significant results. In 1985, six new vertical holes were drilled. One intersected the first significant massive sulphides on the property, hitting 14.75% zinc over 0.70 metres in the hanging wall right immediately adjacent to what will turn out to be the Bracemac zone. In 1986, a campaign of six new vertical holes tried to extend that zone with no success.

Periodically between 1990 and 2004, many existing holes were extended and new holes drilled, all of which increased the discovery potential associated with this better defined broad alteration zone. Exploration in Matagami was reactivated in 2006, with the MLOJVA. Based on a recompilation of existing downhole geophysical surveys, one hole was selected. Borehole pulse electromagnetic results from this hole detected a significant anomaly off-hole in the hanging wall. This anomaly was tested with another hole, which became the discovery hole in the Bracemac Main Zone, with an intersection of 9.17% zinc and 1.24% copper over 16.0 metres.

### *McLeod Properties*

The southern block (McLeod property) was optioned by the Consolidated Mining and Smelting Company of Canada ("**Cominco**") in June 1959. During the summer, Cominco carried out a reconnaissance geophysical program including electromagnetic, magnetic, and gravimetric surveys followed by drilling of holes. None of these intersected the KT horizon.

In the spring of 1960, they carried out a detailed magnetic survey over the northern portion of the property. Results from this work indicated two structurally disturbed areas, which were immediately adopted as favourable drilling targets. Lacking encouraging results, the drill was relocated to a second structural break which intersected 6.7 metres of massive ore grade sulphides (2.1% zinc, 4.34% copper); this is the original McLeod showing. Subsequent holes were drilled to outline the extensions, aided by a borehole electromagnetic survey. However, no significant sulphide zone was outlined.

In April 1961, Cominco signed an agreement with Kerr-Addison for the purpose of continuing exploration on the property. During the summer of 1962, a diamond drilling program, designed to investigate the eastern and western extensions of the KT horizon near the McLeod showing, was implemented. An option was taken on six bordering claims with Bracemac Mines to test structural disturbances and known talc-chlorite alteration zones near the favourable contact at the western end of the property. Only small amounts of sphalerite and chalcopyrite were intersected. The subsequent drilling program was conducted during winter 1968 with limited success.

In 1972, Asarco Exploration Co. conducted an induced polarization survey and drilled three widely spaced vertical holes. Two of these holes never reached the KT, as they were stopped in the Bracemac Rhyolite. In 1988, a last attempt was made by Cominco to find volcanogenic massive sulphides ("**VMS**") on the property. Four vertical holes were drilled. These holes targeted the KT horizon at depth between McLeod and Bracemac "showings". All four holes intersected the KT, except one, which had 22 centimetres of massive magnetite at the KT level. No significant mineralization was encountered in any of them.

In 1997 and 1998, Noranda attempted to consolidate its ownership on the property. The 35 original claims were now owned as follows: 42% by Cominco, 33% by Inmet Mining Corporation, and 25% by the four prospectors (McLeod, McVittie, Dennis and Rankin). The successors of the four prospectors were not easy to locate, making buying all remaining rights difficult to achieve. In 1999, the property became open for staking when the original claims were not renewed. Simultaneous staking by four parties led to a lottery which was won by Soquem (Société Québécoise d'Exploration Minière) who became 100% owner of many of the claims inside the new McLeod property.

Soquem exchanged these claims with Noranda for the results from a Megatem Airborne EM database over some of their properties in the Phelps-Dodge belt (West Camp of Matagami). In 2002, Noranda became owner of most of the McLeod sector with the exception of one claim that became open and was ground staked in October 2004.

In 2006, the property was optioned to Donner under the MLOJVA.

## ***Geological Setting***

The Bracemac-McLeod deposit is located within the Matagami VMS district ("**Matagami Camp**"), within the Archean Abitibi Greenstone Belt of the Superior Province. The greenstones, mainly basalts with some rhyolite (a bimodal volcanic suite) are the remnants of an ancient back-arc basin or continental rift. The volcanics are altered and contain the green minerals actinolite and epidote, as well as albite and other greenschist facies minerals.

Several zinc-copper ore bodies have been mined in the Matagami Camp since 1963, some of which share a common formation known as the Key Tuffite or KT. Although separated, Bracemac and McLeod both occur within the same extensive alteration zone. This alteration zone is the largest documented in the camp. The Bracemac-McLeod deposit is the south-easternmost discovery in the Matagami Mining Camp.

The Bracemac-McLeod deposit is a VMS deposit composed of separate polymetallic lenses. In the Bracemac area, three vertically stacked massive and semi-massive sulphide lenses are present. This is the first noted occurrence of stacked mineralization in the Matagami Camp. The McLeod area is 1.2 kilometres southeast of the Bracemac lenses. Within this area, massive and semi-massive sulphides are developed in the McLeod and West McLeod zones at the Key Tuffite formation. A copper stringer zone composed of stringer sulphides occurs between 10 and 50 metres below the McLeod zone. Massive and semi-massive sulphides have been discovered in the McLeod Deep deposit which occurs approximately 240 metres down-dip from the McLeod zone. Further drilling will be required to determine if mineralization continues between the McLeod zone and the McLeod Deep deposit.

## ***Exploration***

In 2006, the MLOJVA between Falconbridge and Donner reactivated exploration on properties in the Matagami Camp. Later that year, Xstrata plc bought Falconbridge and assumed Falconbridge's rights and obligations under the MLOJVA through Xstrata. In 2013, Glencore purchased Xstrata Plc. All work conducted under the MLOJVA was conducted by Glencore as operator. Exploration was guided by a joint Glencore-Donner management committee.

A recompilation of downhole geophysics results and additional pulse electromagnetic work resulted in the identification of a "discovery hole" on each property. This led to additional work (electromagnetic surveys and diamond holes drilling). Between 2006 and 2008, 116 drill holes were completed. The result of the drilling was the February 2009 resource estimate.

In 2009 and 2010, 119 new definition diamond drill holes were completed on the Bracemac-McLeod property, totalling 53,642 metres, on an approximate 25 metre grid. The additional drill data provided the basis for an updated resource calculation and reserve estimate under the Bracemac-McLeod Report.

## ***Mineralization***

The Bracemac-McLeod area comprises two main centres of mineralization 1.2 kilometres apart. Typical mineralization is semi-massive to massive sulphides, composed of sphalerite, pyrite, chalcopyrite and pyrrhotite and, sometimes, galena. Gangue minerals are magnetite, chlorite, calcite and quartz.

The western most Bracemac area consists of three stacked lenses going from lowermost Bracemac KT zone at the KT interface, the small Upper Bracemac ("**uBRC**") zone located 400 metres higher and the Bracemac Main lens located between the two. The latter two lenses are hosted in the hanging wall basalts. The Bracemac Main and uBRC zones are the first significant occurrences of stacked lenses found in the Matagami mining camp.

To the east, the McLeod mineralization was first discovered in 2004. At that time, further largely spaced drilling failed to detect the large ore body they were looking for. Recent deeper drilling following up a weak but well defined borehole electromagnetic off-hole anomaly intersected 27.95 metres of

mineralization averaging 9.96% zinc and 0.98% copper in the McLeod zone. Subsequently, deep drilling in 2010 discovered the McLeod Deep deposit. All mineralization occurs at the KT horizon.

In both Bracemac and McLeod, formations dip at steep angle, generally 65 degrees to 70 degrees. In the current state of knowledge, the Bracemac zone does not indicate a significant potential for expansion. The McLeod ore body and the McLeod Deep Zone, although described as a series of lenses, are now thought to be one continuous zone.

### ***Drilling***

The feasibility study drilling program on the Bracemac-McLeod property, between 2009 and spring 2010, included 119 new completed solid-core diamond drill holes. Between August 15, 2009 and March 21, 2010, more than 50,000 metres was drilled to delineate and define the Bracemac and McLeod zones.

Feasibility drilling was performed by Val-d'Or, QC contractor Forage Orbit-Garant, using metric running gear (3 metre rods, core barrels and inner tubes) and between two and five drill rigs. The drill schedule for the duration of the program was on a 24 hour, 7 days per week basis. The drilling procedures were designed to maximize the precision of the location of the hole and assure quality control of sampling and assessment without compromising speed and efficiency. Reflex EZ-Shot electronic single-shot azimuth and dip tests were conducted systematically at 30 metre intervals during the drilling. In addition, non-magnetic based Sperry-Sun gyroscopic surveys were performed in 69% of the delineation holes to assure accurate hole positioning in 3D space. The results of the drilling are included in the current mineral reserve and mineral resource estimates.

### ***Sampling and Analysis***

Glencore's rigorous internal protocols were followed for drill core sampling and analysis. Samples were selected based on geology and metal zonation within the mineralised zone. The samples were limited to one metre in length within massive sulphide zones and in stringer or weakly disseminated mineralization. A line was drawn on the core to mark down two halves, reflecting the best equal distribution of grade, mineralogy and texture. If banding was present, the line would generally be perpendicular to the foliation.

All core was NQ sized and was sawn into two equal pieces, with one half going to the laboratory for analysis, and the other being carefully stored as a witness sample in the core box. Care was taken to always sample the same side of the split core.

Each sample is placed in a plastic sample bag with a sample ticket; the other half of the ticket is attached to the remaining core in the box. Samples were sent to the laboratory in sealed fibre bags. The sealed bags were shipped by courier to the laboratory.

An efficient method for controlling assay quality is the systematic insertion of laboratory standards. The ratio of insertion was maintained at 1:25. Glencore's quality assurance/quality control protocol ("QA/QC") recommends alternating insertions with different standards. Laboratory standards may be purchased or made from laboratory rejects or drill core. The samples were pulverized, homogenised and bottled in 200 gram containers, and stored in a freezer to prevent oxidation of the material. A round-robin campaign of assaying was done to establish the acceptable grade range.

The assay database was shown to be robust as validated by QA/QC protocols. The standard and blank insertion exceeded the recommended rates of insertion of control materials.

Primary crushing was done such that 90% of the sample passed through a 2 millimetre screen; pulverization was done such that 95% of the sample passed through a 75 micrometre screen.

The delineation campaign conducted on the Bracemac and McLeod properties resulted in the sampling of 4,646 metres of core from a total of 5,281 core samples. Base metal assays (zinc, copper and lead) were obtained by the atomic absorption method at the Chimitec (ALS Chemex) commercial

laboratory located in Val-d'Or Quebec. Gold values were determined using standard fire assay procedures, also at the Chimitec laboratory. The selenium-tellurium values were determined using standard inductively coupled plasma mass spectroscopy procedures, at the Vancouver laboratory (ALS group). The results were certified by laboratory managers for ALS in Vancouver, British Columbia.

Individual density determinations were performed on a total of 5,279 pulp samples representing 4,646 metres of drill core. The pycnometer methods was used to perform density determinations by accurately measuring the volume of gas (helium) displaced by a known mass of substance in a control vessel at various pressures. The density values were determined at the Vancouver laboratory.

### ***Security of Samples***

Samples were handled by Matagami personnel except during transportation to the Chimitec laboratory in Val-d'Or and the actual assay procedure. Transportation of individual sawn core samples in sealed (taped) fibre bags, containing approximately ten samples each, minimized the possibility of sample tampering. Samples are shipped to the laboratory by bonded courier.

### ***Data Verification***

Chimitec provided results of their own internal control standards. Chimitec used six standards, two internally made and four commercially available. Pulp duplicate analyses were also randomly performed.

Zinc analyses for the standards used by Chimitec were equal or very close to target values, with discrepancies less than 1.9% on a relative basis. Except for the MRGeo08 standard (+16.7% on a relative basis), copper analyses of the standards were also in close agreement with the target values, with discrepancies less than 3% (relative basis).

On a total of 408 samples, no defect in pulp duplicates was observed at any grade range for zinc or copper.

Assay certificates were digitally received and matched with intervals recorded in the sample books. All standard and blank data inserted by Glencore were inspected on a per hole spreadsheet basis to ensure assay quality. The assays were then sorted to remove standard and blank insertions; the average values of pulp duplicate was added and a text file was created. The text files were subsequently imported on a certificate-by-certificate basis into the "Analyses" table of the CoreLog/Amine database. Checks were performed on each hole to ensure all data were properly imported.

Glencore utilized 3 standard samples (STD-LG, STD-MG and STD-HG) for insertion into sample batches from drillholes that intersected sulphide mineralization. All elements displayed normal distributions. However, with the exception of STD-MG, average zinc and copper grades were generally a bit higher than the target grades for the standards. The average grade obtained, however, is generally less than 1% higher (relative value) than the target grade, except for the HG zinc value, which is 2.2% higher (relative value). The average MG zinc values were 2.9% lower (relative value).

The target values for the blank samples inserted by Xstrata were 0.01% for zinc, and 0.01% for copper. The results show negligible contamination for zinc, which can be explained by two main factors: (1) the Glencore core shack was located underneath MLM's main crusher conveyor, from which dust frequently fell into the room and possibly contaminating the "blank" containers; and (2) possible contamination at the lab crusher.

Approximately 91% of the blank samples submitted gave results equal to or below 0.05% zinc. Approximately 98.2% of the blank samples submitted gave results equal to or below 0.05% copper.

Density determinations are as critical to the resource model as assay data, since they directly impact volumetric and tonnage calculations. At the Bracemac-McLeod delineation program, density determinations were performed at the ALS laboratory from Vancouver, British Columbia with the pycnometer method.

As is the case for chemical assays, density determinations have to be included in the QA/QC program. Therefore, 468 standards and 162 replicates were randomly inserted by ALS laboratory in Vancouver B.C. and 112 blank samples inserted with a 1:50 ratio by Glencore technicians. All standard results show normal distributions, with an average of 1.08% over the 2.64 grams per cubic centimetre target, and a standard deviation of 0.065.

On a total of 162 samples, eleven defects in pulp duplicates were observed, representing approximately 7%. However, only 4% of defects were observed for the range 2.6-3.1 grams per cubic centimetre, which represent approximately 74% of the samples.

#### *Metallurgical Testing*

An initial ore characterization program was performed in 2009. Another phase of testing, by Glencore Process Support, was conducted in 2010 to optimize process parameters for the various types of ore encountered in the different zones of Bracemac and McLeod. All ore will be processed in the Matagami Lake Mine plant. This facility was upgraded in 2007-2008, and no significant modification is required to process Bracemac and McLeod sulphide ores for the production of zinc and copper concentrates. In 2012 and 2013, additional grinding capacity was added to the mill.

## Mineral Resource and Mineral Reserve Estimates

The following table sets forth the estimated Mineral Resources for the Bracemac-McLeod Mine as of August 30, 2010:

### Measured, Indicated and Inferred Mineral Resources <sup>(1)(2)(3)(4)</sup> (inclusive of Mineral Reserves)

| <u>Region</u>              | <u>Category</u> | <u>Volume<br/>(cubic<br/>metres)</u> | <u>Tonnes</u>    | <u>Grade</u>        |                       |                                             |                                           | <u>SG</u>   |
|----------------------------|-----------------|--------------------------------------|------------------|---------------------|-----------------------|---------------------------------------------|-------------------------------------------|-------------|
|                            |                 |                                      |                  | <u>Zinc<br/>(%)</u> | <u>Copper<br/>(%)</u> | <u>Silver<br/>(grams<br/>per<br/>tonne)</u> | <u>Gold<br/>(grams<br/>per<br/>tonne)</u> |             |
| Bracemac KT                | Measured        | 310,170                              | 1,077,610        | 12.88               | 1.46                  | 40.07                                       | 0.41                                      | 3.47        |
| Bracemac Main              | Measured        | 110,315                              | 409,483          | 8.51                | 1.79                  | 28.20                                       | 0.31                                      | 3.71        |
| Upper Bracemac             | Measured        | 15,163                               | 53,476           | 8.71                | 1.50                  | 49.49                                       | 0.34                                      | 3.53        |
| Subtotal Bracemac          | Measured        | 435,648                              | 1,540,570        | 11.58               | 1.55                  | 37.24                                       | 0.38                                      | 3.54        |
| McLeod (upper portion)     | Measured        | 314,237                              | 1,058,818        | 10.92               | 1.63                  | 36.52                                       | 0.54                                      | 3.40        |
| <b>TOTAL MEASURED</b>      |                 | <b>749,885</b>                       | <b>2,599,387</b> | <b>11.31</b>        | <b>1.58</b>           | <b>36.95</b>                                | <b>0.45</b>                               | <b>3.48</b> |
| McLeod (lower portion)     | Indicated       | 227,157                              | 787,878          | 11.32               | 1.09                  | 24.56                                       | 0.67                                      | 3.47        |
| Cu-Stringer                | Indicated       | 77,221                               | 243,545          | 0.96                | 1.25                  | 7.80                                        | 0.19                                      | 3.15        |
| <b>TOTAL INDICATED</b>     |                 | <b>304,378</b>                       | <b>1,031,423</b> | <b>8.87</b>         | <b>1.13</b>           | <b>20.61</b>                                | <b>0.56</b>                               | <b>3.39</b> |
| <b>MEASURED+ INDICATED</b> |                 | <b>1,054,263</b>                     | <b>3,630,811</b> | <b>10.62</b>        | <b>1.45</b>           | <b>32.31</b>                                | <b>0.48</b>                               | <b>3.46</b> |
| West McLeod Zone           | Inferred        | 48,163                               | 158,455          | 2.17                | 2.63                  | 23.76                                       | 0.19                                      | 3.29        |
| McLeod Deep                | Inferred        | 659,319                              | 2,470,000        | 9.21                | 1.22                  | 39.81                                       | 1.12                                      | 3.75        |
| <b>TOTAL INFERRED</b>      |                 | <b>707,482</b>                       | <b>2,628,455</b> | <b>8.79</b>         | <b>1.31</b>           | <b>38.84</b>                                | <b>1.06</b>                               | <b>3.72</b> |

- (1) The Mineral Resource estimates were approved by Robin Adair, P. Geo, former Vice President, Exploration of Donner, who is a qualified person under NI 43-101.
- (2) Mineral Resources are estimated under the definition of the Australian Code for Mineral Resources and Ore Reserves Reporting of Exploration Results, using a net smelter return ("NSR") cut-off value of \$43.77.
- (3) Metal prices used in calculation of the NSR are: \$0.80 per pound for zinc, \$2.50 per pound for copper, \$12.00 per ounce for silver and \$1,000 per ounce for gold, using an exchange rate of C\$1.00 = US\$1.04.
- (4) Except for the inferred mineral resource category, the resource calculation used the inverse distance squared method for all zones, using the Gemcom software. The results were then transferred into the Surpac software to initiate engineering design and scheduling. Inferred mineral resources in the McLeod Deep zone were estimated using a 3D polygonal method, with the Gemcom software.

The following table sets forth the estimated Mineral Reserves for the Bracemac-McLeod Mine as of August 30, 2010:

**Proven and Probable Mineral Reserves <sup>(1)(2)</sup>**

| <u>Category</u> | <u>Tonnes</u> | <u>Zinc</u><br><u>(%)</u> | <u>Copper</u><br><u>(%)</u> | <u>Grade</u><br><u>Silver</u><br><u>(grams</u><br><u>per tonne)</u> | <u>Gold</u><br><u>(grams</u><br><u>per tonne)</u> | <u>NSR Value</u><br><u>(\$ per tonne)</u> |
|-----------------|---------------|---------------------------|-----------------------------|---------------------------------------------------------------------|---------------------------------------------------|-------------------------------------------|
| Proven          | 2,788,940     | 9.84                      | 1.39                        | 31.55                                                               | 0.39                                              | 143.50                                    |
| Probable        | 939,436       | 8.90                      | 0.87                        | 18.46                                                               | 0.54                                              | 118.38                                    |
| Total           | 3,728,376     | 9.60                      | 1.26                        | 28.25                                                               | 0.43                                              | 136.42                                    |

- (1) The Mineral Reserve estimates were approved by Robin Adair, P.Geo, former Vice President, Exploration of Donner, who is a qualified person under NI-43 101
- (2) After applying dilution, losses and a 95% mining recovery, the tonnage of each stope was integrated into the mineral reserves provided its net smelter return value was greater than or equal to \$65 per tonne, which represents the average preliminary operating cost estimated for the Bracemac-McLeod Mine (comprised of mining, ore processing and general and administration costs). This process did not modify the resource block model envelopes.

### ***Mining Operations***

A ramp is under construction from the Bell Allard South open pit located 4.3 kilometres from the Matagami mill. From the portal, a 2.3-kilometre ramp has connected with the Bracemac Main and Bracemac KT lenses. The slope of that ramp is 15 degrees. Ramp construction is continuing a further 1.2 kilometres to the McLeod lens. A network of internal ramps provides access to all sublevels, spaced every 30 vertical metres. More than 28,000 metres of lateral development will be prepared with electric hydraulic mechanized equipment between 2010 and the end of 2015. Production from the Bracemac Main and Bracemac KT zones began in May 2013 following initial cessation of production from Glencore's wholly owned Persévérance Mine.

Waste trucked to surface, mostly during the preproduction period, will be sent back underground via a fill raise during the last two years of production, where it will be used as backfill material for support. During the first two years of production, waste rock from ongoing development will be used directly underground to backfill stopes. Ore will be trucked to surface and dumped on an ore pad located near the portal before being transported to the Matagami Lake Mine plant for processing. Vertical development will consist in excavating the fill raise and the main ventilation raise, located above the Bracemac zone, close to the fill raise and the backfill cement plant. Four internal secondary vent raises will also be excavated, for a total of 1,395 metres of vertical development.

Total lateral and vertical development will be 29.99 kilometres.

A longhole mining method will be used with either a transverse or a longitudinal access to the ore body. The transverse mining method will be more cost effective where the ore body thickness is greater than six metres. It also permits a more efficient running of mining operations.

Although a transverse approach will require more development, savings realized on the unconsolidated rockfill in the secondary stopes will outweigh additional development costs. A cost comparison (development and backfill) between longitudinal and transverse methods in relation to ore body thickness highlighted the five metre thickness as the point where the transverse method present lower development and backfill costs. Whenever possible, as identified by each stope economic assessment, a transverse mining approach is recommended to speed up mining and increase productivity.

Rock will be trucked with 45-tonne trucks. Up to six trucks will be required for development, backfill and production activities, which will gradually increase from 2,200 to 2,800 tonnes per day, for a

life of mine average of 2,500 tonnes per day. Drifts will be mucked with 6- and 11-cubic yard scooptrams. Production will be mucked with 11-cubic yard scooptrams.

#### *Life of Mine*

Initial average daily production rate of 2,300 metric tonnes per day, for the first two years of production was anticipated under the Bracemac-McLeod Report. Then, it will reach 2,800 metric tonnes per day for the last two years of the life of mine, for a life of mine average daily production rate of 2,500 metric tonnes per day. Additional grinding capacity was added to the mill in 2012 and 2013 which allowed for a revised production rate of 3,000 metric tonnes per day.

At this revised rate, the life of mine of the Bracemac-McLeod Mine will be 6.5 years: two and a half years of preproduction for developing the underground mine, and four years of production. Development work started in July 2010. The life of mine is expected to conclude at the end of 2016.

The expected payback period of capital is approximately three years.

#### *Production Forecast*

Development of the 2.3 kilometre main access ramp leading to the Bracemac main lens will constitute the most important task for the project critical path. This schedule bottleneck will be characterized by a single work face and will last 18 months, at an advance rate of 4.5 metre per 24 hour period. By itself, development of the access ramp represents 60% of the 30-month preproduction period.

Excavation of the 2.3-kilometre access ramp started on August 2, 2010 and was completed on schedule. Once the main ramp was completed, the primary ventilation circuit was completed to increase the development rate and to start the production work. Stope production was scheduled to begin on January 1, 2013, however actual production began in May 2013 following initial cessation of production at Glencore's Persévérance Mine. Production at Bracemac-McLeod is scheduled to end in late 2016.

Metal production is expected to total 606 million pounds of payable zinc, 83 million pounds of payable copper, 1.5 million ounces of payable silver and 13 thousand ounces of payable gold over the life of mine.

#### *Environmental Conditions*

The Bracemac-McLeod underground project is designed to minimize environmental impacts and risks. The proposed mining concept includes ore processing at the existing MLM process plant, avoidance of water discharge on site, relocation of buildings from the Perseverance Mine and reuse of all waste rock as backfill. The conceptual closure plan aims to return the site in a state compatible with the environment and will support reuse of equipment and buildings. The existing pit will be naturally flooded but will not be converted into a living lake. Finally, the environmental management practices and various policies instigated by Glencore to guide its governance strategy through sustainable activities will be implemented and maintained by the environmental department.

#### ***Exploration and Development***

Once the McLeod deposit is developed and producing, the Bracemac-McLeod Report recommends proceeding with exploration drilling in the McLeod Deep and West McLeod.

#### *Bracemac-McLeod Mine Milestones*

Current activities and milestones at the Bracemac-McLeod Mine include:

- In July 2013, Donner reported that the Bracemac-McLeod Mine had reached commercial production and was processing ore at a rate of approximately 3,000 tonnes per day as expected under the revised mine plan since commencement of operations in mid-May of 2013. Donner reported that ore grades were below the average grades defined in the

Bracemac-McLeod Report due to lower stope grades as a result of preliminary resource modelling from underground drilling and processing of lower-grade development ore from the Bracemac-McLeod stockpile but that the Matagami mill was performing above expectations as defined in the Bracemac-McLeod Report with higher than anticipated recoveries and concentrate grades for both zinc and copper. Preliminary underground resource drilling had provided a new production and grade forecast for 2013 which anticipated lower grades for the remainder of the year. Furthermore, production was within the Bracemac-McLeod Report plan and was ramping up to an average of approximately 3,000 tonnes per day. Ore grades for both copper and zinc were below those forecast in the Bracemac-McLeod Report during the first two months of production due in part to the sequencing of stopes and processing of the stockpiled lower grade development ore. Based on preliminary results from the underground resource drilling, the grade forecast for 2013 reduced the anticipated ore grade for 2013 to an average of 6.79% zinc, 1.11% copper, 32.98 grams per tonne silver and 0.3 grams per tonne gold. Donner reported that the new ball mill was performing well and was successfully commissioned in early June 2013. The addition of the grind capacity added flexibility to the grinding process and added mill capacity in excess of that needed for the 3,000 tonnes per day production rate planned from Bracemac-McLeod.

- Production at Matagami operations has moved over to Bracemac-McLeod. Mining on multiple faces is occurring and material from Bracemac-McLeod is being processed through the mill.

## **DIVIDENDS**

The Corporation currently intends to retain future earnings, if any, for use in its business and does not anticipate paying dividends on the Common Shares in the foreseeable future. Any determination to pay any future dividends will remain at the discretion of the Corporation's Board of Directors and will be made taking into account its financial condition and other factors deemed relevant by the Board. The Corporation has not paid any dividends since its incorporation.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized share capital of the Corporation consists of an unlimited number of Common Shares. As of March 10, 2014, 34,677,037 Common Shares are issued and outstanding.

Holders of Common Shares are entitled to receive notice of any meetings of shareholders of the Corporation, to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Corporation's Board of Directors at its discretion from funds legally available for the payment of dividends and upon the liquidation, dissolution or winding up of the Corporation are entitled to receive on a pro rata basis the net assets of the Corporation after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

## **TRADING PRICE AND VOLUME**

### **Common Shares**

The Common Shares are listed and posted for trading on the TSXV under the symbol "SND". The following table sets forth information relating to the trading of the Common Shares on the TSXV for the months indicated.

| Month                   | High (C\$) | Low (C\$) | Volume     |
|-------------------------|------------|-----------|------------|
| January 2013            | 0.52       | 0.44      | 13,368,814 |
| February 2013           | 0.50       | 0.35      | 10,526,023 |
| March 2013              | 0.435      | 0.375     | 11,768,579 |
| April 2013              | 0.425      | 0.28      | 13,126,238 |
| May 2013 <sup>(1)</sup> | 0.355      | 0.30      | 2,804,354  |
| May 2013 <sup>(2)</sup> | 3.37       | 2.80      | 553,317    |
| June 2013               | 3.54       | 2.82      | 1,462,427  |
| July 2013               | 3.30       | 1.63      | 5,112,597  |
| August 2013             | 1.73       | 1.05      | 2,589,280  |
| September 2013          | 1.59       | 1.33      | 1,087,370  |
| October 2013            | 1.50       | 1.36      | 1,173,628  |
| November 2013           | 1.43       | 1.10      | 1,224,002  |
| December 2013           | 1.29       | 0.95      | 3,569,875  |

(1) From May 1 to May 14, 2013. Effective May 15, 2013, the Corporation consolidated the Common Shares on a 10:1 basis.

(2) From May 15 to May 31, 2013. Effective May 15, 2013, the Corporation consolidated the Common Shares on a 10:1 basis.

The price of the Common Shares as quoted by the TSXV at the close of business on December 31, 2013 was C\$1.17 and on March 10, 2014 was C\$1.18.

### DIRECTORS AND OFFICERS

The following table sets forth the name, province/state and country of residence, position(s) held with the Corporation and principal occupation of each person who is a director and/or an executive officer of the Corporation.

| <u>Name,<br/>Province/State and<br/>Country of Residence</u>  | <u>Position(s) with the Corporation</u>                                                                                                     | <u>Principal Occupation</u>                                                                                                                         |
|---------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| Nolan Watson<br>British Columbia, Canada                      | President, Chief Executive Officer and Director since January 2010; Chairman of the Board of Directors since January 2013                   | Chairman of the Board of Directors, President and Chief Executive Officer of the Corporation and of Sandstorm Gold Ltd.                             |
| David Awram<br>British Columbia, Canada                       | Director since January 2010; Executive Vice President from January 2010 to January 2013; Senior Executive Vice President since January 2013 | Senior Executive Vice President of the Corporation and of Sandstorm Gold Ltd.                                                                       |
| John P.A. Budreski <sup>(1)</sup><br>British Columbia, Canada | Director since January 2010                                                                                                                 | President and Chief Executive Officer of Morien Resources Corp.                                                                                     |
| Marcel de Groot <sup>(1)</sup><br>British Columbia, Canada    | Director since January 2010                                                                                                                 | Independent Businessman; President and a director of Pathway Capital Ltd. (a Vancouver based private venture capital company) (" <b>Pathway</b> "). |
| David E. De Witt <sup>(1)</sup><br>British Columbia, Canada   | Director since January 2010; Lead Independent Director since January 2013                                                                   | Independent Businessman; Chairman and a director of Pathway.                                                                                        |
| Andrew T. Swarthout<br>Arizona, United States                 | Director since January 2010                                                                                                                 | Chief Executive Officer of Bear Creek Mining Corporation; Director of Rio Cristal Resources Corporation.                                            |
| Erfan Kazemi<br>British Columbia, Canada                      | Chief Financial Officer since August 2011                                                                                                   | Chief Financial Officer of the Corporation and of Sandstorm Gold Ltd.                                                                               |

(1) Member of the Audit Committee. Mr. De Witt is the Chairman of the Audit Committee.

Each director's term of office expires at the next annual meeting of shareholders of the Corporation or when his successor is duly elected or appointed, unless his term ends earlier in accordance with the Articles of the Corporation, he resigns from office or he becomes disqualified to act as a director of the Corporation.

The principal occupations, businesses or employments of each of the Corporation's directors and executive officers within the past five years are disclosed in the brief biographies set forth below.

**Nolan Watson – Chairman of the Board of Directors, President, Chief Executive Officer and Director.** Mr. Watson has been the President and Chief Executive Officer of the Corporation since its inception in January 2010 and its Chairman since January 2013. He has been the President and Chief Executive Officer of Sandstorm Gold since September 2008 and its Chairman since January 2013. From July 2008 to September 2008, Mr. Watson was an independent businessman. From April 2006 to July 2008, Mr. Watson was the Chief Financial Officer of Silver Wheaton Corp. ("**Silver Wheaton**"). Mr. Watson was the Corporate Controller of Silver Wheaton from 2005 to 2006. From 2003 to 2004, Mr. Watson was a financial advisor and merger and acquisition specialist with Deloitte LLP. Mr. Watson is a Chartered Financial Analyst Charterholder, a Chartered Accountant (Valedictorian of the Institute of Chartered Accountants of British Columbia), and holds a Bachelor of Commerce degree (with honours) from the University of British Columbia.

**David Awram – Senior Executive Vice President and Director.** Mr. Awram was Executive Vice President of the Corporation from its inception in January 2010 to January 2013 and has been its Senior Executive Vice President since January 2013. Mr. Awram has been the Executive Vice President of Sandstorm Gold since July 2009 and then its Senior Executive Vice President since January 2013. From July 2008 to July 2009, Mr. Awram was an independent businessman. From May 2005 to July 2008, Mr. Awram was the Director of Investor Relations for Silver Wheaton. Prior to May 2005, he was Manager, Investor Relations with Diamond Fields International Ltd. from April 2004 to April 2005. He holds a Bachelor of Science degree (Honours) in Geology from the University of British Columbia in 1996.

**John P.A. Budreski – Director.** Mr. Budreski has been the President and Chief Executive Officer of Morien Resources Corp. since November 2012. He was a Managing Director and a Vice Chairman with Cormark Securities Inc. from 2009 to 2012. He was the President and Chief Executive Officer of Orion Securities Inc. from 2005 to 2007. Prior to this, he filled the roles of a Managing Director of Equity Capital Markets and Head of Investment Banking for Scotia Capital Inc. from March 1998 to February 2005 after starting out as a Managing Director of US Institutional Equity Group for Scotia Capital. He also held senior roles in investment banking and equity sales and trading for RBC Dominion Securities and worked for Toronto Dominion Bank. He holds an MBA from the University of Calgary and a Bachelor of Engineering from TUNS/Dalhousie.

**Marcel de Groot – Director.** Mr. de Groot is a co-founder and the President of Pathway, a Vancouver based venture capital company, which has played a significant role in the development of a number of mining companies including, Peru Copper Inc. (acquired by Aluminum Corporation of China in 2007), CIC Resources Inc. and Lowell Copper Ltd. Currently he is a Director of Asanko Gold Inc. (formerly known as Keegan Resources Inc.) and the Corporation. Mr. de Groot is a co-founder and former Chairman of Luna Gold Corp. and he was a Director of Underworld Resources Inc. (which was acquired by Kinross Gold Corporation in 2010) and of Esperanza Resources Corp. (which was acquired by Alamos Gold Inc. in 2013). Mr. de Groot graduated from the University of British Columbia with a degree in Commerce in 1996 and is a Chartered Accountant.

**David E. De Witt – Lead Independent Director.** Since October 2004, Mr. De Witt has been a co-founder and Chairman of Pathway, a Vancouver-based private venture capital company. Mr. De Witt graduated with a BComm/LLB from the University of British Columbia in 1978 and practiced corporate, securities and mining law until his retirement from the practice of law in January 1997. He currently holds directorships in a number of public companies involved in the natural resource field and has experience in resource projects located in Latin America, North America and Asia.

**Andrew T. Swarthout – Director.** Mr. Swarthout has been the Chief Executive Officer and a director of Bear Creek Mining Corporation since 2003. He was also its President until February 2011 and

then again from August 2013 to present. Mr. Swarthout was a Director of Rio Cristal Resources Corporation from December 2006 to September 2013 and he was a Director of Esperanza Resources Corp. from May 2012 until August 2013 (when it was acquired by Alamos Gold Inc.). Formerly he was an officer and member of the management committee of Southern Peru Copper Corporation from 1995 to 2000 where he participated in decision making during a dynamic period of corporate expansions, financing and project development. Mr. Swarthout served as a member of the National Mining Society of Peru's Committee for the Promotion of Private Investment, where he initiated favourable environmental and taxation policies to promote foreign mining investment in Peru. Mr. Swarthout graduated in 1974 from the University of Arizona with a Bachelor of Geosciences degree and he is a Professional Geologist.

**Erfan Kazemi – Chief Financial Officer.** Since August 2011, Mr. Kazemi has been the Chief Financial Officer of the Corporation and of Sandstorm Gold. Formerly, Mr. Kazemi was a Senior Manager at PricewaterhouseCoopers LLP where he worked commencing in January 2005 (as an Associate) until June 2011 and where he managed the audits of billion dollar multinational entities and co-authored several publications. In the community, Mr. Kazemi is a former member of the Vancouver Public Library Board and of the University of British Columbia Board of Governors. Mr. Kazemi is a Chartered Accountant and also holds a Bachelor of Science (Mathematics) from the University of British Columbia.

As at March 10, 2014, the directors and executive officers of the Corporation, as a group, beneficially owned, directly and indirectly, or exercised control or direction over, 576,250 Common Shares, representing approximately 1.7% of the total number of Common Shares outstanding before giving effect to the exercise of options to purchase Common Shares or the vesting of restricted share rights held by such directors and executive officers.

#### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Corporation, no director or executive officer of the Corporation, is, or within ten years prior to the date of this Annual Information Form has been, a director, chief executive officer or chief financial officer of any company (including Sandstorm Metals) that,

- (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially control of the Corporation,

- (i) is, or within ten years prior to the date of this Annual Information Form has been, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than John P. A. Budreski, who was a director of EarthFirst Canada Inc. until March 2, 2010, a company engaged in the development of wind power and related generation facilities, when it obtained creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") on November 4, 2008. The CCAA process has now been completed and EarthFirst Canada Inc. has been amalgamated with another company and no longer exists as a separate entity; or

- (ii) has, within ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

To the best of the Corporation's knowledge, and other than as disclosed in this Annual Information Form, there are no known existing or potential material conflicts of interest between the Corporation and any director or officer of the Corporation, except that certain of the directors and officers serve as directors and officers of other public companies and therefore it is possible that a conflict may arise between their duties as a director or officer of the Corporation and their duties as a director or officer of such other companies. See "Description of the Business - Risk Factors - Risks Relating to the Corporation - Conflicts of Interest".

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Since January 1, 2011, no director, executive officer or person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of outstanding voting securities of the Corporation, or any associate or affiliate of any such person or company, has or had any material interest, direct or indirect, in any transaction that has materially affected or is reasonably expected to materially affect the Corporation.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal office in Vancouver, British Columbia.

### **MATERIAL CONTRACTS**

The only material contracts entered into by the Corporation within the financial period ended December 31, 2013 or since such time or before such time that are still in effect, other than in the ordinary course of business, are as follows:

- (a) the NovaDx Coal Stream referred to under "General Development of the Business, Commodity Streams, NovaDx - Coal Stream";
- (b) the Thunderbird Energy Stream referred to under "General Development of the Business, Commodity Streams, Thunderbird - Energy Stream"; and
- (d) the Colossus Palladium Stream referred to under "General Development of the Business, Commodity Streams, Colossus – Palladium Stream".

## **INTERESTS OF EXPERTS**

### **Qualified Persons under NI 43-101**

#### ***Bracemac-McLeod Mine***

Robin Adair, P.Geo, former Vice President, Exploration of Donner, has reviewed and approved the scientific and technical information included in this Annual Information Form relating to the Bracemac-McLeod Mine. Mr. Adair is a qualified person under NI 43-101.

#### ***Gordon Creek Property***

GLJ Petroleum Consultants Ltd. are the independent reserves evaluator for the Gordon Creek Property who prepared the report entitled "*Reserves Assessment and Evaluation of Canadian and U.S. Oil and Gas Properties*" which is referenced in the Thunderbird Reserves Data.

Each of the aforementioned firms or persons are independent of the Corporation and held no securities of the Corporation or of any associate or affiliate of the Corporation when they prepared the reports referred to above or following the preparation of such reports and did not receive any direct or indirect interest in any securities of the Corporation or of any associate or affiliate of the Corporation in connection with the preparation of such reports, nor are any of the aforementioned persons expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

### **Auditors**

Deloitte LLP, Chartered Accountants, of Vancouver, British Columbia are the auditors of the Corporation and are independent of the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia. Deloitte LLP is registered with the Public Company Accounting Oversight Board.

## **AUDIT COMMITTEE**

The Corporation's Audit Committee is responsible for monitoring the Corporation's systems and procedures for financial reporting and internal control, reviewing certain public disclosure documents and monitoring the performance and independence of the Corporation's external auditors. The committee is also responsible for reviewing the Corporation's annual audited financial statements, unaudited or audited interim financial statements and management's discussion and analysis of financial results of operations for both annual and interim financial statements and review of related operations prior to their approval by the full Board of Directors of the Corporation.

### **Charter of the Audit Committee**

The Audit Committee's charter sets out its responsibilities and duties, qualifications for membership, procedures for committee member removal and appointment and reporting to the Corporation's Board of Directors. A copy of the Audit Committee's charter is attached hereto as Schedule "A" to this Annual Information Form.

## Composition of the Audit Committee

The following are the current members of the Audit Committee:

|                    |                            |                                     |
|--------------------|----------------------------|-------------------------------------|
| David. E. De Witt  | Independent <sup>(1)</sup> | Financially literate <sup>(1)</sup> |
| John P.A. Budreski | Independent <sup>(1)</sup> | Financially literate <sup>(1)</sup> |
| Marcel de Groot    | Independent <sup>(1)</sup> | Financially literate <sup>(1)</sup> |

(1) As defined by National Instrument 52-110 *Audit Committees* ("NI 52-110").

## Relevant Education and Experience

As noted above, each member of the Audit Committee is financially literate, i.e. has the ability to read and understand financial statements. Collectively, the Audit Committee members have the education and experience to fulfill their responsibilities as outlined in the Audit Committee Charter.

Set out below is a description of the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member.

**David E. De Witt** – Mr. De Witt is a founding partner and the Chairman of Pathway Capital Ltd. which was founded in October 2004. He has been a director and officer of numerous publicly traded companies since 1991 and his work has required extensive review and analysis of financial statements. Mr. De Witt graduated in 1975 from the University of British Columbia with a Bachelor of Commerce degree and then in 1978 with a Bachelor of Laws degree.

**John P.A. Budreski** – Mr. Budreski has been involved in capital markets since 1987 and has acted as an advisor/consultant on a variety of capital markets matters. From 2009 to 2012, he was a Managing Director and a Vice Chairman with Cormark Securities Inc. He was the President and Chief Executive Officer of Orion Securities Inc. and Orion Financial Inc. from 2005 to 2007. Mr. Budreski's work has required extensive review and analysis of financial statements. He graduated in 1981 from TUNS/Dalhousie with a Bachelor of Engineering degree and then in 1986 from the University of Calgary with an MBA degree.

**Marcel de Groot** – Mr. de Groot is a founding partner of Pathway Capital Ltd., and has been its President since October 2004. Mr. de Groot is a director and a member of the Audit Committee of Asanko Gold Inc. (formerly known as Keegan Resources Inc.) and is a former director and member of the Audit Committee of each of Underworld Resources Inc., Ashton Mining Canada Inc., Luna Gold Corp. and Esperanza Resources Corp. Mr. de Groot graduated from the University of British Columbia with a degree in Commerce in 1996 and is a Chartered Accountant.

## Pre-Approval Policies and Procedures

The Audit Committee's charter sets out responsibilities regarding the provision of non-audit services by the Corporation's external auditors. This policy encourages consideration of whether the provision of services other than audit services is compatible with maintaining the auditor's independence and requires Audit Committee pre-approval of permitted audit and audit-related services.

### External Auditor Service Fees

The aggregate fees billed to the Corporation by the Corporation's external auditors in each of the last two fiscal years for audit fees are as follows:

| <i>Financial Year Ending</i> | <i>Audit Fees</i> | <i>Audit-Related Fees</i> | <i>Tax Fees</i> | <i>All Other Fees</i> |
|------------------------------|-------------------|---------------------------|-----------------|-----------------------|
| 2013 (December 31)           | \$93,549          | NIL                       | NIL             | NIL                   |
| 2012 (December 31)           | \$85,890          | NIL                       | NIL             | NIL                   |

### Exemption in Section 6.1 of NI 52-110

The Corporation is relying on the exemption in Section 6.1 of NI 52-110 from the requirements of Part 5 (Reporting Obligations) of NI 52-110.

### ADDITIONAL INFORMATION

Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the management information circular of the Corporation dated March 26, 2013 filed on SEDAR at [www.sedar.com](http://www.sedar.com). This information will also be contained in the management information circular of the Corporation to be prepared in connection with the Corporation's 2014 annual meeting of shareholders currently scheduled to be held in May 2014, which will be available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional financial information is provided in the Corporation's audited consolidated financial statements and management's discussion and analysis for the financial year ended December 31, 2013.

## SCHEDULE "A"



### SANDSTORM METALS & ENERGY LTD. (the "Company")

#### AUDIT COMMITTEE CHARTER

##### **I. Mandate**

The primary function of the audit committee (the "**Committee**") is to assist the Board of Directors in fulfilling its financial oversight responsibilities by reviewing the financial reports and other financial information provided by the Company to regulatory authorities and shareholders, the Company's systems of internal controls regarding finance and accounting, and the Company's auditing, accounting and financial reporting processes. Consistent with this function, the Committee will encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices at all levels. The Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the Company's financial reporting and internal control system and review the Company's financial statements.
- Oversee the audit of the Company's financial statements.
- Review and appraise the performance of the Company's external auditors.
- Provide an open avenue of communication among the Company's auditors, financial and senior management and the Board of Directors.

##### **II. Composition**

The Committee shall be comprised of three or more directors as determined by the Board of Directors. Each of these directors shall be independent as required by the applicable rules of the Company's regulators. No member of the Committee is permitted to have participated in the preparation of the financial statements of the Company or any current subsidiary at any time during the past three years.

If permitted by applicable stock exchange laws and regulations in effect from time to time, one director who (i) is not independent as defined and required under applicable stock exchange rules, and (ii) is not a current employee or an immediate family member (as defined under applicable stock exchange rules) of such employee, may be appointed to the Audit Committee if the Board, under exceptional and limited circumstances, determines that membership on the Audit Committee by the individual is required in the best interests of the Company and its stockholders. In such event, the Board will disclose in the Company's next annual proxy statement the nature of that director's relationship with the Company and the reasons for that determination. A director appointed to the Committee pursuant to this exception may not serve in excess of two consecutive years and may not chair the Committee.

Each member of the Committee will be able to read and understand fundamental financial statements. At least one member of the Committee shall have accounting or related financial management expertise to qualify as a financial expert. A financial expert is a member who understands generally accepted accounting principles and financial statements; can assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves; has experience preparing, auditing, analyzing 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 registrant's financial statements, or experience actively supervising one of more persons engaged in such activities; understands internal control over financial reporting; and understands audit committee functions.

The members of the Committee shall be elected by the Board of Directors. Unless a Chair is elected by the full Board of Directors, the members of the Committee may designate a Chair by a majority vote of the full Committee membership.

### **III. Meetings**

The Committee shall meet at least quarterly, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee will meet at least annually with the Chief Financial Officer and the external auditors in separate sessions.

### **IV. Responsibilities and Duties**

To fulfill its responsibilities and duties, the Committee shall:

#### **Documents/Reports Review**

1. Review and update this Charter annually.
2. Review the Company's financial statements, MD&A and any annual and interim earnings, press releases before the Company publicly discloses this information and any reports or other financial information (including quarterly financial statements), which are submitted to any governmental body, or to the public, including any certification, report, opinion, or review rendered by the external auditors.
3. Review the expenses of the Chief Executive Officer on an annual basis.

#### **External Auditors**

4. Review annually the performance of the external auditors who shall be ultimately accountable to the Board of Directors and the Committee as representatives of the shareholders of the Company.
5. Obtain annually, a formal written statement of external auditors setting forth all relationships between the external auditors and the Company.
6. Review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors.
7. Take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the external auditors.

8. Recommend to the Board of Directors the selection and, where applicable, the replacement of the external auditors nominated annually for shareholder approval.
9. At each meeting, consult with the external auditors, without the presence of management, about the quality of the Company's accounting principles, internal controls and the completeness and accuracy of the Company's financial statements.
10. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company.
11. Review with management and the external auditors the audit plan for the year-end financial statements.
12. Review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Company's external auditors. The pre-approval requirement is waived with respect to the provision of non-audit services if:
  - i. the aggregate amount of all such non-audit services provided to the Company constitutes not more than five percent of the total amount of revenues paid by the Company to its external auditors during the fiscal year in which the non-audit services are provided;
  - ii. such services were not recognized by the Company at the time of the engagement to be non-audit services; and
  - iii. such services are promptly brought to the attention of the Committee by the Company and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee.

Provided the pre-approval of the non-audit services is presented to the Committee's first scheduled meeting following such approval such authority may be delegated by the Committee to one or more independent members of the Committee.

#### **Financial Reporting Processes**

13. In consultation with the external auditors, review with management the integrity of the Company's financial reporting process, both internal and external.
14. Consider the external auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
15. Consider and approve, if appropriate, changes to the Company's auditing and accounting principles and practices as suggested by the external auditors and management.
16. Review significant judgments made by management in the preparation of the financial statements and the view of the external auditors as to appropriateness of such judgments.
17. Following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

18. Review any significant disagreement among management and the external auditors in connection with the preparation of the financial statements. Where there are significant unsettled issues, the Committee shall ensure that there is an agreed course of action for the resolution of such matters.
19. Review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented.
20. Solicit and review complaints or concerns about any questionable accounting, internal accounting controls or auditing matters.
21. Review certification process.
22. Allow for the solicitation of confidential and/or anonymous submissions by employees of the Company of concerns regarding questionable accounting or auditing matters.
23. Review any related-party transactions.

#### **General**

24. The Committee shall be empowered to retain independent counsel and other advisers as necessary to carry out its duties.
25. The Committee shall be provided appropriate funding from the Company, as determined by the Committee, for payment of compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit review or attest services for the Company, to any advisers employed by the Committee, and for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

**APPROVED** by the Audit Committee of SANDSTORM METALS & ENERGY LTD. on May 3, 2012.

**APPROVED AND ADOPTED** by the Board of Directors of SANDSTORM METALS & ENERGY LTD. on May 3, 2012.