

# Deferral of Payment Obligations under Convertible Debenture; Major and Connected Transaction

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VANCOUVER, March 26, 2023 - [SouthGobi Resources Ltd.](#) (TSX:SGQ)(HK:1878) ("SouthGobi" or the "Company") announces that, on March 24, 2023, the Company entered into a new deferral agreement (the "March 2023 Deferral Agreement") with JD Zhixing Fund L.P. ("JDZF"), pursuant to which JDZF agreed to grant the Company (i) a deferral of the cash interest payment of approximately US\$7.9 million (the "May 2023 Cash Interest") which will be due and payable on May 19, 2023 under the Company's US\$250 million convertible debenture (the "Convertible Debenture"); (ii) a deferral of the cash interest, management fees, and related deferral fees of approximately US\$8.7 million (the "May 2022 Deferred Amounts") which will be due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated May 13, 2022; (iii) the cash and PIK interest, and related deferral fees of approximately US\$13.5 million (the "July 2021 Deferred Amounts") which will be due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated July 30, 2021; and (iv) the cash and PIK interest, management fees, and related deferral fees of approximately US\$110.4 million (the "November 2020 Deferred Amounts", and together with the May 2023 Cash Interest, the May 2022 Deferred Amounts and the July 2021 Deferred Amounts, the "March 2023 Deferred Amounts") which will be due and payable to JDZF on or before August 31, 2023 under the deferral agreement dated November 19, 2020. JDZF is the registered holder of the Company's US\$250 million Convertible Debenture issued on November 19, 2009 and the Company's largest shareholder.

Pursuant to Section 501(c) of the Toronto Stock Exchange ("TSX") Company Manual and Rule 14A.36 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKEX Listing Rules"), the Company will be seeking approval of the March 2023 Deferral Agreement from disinterested shareholders at a meeting of shareholders (the "Meeting") to be held at a future date to be set by the board of directors of the Company (the "Board").

## The March 2023 Deferral Agreement

The principal terms of the March 2023 Deferral Agreement are as follows:

### Effectiveness of the March 2023 Deferral Agreement

- The March 2023 Deferral Agreement is subject to the approvals from the TSX and the shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the HKEX Listing Rules. See "Shareholders Approval Pursuant to TSX Requirements" below.

### The Deferral

- JDZF agrees to grant the Company a deferral (the "Deferral") of the March 2023 Deferred Amounts until August 31, 2024 (the "Deferral Date").
- As consideration for the Deferral of the March 2023 Deferred Amounts which relate to payment obligations arising from the Convertible Debenture, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such March 2023 Deferred Amounts, commencing on the date on which each such March 2023 Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.
- As consideration for the deferral of the March 2023 Deferred Amounts which relate to payment obligations arising from the amended and restated cooperation agreement dated April 23, 2019 (the "Amended and Restated Cooperation Agreement"), the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum on the outstanding balance of such March 2023 Deferred Amounts commencing on the date on which each such March 2023 Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

- The March 2023 Deferral Agreement does not contemplate a fixed repayment schedule for the March 2023 Deferred Amounts or related deferral fees. Instead, the March 2023 Deferral Agreement requires the Company to use its best efforts to pay the March 2023 Deferred Amounts and related deferral fees due and payable under the March 2023 Deferral Agreement to JDZF. During the period beginning as of the effective date of the March 2023 Deferral Agreement and ending as of the Deferral Date, the Company will provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF will on a monthly basis discuss and assess in good faith the amount (if any) of the March 2023 Deferred Amounts and related deferral fees that the Company may be able to repay to JDZF, having regard to the working capital requirements of the Company's operations and business at such time and with the view of ensuring that the Company's operations and business would not be materially prejudiced as a result of any repayment.

#### Other Covenants and Event of Defaults

- If at any time before the March 2023 Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from JDZF prior to effecting such appointment, replacement or termination.

Pursuant to the March 2023 Deferral Agreement, the Company and certain of its subsidiaries agreed to certain other covenants with respect to additional debt incurrence, asset sales and dividends, and certain events of default which are customary to financing transactions of a similar nature. A summary of these covenants and events of default will be set out in the Company's management proxy circular (the "Management Proxy Circular") to be mailed to shareholders in connection with the Meeting.

The foregoing summary of the principal terms of the March 2023 Deferral Agreement is not comprehensive, and is qualified in its entirety by reference to the full text of the March 2023 Deferral Agreement, a copy of which has been filed on the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Board Review and Approval

The March 2023 Deferral Agreement and the transactions contemplated thereunder were reviewed and approved by the disinterested members of the Board, as well as the Company's independent directors. After considering, among other things, the terms of the Deferral and the March 2023 Deferral Agreement, the Company's financial position and the possible funding alternatives reasonably available to the Company, the Board is of the view that: (i) the Deferral is offered on reasonable commercial terms not less advantageous to the Company than if the Company obtained similar financing from a person dealing at arm's length with the Company; (ii) the terms of the Deferral are reasonable in the circumstances of the Company; (iii) the Deferral is designed to improve the financial position of the Company; (iv) the Deferral will enhance the Company's ability to continue as a going concern in the near term and provide the Company with financial flexibility to consider and explore different measures to secure additional capital or to pursue a strategic debt restructuring or refinancing plan with JDZF; and (v) the best interests of the Company and shareholders will be served by approving the Deferral and the March 2023 Deferral Agreement.

#### Shareholders' Approval Pursuant to TSX and HKEX Listing Rules Requirements

Pursuant to Section 501(c) of the TSX Company Manual, the Company is required to seek approval of the March 2023 Deferral Agreement from shareholders, other than the Interested Shareholder (as defined below) (the "Disinterested Shareholders") because (i) the Interested Shareholder is a related party to the Company (as a result of its beneficial ownership of more than 10% of the outstanding common shares of the Company); and (ii) the aggregate amount of deferral fees payable to the Interested Shareholder will be greater than 10% of the market capitalization of the Company.

Pursuant to HKEX Listing Rules, JDZF is a substantial shareholder and hence a connected person of the Company. The entering into of the March 2023 Deferral Agreement constitutes a "connected transaction". As one or more of the applicable percentage ratios (as defined under the HKEX Listing Rules) in respect of the transaction is/are more than 25% but all of the applicable percentage ratios are less than 100%, the entering

into of the March 2023 Deferral Agreement constitutes a major and connected transaction of the Company, which is subject to the reporting, announcement, circular and the independent Shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

To the best of the Company's knowledge, 85,714,194 common shares, representing approximately 29.0% of the issued and outstanding common shares of the Company, are beneficially owned by JDZF (the "Interested Shareholder"). Accordingly, the 85,714,194 votes attached to the common shares beneficially owned, or over which control or direction is exercised, by the Interested Shareholder will be excluded from the vote to approve the March 2023 Deferral Agreement.

Full details of the Deferral and the March 2023 Deferral Agreement will be included in the Management Proxy Circular prepared for the Meeting, which will be filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and mailed to shareholders of the Company in accordance with applicable securities laws. The Company will make a further announcement to shareholders with respect to the date, time and venue of the Meeting as soon as it is fixed by the Board.

#### Multilateral Instrument 61-101 Requirements

JDZF is a "related party" of the Company and the Deferral constitutes a "related party transaction" within the meaning of Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Board, acting in good faith, including all of the independent members of the Board, acting in good faith, have determined that the Company is in serious financial difficulty, that the Deferral is designed to improve the Company's financial position and that the terms of the Deferral are reasonable in the Company's circumstances. As such, the Company is relying on the exemption from the formal valuation requirements of MI 61-101 based on the financial hardship exemption set forth in Section 5.5(1)(g) of MI 61-101.

If there is any inconsistency or discrepancy between the English and Chinese version, the English version shall prevail.

#### About SouthGobi

SouthGobi, listed on the Toronto and Hong Kong stock exchanges, owns and operates its flagship Ovoot Tolgoi coal mine in Mongolia. It also holds the mining licences of its other metallurgical and thermal coal deposits in South Gobi region of Mongolia. SouthGobi produces and sells coal to customers in China.

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#### Forward-Looking Statements

Certain information included in this press release that is not current or historical factual information constitutes forward-looking statements or information within the meaning of applicable securities laws (collectively, "forward-looking statements"), including information about timing with respect to the mailing of the Management Information Circular and convening of the Meeting, and approval of the March 2023 Deferral Agreement by disinterested shareholders. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "could", "should", "seek", "likely", "estimate" and other similar words or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on certain factors and assumptions including, among other things, the Company successfully obtaining acceptance of the March 2023 Deferral Agreement from the TSX and the requisite approval from disinterested shareholders of the Company of the March 2023 Deferral Agreement in accordance with applicable TSX rules and the HKEX Listing Rules and other similar factors that may cause

actual results to differ materially from what the Company currently expects. Actual results may vary from the forward-looking statements. Readers are cautioned not to place undue importance on forward-looking statements, which speaks only as of the date of this disclosure, and not to rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to, update or revise any forward-looking statements, whether as a result of new information, further events or otherwise at any particular time, except as required by law. Additional information concerning factors that may cause actual results to materially differ from those in such forward-looking statements is contained in the Company's filings with Canadian securities regulatory authorities and the website of the Hong Kong regulatory filings and disclosures of listed issuer information. These can be found under the Company's profile on SEDAR and HKEXnews respectively, at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).

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