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南戈壁資源有限公司*

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

(Hong Kong Stock Code: 1878)

(TSX Venture Exchange Stock Symbol: SGQ)

CONNECTED TRANSACTION DEFERRAL OF PAYMENT OBLIGATIONS UNDER CONVERTIBLE DEBENTURE

Background

This announcement is made by SouthGobi Resources Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) and Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Hong Kong Listing Rules**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated November 11, 2022, the announcement of the Company dated August 30, 2023 (collectively, the “**Announcements**”) and the Management Proxy Circular of the Company dated July 20, 2023 (the “**Management Proxy Circular**”) in relation to the deferral agreements under the Convertible Debenture. Unless otherwise specified, terms used in this announcement shall have the meaning as defined in the Announcements and the Management Proxy Circular.

The November 2023 Deferral Agreement

The Company announces that, on October 13, 2023, the Company and its subsidiaries, namely SouthGobi Sands LLC and SGQ Coal Investment Pte. Ltd., entered into a new deferral agreement (the “**November 2023 Deferral Agreement**”) with JD Zhixing Fund L.P. (“**JDZF**”), pursuant to which JDZF agreed to grant the Company (i) a deferral of the payment-in kind interest payment payable to

* For identification purposes only

JDZF on November 19, 2023 under the Convertible Debenture; (ii) a deferral of the management fees payable to JDZF on November 15, 2023, February 15, 2024, May 16, 2024 and August 15, 2024, respectively, under the Amended and Restated Cooperation Agreement, in each case until on August 31, 2024 (the “**Deferral Date**”). 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.

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

- JDZF agreed to grant the Company a deferral of the following payments until the Deferral Date (the “**Deferral**”):
 - (i) a deferral of the payment-in kind interest payment of US\$4,000,000 which will be due and payable to JDZF on November 19, 2023 (the “**November 2023 PIK Interest**”) under the Convertible Debenture; and
 - (ii) a deferral of the management fees which will be due and payable to JDZF on November 15, 2023, February 15, 2024, May 16, 2024 and August 15, 2024, respectively, under the Amended and Restated Cooperation Agreement (the “**Deferred Management Fees**”, together with the November 2023 PIK Interest, the “**November 2023 Deferred Amounts**”).
- As consideration for the deferral of the November 2023 PIK Interest, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum (the “**Convertible Debenture Deferral Fee**”) on the outstanding balance of the November 2023 PIK Interest, commencing on the date on which each such November 2023 Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.
- As consideration for the deferral of the Deferred Management Fees, the Company agreed to pay JDZF a deferral fee equal to 1.5% per annum (“**Cooperation Agreement Deferral Fee**”, together with the Convertible Debenture Deferral Fee, the “**Deferral Fees**”) on the outstanding balance of the Deferred Management Fees, commencing on the date on which each such November 2023 Deferral Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The November 2023 Deferral Agreement does not contemplate a fixed repayment schedule for the November 2023 Deferred Amounts or related Deferral Fees. Instead, the November

2023 Deferral Agreement requires the Company to use its best efforts to pay the November 2023 Deferred Amounts and related Deferral Fees due and payable under the November 2023 Deferral Agreement to JDZF. During the period beginning as of the effective date of the November 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 November 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.

- If at any time before the November 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.

The Deferral Fees which are expected to be satisfied by the internal resources and/or external borrowings of the Group were determined on an arm's length basis (or on terms no less favourable to the Group than terms available from independent third parties) among the parties to the November 2023 Deferral Agreement, taking into account the following factors:

- (i) the deferral fees stipulated under the previous deferral agreements, including the deferral fee at the rate of 6.4% per annum as consideration for the deferred interest payments arising from the Convertible Debenture and 1.5% per annum as consideration for the deferred management fees arising from the Amended and Restated Cooperation Agreement contemplated under the March 2023 Deferral Agreement, which is the latest deferral agreement before the November 2023 Deferral Agreement;
- (ii) historically, the higher finance costs incurred by the Group for receiving financial assistance from independent third parties of the Group within the past five years, the rate of which generally fell within the range from 15% to 16%;
- (iii) the finance costs of comparable listed companies on the Hong Kong Stock Exchange, with the interest rates ranged from 3% to 9.25% per annum; and

- (iv) the reasons and benefits as set out in the section headed “Reasons and benefits of the November 2023 Deferral Agreement” below.

General Information of the Parties

The Group

The Company is an integrated coal mining, development and trading company. SGQ Coal Investment Pte. Ltd. is a wholly-owned subsidiary of the Company incorporated under the laws of Singapore, which is principally engaged in the investment holding business activities. SouthGobi Sands LLC is a wholly-owned subsidiary of the Company incorporated under the laws of Mongolia, which is principally engaged in coal mining, development and exploration of properties in Mongolia.

JDZF

JDZF is an exempt limited partnership formed under the laws of the Cayman Islands, which is principally engaged in investment holding activities. JDZF’s general partner and limited partner are JD Dingxing Limited and Inner Mongolia Tianyu Trading Limited. To the best of the Company’s knowledge and belief, the ultimate beneficial owner of the limited partner is Mr. Yong An and that of the general partner is Ms. Chonglin Zhu. Mr. Yong An is the Chairman and founder of Inner Mongolia Tianyu Innovation Investment Group Co. Ltd.* (內蒙古天宇創新投資集團有限公司) (“**Tianyu Group**”), and has conducted business in Inner Mongolia region since 1998. Ms. Chonglin Zhu was the Chief Financial Officer of Tianyu Group from March 2015 to September 2022, and was also responsible for managing JDZF. Ms. Chonglin Zhu has served as the executive Director and Senior Vice President of Finance of the Company since September 8, 2022.

Hong Kong Listing Rules implications

JDZF is a substantial shareholder of the Company holding approximately 29.03% of the Company issued common shares and hence a connected person of the Company. The entering into of the November 2023 Deferral Agreement constitutes a “connected transaction” under Chapter 14A of the Listing Rules.

Pursuant to Rules 14.22 and 14A.81 of the Hong Kong Listing Rules, a series of transactions will be aggregated and treated as if they were one transaction if they were all entered into or completed (as

the case may be) within a 12-month period or were otherwise related. The counterparties to the November 2022 Deferral Agreement, the March 2023 Deferral Agreement (collectively, the “**Previous Transactions**”) and the November 2023 Deferral Agreement are all JDZF and such transactions are similar in nature. Accordingly, such transactions shall normally be aggregated. One or more of the applicable percentage ratios (as defined in Rule 14.07 of the Hong Kong Listing Rules) of the November 2023 Deferral Agreement upon aggregation with the Previous Transactions exceeds 25% but all are less than 100%. Nevertheless, as the Company has complied with all the applicable requirements for major and connected transactions under Chapters 14 and 14A of the Listing Rules (including the independent shareholders’ approval requirement) in respect of the Previous Transactions, the November 2023 Deferral Agreement is not required to be reclassified by aggregating with the Previous Transactions.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Hong Kong Listing Rules) calculated for the November 2023 Deferral Agreement (on a standalone basis) is more than 0.1% but less than 5%, the November 2023 Deferral Agreement is exempt from the independent shareholders’ approval requirement, and is subject only to the reporting, announcement and annual review requirements in respect of connected transactions set out in Chapter 14A of the Hong Kong Listing Rules.

Reasons and Benefits of the November 2023 Deferral Agreement

In evaluating the terms of the November 2023 Deferral Agreement and reaching its conclusion in support of the Deferral, the Board of Directors of the Company (“the “**Board**”) (excluding the Company’s directors who are appointed by JDZF pursuant to contractual nomination rights contained in the securityholders agreement between the Company, JDZF and a former shareholder of the Company and certain deferral agreements between JDZF, the Company and certain of its subsidiaries relating to the Convertible Debenture, being Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Chen Shen (collectively, the “**Deferral Interested Directors**”)) considered a number of factors, including the following: (i) the Deferral is designed to improve the financial position of the Company; and (ii) 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.

Board Review and Approval

The November 2023 Deferral Agreement and the transactions contemplated thereunder were reviewed and approved by the disinterested members of the Board (i.e., excluding the Deferral

Interested Directors). After considering, among other things, the terms of the Deferral and the November 2023 Deferral Agreement, the Company's financial position and the possible funding alternatives reasonably available to the Company, the Board (including the independent non-executive directors of the Company, excluding the Deferral Interested Directors who abstained) is of the view that: (i) whilst the Deferral is not conducted on the ordinary and usual course of business of the Group, the Deferral is offered on normal commercial terms (on arm's length basis or terms no less favourable to the Group than terms available from independent third parties) or better; and (ii) the terms of the Deferral are fair and reasonable in the circumstances of the Company and in the interests of the shareholders of the Company as a whole.

The Deferral Interested Directors who have a material interest in the November 2023 Deferral Agreement and the transactions contemplated thereunder were required to abstain from voting on the board resolutions approving the same. Except for the Deferral Interested Directors, none of the Company's directors have any material interest in the November 2023 Deferral Agreement and the transactions contemplated thereunder, and none of the Company's directors were required to abstain from voting on the board resolutions approving the same.

The Company will make further announcements regarding the potential of further future deferrals of its payment obligations under the Convertible Debenture as and when appropriate. There can be no assurance, however, that any agreement for future deferrals will be reached with the major shareholder of the Company either at all or on favourable terms.

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

By order of the Board
SouthGobi Resources Ltd.
Mao Sun
Lead Director

Vancouver, October 13, 2023

Hong Kong, October 13, 2023

As at the date of this announcement, the executive directors of the Company are Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Chen Shen; the independent non-executive directors of the Company are Mr. Yingbin Ian He, Mr. Mao Sun and Ms. Jin Lan Quan; and the non-executive directors of the Company are Mr. Zhu Gao and Mr. Zaixiang Wen.

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 the potential of further future deferrals of its payment obligations under the Convertible Debenture. 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’s ability to successfully negotiate a future deferrals of its payment obligations under the Convertible Debenture 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.sedarplus.ca and www.hkexnews.hk.