

SouthGobi Resources Ltd.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

to be held on Wednesday, August 28, 2024 (Vancouver, Canada)

and

MANAGEMENT PROXY CIRCULAR

DATED: July 25, 2024

TAKE ACTION AND VOTE TODAY

These materials are important and require your immediate attention. They require shareholders of SouthGobi Resources Ltd. to make important decisions. If you are in doubt as to how to make such decisions, please contact your financial, legal, tax or other professional advisors.

Your vote is important regardless of the number of shares you own. Whether or not you are able to attend, we urge you to vote using the enclosed proxy or voting instruction form. Please carefully follow the instructions provided to vote your shares.

SOUTHGOBI RESOURCES LTD.

**Notice of the special meeting of Shareholders
to be held on Wednesday, August 28, 2024 (Vancouver, Canada)**

NOTICE IS HEREBY GIVEN that the special meeting of the shareholders of **SOUTHGOBI RESOURCES LTD.** (the “**Company**”) will be held at the PwC Place Meeting Room, Mezzanine Level, 250 Howe St., Vancouver, British Columbia, on Wednesday, August 28, 2024 at 6:00 p.m. (PDT) (which is 9:00 a.m. on Thursday, August 29, 2024 in Hong Kong, China) (the “**Meeting**”) for the following purposes:

1. to consider, and if thought advisable, to pass an ordinary resolution of disinterested shareholders of the Company authorizing and approving the deferral agreement dated March 19, 2024 (the “**March 2024 Deferral Agreement**”) and the deferral agreement dated April 30, 2024 (the “**April 2024 Deferral Agreement**”), in each case between JD Zhixing Fund L.P., the Company and certain of its subsidiaries, all as more particularly described in the accompanying Management Proxy Circular dated July 25, 2024 (the “**Management Proxy Circular**”);
2. to consider, and if thought advisable, to pass an ordinary resolution of disinterested shareholders of the Company authorizing and approving the amendment agreement dated May 9, 2024 between the Company and JD Zhixing Fund L.P. (the “**Convertible Debenture Amendment**”) approving certain amendments to the Company’s convertible debenture issued on October 26, 2009, all as more fully described in the accompanying Management Proxy Circular; and

The Company will transact such other business as may properly come before the Meeting or any adjournment thereof.

The board of directors (the “**Board**”) has fixed Wednesday, July 24, 2024 as the record date for the determination of shareholders entitled to receive notice of, and to vote at, the Meeting and at any adjournment thereof.

Voting

The Management Proxy Circular contains details of the matters to be considered at the Meeting. Information respecting the approval of the March 2024 Deferral Agreement and April 2024 Deferral Agreement, and approval of the Convertible Debenture Amendment may be found in the Management Proxy Circular under the headings “*Approval of the March 2024 Deferral Agreement and April 2024 Deferral Agreement*” and “*Approval of the Convertible Debenture Amendment*” respectively.

A Form of Proxy is enclosed herewith. Registered shareholders in Canada and Hong Kong who are unable, or do not wish, to attend the Meeting in person are requested to complete, date, sign and return the enclosed Form of Proxy to TSX Trust Company (for registered shareholders in Canada) or to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for registered shareholders in Hong Kong) in accordance with the instructions set out on the Form of Proxy and in the Management Proxy Circular.

If you are voting your shares by proxy, the Form of Proxy should be returned in the following manner no later than 48 hours (excluding Saturdays, Sundays and statutory holidays in the City of Vancouver, British Columbia, Canada) before any adjournment(s) or postponement(s) of the Meeting: (i) TSX Trust Company, must receive your completed Form of Proxy by 6:00 p.m. (PDT) on Monday, August 26, 2024, or 48 hours (excluding Saturdays, Sundays and statutory holidays in the City of Vancouver, British Columbia, Canada) before any adjournment(s) or postponement(s) of the Meeting; or (ii) Computershare Hong Kong Investor Services Limited must receive your completed Form of Proxy by 9:00 a.m. (Hong Kong time) on Tuesday, August 27, 2024 in Hong Kong or 48 hours (excluding Saturdays, Sundays and public holidays in Hong Kong) before any adjournment(s) or postponement(s) of the Meeting.

Non-registered shareholders receiving these materials through their broker or other intermediary should complete and return the voting instruction form provided to them by their broker or other intermediary in accordance with the instructions provided therein.

SHAREHOLDERS ARE REMINDED TO REVIEW THE MANAGEMENT PROXY CIRCULAR CAREFULLY BEFORE EXERCISING THEIR RIGHT TO VOTE.

DATED at Vancouver, British Columbia, Canada this 25th day of July, 2024

***BY ORDER OF THE BOARD OF DIRECTORS OF
SOUTHGobi RESOURCES LTD.***

"Allison Snetsinger"

Allison Snetsinger
Corporate Secretary

**PLEASE VOTE PRIOR TO 6:00 P.M. (PDT) ON Monday, August 26, 2024 IN CANADA
OR 9:00 A.M. (HONG KONG TIME) ON Tuesday, August 27, 2024 IN HONG KONG**

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this Management Proxy Circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this Management Proxy Circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

This Management Proxy Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.



SouthGobi
RESOURCES

SOUTHGOBI RESOURCES LTD.

南戈壁資源有限公司*

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

(Hong Kong Stock Code: 1878)

(TSX Venture Exchange Stock Symbol: SGQ)

Executive Directors

Mr. Ruibin Xu
Ms. Chonglin Zhu
Mr. Chen Shen

Non-Executive Directors

Mr. Zhu Gao
Mr. Zaixiang Wen

Independent Non-Executive Directors

Mr. Yingbin Ian He
Ms. Jin Lan Quan
Mr. Fan Keung Vic Choi

Telephone

+1 604-762-6783 (Canada)
+852 2156-1438 (Hong Kong)

Records and Registered Office

20th floor – 250 Howe Street
Vancouver, British Columbia
Canada V6C 3R8

Principal Place of Business in Hong Kong

Units 1208-10, Tower 1, Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

Principal Place of Business in Mongolia

8th Floor, Monnis Building
Orgil Stadium 22, Great Mongolian State Street
18th Khoroo, Khan-Uul District
Ulaanbaatar, Mongolia, 17011

MANAGEMENT PROXY CIRCULAR

This Management Proxy Circular is furnished to the holders (“**shareholders**”) of common shares (“**Common Shares**”) of SouthGobi Resources Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) (TSX-V:SGQ) (HKEX: 1878) by the Company’s management in connection with the solicitation of proxies to be voted at the special meeting of shareholders (the “**Meeting**”) to

* For identification purpose only

be held at 6:00 p.m. (PDT) on Wednesday, August 28, 2024 (which is 9:00 a.m. on Thursday, August 29, 2024 in Hong Kong, China), at the PwC Place Meeting Room, Mezzanine Level, 250 Howe St., Vancouver, British Columbia, for the purposes set forth in the Notice of Meeting that accompanies this Management Proxy Circular. Unless otherwise stated, this Management Proxy Circular contains information current as of July 24, 2024 (the “**Latest Practicable Date**”) the last business day preceding the date of this Management Proxy Circular.

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This document, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the HKEX (the “**Listing Rules**”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

In this Management Proxy Circular, all dollar amounts are quoted in United States dollars (i.e., for all currency denoted in “\$”, it refers to US\$) unless otherwise indicated.

The Chinese name(s) marked with “*” and the English translation of company names of the entities marked with “**” are for identification purposes only.

SOLICITATION OF PROXIES

The enclosed Form of Proxy is solicited by and on behalf of management of the Company.

This Management Proxy Circular, the accompanying notice of meeting dated July 25, 2024 (the “**Notice of Meeting**”) and the enclosed form of proxy solicited by management of the Company for the Meeting (the “**Form of Proxy**”) (collectively, the “**Meeting Materials**”) are to be mailed to shareholders on or about August 6, 2024.

All expenses incurred in connection with the preparation, printing and mailing of this Management Proxy Circular and the solicitation of proxies for use at the Meeting will be borne by the Company.

No person is authorized to give any information or to make any representations other than those contained in this Management Proxy Circular and, if given or made, such information or representations must not be relied upon as having been authorized to be given or made.

In accordance with applicable securities law requirements, the Company will have distributed copies of the Meeting Materials to the clearing agencies and Intermediaries (as defined in the NI 54-101) for distribution to Non-Registered Shareholders (as defined below).

VOTING OF PROXIES

A Form of Proxy pertaining to the Meeting accompanies this Management Proxy Circular has been sent to registered shareholders. Common Shares represented by a properly executed Form of Proxy in favour of the persons designated therein will be voted or withheld from voting in accordance with the instructions made on the Form of Proxy in any ballot that may be called for. Where a shareholder specifies a choice as to any matter to be acted upon, the Common Shares will be voted accordingly. **In the absence of such instructions, such Common Shares will be voted in favour of the matters specified in the Form of Proxy.**

The Form of Proxy confers discretionary authority upon the nominees therein with respect to:

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

As of the date of this Management Proxy Circular, management of the Company knows of no such amendments, variations or other matters that may come before the Meeting, but if any amendment, variation or other matter properly comes before the Meeting, each nominee named in the accompanying Form of Proxy intends to vote thereon in accordance with the nominee's best judgment.

Only registered shareholders of the Company or the persons they appoint as their proxies are permitted to vote at the Meeting. Most shareholders of the Company are "non-registered" shareholders ("**Non-Registered Shareholders**") because the Common Shares they own are not registered in their names but are instead registered in the name of the brokerage firm, bank or trust company through which they own their Common Shares.

Intermediaries are required to forward the Meeting Materials to Non-Registered Shareholders unless a Non-Registered Shareholder has waived the right to receive them. Most Intermediaries delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**") in the United States and in Canada. Non-registered shareholders will receive a VIF instead of a Form of Proxy. Non-Registered shareholders are asked to complete the VIF and return it through the various methods specified on the form.

The Form of Proxy or VIF from your Intermediary is to permit Non-Registered Shareholders to direct the voting of the Common Shares they beneficially own. Should a Non-Registered Shareholder who receives one of the above forms wish to vote in person at the Meeting, or any adjournment(s) or postponement(s) thereof (or have another person attend and vote on behalf of the Non-Registered Shareholder), the Non-Registered Shareholder should insert the Non-Registered Shareholder's or such other person's name in the blank space provided for this purpose. Non-Registered Shareholders should carefully follow the instructions of their Intermediary, including those regarding when and where the Form of Proxy or VIF is to be delivered.

If you are a Non-Registered Shareholder who has already provided voting or proxy holder instructions and wants to revoke it, contact your Intermediary about how to revoke your voting or proxy holder instructions.

The Meeting Materials are being sent to both registered shareholders and Non-Registered Shareholders. There are two (2) kinds of Non-Registered Shareholders: those who object to their names being made known to the Company, referred to as objecting beneficial owners (“**OBOs**”), and those who do not object to the Company knowing who they are, referred to as non-objecting beneficial owners (“**NOBOs**”).

The Company does not intend to pay for Intermediaries to forward to OBOs the proxy-related materials under NI 54-101 and Form 54-101F7 – *Request for Voting Instructions Made by Intermediary* and OBOs will not receive the Meeting Materials unless the OBO’s Intermediary assumes the cost of delivery.

In order to vote via the Internet, have the Form of Proxy you received available and access the website at www.meeting-vote.com. You will be prompted to enter the 13-digit Control Number which is located in a box on the backside of the Form of Proxy. The cut-off time for voting over the Internet is 6:00 p.m. (PDT) on Monday, August 26, 2024 (and Tuesday, August 27, 2024 at 9:00 a.m. in Hong Kong, China), or 48 hours (excluding Saturdays and Sundays and public/statutory holidays) before any adjournment(s) or postponement(s) of the Meeting.

If your Common Shares are held in street name for your account, your broker or other nominee will advise you whether you may vote online through the Internet. A number of banks and brokerage firms participate in programs that permit shareholders to direct their votes online through the Internet.

APPOINTMENT AND REVOCATION OF PROXIES

The individuals named in the enclosed Form of Proxy are directors and/or officers of the Company. **A shareholder wishing to appoint some other person or company (who need not be a shareholder) to represent such shareholder at the Meeting has the right to do so, either by inserting such person’s name in the blank space provided on the Form of Proxy or by completing another Form of Proxy.**

An appointment of a proxy holder or alternate proxy holders will not be valid unless a Form of Proxy making the appointment, signed by the shareholder or by an attorney of the shareholder authorized in writing, is deposited with TSX Trust Company (the “**Transfer Agent**”):

- (a) via the internet www.meeting-vote.com;
- (b) by facsimile to +1 416-595-9593;
- (c) by mail to P.O. Box 721, Agincourt, Ontario, M1S 0A1 Attn: Proxy Department;
- (d) by hand to Suite 301-100 Adelaide Street West, Toronto, Ontario, M5H 4H1; or
- (e) by email to: proxyvote@tmx.com (for proxy appointments in English) or votezprocuration@tmx.com (for proxy appointments in French),

and in each case must be received by the Transfer Agent by no later than 6:00 p.m. (PDT) on Monday, August 26, 2024 (and by 9:00 a.m. on Tuesday, August 27, 2024 in Hong Kong, China), or 48 hours (excluding Saturdays, Sundays and statutory holidays in the City of Vancouver, British Columbia, Canada and public holidays in Hong Kong) before the Meeting or any postponement(s) or adjournment(s) thereof at which the instrument of proxy is to be used.

The Form of Proxy is deemed to be valid if deposit in the branch share registrar of the Company in Hong Kong (i.e., Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 48 hours before the time for holding the Meeting as stated above).

In addition to revocation in any other manner permitted by law, a shareholder who has given a proxy may revoke it by depositing an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing: (i) at the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting or any postponement(s) or adjournment(s) thereof at which the proxy is to be used; or (ii) with the Chair of the Meeting on the day of the Meeting or any postponement(s) or adjournment(s) thereof.

With respect to Non-Registered Shareholders, a Form of Proxy or VIF given to an Intermediary may be revoked by contacting the Intermediary through which the Non-Registered Shareholder's Common Shares are held and following the instructions of the intermediary respecting the revocation of proxies. In order to ensure that an Intermediary acts upon a revocation of a Form of Proxy or voting instruction form, the written notice should be received by the Intermediary well in advance of the Meeting.

A revocation of a proxy does not affect any matter on which a vote has been taken before the revocation. Please note that if you vote and subsequently change your voting preferences you may vote again not less than 24 hours (excluding Saturdays, Sundays and statutory holidays in the City of Vancouver, British Columbia, Canada) before the Meeting or any postponement(s) or adjournment(s) thereof. When you vote again, your latest vote will be recognized as your only valid vote, and all previous votes which you have recorded will be disregarded and considered as revoked.

VOTING SHARES AND RECORD DATE

Voting Shares

The Company has an authorized share capital consisting of an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value ("**Preferred Shares**"). As of the close of business on July 24, 2024 (the "**Record Date**"), 296,274,666 Common Shares were issued and outstanding as fully paid and non-assessable shares and no Preferred Shares were issued and outstanding. Each outstanding Common Share is entitled to one (1) vote on each item of business to be considered at the Meeting.

Record Date

A holder of record of Common Shares on the securities register of the Company at the close of business on the Record Date who either attends the Meeting personally or deposits a properly completed Form of Proxy in the manner and subject to the provisions described above will be entitled to vote or to have such Common Shares voted at the Meeting.

VOTES NECESSARY TO PASS RESOLUTIONS

Pursuant to the current Articles of Continuation of the Company (the "**Current Articles**"), a quorum for the transaction of business at any meeting of shareholders is at least two (2) persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the issued Common Shares entitled to be voted at such meeting.

Under the *Business Corporations Act* (British Columbia) (the “**BCBCA**”) and its regulations, a simple majority of the votes cast at a meeting of holders of Common Shares is required to pass all ordinary resolutions. For a special resolution to be passed, a majority of not less than two-thirds (2/3) of the votes cast by holders of Common Shares must be obtained.

Shareholders, other than the Deferral Interested Shareholders (as hereinafter defined), are entitled, and will be asked, to approve the March 2024 Deferral Agreement and the April 2024 Deferral Agreement between JDZF (as defined below), the Company and certain subsidiaries and the Convertible Debenture Amendment between the Company and JDZF, in each case as more particularly described in the sections entitled “*Approval of March 2024 Deferral Agreement and April 2024 Deferral Agreement*” and “*Approval of the Convertible Debenture Amendment*” in this Management Proxy Circular, respectively.

PRINCIPAL HOLDERS OF VOTING SHARES

The following table sets forth information as of the Latest Practicable Date, with respect to:

- (a) all persons known by the Company’s directors (the “**Directors**”) and executive officers to beneficially own, or control or direct, directly or indirectly, 10% or more of the Common Shares issued and outstanding on a non-diluted basis; and
- (b) share ownership by the current Directors and executive officers of the Company as a group.

Name or Group and Municipality of Residence	Type of Ownership	Number of Issued Shares Owned ⁽¹⁾	% of Shares Outstanding
JD Zhixing Fund L.P. ⁽²⁾ Beijing, PRC	Direct	85,714,194	28.93%
Land Grand International Holding Limited ⁽³⁾ Hong Kong, PRC	Direct	46,358,978	15.65%
Directors & executive officers as a group	Direct	180,666 ⁽⁴⁾⁽⁶⁾	0.06%

Notes:

- (1) The information as to Common Shares beneficially owned or controlled or directed that is not within the knowledge of the Company, its Directors or its officers has been furnished by the applicable shareholders or has been extracted from public filings.
- (2) Pursuant to the terms of a convertible debenture issued by the Company to China Investment Corporation (“**CIC**”) on October 26, 2009 and subsequently assigned by CIC to JD Zhixing Fund L.P. (“**JDZF**”) on August 30, 2022 (the “**Convertible Debenture**”), and, subject to certain exceptions, while the Convertible Debenture is outstanding or while JDZF beneficially owns directly or indirectly 15% of the outstanding Common Shares, JDZF has a pre-emptive right to subscribe for any new Common Shares offered by the Company (on a pro rata basis) (the “**Pre-Emptive Right**”).
- (3) Subject to certain exceptions, for as long as Land Grant International Holding Limited (“**Land Grand**”) and its affiliates own, directly or indirectly, 10% or more of the outstanding Common Shares, Land Grand has a pre-emptive right to subscribe for any Common Shares, equity securities of the Company or securities convertible into Common Shares or equity securities of the Company, offered by the Company (on a pro rata basis).
- (4) This figure does not include the 950,000 Common Shares issuable upon the exercise of incentive stock options held, in aggregate, by the Directors and executive officers.

- (5) This figure does not include the 85,714,194 Common Shares beneficially owned or controlled by JDZF. To the knowledge of the Company, JD Dingxing Limited and IMTT (as defined below) are the general partner and limited partner of JDZF, respectively, and Ms. Chonglin Zhu, a director nominee, holds 90% of the shares of JD Dingxing Limited.
- (6) This figure does not include the 46,358,978 Common Shares beneficially owned or controlled by Land Grand. To the knowledge of the Company, Mr. Zhu Gao, a director nominee, is the indirect controlling shareholder of Land Grand.

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company in the Common Shares, underlying Common Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (“SFO”)) which were required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, were as follows:

Name of Director	Capacity/Nature of interests	Number of Shares/ underlying Shares held ⁽¹⁾	Percentage of shareholding (%) ⁽²⁾
Chonglin Zhu ⁽³⁾	Interest in a controlled corporation	85,714,194	28.93
Zhu Gao ⁽⁴⁾	Interest in a controlled corporation	46,358,978	15.65
Yingbin Ian He	Beneficial owner	327,000	0.11
Jin Lan Quan	Beneficial owner	300,000	0.10

Notes:

- (1) All interests stated above are long positions the Shares.
- (2) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at the Latest Practicable Date (i.e., 296,274,666 Shares).
- (3) To the knowledge of the Company, JD Dingxing Limited and IMTT (as defined below) are the general partner and limited partner of JDZF, respectively. Ms. Chonglin Zhu holds 90% of the shares of JD Dingxing Limited.
- (4) To the knowledge of the Company, Land Grand is the registered and beneficial owner of 46,358,978 Shares of the Company's issued and outstanding Shares. Mr. Zhu Gao is the indirect controlling shareholder of Land Grand.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their associates (as defined in the Listing Rules)) had any interests and short positions in any Common Shares, underlying Common Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or which were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

As at the Latest Practicable Date, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Common Shares or underlying Common Shares which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Name of Shareholder	Capacity/Nature of interests	Number of Shares/ underlying Shares held ⁽¹⁾	Percentage of shareholding (%) ⁽²⁾
JDZF ⁽³⁾	Beneficial owner	85,714,194	28.93
JD Dingxing Limited ⁽³⁾	Interest in a controlled corporation	85,714,194	28.93
Chonglin Zhu ⁽³⁾	Interest in a controlled corporation	85,714,194	28.93
Inner Mongolia Tianyu Trading Limited** (內蒙古天宇創新商貿有限公司) (“IMTT”) ⁽³⁾	Interest in a controlled corporation	85,714,194	28.93
Inner Mongolia Yuxinsheng Technology Co., Ltd.** (內蒙古宇鑫盛科技有限公司) (“IMYTC”) ⁽³⁾	Interest in a controlled corporation	85,714,194	28.93
Inner Mongolia Tianyu Innovation Investment Group Limited** (內蒙古天宇創新投資集團有限公司) (“IMTIIG”) ⁽³⁾	Interest in a controlled corporation	85,714,194	28.93
Yong An ⁽³⁾	Interest in a controlled corporation	85,714,194	28.93
Land Grand ⁽⁴⁾	Beneficial owner	46,358,978	15.65
Mengfa Energy Holding Group Co., Ltd. (“Mengfa”) ⁽⁴⁾	Interest in a controlled corporation	46,358,978	15.65
Zhu Gao ⁽⁴⁾	Interest in a controlled corporation	46,358,978	15.65
Voyage Wisdom Limited	Beneficial owner	25,768,162	8.70

Notes:

- (1) All interests stated above are long positions the Shares.
- (2) The percentage represents the total number of the Shares and the underlying Shares interested divided by the number of issued Shares as at the Latest Practicable Date (i.e., 296,274,666 Shares).

- (3) To the knowledge of the Company, JD Dingxing Limited and IMTT are the general partner and limited partner of JDZF, respectively. IMTT is a wholly-owned subsidiary of IMYTC, which is owned as to 80.00% of its issued share capital by IMTIIG. Mr. Yong An owns 75.00% of the issued share capital of IMTIIG. Ms. Chonglin Zhu, a director nominee, holds 90.00% of the shares in JD Dingxing Limited.
- (4) To the knowledge of the Company, Mengfa owns 100.00% of the issued share capital of Land Grand. Mr. Zhu Gao, a director nominee, owns 80.00% of the issued share capital of Mengfa.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at the Latest Practicable Date.

Arrangements and Matters Concerning Directors

- (a) None of the Directors has entered or proposed to enter into any service contract with the Group, which is not expiring or determinable by the Group within one year without payment of compensation (other than the payment of statutory compensation).
- (b) As at the Latest Practicable Date, save as disclosed in the section entitled “*Approval of the March 2024 Deferral Agreement and April 2024 Deferral Agreement*” below in respect of the Convertible Debenture, the Amended and Restated Cooperation Agreement and the related deferral agreements in which the Deferral Interested Directors are interested by virtue of their relationship with the Deferral Interested Shareholder, none of the Directors was interested, directly or indirectly, in any assets which, since December 31, 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) As at the Latest Practicable Date, save as disclosed in the section entitled “*Approval of the March 2024 Deferral Agreement and April 2024 Deferral Agreement*” below in respect of the Convertible Debenture, the Amended and Restated Cooperation Agreement and the related deferral agreements in which the Deferral Interested Directors are interested by virtue of their relationship with the Deferral Interested Shareholder, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and entered into by the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Group were made up, and which was significant in relation to the business of the Group.
- (d) As at the Latest Practicable Date, save as disclosed hereinabove, none of the Directors or their respective close associates had any interest in a business which competed or might compete either directly or indirectly, with the business of the Company.

FINANCIAL STATEMENTS

The Company’s audited annual consolidated financial statements for the year ended December 31, 2023, and the auditors’ reports on those statements, are included in the Company’s annual report and will be available at the Meeting. A copy of the annual report is also filed on the Company’s profile on SEDAR+ at www.sedarplus.ca, on the HKEX news website at www.hkexnews.hk and available to you on the Company’s website at www.southgobi.com.

APPROVAL OF THE MARCH 2024 DEFERRAL AGREEMENT AND APRIL 2024 DEFERRAL AGREEMENT

Background to the March 2024 Deferral Agreement and April 2024 Deferral Agreement

The March 2024 Deferral Agreement and April 2024 Deferral Agreement are the result of arm's length negotiations between representatives of the Company and JDZF that were conducted principally between February 2024 and April 2024. The following is a summary of the events leading up to the execution of the March 2024 Deferral Agreement and April 2024 Deferral Agreement, including certain relevant events relating to the negotiations and actions that preceded the execution and public announcement of the March 2024 Deferral Agreement and April 2024 Deferral Agreement.

Convertible Debenture and Cooperation Agreement

On October 26, 2009, the Company entered into the Convertible Debenture with CIC, which was subsequently assigned by CIC to its subsidiary on November 19, 2009. The Convertible Debenture is a secured, convertible debenture with an original principal amount of US\$500 million bearing interest at 8.0% (6.4% payable semi-annually in cash and 1.6% payable annually in Common Shares) with a maximum term of 30 years. The Convertible Debenture is secured by a first ranking charge over the assets of the Company and certain subsidiaries.

Nature of transaction:	An original principal amount of US\$500 million senior debentures convertible into Common Shares (US\$485 million net of advisory fees). Subsequently, as described herein, US\$250 million.
Interest:	The Convertible Debenture carries interest of 8.0% per annum made up of: <ul style="list-style-type: none"> (i) a cash coupon of 6.4% payable semi-annually; and (ii) additional interest of 1.6% per annum payable in Common Shares to be issued on each anniversary of the issue. Share value shall be calculated based on the 50 business day volume weighted average price (“VWAP”) prior to each anniversary of the issue.
Conversion Price:	Cdn\$11.88 shall be considered the “Base Conversion Value” and ordinarily, the conversion price will be set at the Base Conversion Value, subject to the adjustments set out below (the “ Conversion Price ”): <ul style="list-style-type: none"> – At the time of conversion, the VWAP of the Common Shares for the 50 business days prior to the conversion date will be calculated (the “Conversion Date Value”). – In the event the Conversion Date Value is lower than the Base Conversion Value, then the conversion price will be the Conversion Date Value. – The conversion price will be subject to a “Floor Price” of Cdn\$8.88.
Early Conversion Right:	After the earlier of two years from closing or the time of the Qualified Float (as defined below), the Company will have the right to require conversion of up to 50% of the initial principal amount of US\$500 million at the Conversion Price. The Company exercised this conversion right and on March 29, 2010, the Company converted US\$250 million of the debt into 21,560,961 Common Shares at a price of US\$11.64 per share.
Qualified Float:	A transaction whereby the Common Shares are listed on the HKEX or the HKEX and the TSX and that meets the following three criteria, shall be considered a “Qualified Float”: (i) not less than 25% of the issued and outstanding Common Shares (on a non-diluted basis, except including the initial principal amount of the Convertible Debenture on an as converted basis) are held by persons who are not insiders of the Company (i.e. insider holdings cannot exceed 75%); (ii) the offering price of the Common Shares issued to achieve the public float is not less than the base conversion value unless JDZF consents; and (iii) the Common Shares are listed on the HKEX.
Right to Nominate Director:	While the Convertible Debenture is outstanding, or while JDZF has a 15% direct or indirect shareholding interest in the Company, JDZF has the right, but not the obligation, to nominate one person to the Board. When JDZF nominates a person, the Board is not obliged to appoint such nominee as a director; the election of a nominee to the Board is subject to Shareholders’ approval. Furthermore, JDZF cannot require that its nominee be employed by or participate as the Company’s executive or manager, and the sole entitlement of the nominee is to act in the capacity of director. If appointed to the Board the nominee would be a non-independent non-executive director.

For further details of the Convertible Debenture, please refer to the section entitled “*Material Contracts – Convertible Debenture*” in the Company’s Annual Information Form dated March 28, 2024 (the “**AIF**”), a copy of which is available under the Company’s profile on SEDAR+ at www.sedarplus.ca, on the HKEX news website at www.hkexnews.hk and the Company’s website at www.southgobi.com.

On November 19, 2009, the Company entered into a mutual co-operation agreement (the “**Cooperation Agreement**”) with Fullbloom Investment Corporation (“**Fullbloom**”), a wholly-owned subsidiary of CIC, pursuant to which Fullbloom agreed to provide advisory services to the Company in relation to the sale of coal into China, and other procurement and logistics related matters. In consideration, the Company agreed to pay Fullbloom a fee for such services based on a percentage of the total net revenues realized by the Company and its Mongolian subsidiaries from sales into China.

On March 29, 2010, the Company exercised its right to call for the conversion of up to US\$250.0 million of the Convertible Debenture into approximately 21.5 million Common Shares at a conversion price of US\$11.64 (CAD\$11.88) per Common Share.

June 2017 Deferral Agreement

On June 12, 2017, the Company and CIC executed a deferral agreement (the “**June 2017 Deferral Agreement**”) in relation to a revised payment schedule on the US\$22.3 million of cash interest and associated costs originally due on May 19, 2017. The key repayment terms of the June 2017 Deferral Agreement were as follows: (i) the Company was required to repay on average US\$2.2 million of the deferred cash interest and associated costs on a monthly basis during the period from May 2017 to October 2017; and (ii) the Company was required to repay US\$9.7 million of deferred cash interest and associated costs on November 19, 2017. The Company agreed to pay a deferral fee at a rate of 6.4% per annum as consideration for the aforementioned deferral.

2019 Deferral Agreement and Amended and Restated Cooperation Agreement

On April 23, 2019, CIC, the Company and certain of its subsidiaries entered into a deferral agreement (the “**2019 Deferral Agreement**”) pursuant to which CIC agreed to a deferral and revised repayment schedule in respect of: (i) US\$41.8 million of outstanding cash interest and payment in kind interest (“**PIK Interest**”) and associated costs which were due and payable to CIC on November 19, 2018 under the Convertible Debenture and the June 2017 Deferral Agreement; (ii) the semi-annual cash interest payments in the aggregate amount of US\$23.9 million which were due and payable to CIC in May 19, 2019, November 19, 2019 and May 20, 2020 under the Convertible Debenture; and (iii) US\$4.0 million worth of PIK Interest shares which were due to be issued to CIC on November 19, 2019 under the Convertible Debenture (collectively, the “**2019 Deferral Amounts**”).

As consideration for the deferral provided under the 2019 Deferral Agreement, the Company agreed to pay a deferral fee equal to 6.4% per annum on the outstanding balance of the 2019 Deferred Amounts, commencing on the date on which each such 2019 Deferred Amount was otherwise due and payable under the Convertible Debenture or the June 2017 Deferral Agreement, as applicable.

Under the 2019 Deferral Agreement, the Company agreed to pay CIC the 2019 Deferred Amounts in accordance with the following repayment schedule:

- US\$14.3 million by way of eight (8) instalment payments during the period from November 19, 2019 to June 19, 2020; and
- US\$62.6 million on June 20, 2020.

As a condition to agreeing to the 2019 Deferral Agreement, CIC required that the Company agree to an amendment and restatement of the Cooperation Agreement (the “**Amended and Restated Cooperation Agreement**”) for the purpose of clarifying the manner in which the service fee payable to Fullbloom under the Cooperation Agreement is calculated, with effect as of January 1, 2017, to provide that the service fee shall be calculated based on the net revenues realized by the Company and all of its subsidiaries derived from sales into China (rather than the net revenues realized by the Company and its Mongolian subsidiaries).

The aggregate amount of additional service fees payable to Fullbloom as a result of the Amended and Restated Cooperation Agreement was approximately US\$4.0 million (the “**Deferred Compensation**”). As consideration for deferring payment of the Deferred Compensation payable under the Amended and Restated Cooperation Agreement, the Company agreed to pay to Fullbloom a deferral fee at a rate of 2.5% on the outstanding amount of the Deferred Compensation and the related accrued deferral fee, commencing on the date on which each such payment of Deferred Compensation would otherwise have been due and payable under the Amended and Restated Cooperation Agreement. Under the Amended and Restated Cooperation Agreement, the Company agreed to repay Fullbloom the Deferred Compensation and related accrued deferral fee in six instalments between June 30, 2019 and November 30, 2019.

The terms of the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement provided that the effectiveness thereof was subject to the Company obtaining acceptance of the 2019 Deferral Agreement from the TSX and the requisite approval of the 2019 Deferral Agreement from Shareholders.

The 2019 Deferral Agreement was accepted by the TSX and approved by a majority of disinterested shareholders at the Company’s adjourned annual general and special meeting of Shareholders held on June 13, 2019 in accordance with the requirements of Section 501(c) of the TSX Company Manual. The 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement and the respective parties’ obligations and rights thereunder became effective on the same date.

Events in 2020

On February 19, 2020, the Company and CIC entered into an agreement (the “**February 2020 Deferral Agreement**”) pursuant to which CIC agreed to grant the Company a deferral of: (i) deferred cash interest and deferral fees of US\$1.3 million and US\$2.0 million which were due and payable to CIC on January 19, 2020 and February 19, 2020, respectively, under the 2019 Deferral Agreement; and (ii) approximately US\$0.7 million of management fee which was due and payable on February 14, 2020 to Fullbloom under the Amended and Restated Cooperation Agreement.

The key terms of the February 2020 Deferral Agreement were as follows: (i) payment of the deferred cash interest and deferral fees was deferred until June 20, 2020, while the management fee was deferred until it is repaid by the Company; (ii) the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the deferred cash interest and deferral fees and a deferral fee equal to 2.5% per annum on the deferred management fees, in each case commencing on the date on which such payment would otherwise have been due and payable under the 2019 Deferral Agreement or Amended and Restated Cooperation Agreement, as applicable; and (iii) the parties agreed that nothing in the February 2020 Deferral Agreement prejudiced CIC's rights to pursue any of its remedies at any time pursuant to the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement, respectively. The February 2020 Deferral Agreement was accepted by the TSX, and the respective parties' obligations and rights thereunder became effective, on March 10, 2020.

On March 10, 2020, the Company and CIC entered into an agreement (the "**March 2020 Deferral Agreement**") pursuant to which CIC agreed to grant the Company a deferral of deferred cash interest and deferral fees of US\$2.0 million which were due and payable to CIC on March 19, 2020 under the 2019 Deferral Agreement. The terms of the 2020 March Deferral Agreement were substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 March Deferral Amount, commencing on March 19, 2020. The 2020 March Deferral Agreement became effective on March 25, 2020, being the date on which the Company obtained the requisite acceptance of the 2020 March Deferral Agreement from the TSX as required under applicable TSX rules.

On April 10, 2020, the Company and CIC entered into an agreement (the "**April 2020 Deferral Agreement**") pursuant to which CIC agreed to grant the Company a deferral of deferred cash interest and deferral fees of US\$2.0 million which were due and payable to CIC on April 19, 2020 under the 2019 Deferral Agreement. The terms of the 2020 April Deferral Agreement were substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the 2020 April Deferral Amount, commencing on April 19, 2020. The April 2020 Deferral Agreement became effective on April 29, 2020, being the date on which the Company obtained the requisite acceptance of the April 2020 Deferral Agreement from the TSX as required under applicable TSX rules.

On May 8, 2020, the Company and CIC entered into an agreement (the "**May 2020 Deferral Agreement**") pursuant to which CIC agreed to grant the Company a deferral of deferred cash interest and deferral fees of US\$2.0 million which were due and payable to CIC on May 19, 2020 under the 2019 Deferral Agreement. The terms of the 2020 May Deferral Agreement were substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the deferred cash interest and deferral fees commencing on May 19, 2020. The May 2020 Deferral Agreement became effective on June 8, 2020, being the date on which the Company obtained the requisite acceptance of the May 2020 Deferral Agreement from the TSX as required under applicable TSX rules.

On June 18, 2020, the Company and CIC entered into an agreement (the “**June 2020 Deferral Agreement**”) pursuant to which CIC agreed with the Company that payment of the deferred cash interest and deferral fees in the aggregate amount of approximately US\$74.0 million which were due and payable to CIC on June 19, 2020 (the “**June 2020 Deferred Amounts**”) under the 2019 Deferral Agreement and the prior deferral agreements entered into during the period between February 2020 to May 2020 would be deferred until September 14, 2020. The terms of the June 2020 Deferral Agreement were substantially the same as the terms of the 2020 February Deferral Agreement, including that the Company agreed to pay CIC a deferral fee equal to 6.4% per annum on the June 2020 Deferred Amounts commencing on June 19, 2020. The June 2020 Deferral Agreement became effective on July 17, 2020, being the date on which the Company obtained the requisite acceptance of the June 2020 Deferral Agreement from the TSX as required under applicable TSX rules.

November 2020 Deferral Agreement

On November 19, 2020, the Company and certain of its subsidiaries entered into an agreement (the “**November 2020 Deferral Agreement**”) with CIC and Fullbloom for a deferral of (i) deferred cash interest and deferral fees of US\$75.2 million which were due and payable to CIC on or before September 14, 2020, under the June 2020 Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of US\$16.0 million payable to CIC on November 19, 2020 and May 19, 2021 under the Convertible Debenture; (iii) US\$4.0 million worth of PIK Interest shares (“**2020 November PIK Interest**”) issuable to CIC on November 19, 2020 under the Convertible Debenture; and (iv) the management fees which were payable to Fullbloom on November 14, 2020, February 14, 2021, May 15, 2021, August 14, 2021 and November 14, 2021 under the Amended and Restated Cooperation Agreement (collectively, the “**2020 November Deferral Amounts**”).

As consideration for the deferral of the 2020 November Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the 2020 November Deferral Amounts payable under the Convertible Debenture and the June 2020 Deferral Agreement, commencing on the date on which each such 2020 November Deferral Amounts would otherwise have been due and payable under the Convertible Debenture or the June 2020 Deferral Agreement, as applicable; and (ii) a deferral fee equal to 2.5% per annum on the 2020 November Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

Commencing as of November 19, 2020 and until such time till the 2020 November PIK Interest is fully repaid, CIC reserved the right to require the Company to pay and satisfy the amount of the 2020 November PIK Interest, either in full or in part, by way of issuing and delivering PIK interest shares in accordance with the Convertible Debenture provided that, on the date of issuance of such shares, the Common Shares are listed and trading on at least one stock exchange.

The terms of the November 2020 Deferral Agreement provided that the effectiveness thereof was subject to the Company obtaining acceptance of the November 2020 Deferral Agreement from the TSX and the requisite approval of the November 2020 Deferral Agreement from Shareholders.

The November 2020 Deferral Agreement was accepted by the TSX and approved by a majority of disinterested shareholders at the Company’s annual general and special meeting of Shareholders held on January 21, 2021 in accordance with the requirements of Section 501(c) of the TSX Company Manual. The November 2020 Deferral Agreement and the respective parties’ obligations and rights thereunder became effective on the same date.

July 2021 Deferral Agreement

On July 30, 2021, the Company and CIC executed a deferral agreement (the “**July 2021 Deferral Agreement**”) pursuant to which CIC agreed to grant the Company a deferral of the interest payments which were due and payable on November 19, 2021 under the Convertible Debenture. The key repayment terms of the July 2021 Deferral Agreement were as follows: (i) a deferral of the semi-annual cash interest payment of US\$8.1 million payable to CIC on November 19, 2021 under the Convertible Debenture; and (ii) a deferral of the payment-in-kind interest payment of US\$4.0 million payable on November 19, 2021 under the Convertible Debenture, in each case until August 31, 2023. The Company agreed to pay a deferral fee at a rate of 6.4% per annum as consideration for the aforementioned deferral. The July 2021 Deferral Agreement became effective on August 18, 2021, being the date on which the Company obtained the requisite acceptance of the July 2021 Deferral Agreement from the TSX as required under applicable TSX rules.

May 2022 Deferral Agreement

On May 13, 2022, the Company and CIC executed a deferral agreement (the “**May 2022 Deferral Agreement**”) in relation to a deferral of the US\$22.3 million of cash interest and associated costs originally due on May 19, 2022 under the Convertible Debenture. The key repayment terms of the May 2022 Deferral Agreement were as follows: (i) a deferral of the semi-annual cash interest payment of US\$7.9 million payable to CIC on May 19, 2022 under the Convertible Debenture; and (ii) a deferral of management fees for Q4 2021 and accrued deferral fees related thereto that is outstanding as of November 14, 2021 and the management fees to be accrued in Q2 2022 which were due and payable on August 14, 2022 under the Amended and Restated Cooperation Agreement (collectively the “**May 2022 Deferral Amounts**”).

As consideration for the deferral of the May 2022 Deferral Amounts, the Company agreed to pay CIC: (i) a deferral fee equal to 6.4% per annum on the May 2022 Deferral Amounts payable under the Convertible Debenture, commencing on the date on which each such May 2022 Deferral Amounts would otherwise have been due and payable under the Convertible Debenture; and (ii) a deferral fee equal to 2.5% per annum on the May 2022 Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

The terms of the May 2022 Deferral Agreement provided that the effectiveness thereof was subject to the Company obtaining acceptance of the May 2022 Deferral Agreement from the TSX. The May 2022 Deferral Agreement was accepted by the TSX on June 10, 2022 in accordance with the requirements of Section 501(c) of the TSX Company Manual. The May 2022 Deferral Agreement and the respective parties’ obligations and rights thereunder became effective on the same date.

Completion of Sale by CIC of its Interests in the Company

As disclosed in the press releases issued by CIC and JDZF respectively on August 30, 2022, the sale (the “**CIC Sale Transaction**”) by CIC of all of its interests in the Company, including its 64,766,591 Common Shares and the Convertible Debenture, to JDZF was successfully completed on August 30, 2022. In connection with the completion of the CIC Sale Transaction, CIC assigned to JDZF all of its respective rights in and obligations under: (i) the Convertible Debenture and related security documents; (ii) the Amended and Restated Cooperation Agreement and related documents; (iii) the deferral agreements of CIC, the Company and certain of its subsidiaries in connection with the deferral of interest payments and other outstanding fees under the Convertible Debenture and the Amended and Restated Cooperation Agreement; and (iv) the security holders agreement between the Company, CIC and a former shareholder of the Company. In connection with the completion of the CIC Sale Transaction, JDZF agreed to reduce the service fee payable by the Company under the Amended and Restated Cooperation Agreement from 2.5% to 1.5% of all net revenues realized by the Company and all of its subsidiaries derived from sales into China.

November 2022 Deferral Agreement

On November 11, 2022, the Company and JDZF executed a deferral agreement (the “**November 2022 Deferral Agreement**”) pursuant to which JDZF agreed to grant the Company a deferral of (i) US\$7.0 million out of the semi-annual cash interest payment of US\$8.1 million payable to JDZF on November 19, 2022 under the Convertible Debenture; (ii) US\$1.1 million out of the payment-in-kind interest payment of US\$4.0 million payable on November 19, 2022 under the Convertible Debenture, in each case until November 19, 2023. The Company agreed to pay a deferral fee at a rate of 6.4% per annum as consideration for the aforementioned deferral. The November 2022 Deferral Agreement also includes deferral of management fees payable to JDZF on November 15, 2022, February 15, 2023, May 16, 2023 and August 15, 2023, respectively, under the Amended and Restated Cooperation Agreement with a consideration of 1.5% per annum on the outstanding balance of the deferred management fees.

The terms of the November 2022 Deferral Agreement provided that the effectiveness thereof was subject to the Company obtaining acceptance of the November 2022 Deferral Agreement from the TSX. The November 2022 Deferral Agreement was accepted by the TSX on November 23, 2022 in accordance with the requirements of Section 501(c) of the TSX Company Manual. The November 2022 Deferral Agreement and the respective parties’ obligations and rights thereunder became effective on the same date.

In December 2022, the Company issued 20,947,603 PIK shares to JDZF in accordance with the terms of the Convertible Debenture at an issuance price of CAD\$0.185 per PIK share as settlement of US\$2.9 million PIK interest owing by the Company to JDZF.

March 2023 Deferral Agreement

On March 24, 2023, the Company and JDZF executed a deferral agreement (the “**March 2023 Deferral Agreement**”) pursuant to which JDZF agreed to grant the Company a deferral of the (i) a deferral of the cash interest payment of approximately US\$7.9 million payable to JDZF on May 19, 2023 under the Convertible Debenture; (ii) a deferral of the cash interest, management fees, and related deferral fees of approximately US\$8.7 million payable to JDZF on or before August 31, 2023 under the May 2022 Deferral Agreement; (iii) the cash and PIK Interest, and related deferral fees of approximately US\$13.5 million due and payable to JDZF on or before August 31, 2023 under the July 2021 Deferral Agreement; and (iv) the cash and PIK Interest, management fees, and related deferral fees of approximately US\$110.4 million which are due and payable to JDZF on or before August 31, 2023 under November 2020 Deferral Agreement (the “**March 2023 Deferral Amounts**”).

As consideration for the deferral of the March 2023 Deferral Amounts, the Company agreed to pay JDZF: (i) a deferral fee equal to 6.4% per annum on the March 2023 Deferral Amounts payable under the Convertible Debenture, commencing on the date on which each such March 2023 Deferral Amounts would otherwise have been due and payable under the Convertible Debenture; and (ii) a deferral fee equal to 1.5% per annum on the March 2023 Deferral Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

The effectiveness of the March 2023 Deferral Agreement and the respective covenants, agreements and obligations of each party under the March 2023 Deferral Agreement were subject to the approvals from the TSX and the disinterested shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual and the Listing Rules. The requisite shareholder approvals for the March 2023 Deferral Agreement were obtained at a special meeting of shareholders convened on August 29, 2023.

November 2023 Deferral Agreement

On October 13, 2023, the Company and JDZF executed a deferral agreement (the “**November 2023 Deferral Agreement**”) pursuant to which JDZF agreed to grant the Company a deferral of (i) the PIK interest of approximately US\$4.0 million due and payable on November 19, 2023 under the Convertible Debenture; and (ii) 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 until August 31, 2024 (the “**November 2023 Deferred Amounts**”).

As consideration for the deferral of the November 2023 Deferred Amounts, the Company agreed to pay JDZF: (i) a deferral fee equal to 6.4% per annum on the November 2023 Deferred Amounts payable under the Convertible Debenture, commencing on the date on which each such November 2023 Deferred Amounts would otherwise have been due and payable under the Convertible Debenture; and (ii) a deferral fee equal to 1.5% per annum on the November 2023 Deferred Amounts payable under the Amended and Restated Cooperation Agreement, commencing on the date on which the management fee would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

On November 17, 2023, the Company provided an update on its payment obligations under the November 2022 Deferral Agreement with JDZF and reported that on November 15, 2023, and in accordance with the terms of the Convertible Debenture and the November 2022 Deferral Agreement, the Company paid JDZF the US\$7.1 million of cash interest which is due and payable on November 19, 2022 under the Convertible Debenture, the payment of which was deferred under the November 2022 Deferral Agreement until November 19, 2023. JDZF agreed to waive (the “**Waiver**”) the Company’s payment obligations under the November 2022 Deferral Agreement in relation to: (i) the remaining US\$1.1 million of PIK Interest which was payable on November 19, 2022 under the Convertible Debenture (the “**November 2022 PIK Interest**”), the payment of which was deferred under the November 2022 Deferral Agreement until November 19, 2023 (the “**Waived PIK Interest Default**”), as well as the right to collect deferral fees in respect of the November 2022 PIK Interest under the November 2022 Deferral Agreement for the period between November 20, 2023 until January 19, 2024 (both dates inclusive); and (ii) the management fees (the “**November 2022 Deferred Management Fees**”) which were payable on November 15, 2022, February 15, 2023, May 16, 2023 and August 15, 2023 under the Amended and Restated Cooperation Agreement, the payments of which were deferred under the November 2022 Deferral Agreement until November 19, 2023 (the “**Waived Deferred Management Fees Default**”, and together with the Waived PIK Interest Default, the “**Waived Defaults**”). In order to allow the Company to remedy the Waived Defaults, the Waiver as it relates to the Waived PIK Interest Default was in effect up to and until April 30, 2024, and the Waiver as it relates to the Waived Deferred Management Fees Default is in effect up to and until August 31, 2024.

March 2024 Deferral Agreement

On March 13, 2024, the Board, after careful consideration, including reviewing the terms of the March 2024 Deferral (as defined below) and the March 2024 Deferral Agreement, the Company’s financial position and the possible funding alternatives reasonably available to the Company, the Board resolved by way of a written resolution (with the Directors who are appointed by JDZF pursuant to contractual nomination rights contained in the Securityholders Agreement and the Deferral Agreements, being Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Chen Shen (collectively, the “**Deferral Interested Directors**”), who have a material interest in the March 2024 Deferral Agreement, abstaining), among other things, to approve the terms of the March 2024 Deferral and March 2024 Deferral Agreement and to authorize the execution and delivery of the March 2024 Deferral Agreement.

April 2024 Deferral Agreement

On April 26, 2024, the Board, after careful consideration, including reviewing the terms of the April 2024 Deferral (as defined below) and the April 2024 Deferral Agreement, the Company’s financial position and the possible funding alternatives reasonably available to the Company, the Board resolved by way of a written resolution (with the Deferral Interested Directors abstaining), among other things, to approve the terms of the April 2024 Deferral and April 2024 Deferral Agreement and to authorize the execution and delivery of the April 2024 Deferral Agreement.

The Board, including the Company's independent directors (the "**Independent Directors**"), excluding the Deferral Interested Directors who abstained, determined, in good faith, that the terms of the March 2024 Deferral and April 2024 Deferral, and the March 2024 Deferral Agreement and the April 2024 Deferral Agreement, the Company's financial position and the possible funding alternatives reasonably available to the Company and considered that: (i) the March 2024 Deferral and April 2024 Deferral are 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 March 2024 Deferral and April 2024 Deferral are reasonable in the circumstances of the Company; (iii) the March 2024 Deferral and April 2024 Deferral are designed to improve the financial position of the Company; (iv) the March 2024 Deferral and April 2024 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 its shareholders will be served by approving the March 2024 Deferral and April 2024 Deferral, and the March 2024 Deferral Agreement and April 2024 Deferral Agreement, and resolved to ratify, approve, and confirm the terms of the March 2024 Deferral Agreement and April 2024 Deferral Agreement and authorize the execution and delivery thereof.

As of the Latest Practicable Date, JDZF represents both the Company's largest shareholder, holding approximately 85.7 million Common Shares, representing approximately 28.93% of the issued and outstanding Common Shares, and largest creditor, by virtue of the Convertible Debenture and related deferral agreements.

The following is a summary of the principal terms of the March 2024 Deferral Agreement and April 2024 Deferral Agreement. The summary contained in this Management Proxy Circular is not comprehensive, and is qualified in its entirety by reference to the full text of the March 2024 Deferral Agreement and the April 2024 Deferral Agreement, copies of which have been filed on the Company's profile on SEDAR+ at www.sedarplus.ca. Copies of the March 2024 Deferral Agreement and April 2024 Deferral Agreement are also available for inspection by shareholders at the Company's registered and records office located at 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8 during regular business hours prior to the date of the Meeting.

Effectiveness of the March 2024 Deferral Agreement and April 2024 Deferral Agreement

The effectiveness of each of the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and the respective covenants, agreements and obligations of each party under the March 2024 Deferral Agreement and the April 2024 Deferral Agreement are subject to the Company obtaining the requisite approval from shareholders in accordance with the requirements of applicable Canadian securities laws and Hong Kong Listing Rules.

March 2024 Deferral Agreement

Under the March 2024 Deferral Agreement, JDZF agreed to grant the Company a deferral (the "**March 2024 Deferral**") of the following payments until August 31, 2025 (the "**Deferral Date**"):

- (i) the cash interest, PIK Interest, management fees, and related deferral fees in aggregate amount of approximately US\$96.5 million will be due and payable to JDZF on or before August 31, 2024 pursuant to the March 2023 Deferral Agreement and November 2023 Deferral Agreement;

- (ii) semi-annual cash interest payment of approximately US\$7.9 million payable to JDZF on May 19, 2024 under the Convertible Debenture;
- (iii) semi-annual cash interest payment of approximately US\$8.1 million payable to JDZF and US\$4.0 million PIK Interest payment (the “**November 2024 PIK Interest**”), which will in each case, be due and payable on November 19, 2024 under the Convertible Debenture; and
- (iv) management fees in the aggregate amount of approximately US\$2.2 million payable to JDZF on November 15, 2024 and February 15, 2025, respectively, under the Amended and Restated Cooperation Agreement.

(collectively, the “**March 2024 Deferred Amounts**”)

As consideration for the deferral of the March 2024 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 2024 Deferred Amounts payable under the Convertible Debenture commencing on the date on which each such March 2024 Deferred Amount would otherwise have been due and payable under the Convertible Debenture (the “**March 2024 Convertible Debenture Consideration**”).

As consideration for the deferral of the March 2024 Deferred Amounts which relate to payment obligations arising from 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 2024 Deferred Amounts commencing on the date on which each such March 2024 Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement (the “**March 2024 Cooperation Agreement Consideration**”, and together with the March 2024 Convertible Debenture Consideration, the “**March 2024 Considerations**”).

The March 2024 Considerations 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 March 2024 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 November 2023 Deferral Agreement, which is the latest deferral agreement before the March 2024 Deferral Agreement and April 2024 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) based on the publicly available information and to the Company’s understanding, the finance costs of industry peers and listed companies in similar industry as the Group are of a similar range as the those of the deferral fees contemplated under the March 2024 Deferral Agreement, with the interest rates ranged from 3% to 13.20% per annum; and
- (iv) the reasons and benefits as set out in the section headed “*Reasons and benefits of the March 2024 Deferral Agreement and April 2024 Deferral Agreement*” below.

Based on the closing price of the Common Shares as of March 18, 2024 (being the last trading day before the date of the March 2024 Deferral Agreement), the Company's market capitalization in US dollars was approximately US\$165.4 million. Accordingly, the total March 2024 Considerations payable under the March 2024 Agreement, being approximately US\$7.5 million, represent approximately 4.56% of the Company market capitalization as of March 18, 2024.

The March 2024 Deferral Agreement does not contemplate a fixed repayment schedule for the March 2024 Deferred Amounts or related deferral fees. Instead, the March 2024 Deferral Agreement, requires the Company to use its best efforts to pay the March 2024 Deferred Amounts and related deferral fees due and payable under the March 2024 Deferral Agreement to JDZF. During the period beginning as of the effective date of the March 2024 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 2024 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.

March 2024 Deferral Agreement Covenants

In addition to the above, under the March 2024 Deferral Agreement, the Company also agreed if at any time before the March 2024 Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its CEO, its CFO 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 2024 Deferral Agreement, the Company and its subsidiaries, Southgobi Sands LLC and SGQ Coal Investment Pte. Ltd. (the "**Guarantors**"), each agreed to: (i) comply with all covenants under the Convertible Debenture; (ii) not sell, transfer, assign or otherwise dispose of any of their respective property or assets (other than in the ordinary course of business) or enter into any agreement to do so; (iii) not create, incur, assume or permit to exist (I) additional debt (subject to limited exceptions); or (II) debt related to non-coal business related opportunities, and shall not grant a charge, pledge, mortgage or security interest in any of their respective assets or enter into any agreement to do so; (iv) grant reasonable access and provide any financial information as JDZF may require; (v) not amend or modify the terms and conditions of, provide waivers with respect to, or terminate or otherwise abandon any material contract; (vi) continue to operate its business in the ordinary course; (vii) provide JDZF with prior written notice of the commencement of any action, application or proceeding under any bankruptcy, insolvency, liquidation, winding-up or similar law for the relief from or otherwise affecting creditors of the Company or any of the Guarantors, or seek any debtor-in-possession financing in connection with the commencement of any such actions, application or proceeding; (viii) not object to the appointment of a receiver, receiver manager or other court-appointed officer over their respective property and assets in the event that JDZF exercise any of its rights and remedies under the Convertible Debenture or related security documents; (ix) upon request, allow JDZF and/or its advisors to: (I) inspect and audit the financial statements and books and records of the Company and its subsidiaries and affiliates; and (II) conduct due diligence of the business operation of the Company and its subsidiaries and affiliates.

March 2024 Deferral Agreement Events of Default

The occurrence of any of the following events shall constitute an event of default (each a “**Deferral Event of Default**”) under the March 2024 Deferral Agreement: (i) the Company or any of the Guarantors fails to comply with or defaults in the performance of the terms, covenants and agreements of the March 2024 Deferral Agreement, or an Event of Default (as such term is defined in the Convertible Debenture) occurs; (ii) breach of any representation or warranty contained in the March 2024 Deferral Agreement, the Transaction Documents (as such term is defined in the Convertible Debenture), other security documents related to the Convertible Debenture; (iii) failure by the Company and the Guarantors: (I) to notify JDZF of any action, application or proceeding under any bankruptcy, insolvency, liquidation, winding-up or similar law for the relief from or otherwise affecting creditors of the Company or any of the Guarantors within a prescribed period; or (II) to obtain the prior written consent of JDZF to any debtor-in-possession financing in connection with the commencement of any such actions, application or proceeding; (iv) commencement of any action, application or proceeding under any bankruptcy, insolvency, liquidation, winding-up or similar law for the relief from or otherwise affecting creditors of the Company or any of the Guarantors; (v) any receiver, monitor, liquidator, trustee or similar official is appointed in respect of the Company or any of the Guarantors or all or any part of their respective property or assets; (vi) the Company or any of the Guarantors makes a general assignment for the benefit of its creditors, acknowledges its insolvency or declares bankruptcy, fails to meet its liabilities generally as they become due or commits an act of bankruptcy; (vii) any holder of any security interest, mortgage, lien, charge or encumbrance of any kind enforces against such security, or otherwise takes possession or control of all or any part of the property or assets of the Company or any of the Guarantors or all or any part of the interest of the Company or any of the Guarantors therein; (viii) a distress, execution, levy, writ or any similar process is enforced upon or against all or any part of the assets of the Company or any of the Guarantors with a total collateral value in excess of US\$500,000 and which is not dismissed or resolved within a prescribed period, or any third party demand is issued by any governmental authority in respect of the Company or any of the Guarantors or all or any part of their respective assets, or any other seizure is made in respect of all or any part of any of the assets of the Company or any of the Guarantors with a total collateral value in excess of US\$500,000 and which is not dismissed or resolved within a prescribed period, or the Company or any of the Guarantors ceases or threatens to cease to carry on their respective businesses; (ix) the Company or any of the Guarantors contests or denies in any manner the legality, validity or enforceability of the March 2024 Deferral Agreement, the Convertible Debenture and related security documents; and (x) if JDZF determines that a Material Adverse Effect (as such term is defined in the Convertible Debentures) in the financial or business condition of the Company or any of the Guarantors has occurred after the date of the March 2024 Deferral Agreement.

The occurrence of a Deferral Event of Default or an Event of Default (as such term is defined in the Convertible Debenture) will: (i) entitle JDZF to pursue any and all remedies against the Company and the Guarantors in accordance with the Convertible Debenture; and (ii) result in the principal, interest and other amounts owing under the March 2024 Deferral Agreement, the Convertible Debenture and related security agreements becoming immediately due and payable without any requirement for JDZF to deliver notice to the Company.

April 2024 Deferral Agreement

Under the April 2024 Deferral Agreement, JDZF agreed to grant the Company a deferral (the “**April 2024 Deferral**”) of the November 2022 PIK Interest which was payable on November 19, 2022 under the Convertible Debenture (the “**November 2022 PIK Interest**”), the payment of which was deferred under the November 2022 Deferral Agreement until November 19, 2023, as well as related deferral fees under the November 2022 Deferral Agreement (collectively, the “**April 2024 Deferred Amounts**”).

As consideration for the deferral of the April 2024 Deferred Amounts, the Company agreed to pay JDZF a deferral fee equal to 6.4% per annum on the outstanding balance of such April 2024 Deferred Amounts commencing on the date on which each such April 2024 Deferred Amount would otherwise have been due and payable under the Convertible Debenture (the “**April 2024 Considerations**”).

The April 2024 Considerations 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 April 2024 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 contemplated under the November 2023 Deferral Agreement, which is the latest deferral agreement before the March 2024 Deferral Agreement and April 2024 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) based on the publicly available information and to the Company’s understanding, the finance costs of industry peers and listed companies in similar industry as the Group are of a similar range as the those of the deferral fees contemplated under the April 2024 Deferral Agreement, with the interest rates ranged from 3% to 13.20% per annum; and
- (iv) the reasons and benefits as set out in the section headed “*Reasons and benefits of the March 2024 Deferral Agreement and April 2024 Deferral Agreement*” below.

Based on the closing price of the Common Shares as of April 29, 2024 (being the last trading day before the date of the April 2024 Deferral Agreement), the Company’s market capitalization in US dollars was approximately US\$225.6 million. Accordingly, the total April 2024 Considerations payable under the April 2024 Agreement, being approximately US\$0.2 million, represent approximately 0.09% of the Company market capitalization as of April 29, 2024.

The April 2024 Deferral Agreement does not contemplate a fixed repayment schedule for the April 2024 Deferred Amounts or related deferral fees. Instead, the April 2024 Deferral Agreement, requires the Company to use its best efforts to pay the April 2024 Deferred Amounts and related deferral fees due and payable under the April 2024 Deferral Agreement to JDZF. During the period beginning as of the effective date of the April 2024 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 April 2024 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.

April 2024 Deferral Agreement Covenants

In addition to the above, under the April 2024 Deferral Agreement, the Company also agreed if at any time before the April 2024 Deferred Amounts and related deferral fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its CEO, its CFO 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 April 2024 Deferral Agreement, the Company and its subsidiaries, Southgobi Sands LLC and SGQ Coal Investment Pte. Ltd. (the "**Guarantors**"), each agreed to: (i) comply with all covenants under the Convertible Debenture; (ii) not sell, transfer, assign or otherwise dispose of any of their respective property or assets (other than in the ordinary course of business) or enter into any agreement to do so; (iii) not create, incur, assume or permit to exist (I) additional debt (subject to limited exceptions); or (II) debt related to non-coal business related opportunities, and shall not grant a charge, pledge, mortgage or security interest in any of their respective assets or enter into any agreement to do so; (iv) grant reasonable access and provide any financial information as JDZF may require; (v) not amend or modify the terms and conditions of, provide waivers with respect to, or terminate or otherwise abandon any material contract; (vi) continue to operate its business in the ordinary course; (vii) provide JDZF with prior written notice of the commencement of any action, application or proceeding under any bankruptcy, insolvency, liquidation, winding-up or similar law for the relief from or otherwise affecting creditors of the Company or any of the Guarantors, or seek any debtor-in-possession financing in connection with the commencement of any such actions, application or proceeding; (viii) not object to the appointment of a receiver, receiver manager or other court-appointed officer over their respective property and assets in the event that JDZF exercise any of its rights and remedies under the Convertible Debenture or related security documents; (ix) upon request, allow JDZF and/or its advisors to: (I) inspect and audit the financial statements and books and records of the Company and its subsidiaries and affiliates; and (II) conduct due diligence of the business operation of the Company and its subsidiaries and affiliates.

April 2024 Deferral Agreement Events of Default

The occurrence of any of the following events shall constitute an event of default (each a “**Deferral Event of Default**”) under the April 2024 Deferral Agreement: (i) the Company or any of the Guarantors fails to comply with or defaults in the performance of the terms, covenants and agreements of the April 2024 Deferral Agreement, or an Event of Default (as such term is defined in the Convertible Debenture) occurs; (ii) breach of any representation or warranty contained in the April 2024 Deferral Agreement, the Transaction Documents (as such term is defined in the Convertible Debenture), other security documents related to the Convertible Debenture; (iii) failure by the Company and the Guarantors: (I) to notify JDZF of any action, application or proceeding under any bankruptcy, insolvency, liquidation, winding-up or similar law for the relief from or otherwise affecting creditors of the Company or any of the Guarantors within a prescribed period; or (II) to obtain the prior written consent of JDZF to any debtor-in-possession financing in connection with the commencement of any such actions, application or proceeding; (iv) commencement of any action, application or proceeding under any bankruptcy, insolvency, liquidation, winding-up or similar law for the relief from or otherwise affecting creditors of the Company or any of the Guarantors; (v) any receiver, monitor, liquidator, trustee or similar official is appointed in respect of the Company or any of the Guarantors or all or any part of their respective property or assets; (vi) the Company or any of the Guarantors makes a general assignment for the benefit of its creditors, acknowledges its insolvency or declares bankruptcy, fails to meet its liabilities generally as they become due or commits an act of bankruptcy; (vii) any holder of any security interest, mortgage, lien, charge or encumbrance of any kind enforces against such security, or otherwise takes possession or control of all or any part of the property or assets of the Company or any of the Guarantors or all or any part of the interest of the Company or any of the Guarantors therein; (viii) a distress, execution, levy, writ or any similar process is enforced upon or against all or any part of the assets of the Company or any of the Guarantors with a total collateral value in excess of US\$500,000 and which is not dismissed or resolved within a prescribed period, or any third party demand is issued by any governmental authority in respect of the Company or any of the Guarantors or all or any part of their respective assets, or any other seizure is made in respect of all or any part of any of the assets of the Company or any of the Guarantors with a total collateral value in excess of US\$500,000 and which is not dismissed or resolved within a prescribed period, or the Company or any of the Guarantors ceases or threatens to cease to carry on their respective businesses; (ix) the Company or any of the Guarantors contests or denies in any manner the legality, validity or enforceability of the April 2024 Deferral Agreement, the Convertible Debenture and related security documents; and (x) if JDZF determines that a Material Adverse Effect (as such term is defined in the Convertible Debentures) in the financial or business condition of the Company or any of the Guarantors has occurred after the date of the March 2024 Deferral Agreement.

The occurrence of a Deferral Event of Default or an Event of Default (as such term is defined in the Convertible Debenture) will: (i) entitle JDZF to pursue any and all remedies against the Company and the Guarantors in accordance with the Convertible Debenture; and (ii) result in the principal, interest and other amounts owing under the April 2024 Deferral Agreement, the Convertible Debenture and related security agreements becoming immediately due and payable without any requirement for JDZF to deliver notice to the Company.

Reasons and Benefits of the March 2024 Deferral Agreement and the April 2024 Deferral Agreement

In evaluating the terms of the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and reaching its conclusion and making its recommendation in support of both the March 2024 Deferral and the April 2024 Deferral, the Board (excluding the JDZF appointed directors as of the dates on which the March 2024 Deferral Agreement and April 2024 Deferral Agreement were approved, being Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Chen Shen), considered a number of factors, including the following:

- one of the factors which the auditors of the Company (the “**Auditors**”) considered as a material uncertainty which casts doubt upon management’s going concern assumptions in the Company’s audited financial statements for the financial year ended December 31, 2023 (the “**2023 Financial Statements**”) is the Company’s ability to successfully meet its obligation to JDZF to pay the March 2024 Deferred Amounts on their original due dates. Had the Company been unable to obtain a deferral for the March 2024 Deferred Amounts, the Company would not have been able to provide sufficient audit evidence to the Auditors to support the issuance of their unmodified opinion on the 2023 Financial Statements. The March 2024 Deferral Agreement provided the Auditors with sufficient evidence and comfort to issue their unmodified audit opinion on the 2023 Financial Statements;
- the March 2024 Deferral Agreement and April 2024 Deferral Agreement are designed to improve the financial position of the Company;
- with respect to the Deferral Date, the due date of the March 2024 Deferred Amounts and April 2024 Deferred Amounts is extended to August 31, 2025 under the Deferral Agreements. The Deferral Date was determined after arm’s length negotiation among the Company and JDZF having taken into account, among others, (i) the current business performance and financial positions of the Group; and (ii) a deferral date extending the respective due dates of those payments which would be otherwise become due during the current and coming financial year for approximately 3-12 months could help justify the going concern assumptions in the Company’s audited financial statements. Based on the above, the Board is of the view that such extension period is fair and reasonable;
- both the March 2024 Deferral Agreement and April 2024 Deferral Agreement do not contemplate a fixed repayment schedule for the March 2024 Deferred Amounts, the April 2024 Deferred Amounts or related deferral fees during the term of the respective deferral agreements. Given that the financial results and the business performance of the Group has only just started to improve and recover from the Covid-19 epidemic, in determining the repayment plan for and up to August 31, 2025, instead of a fix and predetermined repayment plan, it is in the interest of the Company to maintain certain flexibility in setting the repayment plan and deciding the actual repayment schedule with reference to the then financial status and working capital requirements of the Company throughout the term of the March 2024 Deferral Agreement and April 2024 Deferral Agreement;

- the Company has considered other forms of funding alternatives reasonably available to the Company, including:
 - o *Equity financing.* Taking into account of the fact that the Group has been reporting consecutive net losses attributable to owners of the Company and its net liabilities position, any types of equity financing, including those that are pro rata in nature such as open offer or rights issue, may not be attractive to the investors and/or the Shareholders without substantial discounts to its Common Share price. Furthermore, fund raising by way of equity financing will create dilution effect on the shareholding of the existing Shareholders; and
 - o *Bank borrowings.* The ability for the Group to obtain bank borrowings with loan size that are comparable to the March 2024 Deferred Amount would largely depend on the Group's profitability, financial position and the then prevailing market condition. However, given the current financial performance and the existing financial position of the Group, it was determined that it would be difficult for the Group to finance either the March 2024 Deferred Amount by way of bank borrowings on terms which are favorable to the Group. It is contemplated that even the Group had reached out to banks for borrowings, the finance cost incurred by bank borrowings would not be on terms more favourable to the Group than that of either the March 2024 Deferral Agreement, and it might thus not in the interest of the Company and the Shareholders as a whole to obtain bank borrowings in lieu of the March 2024 Deferral Agreement.

Therefore, compared to the other funding alternatives reasonably available to the Company, the March 2024 Deferral and April 2024 Deferral are 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;

- the March 2024 Deferral and April 2024 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;
- the terms of the March 2024 Deferral and April 2024 Deferral are reasonable in the circumstances of the Company;
- the terms of the March 2024 Deferral Agreement and April 2024 Deferral Agreement have been approved by the Independent Directors in accordance with MI 61-101 (as hereinafter defined);
- the rights of shareholders will be protected because the effectiveness of both the March 2024 Deferral Agreement and April 2024 Deferral Agreement are subject to the Company obtaining approval of a simple majority (50% plus one vote) of shareholders excluding the votes of JDZF and its affiliates; and
- the best interests of the Company and shareholders will be served by approving the March 2024 Deferral and April 2024 Deferral and the March 2024 Deferral Agreement and April 2024 Deferral Agreement.

In reaching their conclusion, the Board relied on their knowledge of the Company, JDZF and the mining industry, on the information provided by the Company's management and on the advice of its legal advisors.

The Board also considered potential risks relating to the March 2024 Deferral Agreement and April 2024 Deferral Agreement, including the following:

- the risks and costs to the Company if the March 2024 Deferral Agreement and April 2024 Deferral Agreement were not executed by the Company, including the fact that the Company may default under the Convertible Debenture, the March 2023 Deferral Agreement, the November 2023 Deferral Agreement, the November 2022 Deferral Agreement, the Amended and Restated Cooperation Agreement and the risk that JDZF would take steps to exercise its rights thereunder; and
- the risk that the Company would not have been able to file its 2023 Financial Statements because the Auditors' willingness to render an unmodified opinion on the 2023 Financial Statements was conditioned on, amongst other things, the Company entering into the March 2024 Deferral Agreement.

The foregoing summary of the information and factors considered by the Board in reaching their conclusions and recommendations is not, and is not intended to be, exhaustive. In view of the wide variety of factors and the amount of information considered in connection with its evaluation of both the March 2024 Deferral Agreement and the April 2024 Deferral Agreement, the Board did not find it practicable to, and did not, quantify or otherwise attempt to assign any relative weight to each specific factor considered in reaching its conclusions and recommendations. In addition, our individual directors may have assigned different weight to different factors.

Directors' Confirmation

The terms of the March 2024 Deferral Agreement and April 2024 Deferral Agreement were determined and settled through an arm's length negotiation between the parties. The Directors (excluding the INEDs who will provide their opinion separately based on the recommendations from DL Securities (HK) Limited (the "**Independent Financial Adviser**")) have confirmed that the terms of the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and the transactions contemplated thereunder are fair and reasonable, 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, in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole.

The Deferred Interested Directors who have a material interest in the March 2024 Deferral Agreement and the April 2024 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 Directors have any material interest in the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and the transactions contemplated thereunder, and none of the Directors were required to abstain from voting on the board resolutions approving the same.

Financial Effect of the March 2024 Deferral Agreement and the April 2024 Deferral Agreement

The Directors are of the opinion that the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and the transactions contemplated thereunder will not have material impact on the earnings, assets and liabilities of the Group.

Canadian Securities Law Matters

Requirements under Multilateral Instrument 61-101

As a reporting issuer in each of the provinces of Canada, the Company is subject to applicable securities laws of such provinces. The securities regulatory authority in the Provinces of Alberta, Manitoba, Ontario, Quebec and New Brunswick have adopted Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”), which regulates transactions that raise the potential for conflicts of interest.

MI 61-101 regulates certain types of transactions to ensure fair treatment of securityholders when, in relation to a transaction, there are persons in a position that could cause them to have an actual or reasonably perceived conflict of interest or informational advantage over other securityholders. If MI 61-101 applies to a proposed transaction of a reporting issuer, then enhanced disclosure in documents sent to securityholders, the approval of security holders excluding, among others, “interested parties” (as defined in MI 61-101) , and a formal valuation prepared by an independent and qualified valuator, are all mandated (subject to certain exemptions). The protections afforded by MI 61-101 apply to, among other transactions, “related party transactions” (as defined in MI 61-101) which involve the Issuer and a person that is a “related party” of the issuer (as defined in MI 61-101) at the time the transaction is agreed to.

Pursuant to Part 5 of MI 61-101 under applicable Canadian securities laws, the Company is required to seek minority shareholder approval of both the March 2024 Deferral Agreement and April 2024 Deferral Agreement, excluding the Common Shares beneficially owned by JDZF because (i) JDZF is a “related party” of the Company because JDZF has beneficial ownership of more than 10% of the voting rights attached to the outstanding Common Shares of the Company; (ii) both the March 2024 Deferral Agreement and the April 2024 Deferral Agreement constitute “related party transactions” for purposes of MI 61-101 because both the March 2024 Deferral Agreement and April 2024 Deferral Agreement materially amends the terms of an outstanding debt or liability owed by the Company to a related party; and (iii) the March 2024 Deferral Agreement and the April 2024 Deferral Agreement are “connected transactions” for purposes of MI 61-101.

As a result, the Deferral Agreements Resolution (as defined below) will require the affirmative vote of a simple majority of the votes cast by all shareholders, present in person or represented by proxy at the Meeting, other than with respect to Common Shares beneficially owned, or over which control or direction is exercised, by JDZF (the “**Deferral Interested Shareholder**”).

There is no requirement for either the March 2024 Deferral Agreement or the April 2024 Deferral Agreement to be the subject of a formal valuation by virtue of not being within the scope of related party transactions set out in Section 5.4 of MI 61-101.

To the knowledge of the Company and its directors and senior officers, after reasonable inquiry, there is no prior valuation as to the subject matter of, or is otherwise relevant to, the March 2024 Deferral Agreement or the April 2024 Deferral Agreement that has been made in the 24 months prior to the date of hereof.

To the best of the Company’s knowledge, approximately 85,714,194 Common Shares, representing approximately 28.93% of the issued and outstanding Common Shares, are beneficially owned the Deferral 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 Deferral Interested Shareholder, representing approximately 28.93% of the issued and outstanding Common Shares, will be excluded from the vote.

With respect to the deferral of the PIK Interest, payment-in-kind interest under the terms of the Convertible Debenture must be paid and satisfied by the Company by way of issuing Common Shares at an issue price determined based on the 50-trading day volume weighted average price (“**VWAP**”) of the Common Shares as at the date of payment. Shareholders are cautioned that, as a result of deferring the payment date of the PIK Interest portion of the March 2024 Deferred Amounts and November 2024 PIK Interest under the March 2024 Deferral Agreement, and deferring the payment date of the November 2022 PIK Interest under the April 2024 Deferral Agreement, the final number of Common Shares that the Company will issue to satisfy the PIK Interest portion of the March 2024 Deferred Amounts, the November 2024 PIK Interest and November 2022 PIK Interest will depend on the prevailing 50 trading day VWAP of the Common Shares as of the future payment date, and may result in a number of Common Shares being issued that could be greater than, or lesser than, the number of Common Shares that the Company would have had to issue on the original payment date for the PIK Interest portion of the March 2024 Deferred Amounts, the November 2024 PIK Interest and the November 2022 PIK Interest.

Hong Kong Listing Rules Implications

Pursuant to Hong Kong Listing Rules, JDZF is a substantial shareholder and hence a connected person of the Company. The entering into of both the March 2024 Deferral Agreement and the April 2024 Deferral Agreement constitute discloseable and connected transactions. As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the transaction is more than 5% but all of the applicable percentage ratios are less than 25%, the entering into of both the March 2024 Deferral Agreement and the April 2024 Deferral Agreement constitute a discloseable 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 Hong Kong Listing Rules.

Given that the Deferral Interested Shareholder is involved in and/or interested in the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and the transactions contemplated thereunder, the Deferral Interested Shareholder will abstain from voting at the Meeting on the relevant resolutions. Accordingly, the 85,714,194 votes attached to the Common Shares beneficially owned, or over which control or direction is exercised, by the Deferral Interested Shareholder will be excluded from the vote to approve the March 2024 Deferral Agreement and April 2024 Deferral Agreement.

Save for the aforesaid and to the Directors’ best knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has a material interest in the March 2024 Deferral Agreement and April 2024 Deferral Agreement and therefore no other Shareholder is required to abstain from voting on the Deferral Agreements Resolution (as defined below) at the Meeting.

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 an Executive Director of the Company since September 8, 2022. She was the Company's Senior Vice President of Finance from September 8, 2022 to February 2, 2024, and appointed as the Company's Chief Financial Officer on February 2, 2024.

Independent Board Committee and Independent Financial Adviser

The Company has established the Independent Board Committee, comprising Mr. Yingbin Ian He, Mr. Fan Keung Vic Choi and Ms. Jin Lan Quan, all of whom are INEDs who have no material interest in the March 2024 Deferral Agreement and April 2024 Deferral Agreement, to advise the independent Shareholders on: (i) the fairness and reasonableness of the terms of the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and the transaction contemplated thereunder; and (ii) how to vote on the resolutions in relation to the March 2024 Deferral Agreement and April 2024 Deferral Agreement at the Meeting, after taking into account the recommendations of the Independent Financial Adviser. DL Securities (HK) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in relation to the terms of the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and the transaction contemplated thereunder.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that (i) the March 2024 Deferral Agreement and the April 2024 Deferral Agreement and the transaction contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and 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 March 2024 Deferral Agreement and the April 2024 Deferral Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Meeting. The letter from the Independent Board Committee to the Independent Shareholders is set out on pages IBC-1 to IBC-2 of this Management Proxy Circular. The letter from DL Securities (HK) Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-16 of this Management Proxy Circular.

Voting on the Deferral Agreements Resolution

At the Meeting, shareholders will be asked to consider and, if thought fit, to pass an ordinary resolution (the "**Deferral Agreements Resolution**") to authorize and approve the March 2024 Deferral Agreement and April 2024 Deferral Agreement. To be effective, the Deferral Agreements Resolution requires the approval of at least a simple majority of the votes cast by shareholders (excluding the votes of the Deferral Interested Shareholder), represented in person or by proxy and entitled to vote at the Meeting.

The text of the Deferral Agreements Resolution is as follows:

“BE IT RESOLVED THAT:

1. The deferral agreement (the **“March 2024 Deferral Agreement”**) dated March 19, 2024 between JD Zhixing Fund L.P. and SouthGobi Resources Ltd. (the **“Company”**), Southgobi Sands LLC and SGQ Coal Investment Pte. Ltd., the actions of the directors of the Company in approving the March 2024 Deferral (as more particularly described in the management proxy circular of the Company dated July 25, 2024 (the **“Management Proxy Circular”**)) and the actions of the officers of the Company in executing and delivering the March 2024 Deferral Agreement, are hereby authorized, approved and ratified;
2. The deferral agreement (the **“April 2024 Deferral Agreement”**) dated April 30, 2024 between JD Zhixing Fund L.P. and the Company, Southgobi Sands LLC and SGQ Coal Investment Pte. Ltd., the actions of the directors of the Company in approving the April 2024 Deferral (as more particularly described in the Management Proxy Circular) and the actions of the officers of the Company in executing and delivering the April 2024 Deferral Agreement, are hereby authorized, approved and ratified;
3. any director or officer of the Company is hereby authorized, for and on behalf of the Company, to execute and, if appropriate, deliver all documents and instruments and to do all other things as in the opinion of such director or officer may be necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of such action.”

Independent Board Committee unanimously recommend that Shareholders vote in favour of the Deferral Agreements Resolution. In the absence of a contrary instruction, the person(s) designated by management of the Company in the enclosed Form of Proxy intend to vote FOR the approval of the Deferral Agreements Resolution.

APPROVAL OF THE CONVERTIBLE DEBENTURE AMENDMENT

Background to the Convertible Debenture Amendment

The Convertible Debenture Amendment is the result of arm’s length negotiations between representatives of the Company and JDZF that were conducted principally between February 2024 and May 2024. The following is a summary of the events leading up to the execution of Convertible Debenture Amendment, including certain relevant events relating to the negotiations and actions that preceded the execution and public announcement of the Convertible Debenture Amendment.

On February 20, 2024, JDZF, in its capacity as the holder of the Convertible Debenture and related deferral agreements, approached the Board regarding the possibility of amending the terms of the Convertible Debenture to permit early repayment of the principal amount outstanding under the Convertible Debenture based on the Company’s operating conditions. Under the original terms of the Convertible Debenture, there is neither a right, nor an obligation, on the part of the Company to repay the principal amount outstanding under the Convertible Debenture prior to the maturity date of the Convertible Debenture of November 19, 2039.

In response to the approach from JDZF, the Board determined that it would be appropriate to establish a committee comprised of INEDs to consider the proposal to amend the terms of the Convertible Debenture and to oversee the ensuing negotiations with JDZF on behalf of the Company. Accordingly, a special committee (the “**Special Committee**”), comprised of Messrs. Fan Keung Vic Choi, Yingbin Ian He and Ms. Jin Lan Quan, was formed. In support of its efforts, the Special Committee met a number of times to discuss developments relating to the proposal and to formalize the engagement of an independent financial advisor and legal advisor. In particular, the Special Committee engaged DL Securities (HK) Limited to act as the independent financial advisor in connection with the Convertible Debenture Amendment and to assist the Special Committee with negotiating and assessing the proposed amendments to the Convertible Debenture.

In April 2024, with the support of its independent financial advisor and legal advisor, a draft of the Convertible Debenture Amendment was prepared on behalf of the Special Committee and presented to JDZF for review. Negotiation of the Convertible Debenture Amendment continued over the following weeks between JDZF and the Special Committee and its representatives and revised drafts of the Convertible Debenture Amendment were exchanged between the parties.

On May 13, 2024, the Board, after careful consideration, including reviewing the terms of the Convertible Debenture Amendment, the Company’s financial position and the recommendation of the Special Committee, the Board resolved by way of a written resolution (with the Directors who are appointed by JDZF pursuant to contractual nomination rights contained in the Securityholders Agreement and the Deferral Agreements, being Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Chen Shen (collectively, the “**Amendment Interested Directors**”), who have a material interest in the Convertible Debenture Amendment, abstaining), among other things, to approve the terms of the Convertible Debenture Amendment and to authorize the execution and delivery of the Convertible Debenture Amendment. The amendment agreement of the Convertible Debenture (the “**Convertible Debenture Amendment**”) was executed and delivered by the Company and JDZF on May 13, 2024.

The Board, including the Independent Directors, but excluding the Amendment Interested Directors who abstained, determined, in good faith, that: (i) the terms of the Convertible Debenture Amendment are reasonable in the circumstances of the Company; (ii) the Convertible Debenture Amendment is designed to improve the financial position of the Company; (iii) the Convertible Debenture Amendment improves the financial flexibility of the Company, as it permits the Company, at its sole option, to repay the whole or any part of the principal amount outstanding under the Convertible Debenture, together with any accrued cash interest or PIK interest, without penalty; and (iv) the best interests of the Company and its shareholders will be served by approving the Convertible Debenture Amendment, and resolved to ratify, approve, and confirm the terms of the Convertible Debenture Amendment and authorized the execution and delivery thereof.

As of the date of this Management Proxy Circular, JDZF represents both the Company’s largest shareholder, holding approximately 85,714,194 Common Shares, representing approximately 28.93% of the issued and outstanding Common Shares, and largest creditor, by virtue of the Convertible Debenture and related deferral agreements.

Principal Terms of the Convertible Debenture Amendment

The following is a summary of the principal terms of the Convertible Debenture Amendment. The summary contained in this Management Proxy Circular is not comprehensive, and is qualified in its entirety by reference to the full text of the Convertible Debenture Amendment, a copy of which has been filed on the Company's profile on SEDAR+ at www.sedarplus.ca. A copy of the Convertible Debenture Amendment is also available for inspection by shareholders at the Company's registered and records office located at 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada, V6C 3R8 during regular business hours prior to the date of the Meeting.

The effectiveness of the Convertible Debenture Amendment and the respective covenants, agreements and obligations of each party under the Convertible Debenture Amendment are subject to the Company obtaining the requisite approval of the Convertible Debenture Amendment from shareholders and the Hong Kong Stock Exchange in accordance with the requirements of applicable Canadian securities laws, Chapter 14A of the Listing Rules and Rule 28.05 of the Listing Rules.

Pursuant to the Convertible Debenture Amendment, the Company may, by resolution of the Directors, at any time and from time to time prepay, without penalty, the whole or any part of the principal amount outstanding under the Convertible Debenture, together with accrued Cash Interest and PIK Interest thereon to the date of prepayment, provided that:

- (i) the Company has, not later than three (3) business days prior to the proposed prepayment date, delivered to JDZF an irrevocable written notice, signed by an independent director of the Company and setting out the terms of the prepayment;
- (ii) the amount of such prepayment reduces the then outstanding Principal Amount by an amount that is (I) not less than US\$500,000 and (II) if in excess of US\$500,000, an integral multiple of US\$500,000; and
- (iii) the proposed prepayment date falls on a business day.

The Company is not providing any additional form of consideration to JDZF in connection with the Convertible Debenture Amendment. Aside from the aforementioned amendments, the existing terms of the Convertible Debenture continue in full force and effect and unchanged.

Reasons and Benefits of the Convertible Debenture Amendment

In evaluating the terms of the Convertible Debenture Amendment and reaching its conclusion and making its recommendation in support of the Convertible Debenture Amendment, the Board (excluding the Amendment Interested Directors), considered a number of factors, including the following:

- the Convertible Debenture Amendment is designed to improve the financial position of the Company, as it provides the Company with an ability to repay the principal amount and accrued cash interest or PIK interest, without penalty, at the discretion of the Board, if doing so is in the best interests of the Company;
- the Convertible Debenture Amendment improves the financial flexibility of the Company, as the Company did not have a right to prepay the principal amount outstanding under the Convertible Debenture under the original terms of the Convertible Debenture;

- the terms of the Convertible Debenture Amendment are reasonable in the circumstances of the Company, in particular given that the Company is not providing any additional form of consideration to JDZF in connection with the Convertible Debenture Amendment;
- any future prepayment pursuant to the terms of the Convertible Debenture Amendment would require delivery of a notice signed by an independent director of the Company;
- the terms of the Convertible Debenture Amendment has been approved by the Independent Directors in accordance with MI 61-101;
- the rights of shareholders will be protected because the effectiveness of the Convertible Debenture Amendment is subject to the Company obtaining approval of a simple majority (50% plus one vote) of shareholders excluding the votes of JDZF and its affiliates; and
- the best interests of the Company and shareholders will be served by approving the Convertible Debenture Amendment.

Currently the Company has no intention to early repay the outstanding principal amount under the Convertible Debenture or any accrued interests, or the March 2024 Deferred Amounts and the April 2024 Deferred Amounts, during the calendar year ending December 31, 2024. Notwithstanding that the Company, on one hand, entered into the Deferral Agreements to extend the Deferred Amounts, and on the other hand, entered into the CB Amendment Agreement, it is the goal of the Board, in the long run, to improve the business performance and financial positions of the Group so as to settle the outstanding principal amount, interest payments and related deferral fees of the Convertible Debenture as soon as practicable. The Deferral Agreements are the temporary measures for the Group to address its liquidity problem in the short run, while the Convertible Debenture Amendment is the measure to reduce the Company's outstanding debt and the related finance cost in the long run. Therefore, the Deferral Agreements and the CB Amendment Agreement represent different approaches adopted by the Board in resolving and improving the financial positions of the Group.

In reaching their conclusion, the Board relied on their knowledge of the Company, JDZF and the mining industry, on the information provided by the Special Committee, the Company's management and on the advice of its financial and legal advisors.

The Board also considered potential risks relating to the Convertible Debenture Amendment, including the risks and costs to the Company if the Convertible Debenture Amendment was not executed by the Company, including the fact that the Company would have a significant payment obligation at the maturity date of the Convertible Debenture, given that the original terms of the Convertible Debenture do not contemplate any form of early repayment of the principal amount outstanding under the Convertible Debenture and the Company does not have a sinking fund established to support the repayment obligation at maturity.

The foregoing summary of the information and factors considered by the Board in reaching their conclusions and recommendations is not, and is not intended to be, exhaustive. In view of the wide variety of factors and the amount of information considered in connection with its evaluation of the Convertible Debenture Amendment, the Board did not find it practicable to, and did not, quantify or otherwise attempt to assign any relative weight to each specific factor considered in reaching its conclusions and recommendations. In addition, our individual directors may have assigned different weight to different factors.

Directors' Confirmation

The terms of the Convertible Debenture Amendment were determined and settled through an arm's length negotiation between the parties. The Directors (excluding the INEDs who will provide their opinion separately based on the recommendations from DL Securities (HK)) have confirmed that the terms of the Convertible Debenture Amendment and the transactions contemplated thereunder are fair and reasonable, 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, in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole.

The Amendment Interested Directors who have a material interest in the Convertible Debenture Amendment and the transactions contemplated thereunder were required to abstain from voting on the board resolutions approving the same. Except for the Amendment Interested Directors, none of the Directors have any material interest in the Convertible Debenture Amendment and the transactions contemplated thereunder, and none of the Directors were required to abstain from voting on the board resolutions approving the same.

Financial Effect of the Convertible Debenture Amendment

The Directors are of the opinion that the Convertible Debenture Amendment and the transactions contemplated thereunder will not have material impact on the earnings, assets and liabilities of the Group. In particular:

- as the Convertible Debenture bears an 8% annual interest on the outstanding principal amount, in the event that the Group makes any early repayment under the Convertible Debenture, the early repayment of the Convertible Debenture will reduce the interest expenses and would likely to have a positive impact on the future earnings of the Group;
- according to the annual report for the year ended December 31, 2023, the net liabilities of the Group as at December 31, 2023 was approximately \$141.3 million. In the event that the Group use its own cash and cash equivalent to early repay any outstanding principal amount of the Convertible Debenture, both assets and liabilities of the Group will be reduced and it is expected that the net assets/liabilities of the Group would remain unchanged as a result of the early repayment of the Convertible Debenture; and
- in the event that the Group intends to early repay any outstanding principal amount of the Convertible Debenture by its internal resources, the Group's gearing ratio (being calculated as total borrowings over total equity attributable to the owners of the Group) is expected to be improved as a result of the early repayment of the Convertible Debenture.

Canadian Securities Law Matters

Requirements under Multilateral Instrument 61-101

Pursuant to Part 5 of MI 61-101 under applicable Canadian securities laws, the Company is required to seek minority shareholder approval of the Convertible Debenture Amendment, excluding the Common Shares beneficially owned by JDZF because (i) JDZF is a "related party" of the Company because JDZF has beneficial ownership of more than 10% of the voting rights attached to the outstanding Common Shares of the Company; and (ii) the Convertible Debenture Amendment constitutes a "related party transaction" for purposes of MI 61-101 because the Convertible Debenture Amendment materially amends the terms of an outstanding debt or liability owed by the Company to a related party.

As a result, the Convertible Debenture Amendment Resolution (as defined below) will require the affirmative vote of a simple majority of the votes cast by all shareholders, present in person or represented by proxy at the Meeting, other than with respect to Common Shares beneficially owned, or over which control or direction is exercised, by JDZF (the “**Amendment Interested Shareholder**”).

There is no requirement for the Convertible Debenture Amendment to be the subject of a formal valuation by virtue of not being within the scope of related party transactions set out in Section 5.4 of MI 61-101.

To the knowledge of the Company and its directors and senior officers, after reasonable inquiry, there is no prior valuation as to the subject matter of, or is otherwise relevant to, the Convertible Debenture Amendment that has been made in the 24 months prior to the date of hereof.

To the best of the Company's knowledge, approximately 85,714,194 Common Shares, representing approximately 28.93% of the issued and outstanding Common Shares, are beneficially owned the Deferral 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 Amendment Interested Shareholder, representing approximately 28.93% of the issued and outstanding Common Shares, will be excluded from the vote.

Hong Kong Listing Rules Implications

Pursuant to Hong Kong Listing Rules, JDZF is a substantial shareholder and hence a connected person of the Company. The entering into of the Convertible Debenture Amendment constitutes a connected transaction and is subject to the Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Moreover, according to Rule 28.05 of the Hong Kong Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Hong Kong Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Hong Kong Stock Exchange for approval for the entering into of the Convertible Debenture Amendment pursuant to Rule 28.05 of the Hong Kong Listing Rules.

Given that the Deferral Interested Shareholder is involved in and/or interested in the Convertible Debenture Amendment and the transactions contemplated thereunder, the Amendment Interested Shareholder will abstain from voting at the Meeting on the relevant resolutions. Accordingly, the 85,714,194 votes attached to the Common Shares beneficially owned, or over which control or direction is exercised, by the Amendment Interested Shareholder will be excluded from the vote to approve the Convertible Debenture Amendment.

Save for the aforesaid and to the Directors' best knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has a material interest in the Convertible Debenture Amendment and therefore no other Shareholder is required to abstain from voting on the Convertible Debenture Amendment Resolution (as defined below) at the Meeting.

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), 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 an Executive Director of the Company since September 8, 2022. She was the Company's Senior Vice President of Finance from September 8, 2022 to February 2, 2024, and appointed as the Company's Chief Financial Officer on February 2, 2024.

Independent Board Committee and Independent Financial Adviser

The Company has established the Special Committee, comprising as of the date hereof of Mr. Yingbin Ian He, Mr. Fan Keung Vic Choi and Ms. Jin Lan Quan, all of whom are INEDs who have no material interest in the Convertible Debenture Amendment, to advise the independent Shareholders on: (i) the fairness and reasonableness of the terms of the Convertible Debenture Amendment and the transactions contemplated thereunder; and (ii) how to vote on the resolutions in relation to the Convertible Debenture Amendment at the Meeting, after taking into account the recommendations of the Independent Financial Adviser. DL Securities (HK) Limited has been appointed as the Independent Financial Adviser to advise the Special Committee and the independent Shareholders in relation to the terms of the Convertible Debenture Amendment and the transaction contemplated thereunder.

The Special Committee, having taken into account the advice of the Independent Financial Adviser, considers that (i) the Convertible Debenture Amendment and the transaction contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and 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 Convertible Debenture Amendment are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Special Committee recommends the independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the Meeting. The letter from the Special Committee to the Independent Shareholders is set out on pages IBC-1 to IBC-2 of this Management Proxy Circular. The letter from DL Securities (HK) Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-16 of this Management Proxy Circular.

Voting on the Convertible Debenture Amendment Resolution

At the Meeting, shareholders will be asked to consider and, if thought fit, to pass an ordinary resolution (the “**Convertible Debenture Amendment Resolution**”) to authorize and approve the Convertible Debenture Amendment. To be effective, the Convertible Debenture Amendment Resolution requires the approval of at least a simple majority of the votes cast by shareholders (excluding the votes of the Deferral Interested Shareholder), represented in person or by proxy and entitled to vote at the Meeting.

The text of the Convertible Debenture Amendment Resolution is as follows:

“BE IT RESOLVED THAT:

1. The amendment agreement (the “**Convertible Debenture Amendment**”) dated May 13, 2024 between JD Zhixing Fund L.P. and SouthGobi Resources Ltd. (the “**Company**”), the actions of the directors of the Company in approving the Convertible Debenture Amendment (as more particularly described in the management proxy circular of the Company dated July 25, 2024), and the actions of the officers of the Company in executing and delivering the Convertible Debenture Amendment, are hereby authorized, approved and ratified;
2. any director or officer of the Company is hereby authorized, for and on behalf of the Company, to execute and, if appropriate, deliver all documents and instruments and to do all other things as in the opinion of such director or officer may be necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of such action.”

The Special Committee unanimously recommend that Shareholders vote in favour of the Convertible Debenture Agreement Resolution. In the absence of a contrary instruction, the person(s) designated by management of the Company in the enclosed Form of Proxy intend to vote FOR the approval of the Convertible Debenture Agreement Resolution.

OTHER BUSINESS

Management of the Company is not aware of any matter to come before the Meeting other than the matters referred to in the accompanying Notice of Meeting.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Other than as disclosed below or elsewhere in this Management Proxy Circular, or in the Company’s AIF under the heading entitled “Material Contracts”, no “informed person”, being an insider of the Company and the Company itself if it holds its own Common Shares, nor any associate or affiliate of an informed person of the Company, has any material interest, direct or indirect, in any material transaction since the commencement of the Company’s last financial year or in any proposed transaction, which, in either case, has materially affected or would materially affect the Company.

A copy of the AIF is available under the Company’s profile on SEDAR+ at www.sedarplus.ca, on the HKEX news website at www.hkexnews.hk and available to you on the Company’s website at www.southgobi.com.

Shareholders may also request copy of the AIF, without charge, by mail addressed to SouthGobi Resources Ltd., Attention: Corporate Secretary, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, or by phone: +1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong), or email: corporate@southgobi.com.

ADDITIONAL INFORMATION

Additional information relating to the Company is available under the Company's profile on SEDAR+ at www.sedarplus.ca, on the HKEX news website at www.hkexnews.hk and available to you on the Company's website at www.southgobi.com.

Shareholders may contact the Company's Corporate Secretary by phone at: +1 604-762-6783 (Canada), +852 2156 1438 (Hong Kong), or by email: corporate@southgobi.com, or by mail addressed to: SouthGobi Resources Ltd., Attention Corporate Secretary, 20th floor – 250 Howe Street, Vancouver, British Columbia, Canada V6C 3R8, to request copies of the Company's AIF, Annual Report, Financial Statements and MD&A, without charge.

Financial information for the Company's most recently completed financial year is provided in its comparative financial statements and MD&A, which are filed under the Company's profile on SEDAR+ at www.sedarplus.ca and available on the Company's website at www.southgobi.com.

DIRECTORS' APPROVAL

The contents of this Management Proxy Circular and its distribution to shareholders have been approved by the Board.

Having considered the reasons set out herein, the Board (including the Independent Directors) consider that the entering into of the March 2024 Deferral Agreement, April 2024 Deferral Agreement, and the Convertible Debenture Amendment, and the transactions contemplated thereunder, are fair and reasonable, 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 in the interests of the Company and the Shareholders as a whole.

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Company were made up.

The Board recommends all Shareholders to vote in favor of the relevant resolutions at the Meeting. In the absence of contrary instructions, the person named in the accompanying Form of Proxy intends to vote the Common Shares represented thereby FOR the relevant resolutions at the Meeting.

RESPONSIBILITY STATEMENT

This Management Proxy Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the TSX-V policies and Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Management Proxy Circular is accurate and complete in all material respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

DATED at Vancouver, British Columbia, this 25th day of July, 2024.

BY ORDER OF THE BOARD OF DIRECTORS

"Allison Snetsinger"

Allison Snetsinger

Corporate Secretary

APPENDIX I – GENERAL INFORMATION

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited consolidated financial information of the Group for each of the three years ended 31 December 2021, 2022 and 2023 are disclosed in the following documents which have been published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.southgobi.com):

- the Company's annual report for the year ended 31 December 2021 published on June 20, 2022 (pages 122 to 184), which can be accessed by the direct hyperlink below:

<https://www.hkexnews.hk/listedco/listconews/sehk/2022/0620/2022062000921.pdf>

- the Company's annual report for the year ended 31 December 2022 published on April 27, 2023 (pages 130 to 197), which can be accessed by the direct hyperlink below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0427/2023042700477.pdf>

- the Company's annual report for the year ended 31 December 2023 published on April 29, 2024 (pages 148-219), which can be accessed by the direct hyperlink below:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0429/2024042903979.pdf>

2. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this Management Proxy Circular:

Name	Qualification
DL Securities (HK) Limited	a corporation licensed to carry out Type 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the above expert did not have any shareholding in any members of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

The above expert has given and has not withdrawn its written consent to the issue of this Management Proxy Circular with the inclusion herein of its letter, advice and opinion and references to its name in the forms and contexts in which it appeared.

3. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the HKEX news website at www.hkexnews.hk, on the Company's profile on SEDAR+ at www.sedarplus.ca and the website of the Company (www.southgobi.com) from the date of this Management Proxy Circular for 14 business days (both days inclusive):

- (a) the annual reports of the Company for the three years ended 31 December 2023;
- (b) the letter from the Independent Board Committee as set out in this circular;
- (c) the letter from the Independent Financial Adviser as set out in this circular;
- (d) the March 2024 Deferral Agreement;
- (e) the April 2024 Deferral Agreement;
- (f) Convertible Debenture Amendment; and
- (g) this Management Proxy Circular.

LETTER FROM INDEPENDENT BOARD COMMITTEE



SouthGobi
RESOURCES

SOUTHGOBI RESOURCES LTD.

南戈壁資源有限公司*

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

(Hong Kong Stock Code: 1878)

(TSX Venture Exchange Stock Symbol: SGQ)

July 25, 2024

To the independent Shareholders

Dear Sir/Madam,

We refer to the Management Proxy Circular of the Company dated July 25, 2024 (the “**Circular**”) to its Shareholders of which this letter forms part. Capitalized terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise you on: (i) the fairness and reasonableness of the terms of the March 2024 Deferral Agreement, the April 2024 Deferral Agreement, the Convertible Debenture Amendment and the transactions contemplated thereunder; and (ii) how to vote on the resolutions regarding the March 2024 Deferral Agreement, the April 2024 Deferral Agreement and the Convertible Debenture Amendment at the Meeting, after taking into account the recommendations of the Independent Financial Adviser.

DL Securities (HK) Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders as to whether the terms of the March 2024 Deferral Agreement, the April 2024 Deferral Agreement, the Convertible Debenture Amendment and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and to advise the independent Shareholders on how to vote on the relevant resolution.

Your attention is drawn to:

- the information set out on pages IBC-1 to IBC-2 of the Circular which contains its recommendation to the independent Shareholders and the additional information set out in the Appendix to the Circular; and
- the letter from the Independent Financial Adviser set out on pages IFA-1 to IFA-16 of this circular which contains its advice to the Independent Board Committee and the independent Shareholders, together with the principal factors and reasons taken into consideration in arriving at such advice.

* For identification purpose only

Having considered the advice from the Independent Financial Adviser, we are of the view that: (i) the March 2024 Deferral Agreement, the April 2024 Deferral Agreement, the Convertible Debenture Amendment and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and 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 March 2024 Deferral Agreement, the April 2024 Deferral Agreement and the Convertible Debenture Amendment are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the independent Shareholders to vote in favour of the ordinary resolutions in relation to the March 2024 Deferral Agreement, the April 2024 Deferral Agreement and the Convertible Debenture Amendment to be presented at the Meeting.

Yours faithfully,

For and on behalf of the Independent Board Committee
Mr. Yingbin Ian He, Ms. Jin Lan Quan and Mr. Fan Keung Vic Choi
Independent Non-Executive Directors

LETTER FROM INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from DL Securities (HK) Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the March 2024 Deferral Agreement, the April 2024 Deferral Agreement, the CB Amendment Agreement and the transactions contemplated thereunder for the purpose of inclusion in this Circular.



29/F, Vertical Square
28 Heung Yip Road
Wong Chuk Hang, Hong Kong

July 25, 2024

To: *the Independent Board Committee and
the independent Shareholders of SouthGobi Resources Ltd.*

Dear Sirs and Madams,

(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS IN RELATION TO THE MARCH 2024 DEFERRAL AGREEMENT & THE APRIL 2024 DEFERRAL AGREEMENT AND (2) CONNECTED TRANSACTION IN RELATION TO THE CB AMENDMENT AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in relation to the March 2024 Deferral Agreement, the April 2024 Deferral Agreement, the amendment agreement of the Convertible Debenture (the "**CB Amendment Agreement**", and collectively, the "**Agreements**") and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") in the management proxy circular issued by the Company to the Shareholders dated July 25, 2024 (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On March 13, 2024, the Board resolved by way of a written resolution (with the Directors who are appointed by JDZF pursuant to contractual nomination rights contained in the Securityholders Agreement and certain existing deferral agreements (the “**Existing Deferral Agreements**”, being Mr. Ruibin Xu, Ms. Chonglin Zhu and Mr. Chen Shen (collectively, the “**Deferral Interested Directors**”), who have a material interest in the March 2024 Deferral Agreement, abstaining), among other things, to approve the terms of the Deferral and March 2024 Deferral Agreement and to authorize the execution and delivery of the March 2024 Deferral Agreement, pursuant to which JDZF agreed to grant the Company a deferral of (i) the cash interest, PIK Interest, management fees, and related deferral fees in aggregate amount of approximately US\$96.5 million will be due and payable to JDZF on or before August 31, 2024 pursuant to the March 2023 Deferral Agreement and November 2023 Deferral Agreement; (ii) semi-annual cash interest payment of approximately US\$7.9 million payable to JDZF on May 19, 2024 under the Convertible Debenture; (iii) semi-annual cash interest payment of approximately US\$8.1 million payable to JDZF and US\$4.0 million PIK Interest payment (the “**November 2024 PIK Interest**”), which will in each case, be due and payable on November 19, 2024 under the Convertible Debenture; and (iv) management fees in the aggregate amount of approximately US\$2.2 million payable to JDZF on November 15, 2024 and February 15, 2025, respectively, under the Amended and Restated Cooperation Agreement (collectively, the “**March 2024 Deferred Amounts**”) until August 31, 2025 (the “**March 2024 Deferral**”).

On April 30, 2024, the Company and its subsidiaries, namely SouthGobi Sands LLC and SGQ Coal Investment Pte. Ltd., entered into the April 2024 Deferral Agreement with JDZF, pursuant to which JDZF agreed to grant the Company a deferral of the remaining US\$1.1 million of payment-in-kind interest which was payable on November 19, 2022 under the Convertible Debenture (the “**November 2022 PIK Interest**”), the payment of which was deferred under the November 2022 Deferral Agreement until November 19, 2023, as well as related deferral fees under the November 2022 Deferral Agreement (collectively, the “**April 2024 Deferred Amounts**”, together with the March 2024 Deferred Amounts, the “**Deferred Amounts**”) until August 31, 2025 (the “**April 2024 Deferral**”, together with the March 2024 Deferral, the “**Deferral**”).

On May 13, 2024, the Company and entered into the CB Amendment Agreement with JDZF, pursuant to which the Company and JDZF agreed to certain amendments to the Convertible Debenture, among others, the Company may at any time and from time to time prepay, without penalty, the whole or any part of the principal amount outstanding under the Convertible Debenture, together with accrued cash interest and PIK interest thereon to the date of prepayment.

LISTING RULE IMPLICATION

As at the Latest Practicable Date, JDZF is beneficially interested in 85,714,194 Common Shares, representing approximately 28.93% of the total issued share capital of the Company and also the Convertible Debenture. Accordingly, the JDZF is a substantial Shareholder of the Company and together with its associates are connected persons of the Company. Accordingly, the entering into of the Agreements and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Hong Kong Listing Rules) in respect of the transactions contemplated under the Deferral Agreements is/are more than 5% but all of the applicable percentage ratios are less than 25%, the entering into of the Deferral Agreements constitutes discloseable and connected transactions 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. The entering into of the CB Amendment Agreement also constitutes a connected transaction of the Company, which is subject to the reporting, announcement, circular and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Moreover, according to Rule 28.05 of the Hong Kong Listing Rules, any alterations in the terms of convertible debt securities after issue must be approved by the Hong Kong Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible debt securities. The Company will apply to the Hong Kong Stock Exchange for approval for the entering into of the CB Amendment Agreement pursuant to Rule 28.05 of the Hong Kong Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Yingbin Ian He, Mr. Fan Keung Vic Choi and Ms. Jin Lan Quan has been established to consider and make a recommendation to the independent Shareholders on whether the terms of the Agreements are fair and reasonable so far as the independent Shareholders are concerned, whether the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and how the independent Shareholders should vote at the Meeting. We, DL Securities (HK) Limited, have been appointed to advise the Independent Board Committee and the independent Shareholders in this regard.

OUR INDEPENDENCE

In the last two years, save for being the independent financial adviser in relation to the Amended and Restated Cooperation Agreement (details of which are set out in the announcement of the Company dated July 21, 2022) and the March 2023 Deferral Agreement (details of which are set out in the circular of the Company dated July 20, 2023) (collectively, the "**Engagements**"), we did not have any other engagement with the Company as an independent financial adviser. The Engagements were limited to providing independent advisory services to the Independent Board Committee and the independent Shareholders of the Company pursuant to the Listing Rules. Under the Engagements, we received normal professional fees from the Company. Notwithstanding the Engagements, as at the date of this letter, we did not have any relationships or interests with the Company, JDZF or any other parties that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules. Apart from normal professional fees payable to us in connection with the Engagements, no arrangements exist whereby we will receive any fees or benefits from the Company, JDZF or any other party to the captioned transactions, and therefore we are considered to be eligible to give independent advice on the terms of the Agreements.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Board in relation to the terms of the Agreements and the transactions contemplated thereunder, we have reviewed, amongst others, (i) the March 2024 Deferral Agreement, (ii) the April 2024 Deferral Agreement; (iii) the CB Amendment Agreement, (iv) the annual reports of the Company for the two years ended December 31, 2023; and (v) other information as set out in the Circular. We have relied on the information, facts and representations contained or referred to in the Circular, the public information announced by the Company and the information, facts and representations provided by, and the opinions expressed by the Directors and management of the Company (the “**Management**”). We have assumed that all information, facts, opinions and representations made or referred to in the disclosed information and the Circular were true, accurate and complete at the time they were made and continued to be true and that all expectations and intentions of the Directors and the Management, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the Management. The Directors jointly and severally accept full responsibility for the accuracy of the Circular and public information disclosed and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular and public information disclosed have been arrived at after due and careful consideration and there are no other facts not contained in the public information disclosed, the omission of which would make any statement in the public information disclosed misleading.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the public information disclosed or the reasonableness of the opinions and representations provided to us by the Directors and the Management. We have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Company or its future prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the transactions contemplated under the Agreements, as referred to in Rule 13.80 of the Hong Kong Listing Rules (including the notes thereof) in formulating our opinion and recommendation. This letter is issued for the information for the Board solely in connection with their consideration of the terms of the Agreements and the transactions contemplated thereunder, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASON CONSIDERED

In arriving at our opinion to the Independent Board Committee and the independent Shareholders, we have considered the following principal factors and reasons:

1. Information of the parties to the Agreements

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 investment holding 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.

Financial performance and financial position of the Group

The following is a summary of the audited consolidated financial results of the Group for the three years ended December 31, 2023 as extracted from the annual report for the year ended December 31, 2023 (the “**2023 Annual Report**”) and the annual report for the year ended December 31, 2022 (the “**2022 Annual Report**”) respectively:

Table 1: Consolidated financial result of the Group

	For the year ended December 31		
	2023	2022	2021
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(audited)	(audited)	(audited)
Revenue	331,506	73,084	43,398
Gross profit/(loss)	173,311	15,322	12,094
Profit/(loss) from operations	75,870	13,572	4,377
Profit/(loss) before tax	34,726	(25,751)	(11,735)
Net profit/(loss) attributable to equity holders of the Company	908	(30,419)	(14,373)

With reference to the 2023 Annual Report, the Group’s revenue increased by approximately \$258.4 million or 353.6% from approximately \$73.1 million for the year ended December 31, 2022 (“**FY2022**”) to approximately \$331.5 million for the year ended December 31, 2023 (“**FY2023**”). Such increase was mainly attributable to (i) coal export volumes through the Ceke Port of Entry gradually increased since the second quarter of FY2023; and (ii) the Company experienced an increase in the average selling price of coal from \$65.7 per tonne for FY2022 to \$93.0 per tonne for FY2023, as a result of improved market conditions in China, expansion of its sales network and diversification of its customer base. Given the increased export volume and average selling price, the Group recorded a profit from operations of approximately \$75.9 million for FY2023, representing an increase of approximately 459.0% as compared to a profit from operations of approximately \$13.6 million for FY2022. The Group recorded a net profit attributable to shareholders of approximately \$0.9 million for FY2023 as compared to a net loss attributable to shareholders of approximately \$30.4 million for FY2022.

With reference to the 2022 Annual Report, the Group’s revenue for FY2022 increased by approximately \$29.7 million or 68.4% from approximately \$43.4 million for the year ended December 31, 2021 (“**FY2021**”) to approximately \$73.1 million for FY2022. Such increase was mainly attributable to the reopening of the Chinese-Mongolian border for coal export on a trial basis since May 2022. The Group recorded a profit from operations of approximately \$13.6 million for FY2022, mainly due to the foreign exchange gain of approximately \$4.6 million and the increased sales experienced by the Company following the reopening of the Ceke Port of Entry during the second quarter of 2022. The Group recorded a net loss attributable to shareholders of approximately \$30.4 million for FY2022 as compared to a net loss attributable to shareholders of approximately \$14.4 million for FY2021 mainly due to the absence of finance income as a result of the gain on extinguishment of convertible debenture of approximately \$21.0 million in FY2021.

Table 2: Consolidated financial position of the Group

	As at December 31	
	2023	2022
	<i>US\$'000</i>	<i>US\$'000</i>
	(audited)	(audited)
Current assets		
Cash and cash equivalents	47,993	9,255
Restricted cash	423	725
Inventories	52,927	34,830
Other current assets	14,012	2,685
	<u>115,355</u>	<u>47,495</u>
Non-current assets		
Property, plant and equipment	157,119	135,145
Investment in a joint venture	15,178	15,668
Investment in an associate	8,086	–
	<u>180,383</u>	<u>133,864</u>
Total assets	<u>295,738</u>	<u>181,359</u>
Current liabilities		
Trade and other payables	60,192	59,730
Additional tax and tax penalty	83,897	–
Deferred revenue	65,670	30,282
Convertible debenture	103,150	140,784
Other current liabilities	21,261	1,364
	<u>334,170</u>	<u>232,160</u>
Non-current liabilities		
Convertible debenture	91,150	83,869
Other non-current liabilities	11,750	7,102
	<u>102,900</u>	<u>91,723</u>
Total liabilities	<u>437,070</u>	<u>323,883</u>
Total deficiency in assets	<u>(141,332)</u>	<u>(142,524)</u>

Current assets of the Group as at December 31, 2023 mainly comprised inventories and cash and cash equivalents. As at December 31, 2023, the Group had inventories of approximately \$52.9 million and cash and cash equivalents of approximately \$48.0, together representing more than 87% of the Group's current assets. The non-current assets of the Group was approximately \$180.4 million as at December 31, 2023 which was mainly consisted of mineral properties among the property, plant and equipment.

Current liabilities of the Group as at December 31, 2023 mainly comprised convertible debenture, trade and other payables and deferred revenue. The balance of current liabilities increased to approximately \$334.2 million as at December 31, 2023 from approximately \$232.2 million as at December 31, 2022 mainly due to the fact that approximately \$83.9 million of additional tax and tax penalty has been recognized during FY2023. The non-current liabilities of the Group increased from approximately \$91.7 million as at December 31, 2022 to approximately \$102.9 million as at December 31, 2023. The deficiency in assets of the Group slightly decreased to approximately \$141.3 million as at December 31, 2023 as compared to approximately \$142.5 million as at December 31, 2022.

JDZF

JDZF is an exempted 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, respectively. 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 he has been conducting business in Inner Mongolia region since 1998. Ms. Chonglin Zhu was the Chief Financial Officer of Tianyu Group from March 2015 to September 2022, who was also responsible for managing JDZF. Ms. Chonglin Zhu serves as the executive Director of the Company with effect from September 8, 2022.

2. Reasons and benefits of the Deferral and the CB Amendment

As stated in the Letter from the Board, the Board consider that the March 2024 Deferral Agreement and the April 2024 Deferral Agreement are designed to improve the financial position of the Company which could also provide sufficient audit evidence to the Auditors in respect of the going concern assumption to support the issuance of their unmodified opinion on the 2023 Financial Statements.

As set out in the paragraph headed "Financial performance and position of the Group" under the section headed "1. Information of the parties to the Agreements", the Group has been loss-making and recorded net liabilities in recent years and the situation was even worsen under the influence and economic disruption of the pandemic. Due to the outbreak of COVID-19 in Ejinaqi, a region in China's Inner Mongolia Autonomous Region where the custom and border crossing are located, the local government authorities imposed stringent preventive measures throughout the region, including the temporary closure of the Ceke Port of Entry located at the border of Mongolia and China. Accordingly, the Company's coal exports into China were suspended from November 2021 to May 2022. The revenue, liquidity and profitability of the Group has been adversely impacted. Notwithstanding that the business performance of the Group, in terms of revenue, gross profit and profit from operations, etc., relatively improved in FY2023 as the coal exports into China are gradually resuming and the average selling price of coal increased given the improved market conditions in China, the solvency and liquidity position of the Group remained unhealthy under the impact of the potential additional tax and tax penalty.

With reference to the 2023 Annual Report, we notice that there are several adverse conditions and material uncertainties cast significant doubt upon the Company's ability to continue as a going concern and the going concern assumption used in the preparation of the Company's consolidated financial statements, including but not limited to, (i) the deficiency in assets of approximately \$141.3 million as at December 31, 2023 as compared to a deficiency in assets of \$142.5 million as at December 31, 2022; and (ii) the working capital deficiency (i.e. the net current liabilities) of approximately \$218.8 million as at December 31, 2023 compared to a working capital deficiency of \$184.7 million as at December 31, 2022. In assessing the appropriateness of the use of the going concern basis to prepare the financial statements, the management of the Company has prepared a cash flow projection covering a period of 12 months from December 31, 2023 for which the deferral of interest and management fee payment stipulated under the 2024 March Deferral Agreement has been considered as one of the important measures for improving the liquidity and financial position of the Company. We have also reviewed the cashflow projection of the Company for the 12 months ending December 31, 2024 and noticed that, in the absence of the March 2024 Deferral Agreement, there would be a material uncertainty on whether the Company will have sufficient working capital and financial resources in repaying the cash portion under the March 2024 Deferred Amounts.

Therefore, by entering into of the Deferral Agreements, the Deferral can relieve the imminent need of the Company to repay the Deferred Amounts in light of the Group's recent net current liabilities position, which in turn, can protect the Company from potential default on the Existing Deferral Agreements, the Amended and Restated Cooperation Agreement as well as the Convertible Debenture while enabling the Company to retain the funds for replenishing the Company's working capital to support its existing business operation and allow more financial flexibility for its ongoing business development to improve the business performance and financial position of the Group.

As advised by the management of the Group, the Company has considered other forms of equity financing. However, considering the (i) prevailing relatively low market prices of the Common Shares as compared to the minimum conversion price of the Convertible Debenture; (ii) the Group has been reporting consecutive net losses attributable to owners of the Company right before the turn around in FY2023, and (iii) the net liabilities position of the Group in FY2023, any types of equity financing, including those that are pro rata in nature such as open offer or rights issue, may not be attractive to the investors and/or the Shareholders without substantial discounts to its Share price. Furthermore, fundraising by way of equity financing will create dilution effect on the shareholding of the non-participating Shareholders. With respect to bank borrowings, the ability of the Group to obtain bank borrowings with loan sizes that are comparable to the Deferred Amounts would largely depend on the Group's profitability, financial position and the then prevailing market condition. However, given the unsatisfactory financial performance and the existing financial position of the Group, it would be difficult for the Group to finance the Deferred Amounts by way of bank borrowings.

On the other hand, the key amendment to the terms of the Convertible Debentures under the CB Amendment Agreement is to provide an early repayment option to the Company at its own discretion to repay the whole or any part of the outstanding principal amount of the Convertible Debenture before its maturity (the “**Early Repayment Option**”). The Early Repayment Option could provide additional flexibility to the Group in early redeeming the whole or any part of the Convertible Debenture before its maturity in case the Group has sufficient financial resources generated from its business operations or is able to procure any better financing options, which could reduce the interest costs and improve the capital structure of the Group.

Upon our enquiry, we were advised by the Company that currently it has no intention to early repay the March 2024 Deferred Amounts, the April 2024 Deferred Amounts, the outstanding principal amount under the Convertible Debenture or any accrued interests for the year ending December 31, 2024. Notwithstanding that the Company, on one hand, entered into the Deferral Agreements to extend the Deferred Amounts, and on the other hand, entered into the CB Amendment Agreement to include the Early Repayment Option, we understand that it is the goal of the Board in long run to improve the business performance and financial positions of the Group so to settle the outstanding principal amount, interest payments and related deferral fees of the Convertible Debenture as soonest as practicable. Having reviewed the cashflow projection of the Company for the 12 months ending December 31, 2024 and considered the current financial positions of the Group, in particular, the March 2024 Deferred Amounts, the April 2024 Deferred Amounts and the outstanding principal amount under the Convertible Debenture, as compared to the current financial resources of the Group, the entering into of the Deferral Agreements could alleviate the immediate liquidity pressure of the Group while the entering into of the CB Amendment Agreement could allow the Group, upon its business performance and financial positions being improved in the future, to early repay part of the outstanding amount of the Convertible Debenture in accordance with the then financial resources of the Group at its own discretion so to reduce the interest burden and the related deferral fees. Therefore, both the Deferral Agreements and the CB Amendment Agreement represent different approaches adopted by the Board in resolving and improving the financial positions of the Group and do not conflict with each other.

Having considered that (i) the Deferral under the Deferral represents one of the key factors in preparing the working capital forecast in justifying the preparation of the financial statement for the year ended December 31, 2023 on a going concern basis; (ii) the Deferral would effectively allow the Company to refinance its payment of the March 2024 Deferred Amounts for a further 6-15 months; (iii) the Deferral can relieve the imminent need of the Company to repay the Deferred Amounts in light of the Group's recent net current liabilities position; (iv) the Deferral can protect the Company from potential default on the Existing Deferral Agreements, the Amended and Restated Cooperation Agreement as well as the Convertible Debenture; and (v) the Early Repayment Option could provide flexibility to the Group in early repayment the outstanding amount of the Convertible Debenture thus to reduce the interest costs of the Group in the future, we are of the view that entering into of the Deferral Agreements and the CB Amendment Agreement is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Deferral Agreements

Under the March 2024 Deferral Agreement, JDZF agreed to grant the Company the Deferral of the following payments until the Deferral Date, i.e. August 31, 2025:

- (i) the cash interest, PIK Interest, management fees, and related deferral fees in aggregate amount of approximately US\$96.5 million will be due and payable to JDZF on or before August 31, 2024 pursuant to the March 2023 Deferral Agreement and November 2023 Deferral Agreement;
- (ii) the semi-annual cash interest payment of approximately US\$7.9 million payable to JDZF on May 19, 2024 under the Convertible Debenture;
- (iii) the semi-annual cash interest payment of approximately US\$8.1 million payable to JDZF and US\$4.0 million PIK Interest payment (the “**November 2024 PIK Interest**”), which will in each case, be due and payable on November 19, 2024 under the Convertible Debenture; and
- (iv) management fees in the aggregate amount of approximately US\$2.2 million payable to JDZF on November 15, 2024 and February 15, 2025, respectively, under the Amended and Restated Cooperation Agreement.

Under the April 2024 Deferral Agreement, JDZF agreed to grant the Company a deferral of the November 2022 PIK Interest, the US\$1.1 million payment-in-kind interest which was payable on November 19, 2022 under the Convertible Debenture, the payment of which was deferred under the November 2022 Deferral Agreement until November 19, 2023, as well as related deferral fees under the November 2022 Deferral Agreement until the Deferral Date.

As consideration for the Deferral, the Company agrees to pay JDZF the Consideration comprising of the Convertible Debenture Consideration and the Cooperation Agreement Consideration.

The Convertible Debenture Consideration represents a deferral fee equal to 6.4% per annum on the Deferred Amounts which relate to payment obligations payable under the Convertible Debenture commencing on the date on which each such Deferred Amounts would otherwise have been due and payable under the Convertible Debenture.

The Cooperation Agreement Consideration represents a deferral fee equal to 1.5% per annum on the Deferred Amounts which relate to the outstanding balance of the payment obligations arising from the Amended and Restated Cooperation Agreement commencing on the date on which each such Deferred Amounts would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.

The due date of the March 2024 Deferred Amounts and April 2024 Deferred Amounts is extended to August 31, 2025 under the Deferral Agreements. We understand that the Deferral Date was determined after arm's length negotiation among the Company and JDZF having taken into account, among others, (i) the current business performance and financial positions of the Group; and (ii) a deferral date extending the respective due dates of those payments of March 2024 Deferred Amounts which would be otherwise become due during the current and coming financial year for approximately 6-15 months could help justifying the going concern assumptions in the Company's audited financial statements. As such, we are of the view that the Deferral Date of August 31, 2025 under the Deferral Agreements is fair and reasonable. Pursuant to the Deferral Agreements, there is no fixed repayment schedule for the Deferred Amounts or related deferral fees. Instead, the Deferral Agreement requires the Company to use its best efforts to pay the Deferred Amounts and related deferral fees due and payable under the Deferral Agreements to JDZF. During the term of the Deferral Agreements, the Company shall provide JDZF with monthly updates of its financial status and business operations, and the Company and JDZF shall on a monthly basis discuss and assess in good faith the amount (if any) of the 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.

The Deferral Agreements also impose certain covenants on the Company and defines the events of default, details of which are set out in the Letter from the Board.

Deferral fee under the Deferral Agreements

We notice that the deferral fees under the Deferral Agreements, similar to the March 2023 Deferral Agreement, are equivalent to their respective interest rate or fee rate stipulated under the Convertible Debenture and the Amended and Restated Cooperation Agreement. Under the existing terms of the Convertible Debenture, the total interest rate is 8% per annum which comprises of a 6.4% cash interest payable semi-annually and a 1.6% payment in kind interest in form of the Common Shares of the Company payable annually. Upon the completion of the CIC Sale Transaction, JDZF reduced the service fee payable by the Company under the Amended and Restated Cooperation Agreement from 2.5% to 1.5% of all net revenues realized by the Group derived from sales into China.

We have enquired into the Management regarding the existing financing cost of the Group. However, we are given to understand that the Group currently does not have any outstanding bank borrowings. Based on our review of the recent financial statements of the Company, we notice from the interim report of the Company for the six months ended June 30, 2022 that, the latest external financing obtained by the Group was a bank loan obtained by a subsidiary of the Company from a Mongolian bank with a maturity of 3 months and an interest rate of 16.8% per annum. With reference to the data published by CEIC Data Company Ltd., a financial information service firm that specializes in economic databases of emerging and developed markets worldwide, the lending rate for Mongolian banks was reported at 17.004% per annum in February 2024. Therefore, in the absence of the Deferral Agreements whereby the Group may need to obtain bank loans in Mongolia to finance the repayment of the Deferred Amounts, the interest cost to be borne by the Company would be substantially higher than the fee rates of 6.4% and 1.5% per annum under the Deferral Agreements.

In assessing the fee rates to be charged under the Deferral Agreements, we have also reviewed the finance costs of the loans and borrowings of two companies listed on the Main Board of the Hong Kong Stock Exchange which are also principally engaged in coal mining with coal mines or majority of the assets located in Mongolia (the “**Comparable Companies**”). To the best of our knowledge and as far as we are aware of, we have identified the following Comparable Companies which met the said criteria and set out below is the exhaustive list of the Comparable Companies that we found based on our selection criteria:

Company	Stock code	Principal Business	Market Capitalization as at March 19, 2024	Latest Published Financial Information	Financing Cost
Mongolian Mining Corporation	975	Mining, processing, transportation and sales of coal with two open-pit mines of coking coal in Southern Gobi of Mongolia	HK\$10,466.47 million	For the year ended/as at December 31, 2023: Revenue: US\$1,034.82 million Net Profit: US\$240.10 million Net Assets: US\$1,169.87 million	Senior notes: 12.50% per annum
Mongolia Energy Corporation Limited	276	Mining of coal, the production and sales of coal products which is operated by its wholly-owned subsidiary in Mongolia	HK\$114.76 million	For the year ended/as at March 31, 2023: Revenue: HK\$2,905.31 million Net Loss: HK\$1,603.10 million Net Liabilities: HK\$4,336.85 million	Bank loan: 13.2% per annum Convertible notes: 3% per annum Advances from a director: Hong Kong Dollar Prime Rate plus 3% per annum
The Company	1878	Coal mining, development and exploration of properties in Mongolia	HK\$1,724.33 million*	For the year ended/as at December 31, 2023: Revenue: US\$331.51 million Net Loss: US\$0.91 million Net Liabilities: US\$141.33 million	Deferral Fee: 1.5% or 6.4% per annum

Note: Such market capitalization is calculated solely based on the closing price of the Shares quoted from the Hong Kong Stock Exchange on March 19, 2024 and multiplied by the number of total issued Shares, without taking into account the closing price of Shares quoted from TSX-V.

Notwithstanding that the principal activities, market capitalization, profitability and financial position of the Comparable Companies identified may not be the same as, or may even substantially vary from, that of the Company, we consider that their existing financing costs can still provide a general reference on the current market conditions for coal mining listed companies on the Hong Kong Stock Exchange with major assets or operations in Mongolia in issuing debt or obtaining bank financing. With reference to the latest published annual reports of the Comparable Companies, we notice that the existing outstanding loans and borrowings of the Comparable Companies mainly consist of bank loans, convertible notes and senior notes, with interest rates ranging from 3% to 13.20% per annum. Therefore, the deferral fee of 6.4% per annum on the Deferred Amounts which relate to payment obligations payable under the Convertible Debenture is within the range of the finance costs of the Comparable Companies while the deferral fee equal to 1.5% per annum on the Deferred Amounts which relate to the outstanding balance of the payment obligations arising from the Amended and Restated Cooperation Agreement is lower than that of the Comparable Companies.

Furthermore, the Company would have been technically in default pursuant to the terms of the Convertible Debenture and the Amended and Restated Cooperation Agreement should there had no arrangement under the Existing Deferral Agreements and the Deferral Agreements. Based on our review of the terms of the Comparable Transactions (as defined below), we also notice that it is not uncommon for debt instruments including convertible debenture to have a default interest rate that is higher than the coupon interest rate under such debt instruments.

Having taken into account the fact that (i) the deferral fee rates under the Deferral Agreements remain the same as the interest rate and the fee rate under the Convertible Debenture and the Amended and Restated Cooperation Agreement, respectively, without any additional default penalty; (ii) the deferral fee rates are substantially lower than the historical lending interest rate of the Group offered by its bank; and (iii) the deferral fee rates are either within or lower than the range of the finance costs of the Comparable Companies, we are of the view that the terms of the Deferral Agreements are on normal commercial terms and fair and reasonable.

4. Principal terms of the CB Amendment Agreement

Under the CB Amendment Agreement, the Company may, by resolution of the directors, at any time and from time to time prepay, without penalty, the whole or any part of the principal amount of the Convertible Debenture, together with accrued cash interest and PIK interest thereon to the date of prepayment, provided that: (i) the Company has, not later than three (3) Business Days prior to the proposed prepayment date, delivered to JDZF an irrevocable written notice, signed by an independent Director of the Company and setting out (A) the proposed prepayment date, and (B) the amount of the proposed prepayment; (ii) the amount of such prepayment reduces the then outstanding principal amount by an amount that is (I) not less than US\$500,000 and (II) if in excess of US\$500,000, an integral multiple of US\$500,000; and (iii) the proposed prepayment date is a Business Day.

In order to assess the fairness and reasonableness of the Early Repayment Option under the CB Amendment Agreement, we have, on best effort basis, reviewed the issuance of convertible bonds/notes or transactions involving amendments of convertible bonds/notes announced by companies listed on the Hong Kong Stock Exchange with their connected persons or independent third parties during a period of approximately six months from November 1, 2023 to May 13, 2024, being the date of the CB Amendment Agreement. Notwithstanding that the principal activities, market capitalization, profitability and financial position of the issuers identified may not be the same as, or may even substantially vary from, that of the Company, we consider that it could still provide a general reference for and to compare with the recent market practice in relation to the terms of the convertible bonds/notes under similar market condition, in particular, whether is it common for the convertible bonds/notes issued by companies listed on the Hong Kong Stock Exchange to have early repayment option at issuer's discretion. To the best of our knowledge and as far as we are aware of, we have identified the following comparable transactions which met the said criteria and set out below is the exhaustive list of the comparable transactions that we found based on our selection criteria (the “Comparable Transactions”):

Date of announcement	Company	Stock code	Principal amount (HK\$)	Annual interest rate	Early repayment option at issuer's discretion	Default interest rate
26-Apr-24	Elate Holdings Limited	76	HK\$21,000,000	Nil	N/A	Not Disclosed/N/A
24-Apr-24	Legendary Education Group Limited	8195	HK\$15,000,000	10%	N/A	Not Disclosed/N/A
24-Apr-24	Green Leader Holdings Group Limited	61	HK\$395,000,000	Nil	Yes	Not Disclosed/N/A
5-Apr-24	MicroPort Scientific Corporation	853	US\$150,000,000	5.75%	N/A	Not Disclosed/N/A
25-Mar-24	China Biotech Services Holdings Limited	8037	HK\$88,000,000	8%	Yes (with prior written consent from the holder(s))	24%
20-Mar-24	Oriental Payment Group Holdings Limited	8613	HK\$3,910,000	7%	N/A	Not Disclosed/N/A
13-Mar-24	Sino Oil and Gas Holdings Limited	702	HK\$1,323,400,000	8%	N/A	12%
7-Mar-24	Huayi Tencent Entertainment Company Limited	419	HK\$120,000,000	10%	Yes (up to 3 times)	Not Disclosed/N/A
6-Mar-24	Grand Field Group Holdings Limited	115	HK\$100,869,000- HK\$101,912,000	6%	Yes	10%
29-Feb-24	Standard Chartered PLC	2888	US\$1,000,000,000	7.875%	Yes	Not Disclosed/N/A
16-Feb-24	Oriental Payment Group Holdings Limited	8613	HK\$4,388,000	7%	N/A	Not Disclosed/N/A
30-Jan-24	China Sandi Holdings Limited	910	HK\$300,000,000	2%	Yes	Not Disclosed/N/A
26-Jan-24	Changyou Alliance Group Limited	1039	HK\$126,000,000	8.00%	Yes	18%
23-Jan-24	Wisdom Wealth Resources Investment Holding Group Limited	7	HK\$39,000,000	HSBC's Hong Kong Dollar Best Lending Rate (as at the announcement date: 5.875%)	N/A	Not Disclosed/N/A
15-Jan-24	CNC Holdings Limited	8356	HK\$385,285,920	0.80%	N/A	Not Disclosed/N/A
3-Jan-24	Zhi Sheng Group Holdings Limited	8370	HK\$12,400,000	Nil	N/A	Not Disclosed/N/A
2-Jan-24	Oriental Payment Group Holdings Limited	8613	HK\$11,850,000	7%/12%	N/A	20%
6-Dec-23	MicroPort Scientific Corporation	853	US\$220,000,000	5.75%	Yes	7.75%

Date of announcement	Company	Stock code	Principal amount (HK\$)	Annual interest rate	Early repayment option at issuer's discretion	Default interest rate
20-Nov-23	Zhongliang Holdings Group Company Limited	2772	US\$140,000,000	3.00%	Yes	Not Disclosed/N/A
16-Nov-23	National United Resources Holdings Limited	254	HK\$80,500,000	6.00%	Yes	Not Disclosed/N/A
16-Nov-23	Prosperity Investment Holdings Limited	310	HK\$5,000,000	8%	Yes (with redemption premium)	Not Disclosed/N/A
8-Nov-23	China Kingstone Mining Holdings Limited	1380	Up to HK\$200,000,000	2.00%	Yes (at 115% of the nominal value)	3% per month accrued on daily basis
5-Nov-23	Global New Material International Holdings Limited	6616	US\$50,000,000	9.00%	Yes	30%

Source: the website of the Hong Kong Stock Exchange

As shown in the table above, early repayment option at the issuer's discretion is available in 12 out of the 23 Comparable Transactions. For those which contain an early repayment option in the convertible bonds/notes, some may also come along with additional redemption prices/penalties. Therefore, based on the recent market practice in relation to the terms of the convertible bonds/notes, it is not uncommon for the Comparable Transactions to include early repayment options at the issuer's discretion.

Pursuant to the CB Amendment Agreement, the Group could propose a prepayment on the outstanding amount of the Convertible Debenture in whole or in part at its own discretion. We notice that currently 3 out of the 8 members of the Board are nominated by JDZF. We have enquired into the Company about the mechanism to avoid any potential conflict of interest in deciding on early repayment of the Convertible Debenture while maintaining a satisfactory liquidity and financial position of the Group. We are given to understand that according to the CB Amendment Agreement, any proposed prepayment will be conditional on the approval of board of directors and the Company delivering a prepayment written notice signed by an independent non-executive Director to JDZF, rather than the Board members nominated by JDZF. Also, in deciding whether to propose such prepayment and its respective prepayment amount, the Company will also consider the then forthcoming payment obligations to its suppliers, local tax authority as well as any other capital commitment, after which the Company shall generally maintain a minimum cash balance of approximately \$10 million for contingency. Based on our review of the cashflow forecast of the Group for the year ending December 31, 2024 and as advised by the Company, the Board currently does not have the intention or plan to make any prepayment on the outstanding principal amount and accrued interests in the financial year ending December 31, 2024.

Having considered that (i) it is not uncommon for companies listed on the Hong Kong Stock Exchange to have early redemption option in their convertible bonds/notes; (ii) the Early Repayment Option could provide flexibility to the Group in reducing its liabilities and interest costs in case the Group has sufficient financial resources for early repayment in the future; and (iii) the timing and amount of prepayment of the Convertible Debenture will be decided and made in accordance with the then financial conditions of the Group, with the independent non-executive Directors signing the early redemption notice, we are of the view that the terms of the CB Amendment Agreement are on normal commercial terms and fair and reasonable.

CONCLUSION

Having considered the above principal factors and reasons, we consider that the Agreements have been entered into in the ordinary and usual course of business of the Group and on normal commercial terms and we are of the view that (i) the terms of the Agreements are fair and reasonable so far as the independent Shareholders are concerned; and (ii) the Deferral under the Deferral Agreements and the Early Repayment Option under the CB Amendment Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the independent Shareholders to vote in favor of the resolutions to be proposed at the Meeting for approving the Agreements and the transactions contemplated thereunder.

Yours faithfully
For and on behalf of
DL Securities (HK) Limited
Tommy Cheng
Managing Director
Corporate Finance Division

Mr. Tommy Cheng is licensed persons under the SFO to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and regarded as responsible officer of DL Securities (HK) Limited. Mr. Tommy Cheng has over 13 years of experience in corporate finance industry.

* *For identification purposes only.*