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**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)*

*(Toronto Stock Code: SGQ)*

## **Overseas Regulatory Announcement**

This announcement is made by SouthGobi Resources Ltd. (the “**Company**”) pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The following document of the Company was published on the website of the SEDAR filing system in Canada ([www.sedar.com](http://www.sedar.com)). It is enclosed hereto as overseas regulatory announcement.

By order of the Board

**SouthGobi Resources Ltd.**

**Mao Sun**

*Interim Independent Lead Director*

Vancouver, April 29, 2019

Hong Kong, April 29, 2019

*As at the date of this announcement, the executive director of the Company is Mr. Shougao Wang; the independent non-executive directors are Messrs. Yingbin Ian He, Mao Sun and Ms. Jin Lan Quan; and the non-executive directors are Messrs. Wen Yao, Zhiwei Chen, Xiaoxiao Li and Ms. Lan Cheng.*

*\* For identification purposes only*

**FORM 51-102F3  
MATERIAL CHANGE REPORT**

**1. NAME AND ADDRESS OF COMPANY**

SouthGobi Resources Ltd. (the “**Company**”)  
20th Floor, 250 Howe Street  
Vancouver, B.C. Canada V6C 3R8

**2. DATE OF MATERIAL CHANGE**

April 23, 2019

**3. NEWS RELEASE**

The press release was issued April 23, 2019 and disseminated through the facilities of recognized newswire services. A copy of the press release was filed under the Company’s profile on SEDAR.

**4. SUMMARY OF MATERIAL CHANGE**

On April 23, 2019, the Company announced the execution of a deferral agreement (the “2019 Deferral Agreement”) with Land Breeze II S.à.r.l. (“CIC Subco”), a wholly-owned subsidiary of China Investment Corporation, pursuant to which CIC Subco agreed to a deferral and revised repayment schedule in respect of: (i) US\$41.8 million of outstanding cash and payment in kind interest (“PIK Interest”) and associated costs due and payable to CIC Subco on November 19, 2018 under the US\$250 million convertible debenture dated November 19, 2009 (the “Convertible Debenture”) and the deferral agreement dated June 12, 2017; and (ii) US\$28.0 million of cash and PIK Interest payments payable to CIC Subco under the Convertible Debenture from April 23, 2019 to and including May 19, 2020. Pursuant to Section 501(c) of the TSX Company Manual, the Company will be seeking approval of the 2019 Deferral Agreement from disinterested shareholders at the Company’s upcoming annual and special meeting of shareholders to be held on May 30, 2019.

**5. FULL DESCRIPTION OF MATERIAL CHANGE**

Please see a copy of the press release dated April 23, 2019 attached as Schedule “A” hereto, which includes a summary of the principal terms of the 2019 Deferral Agreement.

**6. RELIANCE ON SUBSECTION 7.1(2) OR (3) OF NATIONAL INSTRUMENT 51-102**

Not applicable.

**7. OMITTED INFORMATION**

No information has been intentionally omitted from this form.

**8. EXECUTIVE OFFICER**

The name and business number of an officer of the Company through whom an executive officer who is knowledgeable about the material change and this report may be contacted is:

Allison Snetsinger  
Corporate Secretary

Telephone: 604-762-6783

**9. DATE OF REPORT**

DATED at Vancouver, British Columbia this 29<sup>th</sup> day of April, 2019.

**Schedule "A"**

See attached.



April 23, 2019

## Seeking Shareholder Approval of New Deferral Agreement with CIC

**VANCOUVER** – SouthGobi Resources Ltd. (TSX: SGQ, HK: 1878) (“**SouthGobi**” or the “**Company**”) is pleased to announce the execution of a deferral agreement (the “**2019 Deferral Agreement**”) with Land Breeze II S.à.r.l. (“**CIC Subco**”), a wholly-owned subsidiary of China Investment Corporation (“**CIC**”), pursuant to which CIC Subco agreed to a deferral and revised repayment schedule in respect of: (i) US\$41.8 million of outstanding cash and payment in kind interest (“**PIK Interest**”) and associated costs due and payable to CIC Subco on November 19, 2018 (the “**Outstanding Interest Payable**”) under the US\$250 million convertible debenture dated November 19, 2009 (the “**Convertible Debenture**”) and the deferral agreement dated June 12, 2017 (the “**June 2017 Deferral Agreement**”); and (ii) the cash and PIK Interest payments payable to CIC Subco under the Convertible Debenture from the date hereof to and including May 19, 2020 (the “**Deferral**”). Pursuant to Section 501(c) of the TSX Company Manual, the Company will be seeking approval of the 2019 Deferral Agreement from disinterested shareholders at the Company’s upcoming annual and special meeting of shareholders (the “**Meeting**”) to be held on May 30, 2019.

### **2019 Deferral Agreement**

The principal terms of the 2019 Deferral Agreement are as follows:

#### ***Effectiveness of the 2019 Deferral Agreement***

The effectiveness of the 2019 Deferral Agreement and the respective covenants, agreements and obligations of each party under the 2019 Deferral Agreement are subject to the Company obtaining the requisite approval of the 2019 Deferral Agreement from shareholders in accordance with the requirements of Section 501(c) of the TSX Company Manual. See “Shareholders Approval Pursuant to TSX Requirements” below.

### ***Deferral and Deferral Fee***

Pursuant to the 2019 Deferral Agreement, CIC Subco agreed to grant the Company a deferral of: (i) the Outstanding Interest Payable; (ii) semi-annual cash interest payments in the aggregate amount of US\$23.9 million payable to CIC Subco on May 19, 2019, November 19, 2019 and May 20, 2020 pursuant to the Convertible Debenture; and (iii) the US\$4.0 million worth of PIK Interest shares issuable to CIC Subco on November 19, 2019 pursuant to the Convertible Debenture (collectively, the “**2019 Deferred Amounts**”).

As consideration for the Deferral, the Company agreed to pay to CIC Subco a deferral fee (the “**Deferral Fee**”) equal to 6.4% per annum of the outstanding balance of the 2019 Deferred Amounts and accrued Deferral Fee, commencing on the date on which each such Deferred Amount would otherwise have been due and payable under the Convertible Debenture or the June 2017 Deferral Agreement, as applicable. The aggregate amount of the Deferral Fees payable to CIC Subco pursuant to the 2019 Deferral Agreement is anticipated to be US\$4.1 million. The Deferral Fee is due and payable to CIC Subco on June 20, 2020.

Pursuant to the 2019 Deferral Agreement, the Company agreed to pay to CIC Subco the 2019 Deferred Amounts and Deferral Fee in accordance with the following repayment schedule:

- US\$14.3 million by eight instalments during November 19, 2019 to June 19, 2020
- US\$62.6 million on June 20, 2020

The Company also announces that it intends to discuss a potential debt restructuring plan which is mutually beneficial to the Company and CIC within the next 6 months, and to form a special committee comprised of independent directors to ensure that the interests of its minority shareholders are fairly considered in the negotiation and review of any such restructuring; however, there can be no assurance that a favorable outcome will be reached.

### ***Amended and Restated Cooperation Agreement***

As a condition to agreeing to the Deferral, CIC requires that the mutual co-operation agreement (the “**Cooperation Agreement**”) dated November 19, 2009 between SouthGobi Sands LLC, a subsidiary of the Company, and Fullbloom Investment Corporation (“**Fullbloom**”), an affiliate of CIC, be amended and restated (the “**Amended and Restated Cooperation Agreement**”) to clarify the manner in which the service fee payable to Fullbloom under the Cooperation Agreement is calculated, with effect as of January 1, 2017. Specifically, the service fee under the Amended and Restated

Cooperation Agreement will be determined 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 as currently contemplated under the Cooperation Agreement).

The aggregate amount of additional service fees payable to Fullbloom as a result of the Amended and Restated Cooperation Agreement is approximately US\$4.0 million (the “**Deferred Compensation**”). As consideration for deferring payment of the Deferred Compensation payable pursuant to 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. The aggregate amount of the deferral fees payable to Fullbloom pursuant to the Amended and Restated Cooperation Agreement is anticipated to be US\$0.2 million. Pursuant to the Amended and Restated Cooperation Agreement, the Company agreed to repay Fullbloom the Deferred Compensation and related accrued deferral fee of US\$4.2 million in six instalments between June 30, 2019 to November 30, 2019.

In accordance with the terms of the 2019 Deferral Agreement, the Company entered into the Amended and Restated Cooperation Agreement concurrently with the 2019 Deferral Agreement. The effectiveness of the Amended and Restated Cooperation Agreement is subject to the Company obtaining the requisite approval of the 2019 Deferral Agreement from shareholders in accordance with the requirements of Section 501(c) of the TSX Company Manual. See “Shareholders Approval Pursuant to TSX Requirements” below.

### ***Covenants and Events of Default***

Under the 2019 Deferral Agreement, the Company agreed to the following:

- (i) at any time before the 2019 Deferred Amounts and related Deferral Fee are fully repaid, the Company shall consult with and obtain written consent from CIC prior to effecting a replacement or termination of either or both of its Chief Executive Officer and its Chief Financial Officer, but CIC has agreed not to withhold its consent if the board of directors of the Company (the “**Board**”) proposes to replace either or both such officers with nominees selected by the Board, provided that the Board acted honestly and in good faith with a view to the best interests of the Company in the selection of the applicable replacements; and

- (ii) the Company will grant to CIC the following board nomination rights (which are in addition to CIC's existing right to nominate one individual for appointment or election to the Board pursuant to the Securityholders Agreement with CIC):
  - I. for as long as CIC and its affiliates beneficially own, directly or indirectly, 20% or more of the outstanding common shares of the Company (the "**Common Shares**"), CIC will be entitled to nominate two individuals for appointment or election to the Board; and
  - II. for as long as CIC and its affiliates beneficially own, directly or indirectly, 10% or more, but less than 20%, of the outstanding Common Shares, CIC will be entitled to nominate one individual for appointment or election to the Board.

Pursuant to the 2019 Deferral Agreement, the Company and certain of its subsidiaries agreed to other covenants with respect to additional debt incurrence, asset sales and dividends, and events of default which are customary to financing transactions of a similar nature to the Deferral. A summary of these covenants and events of default will be set out in the Company's management proxy circular (the "**Management Proxy Circular**") to be mailed to shareholders in connection with the Meeting.

The foregoing summary of the principal terms of the 2019 Deferral Agreement is not comprehensive, and is qualified in its entirety by reference to the full text of the 2019 Deferral Agreement, a copy of which has been filed on the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). A copy of the Amended and Restated Cooperation Agreement is attached as Appendix "B" to the 2019 Deferral Agreement.

### **Board Review and Approval**

The 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement and the terms thereof were reviewed and approved by the disinterested members of the Board. After considering, among other things, the terms of the Deferral, the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement and the possible funding alternatives reasonably available to the Company, the Board is of the view that: (i) the Deferral is offered on reasonable commercial terms not less advantageous to the Company than if the Company obtained similar financing from a person dealing at arm's length with the Company; (ii) the 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 CIC; and (iii) the best interests of the Company and shareholders will be served by approving the Deferral and the 2019 Deferral Agreement.



## Shareholders Approval Pursuant to TSX Requirements

Pursuant to Section 501(c) of the TSX Company Manual, the Company is required to seek approval of the 2019 Deferral Agreement from shareholders, other than the Interested Shareholders (as defined below) (the “**Disinterested Shareholders**”) because (i) CIC is a related party to the Company (as a result of its beneficial ownership of more than 10% of the outstanding Common Shares); and (ii) the aggregate amount of deferral fees payable to CIC will be greater than 10% of the market capitalization of the Company. More specifically, the total amount of deferral fees that may be received by affiliates of CIC over the term of the 2019 Deferral Agreement and Amended and Restated Cooperation Agreement would represent up to 15.5% of the market capitalization of the Company (calculated using the closing price of the Common Shares on December 17, 2018, being the last trading date prior to the suspension of trading of the Common Shares on the Toronto Stock Exchange (“**TSX**”).

To the best of the Company’s knowledge, approximately 64,766,591 Common Shares, representing approximately 23.75% of the issued and outstanding Common Shares, are beneficially owned by CIC and its related parties (collectively, the “**Interested Shareholders**”). Accordingly, the 64,766,591 votes attached to the Common Shares beneficially owned, or over which control or direction is exercised, by the Interested Shareholders will be excluded from the vote to approve the 2019 Deferral Agreement at the Meeting.

Full details of the Deferral, the 2019 Deferral Agreement and the Amended and Restated Cooperation Agreement will be included in the Management Proxy Circular to be filed with regulatory authorities and mailed to shareholders of the Company in accordance with applicable securities laws, a copy of which will be filed under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com). The Company expects to mail the Management Information Circular on or before April 29, 2019.

## Continued Suspension of Trading in the Common Shares

Trading in the common shares of the Company on the Hong Kong Stock Exchange (the “HKEX”) and the TSX has been suspended since December 17, 2018, and will remain suspended until further notice. Pursuant to Rule 6.01A(1) of the listing rules of the HKEX (the “HKEX Listing Rules”), the HKEX may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months. In the case of the Company, this 18-month period expires on June 16, 2020. The HKEX has advised that unless the Company: (i) remedies the issues causing the trading suspension; (ii) fully complies with the HKEX Listing Rules to the HKEX’s satisfaction; and (iii)

resumes trading of its common shares on the HKEX by June 16, 2020, the Listing Department of the HKEX will recommend that the Company's listing on the HKEX be cancelled. Pursuant to the HKEX Listing Rules 6.01 and 6.10, the HKEX also has the right to impose a shorter specific remedial period, where appropriate.

The Company will make additional announcements if and when there are further material developments in relation to its trading resumption plan, and, in any event, every three months until the HKEX either permits resumption of trading in the Common Shares or cancels the Company's listing on the HKEX (whichever is earlier).

### **Forward-Looking Statements**

Certain information included in this press release that is not current or historical factual information constitutes forward-looking statements or information within the meaning of applicable securities laws (collectively, "forward-looking statements"), including information about timing with respect to the mailing of the Management Information Circular and the Meeting, approval of the 2019 Deferral Agreement by shareholders and the resumption of trading of the Company's common shares on the HKEX and the TSX. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "could", "should", "seek", "likely", "estimate" and other similar words or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on certain factors and assumptions including, among other things, the Special Committee's ability to complete its assessment of the potential remedial actions and preventative measures available to the Company in a timely manner, the Company's ability to satisfy the HKEX's resumption guidance conditions, the HKEX and the TSX accepting the Company's application for trading resumption and other similar factors that may cause actual results to differ materially from what the Company currently expects. Actual results may vary from the forward-looking statements. Readers are cautioned not to place undue importance on forward-looking statements, which speaks only as of the date of this disclosure, and not to rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to, update or revise any forward-looking statements, whether as a result of new information, further events or otherwise at any particular time, except as required by law. Additional information concerning factors that may cause actual results to materially differ from those in such forward-looking statements is contained in the Company's filings with Canadian securities regulatory authorities and can be found under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

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

### **About SouthGobi**

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

### **Contact:**

#### **Investor Relations**

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