

SouthGobi Announces the 2020 November Deferral Agreement

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VANCOUVER, Nov. 20, 2020 - [SouthGobi Resources Ltd.](#) (TSX: SGQ, HK: 1878) (“SouthGobi” or the “Company”) announces that on November 19, 2020, the Company entered into a deferral agreement (the “2020 November Deferral Agreement”) with Land Breeze II S.?r.l. (“Land Breeze”) and Fullbloom Investment Corporation (“Fullbloom”), each being a wholly-owned subsidiary of a major shareholder of the Company (the “Major Shareholder”). Reference is made to the press releases of the Company dated June 19 and September 14, 2020 (the “Announcements”). Capitalized terms used herein, unless otherwise defined, shall have the same meaning as those defined in the Announcements.

Pursuant to Section 501(c) of the Toronto Stock Exchange (“TSX”) Company Manual, the Company will be seeking approval of the 2020 November Deferral Agreement from disinterested shareholders at a meeting of shareholders (the “Meeting”) to be held at a future date to be set by the board of directors of the Company (the “Board”).

The 2020 November Deferral Agreement

The principal terms of the 2020 November Deferral Agreement are as follows:

Effectiveness of the 2020 November Deferral Agreement

- The 2020 November Deferral Agreement are subject to the approvals from the TSX and the shareholders of the Company in accordance with the requirements of Section 501(c) of the TSX Company Manual. See “Shareholders Approval Pursuant to TSX Requirements” below.

The Deferral

- Land Breeze and Fullbloom agreed to grant the Company a deferral (the “Deferral”) of the following payment until August 31, 2023 (the “Deferral Date”):

(i) a deferral of cash interest and deferral fees of approximately US\$ 75.2 million which were due and payable to Land Breeze on or before September 14, 2020, under the 2020 June Deferral Agreement; (ii) semi-annual cash interest payments in the aggregate amount of US\$ 16.0 million payable to Land Breeze on November 19, 2020 and May 19, 2021 under the US\$ 250 million convertible debenture dated November 19, 2009 (the “Convertible Debenture”); (iii) US\$ 4.0 million worth of PIK Interest shares (“2020 November PIK Interest”) issuable to Land Breeze on November 19, 2020 under the Convertible Debenture (collectively, the “2020 November Deferred Amounts”); and (iv) the payment of the management fees of Q4 2019, Q1 2020 and Q2 2020, and the accrued deferral fees related thereto that is outstanding as of September 14, 2020 (US\$ 1.2 million) and the management fees to be accrued in Q3 2020 to Q3 2021 under the Amended and Restated Cooperation Agreement dated April 23, 2019 (the “Deferred Management Fees”).

- As consideration for the Deferral of the 2020 November Deferred Amounts, the Company agreed to pay Land Breeze a deferral fee equal to 6.4% per annum on the 2020 November Deferred Amounts (the “Deferral Fee”) payable under the Convertible Debenture and the 2020 June Deferral Agreement, commencing on the date on which each such 2020 November Deferred Amount would otherwise have been due and payable under the Convertible Debenture or the 2020 June Deferral Agreement, as applicable.

- As a consideration for the Deferral of the Deferred Management Fees, the Company agreed to pay Fullbloom a deferral fee equal to 2.5% per annum on the outstanding balance of the Deferred Management Fees (the Cooperation Agreement Deferral Fee) payable under the Amended and Restated Cooperation Agreement, commencing on the date on which each such Deferred Management Fees would otherwise have been due and payable under the Amended and Restated Cooperation Agreement.
- The 2020 November Deferral Agreement does not contemplate a fixed repayment schedule for the 2020 November Deferred Amounts, the Deferred Management Fees, the Deferral Fee and the Cooperation Agreement Deferral Fee. Instead, the 2020 November Deferral Agreement requires the Company to use its best efforts to pay the 2020 November Deferred Amounts, the Deferral Fee, and Cooperation Agreement Deferral Fee due and payable under the 2020 November Deferral Agreement to Land Breeze and Fullbloom as the case may be. During the period beginning as of the date of the 2020 November Deferral Agreement and ending as of the Deferral Date, the Company shall provide Land Breeze with monthly updates of its financial status and business operations, and the Company and Land Breeze shall on a monthly basis discuss and assess in good faith the amount (if any) of the 2020 November Deferred Amounts, the Deferred Management Fees, the Deferral Fee and Cooperation Agreement Deferral Fee that the Company may be able to repay to Land Breeze or Fullbloom (as the case may be), 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.
- Commencing as of November 19, 2020 and until such time before the 2020 November PIK Interest is fully repaid, Land Breeze reserves 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 the PIK interest shares, the Company's common shares are listed and trading on at least one stock exchange.

Other Covenants and Event of Defaults

- If at any time before the 2020 November Deferred Amounts and Deferral Fees are fully repaid, the Company proposes to appoint, replace or terminate one or more of its chief executive officer, its chief financial officer or any other senior executive(s) in charge of its principal business function or its principal subsidiary, the Company will first consult with, and obtain written consent (such consent shall not be unreasonably withheld) from Land Breeze prior to effecting such appointment, replacement or termination.
- Land Breeze agreed to waive its rights arising from any default or event of default under the Convertible Debenture as a result of trading in the Company's common shares being suspended on the TSX beginning as of June 19, 2020 and trading in the Company's common shares being suspended on the Hong Kong Stock Exchange beginning as of August 17, 2020 and such trading suspensions having been in effect for a period of more than five trading days.

Pursuant to the 2020 November Deferral Agreement, the Company and certain of its subsidiaries agreed to certain other covenants with respect to additional debt incurrence, asset sales and dividends, and certain events of default which are customary to financing transactions of a similar nature. A summary of these covenants and events of default will be set out in the Company's management proxy circular (the Management Proxy Circular) to be mailed to shareholders in connection with the Meeting.

The foregoing summary of the principal terms of the 2020 November Deferral Agreement is not comprehensive, and is qualified in its entirety by reference to the full text of the 2020 November Deferral Agreement, a copy of which has been filed on the Company's profile on SEDAR at www.sedar.com.

Partial Revocation of Cease Trade Order

On October 29, 2020, the Company obtained an order from the British Columbia Securities Commission (BCSC), the Company's principal securities regulator in Canada, which partially revoked the cease trade order issued on June 19, 2020 (CTO) to, amongst other things, permit the Company to enter into the 2020 November Deferral Agreement and to convene the Meeting in order to obtain shareholder approval of the 2020 November Deferral Agreement as required under applicable TSX rules.

Board Review and Approval

The 2020 November Deferral Agreement and the transactions contemplated thereunder were reviewed and approved by the disinterested members of the Board, as well as the Company's independent directors. After considering, among other things, the terms of the Deferral and the 2020 November Deferral Agreement, the Company's financial position and the possible funding alternatives reasonably available to the Company, the Board is of the view that: (i) the Deferral is offered on reasonable commercial terms not less advantageous to the Company than if the Company obtained similar financing from a person dealing at arm's length with the Company; (ii) the terms of the Deferral are reasonable in the circumstances of the Company; (iii) the Deferral is designed to improve the financial position of the Company; (iv) the Deferral will enhance the Company's ability to continue as a going concern in the near term and provide the Company with financial flexibility to consider and explore different measures to secure additional capital or to pursue a strategic debt restructuring or refinancing plan with the Major Shareholder; and (v) the best interests of the Company and shareholders will be served by approving the Deferral and the 2020 November 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 2020 November Deferral Agreement from shareholders, other than the Interested Shareholders (as defined below) (the "Disinterested Shareholders") because (i) the Major Shareholder is a related party to the Company (as a result of its beneficial ownership of more than 10% of the outstanding common shares of the Company); and (ii) the aggregate amount of deferral fees payable to the Major Shareholder will be greater than 10% of the market capitalization of the Company.

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 of the Company, are beneficially owned by the Major Shareholder 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 2020 November Deferral Agreement at the Meeting.

Full details of the Deferral and the 2020 November Deferral Agreement will be included in the Management Proxy Circular prepared for the Meeting, which will be filed under the Company's profile on SEDAR at www.sedar.com and mailed to shareholders of the Company in accordance with applicable securities laws. The Company will make a further announcement to shareholders with respect to the date, time and venue of the Meeting as soon as it is fixed by the Board.

Multilateral Instrument 61-101 Requirements

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

To the knowledge of the Company or any director or senior officer of the Company, after reasonable inquiry, no "prior valuations" (as defined in MI 61-101) in respect of the Company that relate or are relevant to the Deferral or the 2020 November Deferral Agreement have been prepared within 24 months preceding the date hereof.

CONTINUED SUSPENSION OF TRADING

Trading in the common shares of the Company on the TSX has been suspended since June 19, 2020 as a result of the CTO issued by the BCSC which prohibits trading by any person of any securities of the Company in Canada. Trading on the TSX will remain halted for so long as the CTO remains in effect.

At the request of the Company, trading in the shares of the Company on the Hong Kong Stock Exchange

has been suspended with effect from August 17, 2020 pending for the publication of the audited annual results of the Company for the year ended December 31, 2019 and will remain suspended until further notice.

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. SouthGobi produces and sells coal to customers in China.

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Forward-Looking Statements

Certain information included in this press release that is not current or historical factual information constitutes forward-looking statements or information within the meaning of applicable securities laws (collectively, "forward-looking statements"), including information about timing with respect to the mailing of the Management Information Circular and convening of the Meeting, and approval of the 2020 November Deferral Agreement by shareholders. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "could", "should", "seek", "likely", "estimate" and other similar words or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on certain factors and assumptions including, among other things, the Company successfully obtaining acceptance of the 2020 November Deferral Agreement from the TSX and the requisite approval from shareholders of the Company of the 2020 November Deferral Agreement in accordance with applicable TSX rules and other similar factors that may cause actual results to differ materially from what the Company currently expects. Actual results may vary from the forward-looking statements. Readers are cautioned not to place undue importance on forward-looking statements, which speaks only as of the date of this disclosure, and not to rely upon this information as of any other date. While the Company may elect to, it is under no obligation and does not undertake to, update or revise any forward-looking statements, whether as a result of new information, further events or otherwise at any particular time, except as required by law. Additional information concerning factors that may cause actual results to materially differ from those in such forward-looking statements is contained in the Company's filings with Canadian securities regulatory authorities and the website of the Hong Kong regulatory filings and disclosures of listed issuer information. These can be found under the Company's profile on SEDAR and HKEXnews respectively, at www.sedar.com and www.hkexnews.hk.

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