ISR CAPITAL LIMITED
(Company Registration No. 200104762G)
(Incorporated in the Republic of Singapore)
(the "**Company**")

RESPONSE TO SGX QUERIES

The Board of Directors (the "**Board**") of ISR Capital Limited (the "**Company**") wishes to provide the following additional information in response to the queries raised by Singapore Exchange Securities Trading Limited ("**SGX-ST**") in their email dated 3 January 2019 in relation to the Company's announcement dated 2 January 2019 (the "**Announcement**").

All capitalised terms used in this announcement shall, unless otherwise defined or provided for herein, shall bear the same meaning as ascribed to them in the Announcement and the Circular dated 15 October 2018.

Query by SGX-ST:

1. It was disclosed in the Company's "Response to SGX Queries" on 2 January 2019 that the cash flow budget and liquidity plan were intended to provide the Company with an estimate of the expenses required for the Project and the Board had proceeded with the Acquisition "[b]ased on preliminary estimates, it may require a further US$10 million to US$15 million to complete the pilot production, EIA study, feasibility study and project engineering design".

    i. What is the "cash flow budget and liquidity plan" relating to? Please elaborate why this is not important to the Board.

    ii. In the Board's waiver of the Condition Precedent for the submission of the "cash flow and liquidity plan", the Board had relied on estimates that the expenses required for the Project is likely to be a further US$10 million to US$15 million. How do these expenses provide reliable information on the "cash flow and liquidity plan"? How are the US$10 million to US$15 million derived if the cash flow and liquidity plan has not been prepared?

    iii. Without the cash flow budget, how did the Board arrive at the conclusion that the estimates are reliable and the Company has sufficient funds to bring the project to fruition and in its decision to proceed to complete the Proposed Acquisition.

    iv. In granting a waiver for the submission of the "cash flow budget and liquidity plan", the Board has confirmed that "the waiver is not prejudicial to the interest of the shareholders and will not have an adverse impact on the Company and the potential development and/or operation of the commercial production of the Target Company and the mining asset". Without relying on a cash flow budget and liquidity plan, how has the Board safeguarded the interest of shareholders in mitigating the financing risks for the project such that the Company will not have to delay, adjust, reduce or abandon the project due to lack of funding to advance the Project? Please elaborate.

    v. In view of the Company not seeking shareholders' approval for the waiver, please provide the Board's unqualified confirmation that the Waiver is not prejudicial to the interest of the shareholders and will not have an adverse impact on the Company and the potential development and/or operation of the commercial production of the Target Company and the mining asset.

Company's Response:

i. In relation to the Cash-flow Budget and Liquidity Plan, the Board would like to make the following clarifications:

(a) The "Cash-flow Budget and Liquidity Plan" is defined in the First Sale and Purchase Agreement dated 9 June 2016 and the Second Sale and Purchase Agreements dated 30 June 2016 as follows:

"Cash-flow Budget and Liquidity Plan" means the cash-flow and payment plan prepared by the Seller and the [Target] Company and agreed to by the Buyer (with such revisions as may be proposed by the Buyer) for the purpose of determining and planning for the Operating Company's working capital requirements in the short and medium term (being no more than six (6) months);

(b) After entering into the First Sale and Purchase Agreement on 9 June 2016 and Second Sale and Purchase Agreement on 30 June 2016, a Cash-flow Budget and Liquidity Plan was prepared in September 2016 for the purposes of determining and planning for the Operating Company's working capital requirements. Subsequently, a loan of S$6 million was granted by ISR Global Pte Ltd, a wholly-owned subsidiary of ISR Capital Limited, to the Target Company in September 2016 (the "**Loan**") for working capital purposes and/or the purpose of developing the Project. The Loan was secured by the share pledge provided by the Seller in favour of ISR Global Pte Ltd in respect of its 60% shareholding interest in the Target Company then. For further details of the Loan, please refer to paragraphs 3.36 to 3.39 of the Circular.

Therefore, the Cash-flow Budget and Liquidity Plan is not to be confused with a budget that will be prepared after a feasibility study has been commissioned and its results analysed. Accordingly, the Board is of the view that the Cash-flow Budget and Liquidity Plan prepared in September 2016 is out-dated and there is no need to update or prepare a new one for the purposes of completing the Proposed Acquisition.

As such, the Board maintains its view that the Cash-flow Budget and Liquidity Plan (as defined in the First and Second Sale and Purchase Agreements) is not a critical and material Condition Precedent ("**CP**") and its waiver is thus not prejudicial to the interest of the shareholders, nor have an adverse impact on the Company and the potential development and/or operation of the commercial production of the Target Company and the Operating Company.

ii. As disclosed in paragraph 4.5 of the Circular dated 15 October 2018, based on preliminary estimates, a further US$10 million to US$15 million may be required to complete the pilot production, Environmental Impact Assessment ("**EIA**") study, feasibility study and project engineering design. These preliminary estimates are based on our Chairman's experience in mine project development and through discussions with certain rare earth mine development consultancy companies. The Company plans to undertake the following tasks in relation to the Project post completion of the Proposed Acquisition:

(a) To complete feasibility study, which includes pilot production and on-site geological topography, which may take between 18 to 22 months to complete;

(b) To complete EIA study and approval, which may take between 12 to 18 months;

(c) To undertake project engineering design and construction and to complete social responsibility report – the budget for this item would be included in the development budget if the Operating Company successfully converts the exploration licence into an exploitation/full mining license; and

(d) To support the ongoing operations of the Operating Company over the next 36 months.

As explained above, the Cash-flow Budget and Liquidity Plan is not the usual budget that is prepared for a mining project. As with any mining project, a more accurate and reliable budget may only be prepared using the results of the feasibility and EIA studies that the Company plans to undertake after the Completion of the Proposed Acquisition.

iii. The Board is of the view that the preliminary estimated expenses of US$10 million to US$15 million serves as a guide for the Company to plan and progress the Project towards obtaining an exploitation/full mining licence and will need to be adjusted and updated over time. As mentioned in paragraph 4.5 of the Circular dated 15 October 2018, the Board is confident that it can finance the Project to commercialisation as the Company may draw upon its existing convertible redeemable bond programme of which approximately S$22 million (approximately US$16.2 million) remains available to the Company, in addition to other alternative ways or methods to raise funds. As mentioned in paragraph 7.2 of the Circular, other than issuing convertible redeemable bonds, the Company may also look at other ways of funding the rest of the Project through bank or other external borrowings, stand-by letters of credit or initiate further fundraising exercises, such as the placement of shares and rights issue.

iv. As explained above, the Cash-flow Budget and Liquidity Plan is not the usual budget that is prepared for a mining project. In any case, as also explained above, the Company has access to funding of approximately S$22 million (approximately US$16.2 million) through its existing convertible redeemable bond programme, which is sufficient to cover the higher end of the estimated preliminary expenses, in addition to other alternative ways or methods to raise funds for the Project. As such, the Board is confident that it is unlikely the Company will have to delay, adjust, reduce or abandon the project due to lack of funding to advance the Project, thus safeguarding the interest of the shareholders in the Project.

v. The Board has provided its unqualified confirmation that the Waiver is not prejudicial to the interest of the shareholders and will not have an adverse impact on the Company and the potential development and/or operation of the commercial production of the Target Company and the mining asset.

On Behalf of the Board
ISR Capital Limited

Chen Tong
Executive Chairman

8 January 2019