REENOVA INVESTMENT HOLDING LIMITED

(*formerly known as ISR Capital Limited*)
(Incorporated in the Republic of Singapore | Company Reg. No.: 200104762G)
SGX Stock Code: **5EC**

RESPONSE TO SGX-ST QUERIES ON THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS FOR THE FOURTH QUARTER AND FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Board of Directors (the "**Board**") of Reenova Investment Holding Limited (the "**Company**" and together with its subsidiaries, the "**Group**") 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 5 March 2020 in relation to the Company's Unaudited Financial Statements for the fourth quarter and financial year ended 31 December 2019 announced on 29 February 2020.

Query by SGX-ST:

1. We refer to the Full Yearly Results announced on 29 February 2020. In the cover page, we noted that the carrying amounts of RHM and RREM were previously included in the consolidated FY2018 financial statements based on their carrying amounts in the management accounts as at 31 December 2018. Please clarify if the PPA exercise was completed using the audited numbers of RHM and RREM. If not, how reliable are the figures for the Company to recognize the bargain purchase gain based on management accounts.

Company's Response:

1. The Company would like to clarify that the PPA exercise was completed based on the RHM and RREM numbers for FY2018 as audited and reported by PricewaterhouseCoopers Mauritius and PricewaterhouseCoopers S.A.R.L., Madagascar to RT LLP in FY2019.

Query by SGX-ST:

2. We noted that there has been a significant increase in the fair value of intangible assets of approximately S$28 million resulting from the PPA exercise, resulting in, *inter alia*, a large gain on bargain purchase recognised in 2018. Please disclose all the financial statement captions (for both statements of financial position and profit or loss and other comprehensive income) affected by the restatement, presenting the 31 December 2018 audited figures, the restated figures and the difference. Please elaborate on how each restated figure was derived. In the explanation for the FV gain for intangibles, please include the basis used to compute the value-in-use, stating the methodology adopted and the key assumptions used for the calculations.

Company's Response:

2. The reconciliation between the 31 December 2018 audited and restated figures is as follows:

Financial statement caption	31 Dec 2018 (Audited) S$	PPA Adjustments Dr S$	PPA Adjustments Cr S$	31 Dec 2018 (Restated) S$	Remarks
Consolidated Statement of Financial Position:					
Non-current Assets					
Computer software	1,785	-	-	1,785	
Goodwill	7,952,042	-	7,952,042	-	With the completion of the PPA exercise, it was noted that there was no goodwill arising from the acquisition of 60% of Reenova Holding (Mauritius) Limited (formerly known as Tantalum Holding (Mauritius) Ltd) ("**RHM**") and its wholly-owned subsidiary, Reenova Rare Earth (Malagasy) S.A.R.L.U. (formerly known as Tantalum Rare Earth (Malagasy) S.A.R.L.U.) ("**RREM**"). As such, no goodwill was recognised as at 31 December 2018.
Mining right	-	36,027,632	-	36,027,632	The mining right has been valued at S$36.03 million (which is approximately US$26.66 million) based on the difference between the business valuation of the Reenova Rare Earth Madagascar Project and the consolidated net assets of Reenova Holding (Mauritius) Limited, excluding net debt.
Intangible assets	**7,953,827**	**36,027,632**	**7,952,042**	**36,029,417**	
Non-current Liabilities					
Deferred income tax liabilities	**13,912**	**-**	**6,124,697**	**6,138,610**	Being recognition of deferred tax liability of S$6.12 million arising from the fair value of the mining right.
Equity					
Accumulated losses	**(23,373,093)**	**-**	**9,989,718**	**(13,383,375)**	Being recognition of net bargain purchase amounting to S$9.99 million arising from the PPA exercise in respect of the acquisition of 60% of RHM and its wholly-owned subsidiary, RREM.
Non-controlling interest	**(3,308,676)**	**-**	**11,961,174**	**8,652,498**	Being the remeasurement of non-controlling interest ("**NCI**") based on the revalued net asset value approach. The NCI's proportionate share of the net asset value, including the impact of the fair value of the mining right, is computed as the date of acquisition.

Financial statement caption	31 Dec 2018 (Audited)	PPA Adjustments Dr	PPA Adjustments Cr	31 Dec 2018 (Restated)	Remarks
	S$	S$	S$	S$	
Consolidated Statement of Profit or Loss and Other Comprehensive Income:					
Other gains, net	-	-	9,989,718	9,989,718	Being recognition of net bargain purchase amounting to S$9.99 million arising from the PPA exercise in respect of the acquisition of 60% of RHM and its wholly-owned subsidiary, RREM.

The fair value of the mining right in RREM is computed as follows:

	Fair Value
	S$
Enterprise Value of Reenova Rare Earth Madagascar Project (approx. US$27.17 million)	**37,034,008**
Less: Equity value / Net liabilities of RREM as at 28 December 2018	(25,080,304)
Less: Net Debt of RREM	26,086,680
Fair value of mining right in RREM	**36,027,632**

The computation of Bargain Purchase is as follows:

	S$
Purchase price (60%)	2,989,029
Non-controlling interest (40%)	8,652,498
Net liabilities of RHM group at acquisition (excluding mining right)	8,271,690
Fair value of mining right in RREM	(36,027,632)
Deferred income tax liability on mining right	6,124,697
Bargain Purchase (net)	**(9,989,718)**

The value of NCI is determined as follows:

	S$
Net liabilities of RHM group at acquisition (excluding mining right)	(8,271,690)
Fair value of mining right in RREM	36,027,632
Deferred income tax liability on mining right	(6,124,697)
Total	**21,631,245**
NCI% (40%)	40%
Fair value attributable to NCI	**8,652,498**

a. The Reenova Rare Earth Madagascar Project (the "**Project**") has been identified as the only CGU for the purposes of the PPA exercise.
b. The mining right in RREM has been identified as intangible asset to be valued.
c. The Australasian Code for the Public Reporting of Technical Assessments and Valuations of Mineral Assets ("**VALMIN Code**") was used as a guideline in terms of selecting the appropriate valuation approach.
d. The key general valuation assumptions made by the valuer were as follows:
    i. The development stage of the Project has been categorised as an advanced exploration stage project as SGS Canada Inc. has estimated measured, indicated and inferred mineral resources for the Project.

ii. Based on the advanced stage of exploration of the Project, the valuers have considered the market and cost approach in determining the fair value of the mining right. The comparable transactions methodology was used for the market approach while the cost approach was based on the Prospectivity Enhancement Multiplier methodology.
iii. The legal status of the mineral rights and statutory obligations were fairly stated.
iv. The corporate structures and on-going activities are fairly presented.
v. That RREM would continue as a going concern and would continue to be fully funded.
vi. Reliance can be placed on the NI 43-101 Technical Report updated by SGS Canada Inc. in June 2016.
vii. RREM would be able to secure funding to implement the proposed future operations and production increases.

Query by SGX-ST:

3. We refer to the consolidated statement of profit or loss and other comprehensive income.
   a. We noted an increase in "Employee benefits expense" of 37.3% to S$1,072,125. Please provide a breakdown and disclose why there was an increase despite there being no revenue earned during the year.
   b. We noted an increase in "Depreciation" of more than 100% to S$149,733. Please provide the breakdown between depreciation from property, plant and equipment and right-of-use assets. Please elaborate on any significant increase, including the key lease terms of the right-of-use assets.
   c. We noted an increase in "Other operating expenses" of more than 100% to S$4,470,942.
      i. Please provide the breakdown of "Impairment loss on trade and other receivables and debt securities" of S$1,682,116 and elaborate on the nature of the material items. For the impairment loss on VAT receivables from the Madagascar government, please quantify the total VAT receivables recorded and the amount written off. Please elaborate on the factors that led to the Company writing off VAT receivables and explain why the Company is not expecting the Madagascar subsidiary to have any future production that would enable the utilization of the VAT receivable.
      ii. Please provide the breakdown of "Travel and entertainment expenses" of S$136,188 and explain why there is such a significant expense despite having no revenue for the year.
   d. We noted a tax credit of S$161,384 for the year ended 31 December 2019, which is a complete reversal of the tax expense recognised for the year ended 31 December 2018 of $161,384. Please explain why the figures are the same and whether the tax expense recognised in 2018 was erroneous.
   e. We noted a significant fluctuation in "Currency translation differences arising from consolidation" of more than 100% to S$1,496,247. Disclose the underlying balances and currencies that gave rise to the currency translation difference from consolidation. Please also provide the specific figures used for the computation.

Company's Response:

3.a. The increase of approximately $291,000 or 37.3% in the Group's employee benefits expense from S$780,662 for FY2018 to S$1,072,125 for FY2019 was mainly due to the consolidation of the employee benefits expense of Reenova Rare Earth (Malagasy) S.A.R.L.U (formerly known as Tantalum Rare Earth (Malagasy) S.A.R.L.U) ("**RREM**") for the full financial year into the Group's consolidated statement of profit or loss for FY2019. RREM's employee benefits expenses for FY2018 was not consolidated in the previous financial year as the Group had only acquired 60% of Reenova Holding (Mauritius) Limited (formerly known as Tantalum Holding (Mauritius) Ltd) ("**RHM**") and RREM on 28 December 2018.

The breakdown of the Group's employee benefits expense for FY2019 is as follows:

Description	**S$**
Salaries	935,917
Employer's Contributions to CPF	59,208
Insurance (Hospital and Surgical)	27,653
Write-back of provision for unutilised leave	(2,540)
Other staff benefits	51,887
Total	**1,072,125**

3.b. The increase of approximately S$98,000 or 191.0% in the Group's depreciation expense from S$51,456 for FY2018 to S$149,733 for FY2019 was mainly due to the consolidation of the depreciation expense of RREM for the full financial year into the Group's consolidated statement of profit or loss for FY2019. RREM's depreciation expense for FY2018 was not consolidated in the previous financial year as the Group had only acquired 60% of RHM and RREM on 28 December 2018.

The breakdown of the Group's depreciation expense for FY2019 is as follows:

Description	**S$**
Property, plant and equipment	61,884
Right-of-use asset	87,849
Total	**149,733**

The right-of-use asset relates to the Group's office rental at #10-03 UE Square in Singapore and the lease term of the office rental is for two years from January 2019 to December 2020.

3.c.(i) The breakdown of impairment loss on trade and other receivables and debt securities for FY2019 is as follow:

Description	S$
Impairment loss on VAT receivables	1,659,569
Impairment loss on other receivables	19,851
Impairment loss on amount due from related companies	2,696
Total	**1,682,116**

The total VAT receivables recorded was S$1,659,569 and the full amount has been impaired in FY2019 as there is currently no certainty that the Madagascar subsidiary will be able to produce commercially to enable the utilisation of the VAT receivables. At this juncture, RREM is unable to provide any audit evidence to substantiate the utilisation of the VAT receivables.

3.c.(ii) Travel and entertainment expenses were incurred mainly for overseas business meetings with potential investors, business partners, consultants and service providers, as well as trips to Madagascar and Mauritius to meet with the local management and service providers based there.

The breakdown of travel and entertainment expenses for FY2019 is as follows:

Description	S$
Accommodation	26,723
Entertainment and Meals	16,528
Transportation (including air tickets)	92,937
Total	**136,188**

3.d. The Group made a payment of S$161,384 to IRAS in FY2018 pursuant to a notice of assessment ("**NOA**") issued by the Inland Revenue Authority of Singapore ("**IRAS**") to Dynamic Return (Singapore) Pte. Ltd. ("**DRS**"), a wholly-owned subsidiary of the Company, in October 2017. DRS disputed the NOA, but was required by IRAS to make payment of S$161,384 then. This was recorded by DRS as an income tax expense (under provision in respect of prior years) in FY2018. This matter was subsequently resolved when IRAS refunded the payment of S$161,384 to DRS in December 2019. As such, DRS recorded the refund as a tax credit in FY2019.

3.e. The underlying balances and currencies that gave rise to the currency translation difference from consolidation are set out in the table below:

Description		Malagasy Ariary (MGA)	Exchange Rate	Singapore Dollars (S$)
Net liabilities of RREM as at 31 December 2019		(69,838,733,313)	0.0003645	(25,456,218)
Less:	Share Capital of RREM	10,000,000	0.0003900	3,900
Less:	Opening accumulated losses as at 1 January 2019	(61,088,741,186)	0.0003832	(23,409,206)
Less:	Loss of RREM for FY2019	(8,759,992,127)	0.0003754	(3,288,501)
Currency translation reserve before consolidation adjustments:				**1,237,589**
Add:	Difference between share capital of RREM and investment in subsidiary (as per RHM's books)			(1,447)
Add:	Elimination of intercompany loans (between RHM and RREM)			229,200
Less:	Opening balance as at 1 January 2019			(30,905)
Currency translation differences arising from consolidation:				**1,496,247**

Query by SGX-ST:

4. We refer to the consolidated statement of cash flows.
   a. We noted that "Currency translation differences" of S$1,500,634 has been listed as an adjusting item to net loss for the year to arrive at operating cash flows before working capital changes. Please clarify the correctness of including currency translation differences as an adjusting item to net loss for the year when it is recorded as part of other comprehensive income and does not impact the net profit in the statement of profit or loss and other comprehensive income.
   b. We noted "Proceeds from issuance of convertible redeemable bonds" and "Advances from bond subscriber" of S$1,900,000 and $800,000 respectively. Please disclose the terms of the issuance and advance as well as the identities of the subscribers.
   c. We noted a "Share issuance expense" of S$90,020. Please explain the nature of this expense and who was it paid to.

Company's Response:

4.a. The adjustment of "Currency translation differences" of S$1,500,634 to the net loss for the year relates mainly to the currency translation differences arising on the loan payable (monetary item) by RREM to RHM of MGA 67.39 billion (or equivalent to S$24.56 million), which is included in the profit or loss for FY2019 and has to be adjusted against the net loss for the year in arriving at the net cash flows from operating activities as the loan does not relate to operating activities.

4.b. Please note that the Company had on 18 November 2014 entered into a subscription agreement (as amended, modified and/or supplemented by a supplemental agreement dated 22 January 2015) (together, the "**Subscription Agreement**") with Premier Equity Fund (the "**Subscriber**") and Value Capital Asset Management Private Limited (the "**Manager**") where the Company had proposed to issue to the Subscriber 2.0% convertible redeemable bonds due 2018 (which maturity date was subsequently extended to 16 September 2020 via a supplemental agreement dated 20 August 2018) with an aggregate principal amount of up to S$35,000,000 on the terms and subject to the conditions contained in the Subscription Agreement. Please refer to the Circular dated 24 August 2015 (see: https://links.sgx.com/FileOpen/ISR%20Capital%20Limited_Circular%20dated%2024%20August%202015.ashx?App=Prospectus&FileID=27059) for the terms and conditions of the issuance of convertible redeemable bonds, which were approved by the shareholders of the Company at an extraordinary general meeting held on 8 September 2015. The identity of the subscriber of the convertible redeemable bonds amounting to S$1,900,000 is Premier Equity Fund. The advances of S$800,000 was also received from Premier Equity Fund. As disclosed in the Company's Full Yearly FY2019 Results announcement dated 29 February 2020, these advances were subsequently converted and accounted for as convertible redeemable bonds that were issued to and subscribed by Premier Equity Fund.

4.c. The share issuance expense amounting to S$90,020 was paid to SGX-ST and it relates to the additional listing fee and crediting fee charged by SGX-ST for the listing of new conversion shares arising from the conversion of convertible redeemable bonds issued to the Bond Subscriber and the issuance of new consideration shares to REO Magnetic Pte. Ltd. in FY2019.

Query by SGX-ST:

5. In Paragraph 9, the Company disclosed that there was no forecast or prospect statement disclosed to shareholders previously. Forecasts and prospect statements include both financial projections as well as qualitative comments on future plans. This includes commentary or discussions under Paragraph 10 in the Company's 3rd quarter results announcement. Where deviation is noted, please explain the reasons for the deviations. Where there is no deviation, provide an explicit statement in the announcement.

Company's Response:

5. The Group did not make a forecast or financial projection in the prospect statement for its results announcement for Q3 FY2019; hence, there is no variance to comment upon. The was also no deviation noted in the prospect statement for Q3 FY2019.

Query by SGX-ST:

6. In Paragraph 15 on the updates on reserves and resources for mineral, oil and gas companies, please provide a confirmation from the Directors that to the best of their knowledge, nothing has come to their attention which may render such information provided false or misleading in any material aspect.

Company's Response:

6. In relation to Paragraph 15 on the updates on reserves and resources for mineral, oil and gas companies, the Directors confirm that, to the best of their knowledge, nothing has come to their attention which may render such information provided false or misleading in any material aspect.

On behalf of the Board
Reenova Investment Holding Limited

Chen Tong
Executive Chairman

10 March 2020