SOUTHERN ALLIANCE MINING LTD.
(Incorporated in the Republic of Singapore)
(Company Registration No. 201931423D)

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON SOUTERN ALLIANCE MINING LTD'S FY2024 ANNUAL REPORT

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*Note: Our Group (as defined below) is responding to SIAS's questions in relation to the Company's annual report for the financial year ended 31 July 2024 ("**FY2024 Annual Report**"). In providing the additional information to the shareholders via responding to the list of questions raised, the Group is mindful of certain limitation on information that the Group can share with our shareholders such as forward-looking statements, and confidential information that is privileged to the Group, information of which shareholders are not reasonably expected to have.*

The Board of Directors (the "**Board**") of Southern Alliance Mining Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") would like to provide responses to questions from SIAS in relation to the FY2024 Annual Report, as follows:

<u>Question 1:</u>
Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

(i) Underground mining: What have been the key learning points from the shift from open-pit to underground mining? Is underground mining inherently less efficient and more costly compared to open-pit mining? Given the Chaah Mine in Johor has been operational since 2008, was this shift driven mainly by geological factors, i.e. deeper ore bodies? Has the group reached optimal operational efficiency in underground mining, and what benchmarks are being used to assess this?

The shift from open-pit mining to underground mining was primarily driven by the high costs and challenges associated with overburden waste removal in open-pit mining.

During the mining progresses, discrepancies often arise between the initially defined Mineable Shape Optimizer (MSO) boundaries and the actual deposit. This is due to limitations in prior geological data and the complexities of the ore body's geometry, influenced by factors such as faults, folds, or intrusions that distort deposit boundaries.

Underground mining provides the opportunity for closer-spaced drilling, mapping, and sampling, which significantly improves the accuracy of resource models. This allows for a deeper understanding of the deposit's geometry, including the identification of previously undetected features such as high-grade zones or structural discontinuities.

As this is the Group's first year operating as an underground mining operation, we are still in the early stages of optimizing processes and developing the necessary infrastructure. While we are actively working towards achieving operational efficiency, we have not yet established specific benchmarks to assess performance at this early stage. The Group is committed to continuous improvement and enhance operational efficiency.

(ii) Workplace safety: How has the company adapted its operations, training protocols, workforce management, and safety measures in response to the challenges posed by underground mining? Could management elaborate on any specific safety initiatives or improvements implemented during this transition?

In response to the challenges posed by underground mining, we have implemented stringent measures to ensure the safety and efficiency of tunnel operations. Tunnel activities are strictly controlled through continuous monitoring via our Permit to Work (PTW) system, alongside regular site walkabouts conducted with the site team. All findings, depending on their severity, are followed by follow-up action and are mitigated immediately to minimize risks.

To further enhance the safety of our operations, we have successfully completed approximately 70% of the procurement process for Emergency Response Plan (ERP) equipment, with final selections currently underway. This equipment will significantly improve the effectiveness of first responders in emergency situations.

We have established a comprehensive annual training program that includes both in-house and external trainers. This program ensures that all tunnel workers are adequately prepared for their roles and any safety challenges they may encounter.

In addition, our workers participate in comprehensive safety training programs conducted by the National Institute of Occupational Safety and Health (NIOSH) to ensure compliance and safety in confined spaces. These programs include the Authorized Entrant and Standby Person (AESP) Training and the Authorized Gas Tester (AGT) Training.

Workers certified as Authorized Entrants are trained to safely perform tasks in confined spaces. Their training equips them to identify and control risks, including conducting atmospheric testing for oxygen levels, flammable gases, and harmful toxins. Furthermore, workers undergo Authorized Gas Tester (AGT) Training, which prepares them to test and monitor atmospheric conditions in confined spaces, such as tunnels. AGTs are skilled in gas detection, using calibrated equipment to measure oxygen levels, the Lower Explosive Limit (LEL), ammonia, and carbon monoxide based on workplace-specific hazards.

All tunnel workers and machinery are monitored and controlled by an authorized entrant standby person, who records activities and issues dedicated tunnel entry passes. This system has proven to be highly effective, particularly during emergencies. We are currently making changes to this system to improve efficiency. This ongoing improvement phase is part of our commitment to maintaining a safe working environment and successfully managing the transition period.

(iii) Gross profit margin: Gross profit margin has declined significantly from 54% in FY2021 to 16% in FY2022 and turned negative at -1% in FY2023. Despite a modest recovery to 5.5% in FY2024, the margin remains exceptionally low, with a net loss of $(4.4) million reported for FY2024. Can management provide a breakdown to show the key factors affecting gross profit margin over the past 5 years? Has the board analysed how significantly does average realised selling prices impact the gross profit margin? Given the current scale of operations, does the board still consider hedging strategies non- beneficial?

		FY20	**FY21**	**FY22**	**FY23**	**FY24**
Gross profit/(loss)	RM ('000)	107,110	207,956	28,004	(833)	9,084
Gross margin	%	42.1%	53.7%	15.7%	-0.7%	5.5%
ARSP for iron ore concentrates	RM/DMT	357.00	626.42	511.93	455.58	498.40
Stripping ratio		1.42	6.09	8.11	9.10	n/a
Ore extracted	Ton ('000)	1,198	946	892	767	693

The average realised selling price ("**ARSP**") is highly impacted by the iron ore market's reaction towards challenges in China's economy over the years, and the fluctuation affects the Group's revenue. The slowdown in China's economy caused a downward pressure on the iron ore prices since FY2022. As the iron ore price fluctuation is beyond the Group's control, the Group boosts its financial performance through cost control. Under the open-pit mining method, the ore extraction is also dependent on the waste to ore stripping ratio whereby higher ratio resulted in lower ore extracted. Ore extracted and processed below optimum level resulted in relatively lower margin. Thus, in 2023, the Group has decided to transition to underground mining with the aim to optimise its mining operations, enhancing operational efficiency and minimising the environmental impact of its activities. While the initial challenges of this transition have led to a decrease in iron ore production, which management expects to be temporary, the initiative is expected to improve production reliability, cost-effectiveness and generate long-term value for shareholders.

While commodity price hedging can offer protection against volatility, it comes with financial and strategic risks. There is a high level of uncertainty which may result in missed upside potential gains if the commodity prices move in ways that were not anticipated.

(iv) Extraction cost: Has the board been actively monitoring the per-metric- tonne extraction cost and how does it compare with industry benchmarks? What are the trends in extraction costs over the past five years, and what are the main drivers of cost escalation? What strategies are being implemented to optimise these costs given the current high inflationary environment? What target has the board set for management in terms of extraction cost and overall profitability?

The extraction costs per tonne are in the increasing trend mainly due to the decrease in ore extracted, coupled with the inflation in Malaysia of approximately 9.3% since 2020[1]. The main driver of the cost escalation is the rapid expansion of our fleet of heavy mobile equipment to cater for the open-pit mining method since FY2021 which resulted in higher maintenance, fuel and labor costs. The Group is evaluating the utilization of the current fleet and streamlining the size and assessing the efficiency of the assets to create long-term cost savings and improve the overall financial performance. The board has set their risk parameters and tolerance for the operational and financial performance of the Group for guidance.

(v) Gold/Tenggaroh mine: Could management provide an update on the development timeline for the Tenggaroh Mine?

Tenggaroh mine comprises several parcels of land, with our current focus on drilling and sampling activities within two key parcels: PTD 216 and PTD 217. Should sample results indicate significant gold mineralization potential, with grades exceeding 0.10 grams per tonne, we will proceed with detailed exploration in the identified areas.

As the project is still in the advanced exploration phase, we are unable to provide a specific development timeline at this stage. Updates will be shared in due course as we achieve key milestones.

Question 2:

The group is diversifying its mineral portfolio, as indicated by the signing of non-binding memorandums of understanding (MOUs) to acquire 40% of MCRE Resources Sdn Bhd and 100% of Paramount Synergy Sdn Bhd. The exclusivity period for these acquisitions has been extended by one year to 31 July 2025.

(i) Can management confirm whether MCRE Resources has maintained its mining operations and continued the sale of rare earth materials since the MOU was signed in April 2023?

Yes, MCRE Resources has maintained its mining operations and continues to conduct the extraction of rare earth carbonate and sales activities since the signing of the MOU.

(ii) Similarly, what is the current operational status of Paramount Synergy?

Paramount Synergy Sdn Bhd is currently finalizing the conversion of mineral resources to reserves. At the meantime, we are preparing the Environmental Impact Assessment (EIA) report, which is a fundamental step for ensuring compliance with environmental regulations and project development.

[1] https://open.dosm.gov.my/dashboard/consumer-prices

(iii) **What are the main reasons behind the delay in moving from a non-binding MOU to a definitive sale and purchase agreement? What specific issues, if any, have been identified during the due diligence process that have contributed to the delay in finalising the acquisitions?**

The Malaysian government had earlier this year announced on a review of its rare earth industry so as to leverage on its potential. As such, the parties decided to put the proposed acquisitions on hold to observe if there will be any material changes or development to the policies or regulations that may be announced. As there were no significant developments being announced, the parties agreed to resume the due diligence process in relation to the proposed acquisitions in November 2024.The due diligence process is currently on-going.

(iv) **Given that the proposed acquisitions are likely to be classified as interested person transactions (IPTs), what has been the level of involvement of the independent directors in the due diligence process, deal structuring, valuation, and negotiation? In addition, could management provide more clarity on the safeguards and governance processes in place to ensure the interests of minority shareholders are protected?**

As a public listed company on the Catalist board of the SGX-ST, the Company will comply with the Catalist Rules and its internal policies relating to interested person transactions.

In relation to the proposed acquisitions, the Company has a commissioned qualified person report ("**QPR**") and an independent valuation report ("**IVR**") in relation to the assets to be acquired. These reports will be set out in the circular ("**Circular)** in relation to the proposed acquisitions that will be despatched to Shareholders, and the proposed acquisitions will be subject to shareholders' approval. The Company has conducted discussions and negotiations on an arm's length basis with the Vendors in relation to key terms of the proposed acquisitions with reference to, amongst others, the draft QPR and the IVR that have been provided, and will continue to do so until the terms are finalized. The Company has also engaged legal counsel in Singapore and Malaysia to advise on the proposed acquisitions, and also to undertake independent legal due diligence on the target companies. In addition, in accordance with the Catalist Rules, the Company will appoint an independent financial adviser who will prepare a letter ("**IFA Letter**") which sets out its opinion on whether the proposed acquisitions are on normal commercial terms and prejudicial to the interests of the Company and minority shareholders.

The independent directors are kept promptly updated on the progress of the due diligence process, deal structuring and valuation, and have been working closely with the management team to ensure that the terms of the proposed acquisitions are based on normal commercial terms. The IFA Letter, which will be set out in the Circular, will also be addressed directly to the independent directors, who will have direct contact with the IFA in relation to their opinion. The IFA will hold meetings with the independent directors to explain the IFA Letter and clarify any questions the independent directors may have. The interested persons declared their interests fully, and have also abstained from any management and Board's discussions in relation to the proposed acquisitions. They (and their associates) shall also abstain from voting at the general meeting on resolutions relating to the proposed acquisitions.

(v) **Have the proposed acquisitions affected the group's existing operations in Chaah Mine, particularly in terms of capital allocation, management focus, and human resource deployment? What measures are in place to ensure that the existing core business is not disrupted by these diversification efforts?**

The Company is currently undertaking due diligence on the target companies and has appointed various professionals such as financial adviser, legal counsels, qualified person and valuer, to conduct the relevant due diligence. The Company has also set up a project team to oversee and coordinate the due diligence process. As such, the proposed acquisitions have not in any way affected the Group's existing operations.

Upon the completion of the proposed acquisitions, the Company also does not expect any significant disruptions to the Group's existing operations as the target companies will be operated and managed by a separate operational team. For instance, MCRE being one of the target companies which is currently operational, is being managed and overseen by the Chief Operating Officer of MCRE and is advised by an outsourced independent operator and such arrangement is envisaged to continue following the completion of the acquisition. In addition, MCRE has its own finance, HR and administrative personnel to manage the day to day operations.

<u>Question 3:</u>
As disclosed in the corporate governance report, the internal audit function of the group is outsourced to IA Essential.

(i) What is the size of the internal audit team from IA Essential, and what specific experience and industry expertise do its members bring to effectively address the group's key risk areas?

The internal audit team comprises an engagement director, a manager and two senior executives. The engagement director has more than 20 years of advisory experience in governance, risk management, ESG, anti-corruption and bribery and control assurance. Besides mining, the team has broad subject matter experience across various industries. These include steel, construction, development, telecommunication networks, technologies and asset management. These experiences enable them to bring new insights from different perspectives in relation to the risks faced by the Group.

(ii) Can the audit committee (AC) provide a detailed overview of the scope of the internal audit for FY2024, along with the key findings and specific recommendations made by the internal auditor?

The internal audit reviewed the following areas in FY2024:

a. HR Function
b. Sales, Accounts Receivables and Collection
c. Purchasing and Payment
d. Interested Party Transactions
e. Sustainability Report

The key findings and recommendations highlighted are as follow:

No.	Key Findings	Recommendations
1.	Absence of Annual Interest Declaration Procedures	Strengthening the conflict of interest policy and procedures
2.	Deficiencies in Sales Contract Acceptance Procedure	Tightening the sales contract acceptance procedures
3.	Inadequacy of Sales Process Standard Operating Procedure (SOP)	Enhance the current SOP for Sales Process
4.	Absence of New Supplier On-boarding Assessment	All new suppliers shall undergo an onboarding assessment
5.	Absence of formal sustainability stakeholder engagement	Conduct a dedicated stakeholder engagement materiality survey to guide the Group in prioritising its sustainability resources and investments appropriately.

(iii) What is the typical length of the internal audit cycle undertaken by the group? Has the AC evaluated whether the current cycle length adequately addresses emerging risks and regulatory requirements?

Before commencing its audits, the internal auditor will conduct an audit risk assessment and propose an IA Plan detailing the auditable areas to the AC for deliberation and approval. Over the last two financial years, in addition to the above 5 auditable areas, the internal auditor also reviewed anti-corruption management procedures, a follow-up audit, and conducted quarterly interested-party transaction reviews. Accordingly, the AC assessed that the current cycle length is adequate to address and manage the risk factors and comply with the regulations.

(iv) Could the AC elaborate on its level of oversight regarding management's follow-up on the internal auditor's recommendations? How does the AC monitor the implementation of these recommendations, and what processes are in place to ensure timely resolution of identified issues?

Upon receiving the internal auditor report, the AC will deliberate on the findings, recommendations, and target completion date to ensure that the management action plan implementation is prioritised based on their criticality to the Group's operations. Periodically, management will brief the AC on the implementation status, while the internal auditor will also perform follow-up audits and report to the AC on implementation progress as scheduled and/or from time to time.

(v) Could the board provide more detailed insights into how the sustainability targets were set? What specific input has the sustainability committee provided in setting these targets? Would the board consider establishing clearer, more quantifiable targets or setting a defined timeline for developing firmer objectives?

Setting sustainability targets takes into consideration factors such as past performance, alignment with business objectives and future outlook. The Group's Scope 1 + Scope 2 emissions had declined year-on-year from FY2021 to FY2024, largely driven by shifting from use of diesel to grid electricity. However, the change in mining method from open-pit to full underground mining may increase the Group's energy requirements going forward. The Sustainability Committee will review and where practical to do so, set specific and measurable targets for greenhouse gas emissions, taking into account the other material Environmental, Social and Governance factors.

BY ORDER OF THE BOARD

Dato' Sri Pek Kok Sam
Managing Director

Lim Wei Hung
Executive Director and Chief Operating Officer

22 November 2024

This announcement has been reviewed by the Company's Sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**") It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement. The Sponsor has also not drawn on any specific technical expertise in its review of this announcement.

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