SOUTHERN ALLIANCE MINING LTD.

(Company Registration Number. 201931423D)

(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON SOUTERN ALLIANCE MINING LTD'S FY2021 ANNUAL REPORT

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*Note: Our Group (as defined below) is making a voluntary disclosure to SIAS's questions in relation to the Company's annual report for the financial year ended 31 July 2021 ("**FY2021 Annual Report**"). In providing the additional information to the shareholders via the list of questions provided, 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*

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 FY2021 Annual Report.

Q1. The group's revenue increased 52.4% from RM254.2 million to RM387.4 million in FY2021. This was mainly attributed to a higher average realised selling price ("ARSP") achieved by the group, mitigating the decrease in volume of crushed iron ore and iron ore tailings sold.

The ARSP of iron ore concentrate increased by 75.5% to reach RM626.42 per dried metric tons ("DMT"), whereas the ARSP of crushed iron ore and iron ore tailings increased by 4.9% to reach RM430.54 per metric tons ("MT") and 37.7% to reach RM114.78 per DMT respectively.

Iron ore prices have bucked historical trends of being in the range of US$90-US$100/t to reach a record high of US$219.77/t in mid-July 2021. Since then, iron ore prices have eased substantially although the company considers it "comfortable". An updated 3-year price chart of iron ore is shown below:

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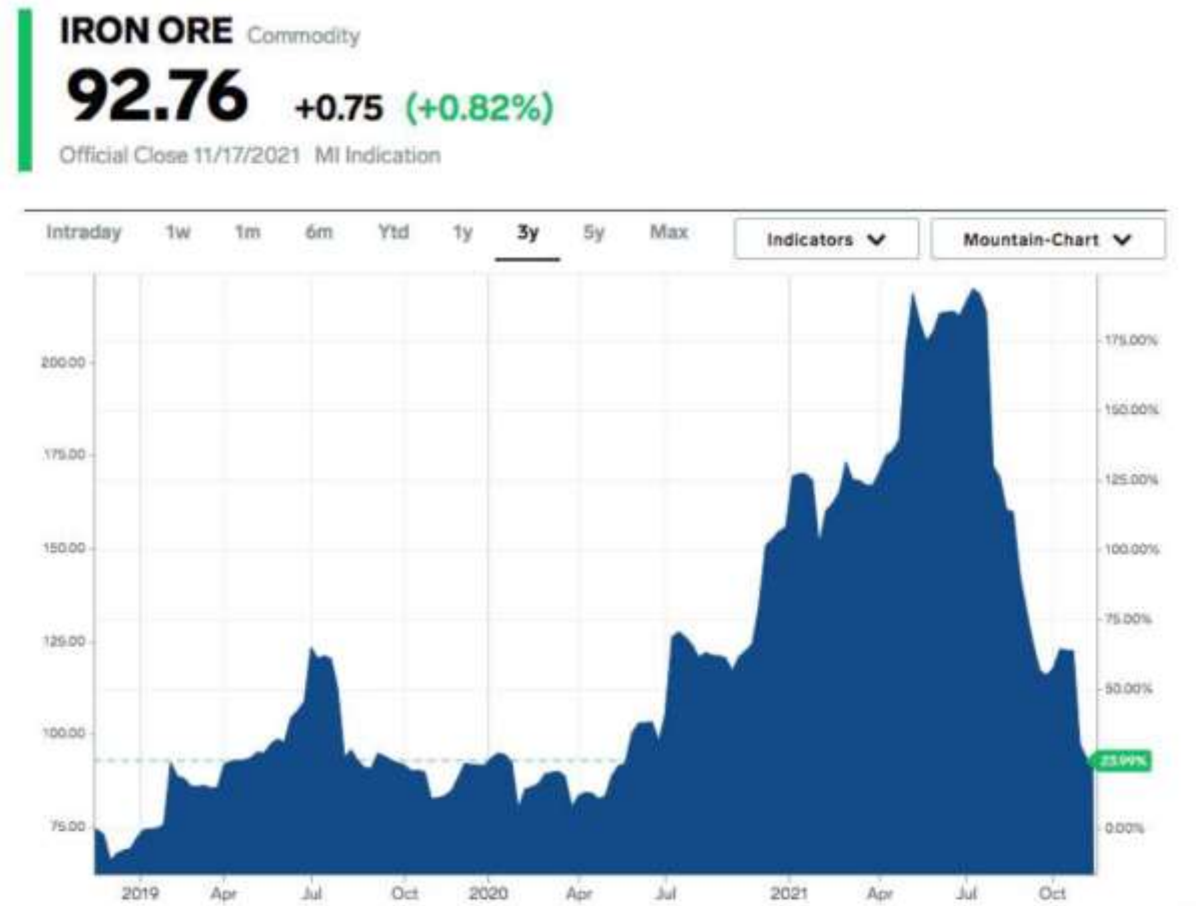

(Source: https://markets.businessinsider.com/commodities/iron-ore-price)

(i) **How does the group manage the volatility in the price of iron ore? Does the group hedge its exposure through futures, forward contracts or options?**

Company's response: Commodity markets have, at various times, exhibited significant volatility. High volatility may result in hedging misjudgement and as such the Group does not hedge its position.

(ii) **How soon does management expect the supply from Brazil to return to pre-pandemic level? In addition, what is management's view on the price of iron ore going forward? What are management's strategies to maximise the value of the group's iron ore holdings?**

Company's response: Since the beginning of 2020, the iron ore supply from Brazil has been hampered due to the closure of mining activities owing to the severe rise in COVID-19 cases in Brazil. Sluggish growth in supply continued even as we navigated through the pandemic due to mining accidents, extreme weather and unexpected maintenance. Although it is difficult to ascertain when supply growth from Brazil would be able to achieve pre-pandemic levels, the Group is of the opinion that the excess demand situation will continue to persist over the next couple of years and hence, paints an optimistic outlook for the Group.

Economies around the world have adopted an infrastructure-led economic recovery from the pandemic. This has significantly boosted the demand for steel consumption and hence, led to an excess demand situation for the iron ore industry amidst tepid supply growth. Despite the restoration of supply from Brazil that may further add to the supply in the market, the Group foresees there to be continued demand growth and steady consumption in the near future.

With the stable demand from the domestic steel mill, the Group will continue to leverage on our experience and expertise in the iron ore mining industry by focusing on cost efficiency, while continuing the exploration for the extension of iron ore bodies, which if such discovery would be able to contribute to the economies of scale.

(iii) **What is the impact of the Movement Control Order ("MCO") on the group's operations?**

Company's response: The first MCO was in effect from 18 March 2020 to 3 May 2020. The Group, however, had received Malaysian Ministry of International Trade and Industry ("MITI")'s approval to operate since 22 April 2020, subject to certain conditions.

During FY2021, the introduction of full MCO which commenced on 1 June 2021, our Group had temporarily ceased operations for a period of approximately 41 days which represented 11% of loss of working days per calendar year. Notwithstanding that, care and maintenance works continued to be carried out during the period.

FY2022 witnessed Malaysia entering into National Recovery Plan ("NRP"), which focuses on progressively reopening society and the economy. Our Group re-commenced operation in accordance to strict standard operating procedures in relation to the management of COVID-19. However, there was a temporary closure of the Chaah mine from 16 September 2021 to 21 September 2021 due to mine workers testing positive for COVID-19. The temporary closure and the operation at site below full capacity till end of September 2021 are not expected to have any material impact on the Group's financials.

Moving forward, in line with the government's intention for economic recovery under the NRP, our Group is cautiously optimistic that the Government of Malaysia may not roll out future MCOs which may affect our Group's operations.

As noted in the CEO's message, crushed iron ore sales volume was only 400 MT (a decrease of approximately 91,700 MT or 99.5%) and iron ore tailings sales volume was 98,400 DMT following a 53.5% decrease. There was a 7.8% increase in iron ore concentrate sales volume of 600,000 DMT in FY2021.

(iv) **What were the utilisation rates of the group's production facilities in FY2021**

<u>Company's response:</u> We would like to refer to the Company's offer document dated 16 June 2020, particularly on page 156 "Production Capacity and Utilisation Rates" which is reproduced below.

"The Group arranges and utilises its processing facilities based on the (i) availability of ore; (ii) quality of the feed; and (iii) size and specifications of the end products required, a presentation of the utilisation rates for our processing facilities during the Period Under Review will not be meaningful."

Our Group believes that the presentation of the Group's utilisation rates may not be an appropriate indicator to measure the work efficiency as the plant utilisation is conditional upon the availability of ores. This is further dependent by the overburden stripping ratio, which varies from time to time, depending on the stage of mine development work.

(v) **What is the group's targeted production in FY2022?**

<u>Company's response:</u> The Group's production is determined by the mining plan developed by mining engineer. Current mining plan is being reviewed by our engineer which has considered factors such as the effect of the MCO, the recent outbreak at Chaah Mine as well the recent exploration information. As such the Group is unable to provide information as to the targeted production for FY2022. At this current point in time the Group will continue to assess its production capacity on an ongoing basis.

(vi) **Does management have good visibility of the production and/or sales volume?**

<u>Company's response:</u> The Group does not foresee material changes in the demand from the domestic market. For record, Malaysia is a net importer of iron ore as the domestic supply is unable to fulfil the domestic demand. The Group is accelerating its mining activities due to the effect of MCO, as well as the recent outbreak at our Chaah Mine as previously announced.

(vii) **Is the group looking to increase its production capacity? What is the projected capital expenditure for its iron ore operations in the next 2-3 years?**

<u>Company's response:</u> The Group consistently reviews our operating capacity in tandem with the progress of mining activities as well as the condition of the present fleet of equipment. As the results, over the last two financial years, the Group has incurred RM35.3 million of capital expenditure excluding investment in national grid power. The Group has further allocated RM27 million as its capital expenditure for FY2022. The Group may further allocate budget for capital expenditure depending on the outcome of Chaah Mine exploration program as well as the exploration program for gold project.

Q2. In July 2021, the company announced that it had entered into a joint venture agreement with Duli Yang Maha Mulia Sultan Ibrahim Ibni Almarhum Sultan Iskandar (DYMM) to establish a joint venture company ("JV Company") to mine for gold in Johor ("**Proposed New Business**").

(i) **Can the company help shareholders understand if the group and the joint venture partner have any prior experience in gold mining?**

Company's response: We would like to refer our shareholders to Section 3.4 at page 27 of the Company's Shareholders' Circular dated 30 July 2021 ("the Circular").

While the Group does not have a track record in gold exploration and mining, key members of the Group's management team have prior experience in a gold mining project in the State of Kelantan, Malaysia." As further highlighted in the Section 4.5 of the Circular, *"the Group will carefully monitor developments and progress in the Proposed New Business. Where necessary, it will strengthen the management and execution team of the Proposed New Business with additional candidates with the credentials and experience relevant to the Proposed New Business. The Group will also continually evaluate the manpower and expertise required for the Proposed New Business and will, as and when required, engage suitably qualified external personnel, consultants, industry experts and professionals for the Proposed New Business. In making decisions, the Board and senior management will seek the advice of these reputable external consultants and experts where necessary and appropriate. Where necessary, work may be outsourced to these third parties who have expertise in the relevant area.*

(ii) **How transferable are the skillsets and experience in iron ore mining to gold exploration and mining?**

Company's response: While the gold mining techniques are different from iron ore mining, the project will be implemented according to the respective mine plan to be developed by a competent mining engineer. As such, the skillsets and experience that the Group has acquired will be helpful in the planning for the exploration, interpreting the exploration and metallurgical results, capital expenditure planning as well as execution of the mine plan. The main challenge will be the processing, which the Group believes that the manner can be resolved by engaging the right team of professionals and/or contractors.

It is noted that the joint venture is to help the group diversify its business into gold mining operations so as to reduce its risk exposure to iron ore price volatility.

(iii) **Can management demonstrate and explain the diversification benefits expected from this venture, e.g. the correlation between the prices of gold and iron ore?**

Company's response: There is no correlation between the prices of gold and iron ore, we believe that our joint venture will provide a good natural hedge against the risk of price fluctuation of a single product.

In addition, we would like to bring our shareholders attention to page 36 and 37 under section 4.3 of the Circular. The following are the summary of the rationale and potential benefits expected from the venture:

(a) Additional and recurrent revenue streams;
(b) Reduce reliance on the existing business; and
(c) Enhance shareholder's value

(iv) **What is the expected investment required for the gold operations? Will the company and its joint venture partner be contributing capital to the joint venture company in the proportion of its shareholdings, i.e. 85% and 15% respectively?**

Company's response: We would like to refer our shareholders to Section 3.3 of the Circular at page 26 – 27. As highlighted, there are certain evaluation processes that needs to sequentially take place before any mining activities can be conducted. The associated costs are dependent on the outcome of the preceding steps.

Among the steps are:

(a) Gathering and review of information;
(b) Obtaining of exploration license and commencement of exploration works;
(c) Review of laboratory testing results and decision on whether to proceed with mining; and
(d) Approval of licence by authorities.

As the exploration license is still pending, only a preliminary desktop study was conducted as of the date of this announcement. Subject to the procurement of the exploration license, the initial funding required for step (b) and (c) above is estimated to be in the region of Ringgit Malaysia Two Million and each party shall contribute in proportion to their respective shareholdings. Subsequent funding requirement will be conditional upon the preliminary outcome of the field study.

(v) **If things go smoothly, when would the group be able to produce its first gold?**

Company's response: Currently the Group is unable to definitively provide as to when the first batch of gold can be produced. This is because commencement of the operation is first and foremost conditional upon the issuance of the following approvals / licenses as listed below, and whether the identified area (as defined in the Circular) is assessed to be economical to mine, both of which are beyond the control of the Group:

(a) The approval for a proprietary mining lease or mining lease as the case may be by the State Authority pursuant to Johor State Minerals Enactment;
(b) The approval of the Environmental Impact Assessment ("EIA") Report by the Department of Environment pursuant to the Section 34A (2c) of the Environmental Quality Act 1974 and Environmental Quality (Prescribed Activities) (Environmental Impact Assessment) Order 2015; and
(c) The issuance of Operational Mining Scheme by the Minerals and Geoscience Department of Malaysia pursuant to the Minerals Development Act 1994

(vi) It was disclosed that the JV company will pay a tribute to DYMM equal to 30% of the JV company's annual profit before tax. **How was the 30% rate determined?**

<u>Company's response:</u> The Group is unable to disclose the computation of the tribute as it involves certain technical and commercial considerations which is privileged and confidential information to the Group.

(vii) **In the board approval process for the gold mining operations, what were the key assumptions used by the board/management? In particular, what is the estimated selling price of gold used in the board approval process?**

<u>Company's response:</u> The Board will only approve the mining operations should the pre-feasibility study report or feasibility study report produced by competent person(s) is found to be favourable. The reports, *inter alia*, generally contain:

(a) Technical and economic viability of the project;

(b) Preferred mining technic and its effectiveness; and

(c) Financial analysis based reasonable assumptions on the mining, processing, metallurgical, infrastructure, economic, marketing, legal; and other factors

As at the date of this Announcement, none of the above are available for the Board of Directors to assess and decide as the Group has yet to commence the exploration works.

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Q3. In its corporate governance report, the company has stated that it will be issuing its first sustainability report for FY2021 by 31 July 2022 (page 55). Rule 711A requires issuers to issue a sustainability report for its financial year, no later than 5 months after the end of the financial year although an issuer in its first year of reporting may report within 12 months of the end of its financial year (Practice Note 7.6 Sustainability Reporting Guide). This is to allow sufficient time for preparation by the issuer.

(i) **Given that the company was listed on 26 June 2020 and that it held its first annual general meeting on 27 November 2020, can the company clarify if it had to issue a sustainability report for the financial year ending 31 July 2020?**

Company's response: Paragraph 6.5 of Practice Note 7E requires an issuer listed on or after 1 January 2017 to issue a sustainability report from its first full financial year of listing, in the Company's case the first full financial year is FY2021. As such, our Group will issue our first sustainability report within 12 months from FY2021, i.e. before 31 July 2022.

(ii) **Can the board help shareholders understand the progress it has made in its sustainability report?**

Company's response: The Group is in the midst of preparing its report. Followings are the progress made on the sustainability reporting exercise:

(a) Sustainability report roadmap has been established;
(b) Stakeholder groups have been identified and engaged;
(c) Material ESG factors have been identified;
(d) Training has been done for key officers involved in the exercise;
(e) Data has been gathered and collected; and
(f) Assessment is in progress.

The Group shall publish its sustainability report on the SGXNet in due course but before 31 July 2022.

(iii) **What are the material ESG factors that have been identified so far?**

Company's response: The materials ESG factors identified:

(a) GRI 204: Procurement Practices
(b) GRI 205: Anti-Corruption
(c) GRI 302: Energy
(d) GRI 307: Environmental Compliance
(e) GRI 401: Employment
(f) GRI 403: Occupational Health and Safety
(g) GRI 404: Training and Education
(h) GRI 413: Local Communities

(iv) **Would the board be able to provide shareholders with the board statement on the group's sustainability efforts at this point?**
<u>Company's response:</u> A Board statement will only be issued together with the sustainability report when the assessment exercise is completed and the report is finalised

(v) In the vision statement, it was stated that the group strives to contribute its part in "*advocating responsible mining, with a careful and balanced approach in the pursuit of profit, promoting people's welfare, and preserving the planet for sustainable growth*". **How does the group balance the environmental impact as it carries out mining?** It is widely acknowledged that the extractive sector is associated with a range of serious environmental challenges which include land clearance and degradation, pollution, loss of biodiversity, intensive water use, etc.

<u>Company's response:</u> Climate change has become one of the most pressing issues of today and has caused a shift in the mindset of investors and shareholders towards the mining industry. They are more concerned than ever about the environmental impact of the mining industry. However, mining is an important industry with respect to economic growth and hence, industry stalwarts have pivoted to give rise to the concept of responsible and sustainable mining.

Responsible mining involves engagement with various stakeholders such as local community, workers, suppliers, taxing authorities and others to ensure the associated risks arising from mining activities are well identified, addressed and managed.

The mining industry in Malaysia like any other geography is highly regulated and is subject to audit by various statutory bodies. Almost all potential mining projects in Malaysia require a comprehensive environmental impact assessment study to conduct a cost benefit analysis from the environmental perspective. Any mining project which is predicted to cause more damage than good will not be approved. Similarly, stringent conditions are imposed on mining projects and prior to approval, comprehensive environment management plan must be prepared and carried out.

In line with industry good practices, the Group closely monitors its exploration activities to identify potential mineralisation. We conduct mining activities only on areas with an economic benefit that would outweigh the environmental cost associated with it. We have implemented the necessary checks and balances to ensure that we carry out best mining practices to minimise environmental damage.

Additionally, the mine rehabilitation program during the closure of the mine is equally important to limit the environmental impact. This is to ensure that the damage arising from the mining activity is "repaired".

In conclusion, the Group will undertake potential mining projects while being constantly mindful of our environmental footprint and ensure that we continue to innovate and limit the damage caused by such mining activities.

BY ORDER OF THE BOARD

Dato' Sri Pek Kok Sam
Executive Director and Chief Executive Officer
24 November 2021

*Southern Alliance Mining Ltd. (the "**Company**") was listed on Catalist of the Singapore Exchange Securities Trading Limited (the "**Exchange**") on 26 June 2020. The initial public offering of the Company was sponsored by PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**").*

This announcement has been reviewed by the Company's Sponsor. It has not been examined or approved by the Exchange and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document. The Sponsor has also not drawn on any specific technical expertise in its review of this announcement.

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