



FORTRESS MINERALS LIMITED

(Company Registration No.: 201732608K)

Unaudited Condensed Interim Financial Statements for the Second Quarter and Six Months Ended 31 August 2021 (“2Q FY2022”)

Background

Fortress Minerals Limited (the “**Company**”) and its subsidiary companies (the “**Group**”) is a high-grade iron ore concentrate producer based in Malaysia. The Group is principally in the business of exploration, mining, production and sale of iron ore concentrates. The Group presently produces magnetite high grade iron ore concentrates mined from the East, Valley and West Deposits in its Bukit Besi Mine in Malaysia, and sells its iron ore concentrates primarily to steel mills in Malaysia and trading companies in the People’s Republic of China.

The Company has on 7 April 2021 completed the acquisition of the entire issued and paid-up share capital of Fortress Mengapur Sdn. Bhd. (formerly known as Monument Mengapur Sdn. Bhd.) and its subsidiaries (“**Fortress Mengapur**”). Following the completion of the acquisition, Fortress Mengapur has become a wholly-owned subsidiary of the Company.

Fortress Mengapur comprises the entire tenements held by its subsidiaries, namely Cermat Aman Sdn Bhd (the “**CASB**”) and Star Destiny Sdn Bhd (the “**SDSB**”), which cover approximately 951.68 hectares, save for the free digging oxide magnetite iron materials contained on the topsoil at certain areas of Mining lease no. ML8/2011 in respect of the mining land (the “**Third-Party Iron Ore Interests**”).

Fortress Mengapur’s tenements contains iron ore, copper, gold and silver Inferred Mineral Resource. At this juncture, the Group will focus on the magnetite mining potential. Material that contains other minerals, if encountered during potential mining, will be stockpiled for future processing. In the event that the Group decides to venture into production of minerals other than magnetite, which would result in a significant change in the risk profile of the Group at that time, the Company will seek the separate approval of its Shareholders at an extraordinary general meeting to be convened at such time, prior to commencing such operations.

The Company was listed on Catalist of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 27 March 2019. The initial public offering of the Company (the “**IPO**”) was sponsored by PrimePartners Corporate Finance Pte. Ltd. (the “**Sponsor**”).

For more information, please visit <https://fortress.sg>

Part I – Condensed Interim Financial Statements for the Second Quarter and Six Months ended 31 August 2021

Condensed interim consolidated statement of profit or loss and other comprehensive income

		Group			Group		
		Three months ended			Six months ended		
	Note	31 August 2021 US\$	31 August 2020 US\$	Change %	31 August 2021 US\$	31 August 2020 US\$	Change %
Revenue	3	9,984,624	12,985,431	(23.1)	27,267,929	20,075,788	35.8
Cost of sales		(1,862,017)	(2,920,742)	(36.2)	(5,240,468)	(4,966,998)	5.5
Gross profit		8,122,607	10,064,689	(19.3)	22,027,461	15,108,790	45.8
Other operating income		152,652	221,582	(31.1)	309,024	212,400	45.5
Selling and distribution expenses		(767,425)	(1,806,379)	(57.5)	(2,489,194)	(2,365,272)	5.2
Other operating expenses		(2,790,615)	(1,103,605)	152.9	(5,295,280)	(2,386,534)	121.9
Administrative expenses		(381,255)	(141,966)	168.6	(825,016)	(414,895)	98.8
Finance costs		(191,181)	(12,535)	1,425.2	(223,136)	(22,715)	882.3
Profit before income tax	4	4,144,783	7,221,786	(42.6)	13,503,859	10,131,774	33.3
Income tax expense	5	(863,301)	(1,540,316)	(44.0)	(3,022,780)	(2,291,960)	31.9
Profit for the financial period		3,281,482	5,681,470	(42.2)	10,481,079	7,839,814	33.7
Profit/(Loss) attributable to:							
Owners of the Company		3,287,486	5,681,470	(42.1)	10,487,451	7,839,814	33.8
Non-controlling interests		(6,004)	-	nm	(6,372)	-	nm
		3,281,482	5,681,470	(42.2)	10,481,079	7,839,814	33.7
Other comprehensive income							
<u>Item that may be reclassified</u>							
<u>subsequently to profit or loss:</u>							
Exchange differences on translating foreign operations		(214,129)	961,127	nm	(957,183)	460,767	nm
Other comprehensive (loss)/income for the financial period, net of tax		(214,129)	961,127	nm	(957,183)	460,767	nm
Total comprehensive income/(loss) for the financial period attributable to:							
Owners of the Company		3,073,349	6,642,597	(53.7)	9,530,260	8,300,581	14.8
Non-controlling interests		(5,996)	-	nm	(6,364)	-	nm
		3,067,353	6,642,597	(53.8)	9,523,896	8,300,581	14.7
Earnings per share attributable to owners of the Company (cents)							
- Basic and diluted	6	0.66	1.14	(42.1)	2.10	1.57	33.8

nm – not meaningful

Condensed interim statements of financial position

	Note	Group		Company	
		31 August 2021 US\$	28 February 2021 US\$	31 August 2021 US\$	28 February 2021 US\$
ASSETS					
Non-current assets					
Investments in subsidiaries		-	-	44,214,710	12,402,992
Exploration and evaluation assets		3,408,590	3,306,243	-	-
Mining properties	8	28,522,912	6,162,325	-	-
Plant and equipment	9	22,571,545	16,605,126	-	-
Right-of-use assets	10	2,512,098	211,216	-	-
Goodwill	11	11,893,776	-	-	-
		<u>68,908,921</u>	<u>26,284,910</u>	<u>44,214,710</u>	<u>12,402,992</u>
Current assets					
Inventories		915,126	1,029,105	-	-
Trade receivables		5,541,221	11,208,481	-	-
Other receivables, deposits and prepayments		6,901,414	13,519,229	-	9,000,050
Amounts due from subsidiaries		-	-	7,024,210	2,463,813
Current income tax receivables		42,124	20,403	-	-
Cash and bank balances	12	8,281,712	7,800,262	2,962,814	4,590,919
		<u>21,681,597</u>	<u>33,577,480</u>	<u>9,987,024</u>	<u>16,054,782</u>
Total assets		<u>90,590,518</u>	<u>59,862,390</u>	<u>54,201,734</u>	<u>28,457,774</u>
EQUITY AND LIABILITIES					
Equity					
Share capital	13	22,463,273	22,463,273	22,463,273	22,463,273
Other reserves		(3,410,148)	(2,452,957)	-	-
Retained earnings		35,129,538	28,407,131	8,835,848	5,945,417
		<u>54,182,663</u>	<u>48,417,447</u>	<u>31,299,121</u>	<u>28,408,690</u>
Non-controlling interests		(15,264)	(8,905)	-	-
Total equity		<u>54,167,399</u>	<u>48,408,542</u>	<u>31,299,121</u>	<u>28,408,690</u>
Non-current liabilities					
Banks borrowings	16	17,227,590	1,301,895	16,000,000	-
Lease liabilities	16	955,932	35,289	-	-
Contingent consideration	7	1,811,674	-	1,811,674	-
Deferred tax liabilities		1,273,741	1,384,724	-	-
		<u>21,268,937</u>	<u>2,721,908</u>	<u>17,811,674</u>	<u>-</u>
Current liabilities					
Banks borrowings	16	5,709,693	652,881	5,000,000	-
Lease liabilities	16	1,460,065	200,422	-	-
Trade payables		1,102,650	420,167	-	-
Other payables and accruals		4,559,051	5,851,693	52,446	45,836
Amounts due to subsidiaries		-	-	38,210	-
Current income tax payables		2,322,723	1,606,777	283	3,248
		<u>15,154,182</u>	<u>8,731,940</u>	<u>5,090,939</u>	<u>49,084</u>
Total liabilities		<u>36,423,119</u>	<u>11,453,848</u>	<u>22,902,613</u>	<u>49,084</u>
Total equity and liabilities		<u>90,590,518</u>	<u>59,862,390</u>	<u>54,201,734</u>	<u>28,457,774</u>

Condensed interim statements of changes in equity

<u>Group</u>	<u>Note</u>	----- Attributable to owners of the Company -----							<u>Total equity US\$</u>
		<u>Share capital US\$</u>	<u>Capital reserve US\$</u>	<u>Foreign currency translation reserve US\$</u>	<u>Merger reserve US\$</u>	<u>Retained earnings US\$</u>	<u>Equity attributable to owners of the Company US\$</u>	<u>Non-controlling interests US\$</u>	
Balance at 1 March 2021		22,463,273	383,615	729,404	(3,565,976)	28,407,131	48,417,447	(8,905)	48,408,542
Profit/(loss) for the financial period		-	-	-	-	7,199,965	7,199,965	(370)	7,199,595
<u>Other comprehensive income</u>									
Exchange differences on translating foreign operations		-	-	(743,054)	-	-	(743,054)	2	(743,052)
Other comprehensive (loss)/income for the financial period, net of tax		-	-	(743,054)	-	-	(743,054)	2	(743,052)
Total comprehensive (loss)/income for the financial period		-	-	(743,054)		7,199,965	6,456,911	(368)	6,456,543
Transactions with owners									
Issuance of shares to non-controlling interests by a subsidiary		-	-	-	-	-	-	5	5
FY2021 Interim dividend paid	14	-	-	-	-	(3,765,044)	(3,765,044)	-	(3,765,044)
Total transactions with owners		-	-	-	-	(3,765,044)	(3,765,044)	5	(3,765,039)
Balance at 31 May 2021		22,463,273	383,615	(13,650)	(3,565,976)	31,842,052	51,109,314	(9,268)	51,100,046
Profit/(loss) for the financial period		-	-	-	-	3,287,486	3,287,486	(6,004)	3,281,482
<u>Other comprehensive income</u>									
Exchange differences on translating foreign operations		-	-	(214,137)	-	-	(214,137)	8	(214,129)
Other comprehensive (loss)/income for the financial period, net of tax		-	-	(214,137)	-	-	(214,137)	8	(214,129)
Total comprehensive (loss)/income for the financial period		-	-	(214,137)	-	3,287,486	3,073,349	(5,996)	3,067,353
Balance at 31 August 2021		22,463,273	383,615	(227,787)	(3,565,976)	35,129,538	54,182,663	(15,264)	54,167,399

Condensed interim statements of changes in equity (continued)

<u>Group</u>	Note	Share capital US\$	Capital reserve US\$	Foreign currency translation reserve US\$	Merger reserve US\$	Retained earnings US\$	Total equity US\$
Balance at 1 March 2020		22,463,273	383,615	(433,450)	(3,565,976)	10,728,012	29,575,474
Profit for the financial period		-	-	-	-	2,158,344	2,158,344
<u>Other comprehensive income</u>							
Exchange differences on translating foreign operations		-	-	(500,360)	-	-	(500,360)
Other comprehensive loss for the financial period, net of tax		-	-	(500,360)	-	-	(500,360)
Total comprehensive income for the financial period		-	-	(500,360)	-	2,158,344	1,657,984
Balance at 31 May 2020		22,463,273	383,615	(933,810)	(3,565,976)	12,886,356	31,233,458
Profit for the financial period		-	-	-	-	5,681,470	5,681,470
<u>Other comprehensive income</u>							
Exchange differences on translating foreign operations		-	-	961,127	-	-	961,127
Other comprehensive loss for the financial period, net of tax		-	-	961,127	-	-	961,127
Total comprehensive income for the financial period		-	-	961,127	-	5,681,470	6,642,597
Distribution to owners							
FY2020 Final dividend paid	14	-	-	-	-	(574,817)	(574,817)
Total transaction with owners		-	-	-	-	(574,817)	(574,817)
Balance at 31 August 2020		22,463,273	383,615	27,317	(3,565,976)	17,993,009	37,301,238

Condensed interim statements of changes in equity (continued)

<u>Company</u>	Notes	Share capital US\$	Retained earnings US\$	Total equity US\$
Balance at 1 March 2021		22,463,273	5,945,417	28,408,690
Loss for the financial period representing total comprehensive loss for the financial period		-	(506,843)	(506,843)
Distribution to owners				
Dividend paid	14	-	(3,765,044)	(3,765,044)
Total transaction with owners		-	(3,765,044)	(3,765,044)
Balance at 31 May 2021		22,463,273	1,673,530	24,136,803
Profit for the financial period representing total comprehensive income for the financial period		-	7,162,318	7,162,318
Balance at 31 August 2021		22,463,273	8,835,848	31,299,121
<u>Company</u>	Notes	Share capital US\$	Retained earnings US\$	Total equity US\$
Balance at 1 March 2020		22,463,273	1,034,422	23,497,695
Loss for the financial period representing total comprehensive loss for the financial period		-	(155,916)	(155,916)
Balance at 31 May 2020		22,463,273	878,506	23,341,779
Profit for the financial period representing total comprehensive income for the financial period		-	85,990	85,990
Distribution to owners				
FY2020 Final dividend paid	14	-	(574,817)	(574,817)
Total transaction with owners		-	(574,817)	(574,817)
Balance at 31 August 2020		22,463,273	389,679	22,852,952

Condensed interim consolidated statements of cash flows

	Note	Group Three months ended		Group Six months ended	
		31 August 2021 US\$	31 August 2020 US\$	31 August 2021 US\$	31 August 2020 US\$
Operating activities					
Profit before income tax		4,144,783	7,221,786	13,503,858	10,131,774
Adjustments for:					
Amortisation of mining properties		88,624	142,327	225,640	205,634
Depreciation of plant and equipment		647,746	557,280	1,350,968	1,080,624
Depreciation of right-of-use assets		217,235	131,042	308,489	213,131
Interest expenses		191,181	12,535	223,136	22,715
Interest income		(2,885)	(3,774)	(6,542)	(32,465)
Share-based payment expenses		-	-	-	-
Gain on disposal of plant and equipment		-	-	(55,934)	(3,346)
Modification of lease contracts		-	-	(2,035)	-
Unrealised foreign exchange (gain)/ loss		(101,351)	151,469	(65,470)	139,477
Operating cash flow before working capital changes		5,185,333	8,212,665	15,482,110	11,757,544
Working capital changes:					
Inventories		(153,551)	(567,029)	144,764	(429,964)
Trade and other receivables		1,803,441	(7,987,921)	3,041,905	(9,834,536)
Trade and other payables		546,720	939,187	(673,562)	1,440,239
Cash generated from operations		7,381,943	596,902	17,995,217	2,933,283
Income tax paid		(1,044,546)	(542,421)	(2,364,254)	(1,273,946)
Income tax refunded		-	-	-	586
Net cash flow generated from operating activities		6,337,397	54,481	15,630,963	1,659,923
Investing activities					
Additions of exploration and evaluation assets		(51,939)	(123,364)	(158,105)	(178,754)
Additions of mining properties		(6,000,665)	-	(6,000,665)	-
Additions of plant and equipment		(4,161,110)	(549,231)	(4,282,392)	(821,115)
Purchase consideration for acquisition of subsidiaries		-	-	(21,000,000)	-
Proceeds from disposal of plant and equipment		-	-	75,370	17,802
Interest received		2,885	3,774	6,542	32,465
Net cash flow used in investing activities		(10,210,829)	(668,821)	(31,359,250)	(949,602)
Financing activities					
Interest paid		(191,181)	(12,535)	(223,136)	(22,715)
Repayments to shareholders		-	(2,606,990)	-	(4,561,456)
Increase in short-term deposit pledged		(2,000,313)	-	(2,000,313)	-
Proceed from bank borrowing		-	-	21,000,000	-
Repayments of bank borrowings		(119,963)	(19,161)	(318,718)	(28,200)
Repayment of lease liabilities		(449,527)	(151,725)	(587,852)	(196,875)
Issuance of new ordinary shares to non-controlling interests		-	-	5	-
Dividends paid		-	(574,817)	(3,765,044)	(574,817)
Net cash flow (used in)/ generated from financing activities		(2,760,984)	(3,365,228)	14,104,942	(5,384,063)
Net change in cash and cash equivalents		(6,634,416)	(3,979,568)	(1,623,345)	(4,673,742)
Effects of exchange rate changes on cash and cash equivalents		87,891	264,770	104,482	204,576
Cash and cash equivalents at beginning of financial period		12,827,924	9,488,139	7,800,262	10,242,507
Cash and cash equivalents at end of financial period	12	6,281,399	5,773,341	6,281,399	5,773,341

Notes to the condensed interim consolidated financial statements

1. Corporate information

Fortress Minerals Limited (the “Company”) is incorporated and domiciled in Singapore and whose shares are publicly listed on the Catalist Board of the Singapore Exchange Securities Trading Limited (“SGX-ST”).

These condensed interim financial statements as at and for the three months and six months ended 31 August 2021 comprise the Company and its subsidiaries (collectively, the “Group”).

The principal activity of the Company is that of an investment holding company.

The principal activities of the subsidiaries are:

- (a) acquisition of mines, mining rights, metalliferous land, quarries and trading in minerals;
- (b) transport of iron ore and minerals;
- (c) contractors for drilling and blasting works, other site preparation activities and mining work; and
- (d) provide support across the Group’s financial accounting, payroll, information technology, purchasing, corporate services and others.

2. Basis of preparation

The condensed interim financial statements for the three months and six months period ended 31 August 2021 have been prepared in accordance with the Singapore Financial Reporting Standards (International) (“SFRS(I)”) 1-34 *Interim Financial Reporting* issued by the Accounting Standards Council Singapore (“ASC”). The condensed interim financial statements do not include all the information and disclosures required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance of the Group since the last annual financial statements for the year ended 28 February 2021.

The condensed interim financial statements of the Group have been prepared in accordance with the Singapore Financial Reporting Standards (International) (“SFRS(I)”) under the historical cost convention, except as disclosed in the accounting policies below.

The condensed interim financial statements have been prepared on a going concern basis, since the directors have verified that there are no financial, operating or other types of indicators that might cast significant doubt upon the Group’s ability to meet its obligations in the foreseeable future and particularly within the 12 months from the end of the reporting period.

The condensed interim financial statements are presented in United States dollar (“US\$”), which is the Group’s functional currency.

2.1 New and amended standards adopted by the Group

The Group has adopted all the applicable new and revised Singapore Financial Reporting Standards (“SFRS”) and Interpretations of Financial Reporting Standards (“INT FRS”) that are mandatory for the accounting periods beginning on or after 1 March 2021. The adoptions of these new standards, amendments to standards and interpretations did not result in any significant impact on the financial statements of the Group for the current financial period reported on.

2. Basis of preparation (continued)

2.2 Use of judgements and estimates

The preparation of the Group's condensed interim financial statements in compliance with SFRS(I)s requires management to make judgements, estimates and assumptions that affect the Group's application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 28 February 2021.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- *Acquisition of subsidiary*

The fair value of the consideration transferred (including contingent consideration) and the fair value of the assets acquired and liabilities assumed, measured on a provisional basis.

- *Impairment of exploration and evaluation assets, plant and equipment and mining properties*

The Group assesses these assets at each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is determined as the higher of fair value less costs to sell and value in use. In determining if there are indicators of impairment of these assets, judgement is used to consider if there are external and internal sources of information that indicates these assets may be impaired. The Group has determined that there are no indications of impairment on exploration and evaluation assets, plant and equipment and mining properties, taking into consideration the remaining estimated mining resources, production costs, iron ore prices and continuation of the production activities. The carrying amount of exploration and evaluation assets, plant and equipment and mining properties as at 31 August 2021 were US\$3,408,590 (28 February 2021: US\$3,306,243), US\$22,571,545 (28 February 2021: US\$16,605,126) and US\$28,522,912 (28 February 2021: US\$6,162,325) respectively.

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3. Segment and revenue information

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker (“CODM”). Management monitors the operating results of the segment separately for the purposes of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss which is similar to the accounting profit or loss.

The Group has one (1) reportable segment being iron ore. The Group’s reportable segment is as follows:

- (i) Iron ore – exploration, mining, drilling and blasting works, production and sales of iron ore,
- (ii) Others – Group’s remaining minor trading, investment holding activities and provision of support services across the Group, which are not included within reportable segments as they are not separately reported to the chief operating decision maker and they contribute minor amounts of revenue to the Group.

3.1 Reportable segments

	Iron ore US\$	Others US\$	Group US\$
1 June 2021 to 31 August 2021			
Revenue			
External customers, representing total revenue	9,984,624	-	9,984,624
Results:			
Interest income	2,885	-	2,885
Amortisation of mining properties	(88,624)	-	(88,624)
Depreciation of right-of-use assets	(207,008)	(10,227)	(217,235)
Depreciation of plant and equipment	(647,486)	(260)	(647,746)
Interest expense	(43,224)	(147,957)	(191,181)
Segment profit/(loss)	3,890,129	(608,647)	3,281,482
Assets:			
Additions to non-current assets	30,645,911	84,324	30,730,235
Segment assets	87,457,056	3,133,462	90,590,518
Segment liabilities	(13,552,768)	(22,870,351)	(36,423,119)
1 June 2020 to 31 August 2020			
Revenue			
External customers, representing total revenue	12,985,431	-	12,985,431
Results:			
Interest income	2,637	1,137	3,774
Amortisation of mining properties	(142,327)	-	(142,327)
Depreciation of right-of-use assets	(131,042)	-	(131,042)
Depreciation of plant and equipment	(557,280)	-	(557,280)
Interest expense	(12,535)	-	(12,535)
Segment profit	5,595,480	85,990	5,681,470
Assets:			
Additions to non-current assets	74,051	-	74,051
Segment assets	37,594,790	7,665,670	45,260,460
Segment liabilities	(7,908,714)	(50,508)	(7,959,222)

3. Segment and revenue information (continued)

3.1 Reportable segments (continued)

	Iron ore	Others	Group
1 March 2021 to 31 August 2021	US\$	US\$	US\$
Revenue			
External customers, representing total revenue	27,267,929	-	27,267,929
Results:			
Interest income	6,209	333	6,542
Gain on disposal of plant and equipment	55,934	-	55,934
Amortisation of mining properties	(225,640)	-	(225,640)
Depreciation of right-of-use assets	(298,262)	(10,227)	(308,489)
Depreciation of plant and equipment	(1,350,708)	(260)	(1,350,968)
Interest expense	(222,534)	(602)	(223,136)
Segment profit/(loss)	11,692,906	(1,211,827)	10,481,079
Assets:			
Additions to non-current assets	30,645,911	84,324	30,730,235
Segment assets	87,457,056	3,133,462	90,590,518
Segment liabilities	(13,552,768)	(22,870,351)	(36,423,119)
	Iron ore	Others	Group
From 1 March 2020 to 31 August 2020	US\$	US\$	US\$
Revenue			
External customers, representing total revenue	20,075,788	-	20,075,788
Results:			
Interest income	17,141	15,324	32,465
Amortisation of mining properties	(205,634)	-	(205,634)
Depreciation of right-of-use assets	(213,131)	-	(213,131)
Depreciation of plant and equipment	(1,080,624)	-	(1,080,624)
Interest expense	(22,715)	-	(22,715)
Segment profit/(loss)	8,570,547	(730,733)	7,839,814
Assets:			
Additions to non-current assets	74,051	-	74,051
Segment assets	37,594,790	7,665,670	45,260,460
Segment liabilities	(7,908,714)	(50,508)	(7,959,222)

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3. Segment and revenue information (continued)

3.2 Disaggregation of revenue

Group	Three months ended		Six months ended	
	31 August 2021 US\$	31 August 2020 US\$	31 August 2021 US\$	31 August 2020 US\$
Geographical information:				
Malaysia	9,984,624	6,907,715	25,407,520	13,998,072
People's Republic of China	-	956,705	1,860,409	956,705
Vietnam	-	5,121,011	-	5,121,011
	<u>9,984,624</u>	<u>12,985,431</u>	<u>27,267,929</u>	<u>20,075,788</u>
Timing of revenue recognition:				
At a point in time	<u>9,984,624</u>	<u>12,985,431</u>	<u>27,267,929</u>	<u>20,075,788</u>

Seasonality of operations

The Group's business is not affected significantly by seasonal or cyclical factors during the financial period.

4. Profit before income tax

4.1 Significant items

Group	Three months ended		Six months ended	
	31 August 2021 US\$	31 August 2020 US\$	31 August 2021 US\$	31 August 2020 US\$
Income				
Foreign exchange gain, net	-	135,763	-	343
Gain on disposal of plant and equipment	-	-	55,934	3,346
Expenses				
Amortisation of mining properties	88,624	142,327	225,640	205,634
Depreciation charge of:				
- plant and equipment	647,746	557,280	1,350,968	1,080,624
- right-of-use assets	217,235	131,042	308,489	213,131
Foreign exchange loss, net	15,861	-	127,664	-
Interest expenses on:				
- borrowings	173,416	2,491	202,494	3,609
- lease liabilities	17,765	10,044	20,642	19,106
Commission expense	77,923	247,330	324,932	265,018
Handling and transportation	328,035	318,031	630,937	528,755
Ocean freight	-	618,579	638,093	618,579
Royalty expense	336,950	579,982	813,864	890,088
Upkeep of machinery	777,082	306,560	1,241,117	578,975
Upkeep of motor vehicles	129,769	185,535	411,964	310,817

4. Profit before income tax (continued)

4.2 Related party transactions

Material transactions with related parties are as follows:

Group	Three months ended		Six months ended	
	31 August 2021 US\$	31 August 2020 US\$	31 August 2021 US\$	31 August 2020 US\$
Transactions with shareholder cum director				
Lease payments to:				
-Webcon Sdn Bhd	4,335	4,396	8,670	8,592
-Webcon Venture Sdn Bhd	10,115	-	10,115	-

Key management personnel remuneration

Key management personnel are directors of the Company and subsidiaries and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly, or indirectly. The details of their remunerations are as follows:

Group	Three months ended		Six months ended	
	31 August 2021 US\$	31 August 2020 US\$	31 August 2021 US\$	31 August 2020 US\$
Directors' fees	112,563	45,059	220,990	88,388
Salaries and other emoluments	498,374	303,856	1,342,770	607,722
Contributions to defined contribution plans	19,193	15,522	36,206	25,711
Social security contributions	111	106	197	105
	630,241	364,543	1,600,163	721,926

5. Income tax expense

The Group calculates the period's income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim consolidated statement of profit or loss are:

Group	Three months ended		Six months ended	
	31 August 2021 US\$	31 August 2020 US\$	31 August 2021 US\$	31 August 2020 US\$
Current income tax expense	769,081	1,500,111	3,097,991	2,212,525
Deferred tax relating to origination/(reversal) of temporary differences	94,220	40,205	(75,211)	79,435
Income tax expense recognised in profit or loss	863,301	1,540,316	3,022,780	2,291,960

6. Earnings per ordinary share (“EPS”)

Group	Three months ended		Six months ended	
	31 August 2021 US\$	31 August 2020 US\$	31 August 2021 US\$	31 August 2020 US\$
Net profit attributable to owners of the Company (US\$)	3,287,486	5,681,470	10,487,451	7,839,814
Weighted average number of ordinary shares	500,000,000	500,000,000	500,000,000	500,000,000
Basic and diluted EPS (US cents)	0.66	1.14	2.10	1.57

The basic and diluted EPS are the same as the Company and the Group did not have any potentially dilutive instruments for the respective financial periods.

7. Financial assets and financial liabilities

Set out below is an overview of the financial assets and financial liabilities of the Group and of the Company as at 31 August 2021 and 28 February 2021:

	Group		Company	
	31 August 2021 US\$	28 February 2021 US\$	31 August 2021 US\$	28 February 2021 US\$
Financial assets carried at amortised cost				
Trade receivables	5,541,221	11,208,481	-	-
Other receivables and deposits (excluding prepayments)	2,196,849	10,346,797	-	9,000,000
Amounts due from subsidiaries	-	-	7,024,210	2,463,813
Cash and bank balances	8,281,712	7,800,262	2,962,814	4,590,919
Total financial assets	16,019,782	29,355,540	9,987,024	16,054,782
Presented as				
Current assets	16,019,782	29,355,540	9,987,024	16,054,782

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7. Financial assets and financial liabilities (continued)

Set out below is an overview of the financial assets and financial liabilities of the Group and of the Company as at 31 August 2021 and 28 February 2021:

	Group		Company	
	31 August 2021 US\$	28 February 2021 US\$	31 August 2021 US\$	28 February 2021 US\$
Financial liabilities carried at amortised cost				
Bank borrowings	22,937,283	1,954,776	21,000,000	-
Lease liabilities	2,415,997	235,711	-	-
Trade payables	1,102,650	420,167	-	-
Other payables and accruals	4,559,051	5,851,693	52,446	45,836
Amounts due to subsidiaries	-	-	38,210	-
	<u>31,014,981</u>	<u>8,462,347</u>	<u>21,090,656</u>	<u>45,836</u>
Financial liability carried at fair value				
Contingent consideration (provisional)*	1,811,674	-	1,811,674	-
	<u>32,826,655</u>	<u>8,462,347</u>	<u>22,902,330</u>	<u>45,836</u>
Presented as				
Current liabilities	12,831,459	7,125,163	90,656	45,836
Non-current liabilities	19,995,196	1,337,184	22,811,674	-

* The Company is in the midst of finalising the purchase price allocation report for the acquisition of Fortress Mengapur. Accordingly, the fair value of the contingent consideration had not been completed by the date the interim financial statements were approved for issue by the Board of Directors. Thus, contingent consideration may need to be subsequently adjusted, with a corresponding adjustment to goodwill within 12 months from 7 April 2021, being the date of completion of the acquisition of Fortress Mengapur.

Contingent consideration

As part of the acquisition of the entire issued and paid-up share capital in Fortress Mengapur with Monument Mining Limited (the "Vendor"), the Company had also on the same date entered into a royalty agreement with the Vendor for the payment of royalties by the Company at the rate of 1.25% of gross revenue on all mineral products produced in forms ready for sale from the area within the boundaries of the entire tenements held by the subsidiaries namely CASB and SDSB, save for Third-Party Iron Ore Interests. This portion of the consideration was determined to be contingent, as it is based on the performance of the subsidiaries acquired.

As at 31 August 2021, the condition of the acquired subsidiaries showed that it is highly probable that the performance indicator would be achieved due to continuous development of mining activities. Hence, the fair value of the contingent consideration determined at 31 August 2021 reflected this development.

The fair value is determined using the discounted cash flow (DCF) method.

7. Financial assets and financial liabilities (continued)

Contingent consideration (continued)

Fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following presented the financial liability measured at fair value.

	Fair value measurement using			Total
	Level 1	Level 2	Level 3	
	US\$	US\$	US\$	US\$
31 August 2021				
Group and Company				
Contingent consideration	-	-	1,811,674	1,811,674

There were no financial assets and financial liabilities measured at fair value for the financial year ended 28 February 2021.

8. Mining properties

During the six months ended 31 August 2021, the Group incurred additions of mining properties expenditures amounting to US\$6.0 million (31 August 2020: Nil), excluding mining properties acquired through a business combination (Note 11).

9. Plant and equipment

Acquisitions and disposals

During the six months ended 31 August 2021, the Group acquired plant and equipment with cost of US\$4.3 million (31 August 2020: US\$821,115), excluding plant and equipment acquired through a business combination (Note 11) and capitalisation of depreciation charge of right-of use assets and motor vehicles of US\$206,226.

Plant and equipment with net book value of US\$19,436 (31 August 2020: US\$14,456) were disposed by the Group during the six months ended 31 August 2021, resulting in a net gain on disposal of US\$55,934 (31 August 2020: US\$3,346).

10. Right-of-use assets

The Group leases office space, hostels, storage space and motor vehicles in Malaysia with only fixed payment over the lease terms. During the six months ended 31 August 2021, the Group recognised addition of right-of-use assets for motor vehicles and premises amounting to US\$2.8 million (31 August 2020: US\$849,932).

The Group renegotiated and modified existing lease contracts for a few motor vehicles during the six months ended 31 August 2021 which were accounted for as a lease modification with decrease to the right-of-use assets and lease liabilities of US\$26,460 (31 August 2020: Nil) and US\$28,511 (31 August 2020: Nil) respectively, resulting in gain on modification of lease contracts of US\$2,051 (31 August 2020: Nil).

11. Business Combination: Goodwill

Acquisition of Fortress Mengapur

On 7 April 2021, the Group completed the acquisition of the entire issued and paid-up share capital of Fortress Mengapur, a group of companies incorporated and domiciled in Malaysia, holding tenements that contain iron ore, copper, gold and silver Inferred Mineral Resources.

The acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Fortress Mengapur for approximately a four-months period from the acquisition date.

The fair values of the identifiable assets and liabilities of Fortress Mengapur as at the date of acquisition were:

	Group US\$
Purchase consideration	
Cash paid	30,000,000
Contingent consideration (provisional)* (Note 7)	<u>1,811,674</u>
	<u><u>31,811,674</u></u>
Assets/(Liabilities)	
Plant and equipment (provisional)*	16,787,618
Mining properties (provisional)*	3,057,617
Other receivable and deposit (provisional)*	810,562
Other payables (provisional)*	<u>(737,899)</u>
Net identifiable net assets at provisional fair values	<u><u>19,917,898</u></u>
Goodwill arising on acquisition (provisional)*	<u><u>11,893,776</u></u>
Analysis of cash flows on acquisition	
Investments in subsidiaries	31,811,674
Cash deposit paid in previous financial year	(9,000,000)
Contingent consideration	<u>(1,811,674)</u>
Purchase consideration for acquisition of subsidiaries	<u><u>21,000,000</u></u>

11. Business Combination: Goodwill (continued)

Acquisition of Fortress Mengapur (continued)

* The Company is in the midst of finalising the purchase price allocation report for this acquisition. Accordingly, the fair values of the contingent consideration, mining expenditures and plant and equipment had not been completed by the date the interim financial statements were approved for issue by the Board of Directors. Thus, the contingent consideration and the net identifiable assets may need to be subsequently adjusted, with a corresponding adjustment to goodwill within twelve (12) months from 7 April 2021, being the date of completion of the acquisition of Fortress Mengapur.

From the date of acquisition, Fortress Mengapur has incurred a net loss before tax of US\$404,584 to the Group.

The provisional goodwill recognised is primarily attributed to the ability of the Group to sustain and grow our business by increasing resources through new discoveries and the ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing mines in our business units.

The goodwill is not deductible for income tax purposes.

Transaction costs, comprising legal fees and due diligence costs of US\$36,220 (financial year ended 28 February 2021: US\$205,236) have been expensed and are included in administrative expenses in the statement of profit or loss and are part of operating cash flows in the statement of cash flows.

12. Cash and bank balance

	Group		Company	
	31 August 2021 US\$	28 February 2021 US\$	31 August 2021 US\$	28 February 2021 US\$
Cash at banks	6,209,657	7,513,902	962,501	4,590,919
Cash on hand	48,238	21,473	-	-
Short term deposits	2,023,817	264,887	2,000,313	-
	<u>8,281,712</u>	<u>7,800,262</u>	<u>2,962,814</u>	<u>4,590,919</u>

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the followings:

	Group	
	31 August 2021 US\$	28 February 2021 US\$
Cash and bank balances as above	8,281,712	7,800,262
Less: Short term deposit pledged	<u>(2,000,313)</u>	<u>-</u>
Cash and cash equivalents per consolidated statement of cash flows	<u>6,281,399</u>	<u>7,800,262</u>

13. Share capital

	Group and Company			
	As at		As at	
	31 August 2021		28 February 2021	
	Number of shares	Amount US\$	Number of shares	Amount US\$
Total number of issued shares excluding treasury shares	500,000,000	22,463,273	500,000,000	22,463,273

The Company did not have any treasury shares as at 31 August 2021. There were no subsidiary holdings during and as at the end of the current financial period reported on.

14. Dividends

	Group and Company	
	31 August 2021	28 February 2021
	US\$	US\$
Ordinary dividends paid:		
In respect of financial year ended 28 February 2021		
- interim one-tier tax exempt dividend of 1.00 Singapore cents (equivalent to 0.75 US cents) per ordinary share	3,765,044	-
In respect of financial year ended 29 February 2020		
- final one-tier tax exempt dividend of 0.16 Singapore cents (equivalent to 0.11 US cents) per ordinary share	-	574,817
	<u>3,765,044</u>	<u>574,817</u>

15. Net Asset Value

	Group		Company	
	31 August 2021	28 February 2021	31 August 2021	28 February 2021
Net asset value ("NAV") (US\$)	54,182,663	48,417,447	31,299,121	28,408,690
Total number of issued shares excluding treasury shares	500,000,000	500,000,000	500,000,000	500,000,000
NAV per Share (US cents)	<u>10.84</u>	<u>9.68</u>	<u>6.26</u>	<u>5.68</u>

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16. Borrowings and lease liabilities

	Group		Company	
	31 August 2021 US\$	28 February 2021 US\$	31 August 2021 US\$	28 February 2021 US\$
<u>Repayable within one year or on demand</u>				
Secured				
- Bank borrowings	5,709,693	652,881	5,000,000	-
Unsecured				
- Leases liabilities	1,460,065	200,422	-	-
	<u>7,169,758</u>	<u>853,303</u>	<u>5,000,000</u>	<u>-</u>
<u>Repayable after one year</u>				
Secured				
- Bank borrowings	17,227,590	1,301,895	16,000,000	-
Unsecured				
- Leases liabilities	955,932	35,289	-	-
	<u>18,183,522</u>	<u>1,337,184</u>	<u>16,000,000</u>	<u>-</u>

The Group's secured borrowings as at 31 August 2021 comprised:

- (i) bank borrowings which were used to finance the purchase of certain plant and equipment and are secured over certain of the Group's motor vehicles and machinery with carrying amounts amounted to US\$2.4 million (28 February 2021: US\$2.3 million); and
- (ii) bank borrowings which were used to finance part of the acquisition of Fortress Mengapur and charge over all new monies securities comprising assignments of proceeds from certain subsidiaries for all monies payable under the borrowing facility and a short term deposit pledged (Note 12).

17. Capital commitments

As at the end of reporting period, commitments in respect of capital expenditures are as follows:

	Group	
	31 August 2021 US\$	28 February 2021 US\$
Capital expenditures contracted but not provided for		
- Plant and equipment	<u>1,655,922</u>	<u>574,817</u>

18. Subsequent events

There are no known subsequent events which have led to adjustments to this set of interim financial statements.

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Part II – Other information required by Appendix 7C of the Catalist Rules

1. Review

The condensed interim statements of financial position of Fortress Minerals Limited and its subsidiaries as at 31 August 2021 and the related condensed interim consolidated statement of profit or loss and other comprehensive income, condensed interim statements of changes in equity and condensed interim consolidated statement of cash flows for six months ended and the selected explanatory notes (the “Condensed Interim financial Statements”) have not been audited or reviewed by the Company’s auditors.

The Group’s latest audited financial statements for the financial year ended 28 February 2021 were not subject to an adverse opinion, qualified opinion or disclaimer of opinion.

2. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group’s business. It must include a discussion of the following: -

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and

Condensed interim consolidated statement of profit or loss and other comprehensive income

Revenue

Below is a summary of the iron ore sales performance of the Group for the financial period ended 31 August 2021 (“2Q FY2022”) and the comparative financial period ended 31 August 2020 (“2Q FY2021”).

	2Q FY2022	2Q FY2021	(Decrease)/ Increase (%)
Sold (DMT*)	69,181	135,482	(48.9)
Revenue realised ⁽¹⁾ (US\$)	9,811,243	13,004,327	(24.6)
Average realised selling price (US\$/DMT)	141.82	95.99	47.7

* DMT denotes Dry Metric Tonnes

⁽¹⁾ Excluding effect of foreign exchange.

The Group recorded revenue of US\$9.8 million in 2Q FY2022, being 24.6% or US\$3.2 million lower than 2Q FY2021 as production activities in Bukit Besi Mine and sale volumes were impacted by the enforcement of Phase 1 nationwide Total Lockdown under the National Recovery Plan (“NRP”) by the Malaysian Government for approximately five weeks.

The decrease was partially cushioned by higher average realised selling price of US\$141.82/DMT recorded in 2Q FY2022, an increase of 47.7% or US\$45.83/DMT due to the average benchmark IODEX CFR North China of Platts Daily Iron Ore Assessments price indices strengthening in 2Q FY2022 as compared to 2Q FY2021.

Cost of sales

	2Q FY2022	2Q FY2021	(Decrease)/ Increase (%)
Sold (WMT*)	75,860	148,751	(49.0)
Cost of sales (US\$)	1,862,017	2,920,742	(36.2)
Average unit cost of sales (US\$/WMT)	24.55	19.64	25.0

* WMT denotes Wet Metric Tonnes

The Group's cost of sales curtailed by 36.2% to US\$1.9 million in 2Q FY2022 which is in tandem with the lower sales volume as production activities were impacted by the NRP implemented by the Malaysian Government.

The Group's average unit cost of sales increased by 25.0% or US\$4.91/WMT to US\$24.55/WMT in 2Q FY2022 due to production volume sold decreasing by 49.0% or 72,891WMT to 75,860WMT and hence a lower dilution of production overhead costs.

Gross profit and gross profit margin

The Group generated gross profit of US\$8.1 million in 2Q FY2022, decreasing by 19.3% or US\$2.0 million as compared to US\$10.1 million in 2Q FY2021 as a result of the aforementioned reasons. In contrast, gross profit margin increased by 3.9% to 81.4% in 2Q FY2022 mainly attributable to the higher realised selling price in 2Q FY2022.

Other operating income

The Group's other operating income in 2Q FY2022 remained flat at US\$0.2 million as compared to 2Q FY2021. The minor decrease of US\$68,930 was mainly caused by decrease in unrealised foreign exchange gain caused by strengthening of exchange rate movement of USD against MYR for USD denominated bank balances held by Malaysian subsidiaries.

Selling and distribution expenses

Selling and distribution expenses decreased by US\$1.0 million to US\$0.8 million in 2Q FY2022, primarily due to absence of ocean freight charge for export sales of US\$0.6 million incurred in 2Q FY2021 and lower royalty and commission expenses which are in line with lower sales volume in 2Q FY2022.

Other operating expenses

The Group's other operating expenses comprise mainly of employee benefits expenses and plants maintenance expenses. Other operating expenses increased by US\$1.7 million to US\$2.8 million in 2Q FY2022. The increase was primarily due to:

- increase in provision of key management personnel's performance incentive by US\$0.6 million in line with an overall increase in the Group's profit before tax for the six months ended 31 August 2021;

- increase in maintenance of plant and vehicles of US\$0.5 million which is in line with the resumption of mining operations activities in 2Q FY2022; and
- reclassification of payout of employees' payroll expenses for our daily remunerated site workers from cost of sales to operating expenses of US\$0.6 million, throughout the temporary cessation of business brought about by the NRP as implemented by the Malaysian Government.

Administrative expenses

Administrative expenses comprise mainly of miscellaneous expenses incurred to provide support for general business activities.

Administrative expenses increased by US\$0.2 million to US\$0.4 million in 2Q FY2022 primarily due to realised foreign exchange loss from foreign-denominated purchases of consumables and plants and equipment incurred by the Group.

Finance costs

Finance costs comprised interest expenses on bank borrowings and lease liabilities. The increase was mainly attributable to:

- interest expense paid of US\$0.1 million for a bank borrowing granted to the Group to finance part of the acquisition of Fortress Mengapur; and
- interest expenses for lease liabilities and bank borrowings amounting to an aggregate of US\$0.1 million for additional lease contracts on motor vehicles and purchase of additional truck fleets.

Income tax expense

Income tax expense decreased from US\$1.5 million in 2Q FY2021 to US\$0.9 million in 2Q FY2022, which is in line with lower profit before income tax generated in 2Q FY2022.

Excluding the effect of prior year's over provision of income tax expenses of US\$0.2 million, the Group's effective tax rate in 2Q FY2022 was 24.4%, which is broadly in line with the Group's applicable tax rate of 24.0%.

Profit after income tax

In 2Q FY2022, our Group's profit after income tax decreased by US\$2.4 million or 42.2% to US\$3.3 million from US\$5.7 million in 2Q FY2021 as a result of the aforementioned reasons.

b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

The comparative performance of the assets and liabilities listed below is based on the financial statements as at 31 August 2021 and 28 February 2021.

Condensed interim statements of financial position

Non-current assets

Non-current assets comprise exploration and evaluation assets, mining properties, plant and equipment, right-of-use assets and goodwill. The Group's non-current assets increased by US\$42.6 million from US\$26.3 million as at 28 February 2021 to US\$68.9 million as at 31 August 2021.

Exploration and evaluation assets increased by US\$0.1 million to US\$3.4 million as at 31 August 2021, reflecting on-going exploration activities undertaken by the Group in 2Q FY2022.

Mining properties increased by US\$22.3 million to US\$28.5 million as at 31 August 2021. The increase is primarily attributable to:

- mining assets acquired of US\$16.8 million measured on a provisional fair value basis, which arose from the acquisition of Fortress Mengapur;
- mine development expenditures of US\$6.0 million incurred to gain access to mineral deposits and for mine processing purposes at the CASB mine.

The increase was partially cushioned by the effect of amortisation charge and exchange translation differences amounting to US\$0.3 million and US\$0.2 million respectively.

Plant and equipment increased by US\$6.0 million (net of depreciation charges of US\$1.4 million and effect of exchange translation differences of US\$0.4 million) to US\$22.6 million as at 31 August 2021 from US\$16.6 million as at 28 February 2021. The increase was primarily due to:

- plant and equipment acquired of US\$3.0 million measured on a provisional fair value basis arising from the acquisition of Fortress Mengapur;
- construction work-in-progress of processing plants in the CASB mine amounting to US\$3.7 million; and
- additions of fleet truck and machineries acquired for the Bukit Besi Mine amounting to US\$0.6 million and US\$0.5 million respectively.

Right-of-use assets at the Group level refers to the leases of motor vehicles, machineries, office and hostels premises for the use at both the Bukit Besi and CASB mine. Right-of-use assets increased by US\$2.3 million to US\$2.5 million as at 31 August 2021, which was attributable to additions of lease contracts for motor vehicles amounting to US\$2.7 million and was further cushioned by the effect of amortisation amounting to US\$0.4 million.

The Group recognised goodwill arising from the acquisition of Fortress Mengapur amounting to US\$11.9 million as at 31 August 2021, which was derived based on a provisional fair value basis.

Provisional fair value as at 31 August 2021 was used as the Company is in the midst of finalising the purchase price allocation report for the acquisition of Fortress Mengapur to determine the fair values of assets and liabilities acquired (the “**PPA Report**”). The PPA Report will be completed within 12 months from 7 April 2021, being the date of completion of the acquisition of Fortress Mengapur, at the latest.

Current assets

As at 31 August 2021, our Group’s current assets remained solid and stood at US\$21.7 million compared to US\$33.6 million as at 28 February 2021. The reduction was mainly attributable to the following:

- (i) decrease in trade receivables by US\$5.7 million contributed by prompt collection from contract customers;
- (ii) decrease in other receivables by US\$6.6 million which was mainly attributable to the transfer of US\$9.0 million from the escrow account to the vendors of Fortress Mengapur upon completion of the acquisition of Fortress Mengapur on 7 April 2021.

The decrease is partially cushioned by an increase in prepayments to suppliers for purchase of plant and equipment and consumables of US\$1.6 million and US\$0.8 million respectively; and

- (iii) decrease in inventories by US\$0.1 million driven by an increase in inventory traffic on production and consumable inventories from resumption of and continuous production activities.

The overall decrease in current assets is further cushioned by an increase in cash and bank balances by US\$0.5 million which was primarily due to prompt collection from contract customers and offset by repayments of borrowings and payables.

Non-current liabilities

As at 31 August 2021, our Group’s non-current liabilities increased by US\$18.6 million to US\$21.3 million from US\$2.7 million as at 28 February 2021.

The increase was mainly due to:

- addition of a non-current bank borrowing of US\$16.0 million for the purpose of financing the acquisition of Fortress Mengapur;
- recognition of contingent consideration of US\$1.8 million payable to Monument Mining Limited as part of the acquisition of Fortress Mengapur as disclosed in Note 7 above; and

- reclassification of non-current lease liabilities of US\$0.9 million from current liabilities based on its maturity profile.

The increase was partly cushioned by decrease in deferred tax liabilities of US\$0.1 million which was due to realisation of tax credits against profit generated for the current financial period.

Current liabilities

As at 31 August 2021, our Group's current liabilities increased by US\$6.5 million from US\$8.7 million as at 28 February 2021 to US\$15.2 million.

The increase was primarily due to:

- addition of a current bank borrowing of US\$5.0 million used to finance the acquisition of Fortress Mengapur;
- increase in current lease liabilities and current bank borrowings of US\$1.3 million and US\$0.1 million respectively which is in tandem with additions of lease contracts entered for motor vehicles and additional truck fleet purchased;
- increase in trade payables of US\$0.7 million for purchase of consumables which is in tandem with the resumption of mining operations activities in 2Q FY2022; and
- increase in current income tax payables of US\$0.7 million driven by higher profit before income tax generated by the Group for the six months period ended 31 August 2021.

The increase was further cushioned by decrease in other payables of US\$1.3 million which was attributable to prompt payments made to suppliers.

Working capital

Consequent to our Group's profitability and positive net operating cashflow, our Group continues to record a positive working capital position of US\$6.5 million as at 31 August 2021 as compared to US\$24.8 million as at 28 February 2021.

Condensed interim consolidated statements of cash flows

In 2Q FY2022, our Group's net cash generated from operating activities increased to US\$6.3 million as compared to the US\$54,481 in 2Q FY2021.

The significant increase in operating cash flow of US\$6.8 million, after adjusted for working capital inflows of US\$2.2 million was mainly attributable to prompt collection received coupled with optimum credit term purchases transacted during the financial period under review.

In 2Q FY2022, our Group's net cash flow used in investing activities increased by US\$9.5 million to US\$10.2 million as compared to the net cash flow used of US\$0.7 million in 2Q FY2021. The increase was primarily attributable to increase in capital expenditures

investments for both the CASB mine and Bukit Besi mine in mining properties and plant and equipment amounting to US\$6.0 million and US\$3.6 million respectively. The increase was cushioned by the decrease in exploration and evaluation expenditures of US\$0.1 million due to exploration activities being impacted by the enforcement of the NPR by the Malaysian Government.

In 2Q FY2022, the Group's net cash flow used in financing activities was US\$2.8 million as compared to a net cash flow used of US\$3.4 million in 2Q FY2021. The decrease of US\$0.6 million was primarily due to:

- absence of shareholders' repayments of US\$2.6 million due to full settlement of the shareholders' loans in FY2021;
- distribution of dividends in 2Q FY2021 of US\$0.6 million; and
- increase in interest expenses paid of US\$0.2 million in tandem with increase in banks borrowings and lease liabilities.

The decrease was further cushioned by:

- increase in repayments of bank borrowings and lease liabilities of US\$0.1 million and US\$0.3 million respectively in accordance to the fixed repayment schedules; and
- additional placement of deposit amounting to US\$2.0 million pledged to a bank to secure a bank borrowing granted to the Company to partially finance the acquisition of Fortress Mengapur.

3. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

There was no forecast or prospect statement previously disclosed to shareholders.

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4. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Market outlook

The domestic steel mill demand and appetite on our iron ore concentrate remained strong throughout 2021 and the Group remains optimistic that the demand will remain healthy.

Following the further easing of containment measures, the rapid progress and swift vaccine rollout of the domestic vaccination program has allowed the Malaysian Government to ease COVID-19 restrictions and spur the reopening of economic sectors. These favourable factors help to affirm the Malaysian government's policy status quo and its commitments toward the national recovery plan.

Quality differentiation is expected to remain a factor in determining iron ore prices. We expect high-grade ore to command premium pricing given its higher iron content and low impurities, which fit the needs of regional steel makers seeking to reduce their greenhouse gas emissions and raise blast furnace productivity.

Operational developments

Operations at the Group's Bukit Besi Mine and CASB Mine had resumed on 5 July 2021 and we continuously strive to adhere to the standard operating procedures to maintain a safe operating environment for all staff. The Group will also continue to focus on expediting the development phase at the tenements held by CASB and remains on track to commence iron ore production at the end of the financial year ending 28 February 2022 ("FY2022").

Leveraging on the Group's expertise and experience, applying a disciplined approach to capital allocation, and balancing exploration and production activities, the Group aims to continue to reliably grow value and returns for its shareholders in the long term.

The Board and management have considered the uncertainties and challenges arising from the COVID-19 pandemic and assessed the impact of the outbreak on its operations and are of the view that adequate funds are available for the Group's operating requirements for the purposes of meeting its debt obligations for the next 12 months. Customer order books remain healthy and the Group continues to closely monitor the credit quality of its customers to ensure the recoverability of the receivables.

The Group has increased its efforts to secure sales volume commitments that will provide recurrent income and cash flows to the Group and is in the midst of negotiations with a third party in relation thereto. No definitive agreement has been entered into and accordingly, there is no assurance or certainty that the sales commitment will materialise. Further announcement will be made by the Company via SGXNET if and when a definitive agreement is reached.

The Group also continues to seek opportunities to grow its commodities portfolio via acquisitions, joint ventures and/or provide mining contracting services both in Malaysia and in the region, where its strong capabilities provide it a competitive edge to tap on the growing demand. The Group will update shareholders via SGXNET as and when there are any material developments on the aforementioned.

5. **Details of any changes in the company's share capital arising from rights issue, bonus issue, subdivision, consolidation, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

There was no change in the issued and paid-up share capital of the Company from 31 May 2021 up to 31 August 2021. The Company's share capital was US\$22,463,273 comprising 500,000,000 shares as at 31 August 2021 and 31 May 2021.

There were no outstanding options, convertible securities, treasury shares or subsidiary holdings as at 31 August 2021 and 31 August 2020.

6. **To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	Company	
	As at	As at
	31 August 2021	28 February 2021
Total number of issued shares excluding treasury shares	<u>500,000,000</u>	<u>500,000,000</u>

The Company did not have any treasury shares as at 31 August 2021 and 28 February 2021.

7. **A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable. There were no treasury shares during and as at the end of the current financial period reported on.

8. **A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.**

Not applicable. There were no subsidiary holdings during and as at the end of the current financial period reported on.

9. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Except as disclosed in Section 2.1 of Part I above, the accounting policies and methods of computation adopted in the financial statements for the current reporting period are consistent with those disclosed in the audited consolidated financial statements for the financial year ended 28 February 2021.

10. Dividend information

a) Current financial period reported on

Any dividend declared for the current financial period reported on?

No dividend has been declared or recommended for the current reporting period.

b) Corresponding period of the immediately preceding financial year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No dividend has been declared or recommended for the corresponding reporting period.

c) Whether the dividend is before tax, net of tax or tax exempt

Not applicable.

d) Date payable

Not applicable.

e) Books closure date

Not applicable.

11. If no dividend has been declared (recommended), a statement to that effect and the reason(s) for the decision.

No dividend has been declared or recommended during 2Q FY2022 to enable the Group to conserve cash for its working capital purposes.

12. If the Group has obtained a general mandate from shareholders for Interested Person Transactions ("IPT"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group has not obtained a general mandate from shareholders for IPTs. In 2Q FY2022, there were no interested person transactions of S\$100,000 and above.

13. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7H) under Rule 720(1)

The Company confirms that undertakings have been procured from the Board of Directors and executive officers (in the format set out in Appendix 7H) under Rule 720(1)).

14. Use of funds/cash by mineral, oil and gas companies pursuant to Rule 705(6)

i. Use of funds/cash for the quarter: -

During 2Q FY2022, funds/cash was mainly used for the following production activities, as compared to the projections: -

Purpose	Amount (US\$ million)	
	Actual	Projected
Exploration and evaluation activities	0.05	0.25
Cost of sales	1.86	2.50
Selling and distribution costs	0.77	1.20
Total	2.68	3.95

During 2Q FY2022, both of the Group's cost of sales and selling and distribution costs were lower than the projected amounts by US\$0.6 million and US\$0.4 million respectively, primarily due to our mining operations operating below optimum capacity as imposed by the Malaysian Government under Phase 2 of the NRP.

The Group utilised less than planned funds in exploration and evaluation activities in 2Q FY2022 as a result of worker capacity restrictions and the Group prioritising on its production to meet on-going and continuous sales orders received during the quarter under review.

ii. Projection on the use of funds/cash for the next immediate quarter, including material assumptions: -

Purpose	Amount (US\$ million)
Exploration and evaluation activities	0.20
Cost of sales	3.03
Selling and distribution costs	1.20
Total	4.43

Our Group will continue our exploration and evaluation activities at its East, Valley and West Deposits of Bukit Besi Mine during the third quarter of FY2022 ("3Q FY2022"). Total exploration and evaluation expenses expected to be incurred is as tabulated above.

The Group did not project planned funds in both cost of sales and selling and distribution costs for its mining operations at tenements held by Fortress Mengapur as this mining site is currently in its development phase with no production activity expected to be commenced in 3Q FY2022.

15. Negative Confirmation by the Board pursuant to Rule 705(6)(b) of Catalist Rules

The Board confirms that to the best of their knowledge, nothing has come to their attention which may render the above information provided to be false or misleading in any material aspect.

16. Pursuant to Rule 705(7) - Details of exploration (including geophysical surveys), development and/or production activities undertaken by the issuer and a summary of the expenditure incurred on those activities, including explanations for any material variances with previous projections, for the period under review. If there has been no exploration, development and/or production activity respectively, that fact must be stated.

Our Group has continued to carry out exploration and evaluation activities at our East, Valley and West Deposits at our Bukit Besi mine as well as tenements held by Fortress Mengapur. These exploration and evaluation activities include ground and air-borne geological survey, sampling, exploration and laboratory assay activities. All of these activities are being undertaken by our in-house team of geologists. Cost incurred for these exploration and evaluation activities are as tabulated in Section 14 above.

17. PART III – ADDITIONAL INFORMATION REQUIRED PURSUANT TO CATALIST RULE 706A

Not applicable. There was no incorporation of new entities, acquisitions and realisation of shares during 2Q FY2022.

**BY ORDER OF THE BOARD OF
FORTRESS MINERALS LIMITED**

Dato' Sri Ivan Chee
Chief Executive Officer
8 October 2021

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 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.

The contact person for the Sponsor is Ms Jennifer Tan, 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, sponsorship@ppcf.com.sg.

Confirmation by the Board

On behalf of the Board of Directors of the Company, we the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited financial statements for the 3-months and 6-months period ended 31 August 2021 to be false or misleading in any material aspect.

On behalf of the Board of Directors

Dato' Sri Ivan Chee
Executive Director

Ng Mun Fey
Executive Director

Singapore
8 October 2021