



FORTRESS MINERALS LIMITED

(Company Registration No.: 201732608K)

Unaudited Financial Statement and Dividend Announcement for the Second Quarter Ended 31 August 2019 (“2Q FY2020”)

Background

Fortress Minerals Limited (the “**Company**”) was incorporated in Singapore on 13 November 2017 under the Companies Act (Chapter 50) of Singapore as a private company limited by shares under the name of “Fortress Minerals Pte. Ltd.”. The Company was converted into a public company and renamed “Fortress Minerals Limited” on 20 February 2019. The Company and its subsidiaries (the “**Group**”) were formed pursuant to a restructuring exercise (the “**Restructuring Exercise**”) prior to its initial public offering (“**IPO**”) and listing on the Catalist of the SGX-ST on 27 March 2019. The Restructuring Exercise was completed on 8 March 2019. Please refer to the Company’s Offer Document dated 19 March 2019 (the “**Offer Document**”) for further details on the Restructuring Exercise.

The combined financial statements of the Group are a combination or aggregation of the financial statements of the Company and its subsidiaries which are under common control. The combined financial statements of the Group for the financial period ended 31 August 2018 and financial year ended 28 February 2019 of the Group have been prepared in a manner similar to the “pooling-of-interest” method. Such manner of presentation reflects the economic substance of the combining companies as a single economic enterprise, although the legal parent-subsidiaries relationship was not established until after the Company formally acquired the share capital of the subsidiaries subsequent to the financial year ended 28 February 2019.

PART 1 – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3) AND FULL YEAR RESULTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group			Group		
	Three Months Ended			Six Months Ended		
	31 August 2019 US\$	31 August 2018 US\$	Change %	31 August 2019 US\$	31 August 2018 US\$	Change %
Revenue	7,782,685	6,572,044	18.4	13,624,016	6,572,044	107.3
Cost of sales	(2,381,845)	(2,656,169)	(10.3)	(4,213,518)	(2,656,169)	58.6
Gross profit	5,400,840	3,915,875	37.9	9,410,498	3,915,875	140.3
Other operating income	53,957	8,641	524.4	416,821	2,069,692	(79.9)
Selling and distribution expenses	(494,465)	(1,607,332)	(69.2)	(1,054,216)	(2,306,476)	(54.3)
Other operating expenses	(988,500)	(391,563)	152.4	(1,853,425)	(604,435)	206.6
Administrative expenses	(294,008)	(253,731)	15.9	(1,550,936)	(331,957)	367.2
Finance costs	(17,215)	(311)	5,435.4	(17,862)	(738)	2,320.3
Profit before income tax	3,660,609	1,671,579	119.0	5,350,880	2,741,961	95.1
Income tax expense	(1,142,638)	(460,056)	148.4	(1,742,247)	(734,493)	137.2
Profit for the financial period attributable to owners of the Company	2,517,971	1,211,523	107.8	3,608,633	2,007,468	79.8
<i>Other comprehensive income</i>						
<u>Items that may be reclassified subsequently to profit or loss:</u>						
Exchange differences on translating foreign operations	(98,215)	(93,806)	4.7	(305,650)	(164,471)	85.8
Other comprehensive loss for the financial period, net of tax	(98,215)	(93,806)	4.7	(305,650)	(164,471)	85.8
Total comprehensive income for the financial period attributable to owners of the Company	2,419,756	1,117,717	116.5	3,302,983	1,842,997	79.2

nm – not meaningful

1(a)(ii) Notes to Consolidated Statement of Comprehensive Income

Profit before taxation is stated after charging/(crediting) the following:

	Group			Group		
	Three Months Ended			Six Months Ended		
	31 August 2019 US\$	31 August 2018 US\$	Change %	31 August 2019 US\$	31 August 2018 US\$	Change %
<i>Selling and distribution expenses:</i>						
Commission expense	51,069	-	nm	152,435	36,534	317.2
Royalty expense	346,916	333,395	4.1	592,683	482,850	22.7
Handling and transport expense	94,827	381,025	(75.1)	307,445	623,907	(50.7)
Ocean freight	-	770,324	nm	-	1,139,360	nm
<i>Other operating expenses:</i>						
Upkeep of machinery	327,872	208,375	57.3	504,093	279,880	80.1
Upkeep of motor vehicles	149,677	5,957	2,412.6	330,267	10,700	2,986.6
<i>Administrative expenses:</i>						
Donations	6,004	15,680	(61.7)	14,088	15,680	(10.2)
Listing expenses	-	145,905	nm	937,193	176,564	430.8
Foreign exchange loss, net	114,275	49,320	131.7	364,894	52,817	590.9
Loss on disposal of plant and equipment	2,809	-	nm	2,809	1,435	95.7
<i>Other operating income:</i>						
Proceed from sales of iron ore	-	-	nm	(354,103)	(2,041,317)	(82.7)

nm – not meaningful

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1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	31 August 2019 US\$	28 February 2019 US\$	31 August 2019 US\$	28 February 2019 US\$
ASSETS				
Non-current assets				
Investment in subsidiaries	-	-	3,833,650	1
Exploration and evaluation asset	1,524,758	403,005	-	-
Mining properties	6,528,809	6,973,060	-	-
Plant and equipment	12,928,882	11,365,523	-	-
Right-of-use assets	721,421	-	-	-
	<u>21,703,870</u>	<u>18,741,588</u>	<u>3,833,650</u>	<u>1</u>
Current assets				
Inventories	596,986	438,908	-	-
Trade receivables	1,474,218	2,097,620	-	-
Other receivables, deposits and prepayment	1,871,225	1,672,938	-	-
Amount due by a subsidiary	-	-	9,530,706	-
Cash and bank balances	15,437,417	2,129,428	9,042,488	6,388
	<u>19,379,846</u>	<u>6,338,894</u>	<u>18,573,194</u>	<u>6,388</u>
Total assets	<u>41,083,716</u>	<u>25,080,482</u>	<u>22,406,844</u>	<u>6,389</u>
EQUITY AND LIABILITIES				
Equity				
Share capital	22,463,273	268,407	22,463,273	734
Other reserves	(3,353,747)	517,879	-	-
Retained earnings/ (Accumulated losses)	8,579,099	5,562,386	(102,646)	(1,073,155)
Total equity / (total deficit)	<u>27,688,625</u>	<u>6,348,672</u>	<u>22,360,627</u>	<u>(1,072,421)</u>
Non-current liabilities				
Deferred tax liabilities	1,190,925	504,898	-	-
Amount due to shareholders	8,047,670	15,721,339	-	-
Borrowings	39,545	-	-	-
Lease liabilities	542,034	-	-	-
	<u>9,820,174</u>	<u>16,226,237</u>	<u>-</u>	<u>-</u>
Current liabilities				
Borrowings	31,177	-	-	-
Lease liabilities	186,833	-	-	-
Trade payables	946,815	256,797	-	-
Other payables and accruals	1,845,196	1,960,382	45,293	359,567
Amount due to a related party	-	-	924	719,243
Current tax liabilities	564,896	288,394	-	-
	<u>3,574,917</u>	<u>2,505,573</u>	<u>46,217</u>	<u>1,078,810</u>
Total liabilities	<u>13,395,091</u>	<u>18,731,810</u>	<u>46,217</u>	<u>1,078,810</u>
Total equity and liabilities	<u>41,083,716</u>	<u>25,080,482</u>	<u>22,406,844</u>	<u>6,389</u>

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 31 August 2019		As at 28 February 2019	
Secured US\$	Unsecured US\$	Secured US\$	Unsecured US\$
31,177	186,833	-	-

Amount repayable after one year

As at 31 August 2019		As at 28 February 2019	
Secured US\$	Unsecured US\$	Secured US\$	Unsecured US\$
39,545	8,589,704	-	15,721,339

Details of any collateral

The Group's secured borrowings as at 31 August 2019 comprised finance lease liabilities, which are secured over the Group's motor vehicles. The net carrying amounts of the motor vehicles as at 31 August 2019 amounted to US\$109,886 (28 February 2019: US\$ Nil).

The Group's unsecured borrowings as at 31 August 2019 comprise interest free amounts owing to shareholders and lease liabilities.

The Group's unsecured borrowings as at 28 February 2019 comprise interest free amounts owing to shareholders.

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1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group Three Months Ended		Group Six Months Ended	
	31 August 2019 US\$	31 August 2018 US\$	31 August 2019 US\$	31 August 2018 US\$
Operating activities				
Profit before income tax	3,660,609	1,671,579	5,350,880	2,741,961
Adjustments for:				
Amortisation of mining properties	90,613	48,460	194,115	144,212
Depreciation of plant and equipment	1,535	1,550	2,595	1,994
Depreciation of right-of-use assets	113,617	-	118,077	-
Interest expenses	17,215	311	17,862	738
Interest income	(59,234)	-	(60,101)	(221)
Issue of shares in satisfaction of professional fees	-	-	786,946	-
Loss on disposal of plant and equipment	2,809	-	2,809	1,435
Plant and equipment written off	849	-	849	-
Unrealised foreign exchange loss/ (gain)	149,016	(6,603)	229,323	(62,790)
Operating cash flow before working capital changes	<u>3,977,029</u>	<u>1,715,297</u>	<u>6,643,355</u>	<u>2,827,329</u>
Working capital changes:				
Inventories	401,793	473,666	704,528	(1,082,456)
Trade and other receivables	3,244,690	(117,094)	348,277	106,385
Trade and other payables	829,569	(322,239)	694,162	(116,196)
Amount owing to a related party	-	651,398	-	(6,553)
Cash generated from operations	<u>8,453,081</u>	<u>2,401,028</u>	<u>8,390,322</u>	<u>1,728,509</u>
Income tax paid	(272,405)	(43,139)	(736,398)	(120,029)
Net cash flow generated from operating activities	<u>8,180,676</u>	<u>2,357,889</u>	<u>7,653,924</u>	<u>1,608,480</u>
Investing activities				
Additions of exploration and evaluation assets	(806,654)	-	(1,136,436)	-
Additions to mining properties	-	(54,199)	-	(662,862)
Additions of plant and equipment	(1,510,253)	(1,812,039)	(2,884,374)	(2,046,020)
Proceeds of disposal of plant and equipment	22,081	-	22,081	36,202
Interest received	59,234	-	60,101	221
Net cash flow used in investing activities	<u>(2,235,592)</u>	<u>(1,866,238)</u>	<u>(3,938,628)</u>	<u>(2,672,459)</u>
Financing activities				
Interest paid	(17,215)	(311)	(17,862)	(738)
Advances from shareholders	-	(257,332)	-	2,288,693
Net drawdown/(repayments) of borrowings	70,723	(40,357)	70,723	(22,559)
Repayment of lease liabilities	(105,891)	-	(110,631)	-
Dividends paid	-	-	(591,920)	-
Proceeds from issuance of ordinary shares	-	733	11,098,500	733
Shares issue expenses	-	-	(550,117)	-
Net cash flow (used in)/ generated from financing activities	<u>(52,383)</u>	<u>(297,267)</u>	<u>9,898,693</u>	<u>2,266,129</u>
Net change in cash and cash equivalents	5,892,701	194,384	13,613,989	1,202,150
Effects of exchange rate changes on cash and cash equivalents	(305,047)	(29,176)	(306,000)	(3,928)
Cash and cash equivalents at beginning of financial period	<u>9,849,763</u>	<u>1,073,970</u>	<u>2,129,428</u>	<u>40,956</u>
Cash and cash equivalents at end of financial period	<u>15,437,417</u>	<u>1,239,178</u>	<u>15,437,417</u>	<u>1,239,178</u>

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group	Share capital US\$	Capital reserve US\$	Foreign currency translation reserve US\$	Merger reserve US\$	Retained earnings US\$	Total equity US\$
Balance at 1 March 2019 *	268,407	383,615	134,264	-	5,562,386	6,348,672
Profit for the financial period	-	-	-	-	1,090,662	1,090,662
<u>Other comprehensive income</u>						
Exchange difference on translating foreign operation	-	-	(207,435)	-	-	(207,435)
Other comprehensive loss for the financial period, net of tax	-	-	(207,435)	-	-	(207,435)
Total comprehensive income for the financial period	-	-	(207,435)	-	1,090,662	883,227
Contributions by and distributions to owners						
Issue of shares to owners pursuant to the restructuring exercise	10,896,182	-	-	(3,565,976)	-	7,330,206
Issue of shares in satisfaction of professional fees	925,583	-	-	-	-	925,583
Issue of placement shares	11,098,500	-	-	-	-	11,098,500
Share issue expense	(725,399)	-	-	-	-	(725,399)
FY2020 First interim dividends declared and paid	-	-	-	-	(591,920)	(591,920)
Total transactions with owners	22,194,866	-	-	(3,565,976)	(591,920)	18,036,970
Balance at 31 May 2019	22,463,273	383,615	(73,171)	(3,565,976)	6,061,128	25,268,869
Profit for the financial period	-	-	-	-	2,517,971	2,517,971
<u>Other comprehensive income</u>						
Exchange difference on translating foreign operation	-	-	(98,215)	-	-	(98,215)
Other comprehensive loss for the financial period, net of tax	-	-	(98,215)	-	-	(98,215)
Total comprehensive income for the financial period	-	-	(98,215)	-	2,517,971	2,419,756
Balance at 31 August 2019	22,463,273	383,615	(171,386)	(3,565,976)	8,579,099	27,688,625

*For the Group's comparative figures in the financial year ended 28 February 2019, the share capital of the Group represents the aggregated value of the issued and fully paid-up share capital of Fortress Minerals Limited, Fortress Resources Pte. Ltd. and Fortress Mining Sdn. Bhd

<u>Group</u>	Share capital US\$	Capital reserve US\$	Foreign currency translation reserve US\$	Retained earnings US\$	Total equity US\$
Balance at 1 March 2018 *	267,675	383,615	223,553	668,262	1,543,105
Profit for the financial period	-	-	-	795,945	795,945
<u>Other comprehensive income</u>					
Exchange difference on translating foreign operation	-	-	(70,665)	-	(70,665)
Other comprehensive loss for the financial period, net of tax	-	-	(70,665)	-	(70,665)
Total comprehensive income for the financial period	-	-	(70,665)	795,945	725,280
Balance at 31 May 2018*	<u>267,675</u>	<u>383,615</u>	<u>152,888</u>	<u>1,464,207</u>	<u>2,268,385</u>
Profit for the financial period	-	-	-	1,211,523	1,211,523
<u>Other comprehensive income</u>					
Exchange difference on translating foreign operation	-	-	(93,806)	-	(93,806)
Other comprehensive loss for the financial period, net of tax	-	-	(93,806)	-	(93,806)
Total comprehensive income for the financial period	-	-	(93,806)	1,211,523	1,117,717
Contributions by owners					
Issue of shares	733	-	-	-	733
Total transactions with owners	<u>733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>733</u>
Balance at 31 August 2018*	<u>268,408</u>	<u>383,615</u>	<u>59,082</u>	<u>2,675,730</u>	<u>3,386,835</u>

*For the Group's comparative figures for the financial year ended 28 February 2018, financial period ended 31 May 2018 and 31 August 2018, the share capital of the Group represents the aggregated value of the issued and fully paid-up share capital of Fortress Minerals Limited, Fortress Resources Pte. Ltd. and Fortress Mining Sdn. Bhd.

<u>Company</u>	Share capital US\$	(Accumulated losses) / Retained earnings US\$	(Total deficit) / Total equity US\$
Balance at 1 March 2019	734	(1,073,155)	(1,072,421)
Profit for the financial period representing total comprehensive income for the financial period	-	1,246,654	1,246,654
Contributions by and distributions to owners			
Issue of shares to owners pursuant to the restructuring exercise	11,163,855	-	11,163,855
Issue of shares in satisfaction of professional fees	925,583	-	925,583
Issue of placement shares	11,098,500	-	11,098,500
Shares issue expenses	(725,399)	-	(725,399)
Total transaction with owners	22,462,539	-	22,462,539
Balance at 31 May 2019	22,463,273	173,499	22,636,772
Profit for the financial period representing total comprehensive income for the financial period	-	315,775	315,775
Contributions by and distributions to owners			
FY2020 First interim dividends declared and paid	-	(591,920)	(591,920)
Total transaction with owners	-	(591,920)	(591,920)
Balance at 31 August 2019	22,463,273	(102,646)	22,360,627

<u>Company</u>	Share capital US\$	Accumulated losses US\$	Total deficit US\$
Balance at 1 March 2018	1	(227,184)	(227,183)
Loss for the financial period representing total comprehensive loss for the financial period	-	(24,716)	(24,716)
Balance at 31 May 2018	1	(251,900)	(251,899)
Loss for the financial period representing total comprehensive loss for the financial period	-	(189,020)	(189,020)
Contributions by owners			
Issue of shares	733	-	733
Total transaction with owners	733	-	733
Balance at 31 August 2018	734	(440,920)	(440,186)

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, 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 2019 up to 31 August 2019. The Company's share capital was S\$22,463,273 comprising 500,000,000 shares as at 31 August 2019 and 31 May 2019.

There were no outstanding options, convertible securities, treasury shares or subsidiary holdings as at 31 August 2019 and 31 August 2018.

There were no treasury shares and subsidiary holdings as at 31 August 2019 and 31 August 2018.

1(d)(iii) 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 31 August 2019	As at 28 February 2019

Total number of issued shares excluding treasury shares

500,000,000	1,000
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The Company did not have any treasury shares as at 31 August 2019 and 28 February 2019.

1(d)(iv) 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.

1(d)(v) 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.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. 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 paragraph 5 below, 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 combined financial statements for the financial year ended 28 February 2019.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group has adopted a new financial reporting framework, Singapore Financial Reporting Standards (International) (SFRS(I)s) 16 *Leases*, on 1 March 2019. SFRS(I) 16 requires lessees to recognise most leases on balance sheets. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. At commencement date of a lease, a lessee will recognise a liability to make a lease payment (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use (ROU) asset). The Group has applied the practical expedient to recognise amounts of ROU assets equal to its lease liabilities at 1 March 2019. The effects on adoption of SFRS(I) 16 on 1 March 2019 resulted in the increase in right-of-use assets of US\$1,318,050 and increase in lease liabilities of US\$1,318,050.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

- (a) Based on the weighted average number of ordinary shares in issue; and
(b) On a fully diluted basis (detailing any adjustments made to the earnings).**

Earnings per ordinary share ("EPS")	Group Three months ended		Group Six months ended	
	31 August 2019	31 August 2018	31 August 2019	31 August 2018
Net profit attributable to owners of the Company (US\$)	2,517,971	1,211,523	3,608,633	2,007,468
Weighted average number of ordinary shares	500,000,000	418,749,348	489,605,978	418,749,174
Basic and fully diluted EPS (US cents)	0.50	0.29	0.74	0.48

For comparative purposes, EPS for the financial period ended 31 August 2018 has been calculated based on profit attributable to owners of the Company and the 418,750,000 shares in issue pursuant to the Restructuring Exercise.

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. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:-

- (a) current financial period reported on; and
(b) immediately preceding financial year.**

Net asset / (liability) value ("NAV") / ("NLV") (US\$)	Group		Company	
	31 August 2019	28 February 2019	31 August 2019	28 February 2019
Total number of issued shares excluding treasury shares [#]	500,000,000	500,000,000	500,000,000	500,000,000
NAV / (NLV) per Share (US cents)	5.54	1.27	4.47	(0.21)

#NAV/NLV per share is computed based on the NAV/NLV of our Company and Group and our Company's post-IPO share capital of 500,000,000 shares.

8. 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**

Revenue

Illustrated below is the summary of iron ore sales performance of the Group for the 3 months ended 31 August 2019 ("2Q FY2020") and the comparative 3 months ended 31 August 2018 ("2Q FY2019").

	2Q FY2020	2Q FY2019	Increase (%)
Production (WMT)	85,739	74,004	15.9
Sold (DMT)	76,334	68,540	11.4
Revenue realised ⁽¹⁾ (US\$)	7,858,830	6,239,882	25.9
Average realised selling price (US\$/DMT)	102.95	91.04	13.1

⁽¹⁾ Actual revenue realised excluding effect of foreign exchange on translation of sales from foreign operation and transportation income.

The increase in the Group's revenue realised in 2Q FY2020 by 25.9% as compared to 2Q FY2019 was directly attributable to the increase in production quantity and sales volume of high-grade iron ore and overall increase in the average selling price by 13.1%.

The increase in production volume is in line with the commercial commissioning of the two additional ball mills in our Bukit Besi mine towards the end of 2Q FY2020.

Cost of sales

Our Group's cost of sales in 2Q FY2020 was US\$2.4 million, resulting in an average cost of US\$27.78 per WMT compared to US\$35.89 per WMT in 2Q FY2019.

The decrease in unit cost is driven by sustainable cost efficiency level achieved from an increase in production volume after the installation and operation of two additional ball mills in our processing plant.

Gross profit and gross profit margin

Gross profit for 2Q FY2020 was US\$5.4 million, an increase of US\$1.5 million or 37.9% as compared to 2Q FY2019. The improved margin to 69.4% in 2Q FY2020 as compared to gross profit margin of 59.6% in 2Q FY2019 was driven by favourable average selling price realised.

Other operating income

Our Group's other operating income in 2Q FY2020 increased by US\$45,316 compared to 2Q FY2019. The increase was mainly attributable to higher interest income earned from surplus funds placed with financial institutions, which is in line with the increase in cash and cash equivalent reported in 2Q FY2020.

Selling and distribution expenses

Selling and distribution expenses decreased by US\$1.1 million from US\$1.6 million in 2Q FY2019 to US\$0.5 million in 2Q FY2020. The decrease was mainly due to the absence of ocean freight and stevedoring charges as product sales for 2Q FY2020 were made to domestic steel mills.

Other operating expenses

Our Group's other operating expenses increased by US\$0.6 million from US\$0.4 million in 2Q FY2019 to US\$1.0 million in 2Q FY2020. Other operating expenses comprise mainly of costs relating to the employee benefits expense and upkeep of site machinery, motor vehicles and equipment at our Bukit Besi mine. The overall increase is mainly due to:

- (i) increase in costs relating to upkeep of motor vehicles and site machinery of US\$0.2 million as a result of the major purchase of a fleet of motor vehicles and site machineries in 3Q FY2019.
- (ii) increase in employee benefits expense by US\$0.2 million as the result of the increase in the number of employees in the Group.

Tax expense

Income tax expense increased by US\$0.7 million or 148.4% to US\$1.1 million in 2Q FY2020 mainly due to higher profit generated and higher deferred tax liabilities from a subsidiary. The Group's effective tax rate of 32.6% which was higher than the applicable tax rate is due to the effect of unrealised foreign exchange differences and other miscellaneous expenses incurred which were not deductible for tax determination purposes.

Profit after tax

Our Group profit after tax increased by US\$1.3 million from US\$1.2 million in 2Q FY2019 to US\$2.5 million in 2Q FY2020 due to the reasons stated above.

(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 2019 and 28 February 2019.

Non-current assets

Non-current assets as at 31 August 2019 stood at US\$21.7 million, an increase of US\$3.0 million from US\$18.7 million as at 28 February 2019, comprising exploration and evaluation assets, mining properties, plant and equipment and right-of-use assets.

Exploration and evaluation assets increased by US\$1.1 million to US\$1.5 million as at 31 August 2019 from US\$0.4 million as at 28 February 2019 mainly attributable to the on-going exploration activities at our Bukit Besi mine during 1H FY2020.

Mining properties remained fairly flat, standing at US\$6.5 million as at 31 August 2019 and US\$7.0 million as at 28 February 2019. The decrease was mainly due to the effect of amortisation expenses of US\$0.2 million and the effect of exchange rate changes of US\$0.3 million.

Plant and equipment increased by US\$1.5 million (net of depreciation charge of US\$0.9 million and effect on exchange rate changes of US\$0.4 million) to US\$12.9 million as at 31 August 2019 from US\$11.4 million as at 28 February 2019. The increase was attributable to the two additional ball mills and related machineries recently installed at our Bukit Besi mine.

Right-of-use assets at the Group level refers to the leases of office and hostels premises and machineries used at our Bukit Besi mine.

Current assets

As at 31 August 2019, our Group's current assets increased by US\$13.1 million to US\$19.4 million from US\$6.3 million as at 28 February 2019. The increase was mainly due to:

- (a) an increase in cash and cash equivalents of US\$13.3 million to US\$15.4 million as at 31 August 2019 from US\$2.1 million as at 28 February 2019 pursuant to IPO net proceeds received during 1Q FY2020 as well as an increase in collection from third parties' customers which is in line with increase in sales trend for 1H FY2020; and
- (b) a minor increase in inventories by US\$0.2 million, which comprise both finished processing iron ore concentrate and consumables. The increase is consistent with the increase in production of high-quality iron ore concentrates to meet strong demand as signalled from favourable sales trend movements and strong sales order books.

The increase is partially offset by a decrease in net trade and other receivables, deposits and prepayment by US\$0.4 million, which was mainly due to prepayment expensed off during the period and collection from the customers.

Non-current liabilities

As at 31 August 2019, our Group's non-current liabilities decreased by US\$6.4 million to US\$9.8 million from US\$16.2 million as at 28 February 2019. The decrease is derived after offsetting the increase in deferred tax liabilities of US\$0.7 million and lease liabilities of US\$0.6 million.

The overall decrease was mainly due to the novation of MYR30.0 million (approximately US\$7.6 million) of the shareholders' loans to the holding company in consideration of the allotment and issuance shares to each pre-restructuring Fortress Mining Sdn Bhd's shareholders respectively. Post capitalisation, the amount due to shareholders has decreased from US\$15.7 million to US\$8.1 million.

The remaining amount of US\$8.1 million due to shareholders is unsecured and interest free. All shareholders have committed not to demand any repayment for a period of 18 months commencing from 27 March 2019. However, the Audit Committee ("AC") has approved a repayment to the shareholders at RM2.5 million per month for the period from September 2019 to April 2020 and RM3.5 million per month for the period from May 2020 to August 2020 (the "**Proposed Repayment**") after taking into consideration the general financial and business conditions, results of operations, earnings, capital expenditure, cash flow requirements and development plans of the Group subject to the AC's review on a quarterly basis and as and when there is a material change in circumstances.

Current liabilities

As at 31 August 2019, our Group had current liabilities of US\$3.6 million as compared to US\$2.5 million as at 28 February 2019. The increase was due to increase in trade and other payables and accruals of US\$0.6 million and current tax liabilities of US\$0.3 million, which in line with our Group's business expansion activities and increase in profit. The increase was also due to the increase in lease liabilities due to adoption of SFRS(I) 16 and new finance leases entered into during the financial quarter.

Working capital

Our Group recorded a positive working capital position of US\$15.8 million as at 31 August 2019, compared to US\$3.8 million as at 28 February 2019 as a result of the above.

Statements of Cash Flow

In 2Q FY2020, our Group recorded US\$8.2 million net cash generated from operating activities as compared to US\$2.4 million in 2Q FY2019. The increase in net cash generated from operating activities is mainly due to the increase in operating profit before working capital changes of US\$2.3 million, adjusted for positive working capital inflows of US\$4.5 million, mainly attributable to the decrease in trade and other receivables and inventories of US\$3.3 million and US\$0.4 million respectively, coupled with the increase in trade and other payable of US\$0.8 million.

Increase in working capital is jointly contributed by robust sales that curtailed inventory holding, prompt collection received from customers and effective credit term purchase that allowed working capital cash flow achieve optimum liquidity level.

During 2Q FY2020, our Group incurred an aggregate sum of US\$2.3 million on exploration and evaluation assets and plant and equipment at our Bukit Besi mine as compared to US\$1.9 million during 2Q FY2019 to further enlarge our Bukit Besi mine's foot print and production capacity to support robust revenue growth.

The Group's net cash flow used in financing activities decreased in 2Q FY2020 by US\$0.2million to US\$52,383 as compared to 2Q FY2019 of US\$0.3million. The decrease is due to cash inflow from hire purchase disbursement received, net of repayment amounting to US\$70,723.

Higher financing activities cash outflow in 2Q FY2019 is wholly contributed by debt repayments to shareholders and hire purchase borrowings.

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

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

10. 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.

Despite global trade uncertainties and volatile iron ore prices, demand for our Bukit Besi's high grade iron ore concentrate remain robust especially from domestic steel mills in Malaysia.

The Group remains cautiously optimistic on the near to medium term outlook for its key markets while continuing to improve our economies of scale, operating efficiency and further develop and expand our Group's processing capacity and mineral resource within our Bukit Besi mine. At the same time, our Group also intends to acquire, enter into joint venture and / or develop new mines as and when the opportunity arises.

11. Dividend

a) Current financial period reported on: Any dividend declared for the current financial period reported on?

None.

- b) Corresponding period of the immediately preceding financial year:** Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

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

Not applicable.

- d) Date payable**

Not applicable.

- e) Book closure date**

Not applicable.

- 12. 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 FY2020 to enable the Group to conserve cash for working capital purpose and/or such other purposes as the Board may deem fit at the appropriate juncture.

- 13. 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 FY2020, there were no interested person transactions of S\$100,000 and above.

- 14. 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).

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15. Use of proceeds pursuant to Rule 704(30)

On 27 March 2019, our Company received S\$12.5 million (net of IPO expenses of S\$2.5 million) as IPO net proceeds. As at the date of this announcement, the status on the use of the IPO net proceeds is as follows:

Use of proceeds	Amount allocated	Amount utilised	Balance
	S\$'000	S\$'000	S\$'000
Further development of our Bukit Besi mine, including continuing and future exploration and geology work, as well as expansion of iron ore processing capacities.	7,000	-	7,000
Acquisition, joint venture and/or development of new mines	2,000	-	2,000
General working capital purposes	3,500	-	3,500
Total	12,500	-	12,500

Our Group has yet to deploy the IPO net proceeds. Our Group's existing business operation has been generating sufficient cash flow to fund all our activities. At the appropriate juncture, our Group will deploy the IPO proceeds as the Group intends to acquire, enter into joint venture and/or develop new mines as and when the opportunity arises. Pending such deployment, funds have been placed in interest bearing deposits with licenced banks in Singapore.

The Company will make periodic announcements on the utilisation of the proceeds from the IPO as and when the proceeds are materially disbursed and provide a status report on such use in its annual report and its quarterly and full year financial statements.

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

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

In 2Q FY2020, 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	1.12	0.41
Cost of sales	2.38	2.06
Selling and distribution costs	0.50	0.78
Total	4.00	3.25

Following our updated Mineral Resource estimates as at 28 February 2019, our Group has intensified our exploration and evaluation efforts during 2Q FY2020. This has resulted in the increase in our Group's expenditure on exploration and evaluation activities of US\$0.7 million compared with the projected amount.

During 2Q FY2020 our Group's cost of sales increased by US\$0.3 million as compared to projected amount primarily due to overall increase in production.

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

Purpose	Amount (US\$ million)
Exploration and evaluation activities	0.58
Cost of sales	2.43
Selling and distribution costs	0.55
Total	3.56

Our Group will continue to carry out exploration and evaluation activities at its East, Valley and West Deposits during the third quarter of FY2020 ("3Q FY2020"). Exploration and evaluation expenses expected to be incurred is as tabulated above.

17. Negative Confirmation by the Board pursuant to Rule 705(6)(b) of Catalist Listing Manual.

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.

- 18. 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.**

During 2Q FY2020, our Group has continued to carry out exploration and evaluation activities at our East, Valley and West Deposits at our Bukit Besi mine. These exploration and evaluation activities including 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 geologist. Cost incurred for these exploration and evaluation activities are as tabulated in Section 16 above.

- 19. Negative confirmation by the Board pursuant to Rule 705(5)**

To the best of the Board of Directors' knowledge, nothing has come to their attention which may render the unaudited financial results for 2Q FY2020 to be false or misleading in any material aspect.

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

Dato' Sri Ivan Chee Yew Fei
Chief Executive Officer
9 October 2019

Fortress Minerals Limited (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 was sponsored by PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor").

This announcement has been prepared by the Company and its contents have been reviewed by the Sponsor in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist. The Sponsor has also not drawn on any specific technical expertise in its review of this announcement.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST 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 contact person for the Sponsor is Ms Jennifer Tan, Associate Director, Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and E-mail: sponsorship@ppcf.com.sg).

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