

Frequently Asked Questions Series 12 – (Released on 26 May 2010/Last Updated on 1 July 2014)

Amendments relating to New Listing Rules for Mineral Companies (effective 3 June 2010)

Status of “Frequently Asked Questions”

The following frequently asked questions (FAQs) are intended to assist issuers in meeting their obligations under the requirements of the Main Board Listing Rules. They aim to promote a better understanding of the Rules. Defined terms used in this document have the same meaning as those used in the Consultation Conclusions on New Rules for Mineral Companies, and the New Rules.

Readers should in all cases refer to the Rules themselves and, where necessary, seek qualified professional advice. These FAQs are not a substitute for the Rules or such advice. In the event of any discrepancy between any of the contents of these FAQs and the Rules, as amended and interpreted from time to time, the provisions of the Rules prevail.

In formulating our ‘answers’, we have in some cases assumed certain underlying facts, selectively summarised the relevant provisions of the Rules or concentrated on one particular aspect of the question which we interpreted to be the focal point of the enquiry.

The ‘answers’ should therefore not be construed as being definitive and applicable to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Division is available for consultation on a confidential basis where interpretation of the Main Board Listing Rules is required. Issuers and practitioners are urged to contact the Listing Division at the earliest opportunity with any queries they may have on the Rules.

Part 1 – Mineral Companies

No.	Main Board Rules	GEM Rules	Query	Response
<u>Definition of Mineral Company</u>				
1.	18.01(3) Definition of Mineral Company, Major Activity	18A.01(3) Definition of Mineral Company, Major Activity	Are processing and refining (and possibly marketing) activities to be included under operating costs in the class tests used to determine the 25% threshold to define a Mineral Company?	We will deal with these issues on a case by case basis. We consider that refining costs should only be factored into total operating costs if refining activities are an integral part of a company’s operations. Where a Mineral Company is involved in the exploration, extraction and subsequent processing of Reserves it is reasonable that its processing and marketing activities (and associated costs) are a part of its overall operations. Companies that are only engaged in refining activities may not be regarded as Mineral Companies in the true sense and are unlikely to be considered favourably for waivers from the financial standard requirements.
2.	18.01(3)	18A.01(3)	Is production an activity that falls within the definition of Mineral Company?	Use of the word “extraction” includes “production”. Other international exchanges often use the terms extraction and production interchangeably. A company that is engaged in production may not however be considered favourably for a waiver from the financial standard

No.	Main Board Rules	GEM Rules	Query	Response
				requirements, unless it also has development activities.

Part 2 – Conditions for listing

No.	Main Board Rules	GEM Rules	Query	Response
	<u>Adequate rights to participate in exploration for and/or extraction of Natural Resources</u>			
3.	18.03(1), 18.07	18A.03(1), 18A.07	For new listing applicants, what ‘rights’ are acceptable to demonstrate that companies have adequate rights to participate in the exploration for and/or extraction of Natural Resources under Rule 18.03(1)?	Companies may rely on exploration and extraction rights held by third parties if they participate in mineral and/or exploration activity under joint ventures, product sharing agreements or other valid arrangements if they can demonstrate the agreements give them sufficient influence over the exploration for and extraction of Resources and Reserves. Ordinarily we would expect that applicants have an interest of at least 30% in assets relevant to extraction of Reserves. However, we will consider other arrangements where companies have interests smaller than 30% but actively operate mining projects. Rights granted under specific government mandates will be recognized. Companies yet to commence production may not be

No.	Main Board Rules	GEM Rules	Query	Response
				<p>able to demonstrate rights relevant to extraction until closer to the actual time of extraction. In these instances, the New Rules specify that risks relevant to obtaining such rights must be disclosed. If there are novel arrangements, applicants should consult the Listing Division in advance.</p>
4.	18.03(1)(a), 14.04(12)	18A.03(1)(a), 19.04(12)	<p>What assets should be taken into account for the purposes of the control of assets test in Rule 18.03(1)(a)?</p>	<p>To satisfy the control of assets test in Rule 18.03(1)(a), a Mineral Company must have an interest greater than 50% (by value) in its total assets, together with sufficient rights over the exploration for and/or extraction of Natural Resources.</p> <p>In this context, the Exchange will apply the <i>total assets</i> definition in Rule 14.04(12).</p>
	<p><u>Cash operating costs</u></p>			
5.	18.03(3)	18A.03(3)	<p>In terms of cash operating costs in Rule 18.03(3), what is meant by a cost item that should be highlighted to investors?</p>	<p>An example would be favourable tax treatment where this may continue for a limited time only or may be subject to challenge. A disruption to transport routes is another example of a scenario where increased costs may continue only for a limited time.</p>

No.	Main Board Rules	GEM Rules	Query	Response
Working capital sufficiency				
5A.	18.03(4), 18.03(5)	18A.03(4), 18A.03(5)	How to (i) work out the 125% working capital analysis to determine whether a new applicant meets the 125% working capital requirement for at least the next 12 months from the date of its listing document given that Rule 18.03(4) states that the available working capital must include, among others, the cost of any proposed exploration and/or development whereas the note to that Rule states that capital expenditures do not need to be included in working capital requirements; and (ii) deal with refinancing of loan repayments in the working capital analysis?	<p>The cost of proposed exploration and/or development mentioned under Rule 18.03(4) related to new applicants' daily operation (i.e. working capital) such as contracting fees for excavating the minerals and transportation fees for delivering the minerals, whereas the capital expenditures mentioned in the note to that Rule related to the expenditures associated with development of infrastructure of the mines and expansion of the processing facilities, etc.</p> <p>If loan repayment is required during the 12-month period, new applicants should include the repayment to demonstrate that they can fulfill the 125% working capital requirement.</p> <p>Below is a simplified illustration of the 125% working capital analysis, assuming that the borrowings will be drawn down and repaid within the 12-month period, and the proceeds from the borrowings will be fully used to finance the capital expenditures in the case with external financing:</p>

No.	Main Board Rules	GEM Rules	Query	Response																														
				<table border="1" data-bbox="1350 313 1917 873"> <thead> <tr> <th data-bbox="1350 313 1633 402"></th> <th data-bbox="1633 313 1776 402">Without external financing</th> <th data-bbox="1776 313 1917 402">With external financing</th> </tr> </thead> <tbody> <tr> <td data-bbox="1350 402 1633 459">Cash at the beginning of the period</td> <td data-bbox="1633 402 1776 459">300</td> <td data-bbox="1776 402 1917 459">300</td> </tr> <tr> <td data-bbox="1350 459 1633 492">Operating cash inflow²</td> <td data-bbox="1633 459 1776 492">1,300</td> <td data-bbox="1776 459 1917 492">1,300</td> </tr> <tr> <td data-bbox="1350 492 1633 557">Proceeds from borrowings</td> <td data-bbox="1633 492 1776 557">-</td> <td data-bbox="1776 492 1917 557">500</td> </tr> <tr> <td data-bbox="1350 557 1633 621">Total working capital available (A)</td> <td data-bbox="1633 557 1776 621">1,600</td> <td data-bbox="1776 557 1917 621">2,100</td> </tr> <tr> <td data-bbox="1350 621 1633 654">Operating cash outflow³</td> <td data-bbox="1633 621 1776 654">1,000</td> <td data-bbox="1776 621 1917 654">1,000</td> </tr> <tr> <td data-bbox="1350 654 1633 719">Repayment of borrowings</td> <td data-bbox="1633 654 1776 719">-</td> <td data-bbox="1776 654 1917 719">500</td> </tr> <tr> <td data-bbox="1350 719 1633 751">Interest payments</td> <td data-bbox="1633 719 1776 751">-</td> <td data-bbox="1776 719 1917 751">40</td> </tr> <tr> <td data-bbox="1350 751 1633 816">Total working capital required (B)</td> <td data-bbox="1633 751 1776 816">1,000</td> <td data-bbox="1776 751 1917 816">1,540</td> </tr> <tr> <td data-bbox="1350 816 1633 873">Sufficiency of working capital (A/B)</td> <td data-bbox="1633 816 1776 873">160%</td> <td data-bbox="1776 816 1917 873">136%</td> </tr> </tbody> </table> <p data-bbox="1350 914 1917 1287"> <i>Notes:</i> 1. We have noted that although the note to 18.03(4) states that capital expenditures do not need to be included in working capital requirements, new applicants have normally included capital expenditures to demonstrate the 125% working capital requirement for prudence sake. 2. Operating cash inflow mainly represents cash receipt from sales. 3. Operating cash outflow includes, among others, payment for mining, transportation and utility expenses, and workforce. </p> <p data-bbox="1350 1320 1917 1356"><i>(Added in February 2013)</i></p>		Without external financing	With external financing	Cash at the beginning of the period	300	300	Operating cash inflow ²	1,300	1,300	Proceeds from borrowings	-	500	Total working capital available (A)	1,600	2,100	Operating cash outflow ³	1,000	1,000	Repayment of borrowings	-	500	Interest payments	-	40	Total working capital required (B)	1,000	1,540	Sufficiency of working capital (A/B)	160%	136%
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<u>Management experience requirement</u>				
6.	18.04, 8.05	18A.04, 11.12A	What relevant experience must management demonstrate to be considered eligible for listing under Listing Rule 18.04?	To obtain the benefit of the waiver in rule 18.04, directors and senior managers taken together must have sufficient experience relevant to the exploration for and/or extraction activity that the Mineral Company is pursuing. Individuals relied on must have a minimum of five years relevant industry experience. Details of that experience must be disclosed in the listing document.
<u>Waiver from Rule 18.04</u>				
6A.	18.04	18A.04	Can a waiver from Rule 18.04 be sought for the management and ownership continuity requirements apart from the profit requirement as Rule 18.04 only refers to the profit test under Rule 8.05(1), the market capitalisation/revenue/cash flow test under Rule 8.05(2) and market capitalisation/revenue test under Rule 8.05(3)?	Yes, as Rule 18.04 covers the profit test, the market capitalisation/revenue/cash flow test and the market capitalisation/revenue test, and these include the management and ownership continuity requirements. <i>(Added in February 2013)</i>

No.	Main Board Rules	GEM Rules	Query	Response
	<u>Primary Activity in Rule 18.04</u>			
7.	18.04, 18.01(3) Definition of Mineral Company	18A.04, 18A.01(3) Definition of Mineral Company	What is meant by “primary activity” referred to in the note to Listing Rule 18.04?	The purpose of this note is to ensure that Mineral Companies relying on the exemption from the financial standard requirements in Listing Rule 8.05 focus on Natural Resource exploration and/or extraction. This does not have to be their sole activity but should be their main business activity.

Part 3 – Contents of listing documents

No.	Main Board Rules	GEM Rules	Query	Response
	<u>Risk Analysis</u>			
8.	18.05(5), Guidance Note 7	18A.05(5), Practice Note 4	Are Mineral Companies required to comply with the risk analysis referred to in Rule 18.05(5)?	This is not compulsory but Mineral Companies should have regard to the Guidance Note in disclosure on risks to investors. We consider that a framework under which all companies rate risks from likely to unlikely and low to high based on likelihood and consequence is desirable as it provides a common reference point for investors.

No.	Main Board Rules	GEM Rules	Query	Response
<u>Scoping Studies</u>				
9.	18.07	18A.07	A Scoping Study is required to be substantiated by the opinion of a Competent Person under Listing 18.07. Is this additional to requirements for a CPR?	<p>Rule 18.07 requires a Mineral Company which has not yet begun production to disclose its plans to proceed to production with indicative dates and costs, which must be supported by at least a Scoping Study, substantiated by the opinion of a Competent Person.</p> <p>Where a Scoping Study is required under Chapter 18, it should either form part of the CPR or be supported by a CPR.</p>
<u>Consistency in documents</u>				
10.	18.28 to 18.33	18A.28 to 18A.33	Consistency in statements made about Reserves and Resources in the listing document (or circular) and the related CPR	The new applicant or listed issuer must ensure that disclosures in the listing document or circular for the Relevant Notifiable Transaction are consistent with the related Competent Person's Report. In particular, the directors should ensure there is no mismatch between statements about Reserves and Resources in the listing document (or circular for the Relevant Notifiable Transaction) and statements about Reserves and Resources in the

No.	Main Board Rules	GEM Rules	Query	Response
				independent Competent Person's Report. Descriptions of Reserves and Resources must correspond to the specific categories in the Reporting Standards.
	Competent Person's Report/Valuation Report			
10A.	18.05(1)	18A.05(1)	Can a Valuation Report or an economic analysis be included in a Competent Person's Report?	<p>Yes. Information not expressly prohibited under the Rules can be disclosed in the Competent Person's Report, subject to compliance with other applicable Rules. As such, a valuation report or an economic analysis on the valuation of reserves/resources under relevant industry standards can be included in a Competent Person's Report provided that the Competent Person is also a Competent Evaluator as explained in the note to Rule 18.23. Rule 18.01 also states that a Valuation Report may form part of a Competent Person's Report.</p> <p><i>(Added in February 2013)</i></p>
10B.	18.24(2)	18A.24(2)	From which point of time the six-month period commences in respect of the validity of the contents of a Competent Person's Report/Valuation Report under	The valid date should be the date of appraisal (i.e. the date when Resources and Reserves are estimated or valued), but not the date when the Competent Person's

No.	Main Board Rules	GEM Rules	Query	Response
			Rule 18.24 which states that a Competent Person's Report/Valuation Report must have an effective date less than six months before the date of publishing the listing document or circular?	Report/Valuation Report is signed. <i>(Added in February 2013)</i>

Part 4 – Relevant Notifiable Transactions

No.	Main Board Rules	GEM Rules	Query	Response
11.	18.09, 18.10	18A.09, 18A.10	How will the Exchange determine whether an acquisition or disposal relates to assets which are solely or mainly Mineral or Petroleum Assets?	Whether assets that are the subject of a transaction are solely or mainly Mineral or Petroleum Assets will be determined on a case by case basis, taking account of the specific circumstances of transactions.
	<u>Requirements for CPRs on a disposal</u>			
12.	18.09(2)	18A.09(2)	In what circumstances is the Exchange likely to dispense with the requirement for a CPR on a disposal which is also a Relevant Notifiable Transaction?	Mineral Companies must demonstrate to us on a case by case basis that shareholders have sufficient information on the Mineral or Petroleum Assets being disposed of. By way of example, however, we may be able to dispense with the requirement where a Mineral Company has Mineral or Petroleum Assets that have been the subject of a CPR in the past and they are accounted for on a Mineral Company's balance

No.	Main Board Rules	GEM Rules	Query	Response
				sheet.
	<u>Aggregation of transactions</u>			
13.	14.22	19.22	If an issuer completes a series of acquisitions with different parties within a 12 month period, each of which is not major (as defined in Chapter 14) but their cumulative size exceeds the 25% threshold, will this company be treated as a Mineral Company upon completion of the transactions?	The principles of aggregation (Listing Rule 14.22) apply to transactions undertaken by all listed companies, including those that enter into a series of small acquisitions of Mineral or Petroleum Assets.
	<u>Dispensation from requirement to produce a new CPR</u>			
14.	18.12, 18.13, 18.05(1), 18.09(2), 18.09(3)	18A.12, 18A.13, 18A.05(1), 18A.09(2), 18A.09(3).	If a major acquisition of Mineral or Petroleum Assets is made from a company which already has an independent Competent Person's Report, is it necessary for the listed issuer to obtain a new Competent Person's Report?	The Exchange may waive the requirement to produce a new Competent Person's Report or Valuation Report required under Listing Rules 18.05(1), 18.09(2), or 18.09(3) if the issuer has available a previously published Competent Person's Report (or equivalent) which complies with rules 18.18 to 18.34, provided that report is no more than six months old. The issuer must provide this document together with an up-to-date no material change statement in the listing document or circular.

No.	Main Board Rules	GEM Rules	Query	Response
				<p>Listing documents or circulars must include consent statements by Competent Persons and Competent Evaluators, whether or not they are retained directly by the issuer.</p>
	<p><u>Connected transactions</u></p>			
15.	18.09, 14A.70(8) Chapter 14A	18A.09, 20.68(8) Chapter 20	<p>Are all connected transactions involving the acquisition or disposal of Mineral or Petroleum Assets which require shareholder approval covered by Chapter 18?</p>	<p>Where a Mineral Company proposes to acquire or dispose of assets which are solely or mainly Mineral or Petroleum Assets as part of a connected transaction which is also a Relevant Notifiable Transaction (i.e. a Major transaction or above) as defined in Chapter 18, the Mineral Company must comply with Chapter 14A and Listing Rule 18.09, i.e. provide a CPR. Some connected transactions below the major (i.e. 25%) threshold still require shareholder approval. These transactions are not required to be supported by a CPR.</p> <p>Valuations are required in certain cases under the connected transaction rules (see Listing Rule 14A.70(8) and FAQ Series 7 Item 55). In these cases, they must be provided by a Competent Evaluator in</p>

No.	Main Board Rules	GEM Rules	Query	Response
				<p>accordance with a Reporting Standard.</p> <p><i>Note: Rule reference updated in July 2014.</i></p>

Part 5 – Continuing Obligations

No.	Main Board Rules	GEM Rules	Query	Response
16.	18.15 to 18.18	18A.15 to 18A.18	Does the requirement for a listed issuer to update details of its Resources and/or Reserves in its annual report have retrospective effect?	<p>The New Rules are not intended to have retrospective effect. A listed issuer that publicly discloses details of its Resources and/or Reserves after the New Rules are effective will be required to update information on its Resources and/or Reserves once a year in its annual report, in accordance with the reporting standard under which they were previously disclosed or a Reporting Standard.</p> <p>A listed issuer which is classified as a Mineral Company, however, must include an update of its Resources and/or Reserves in its annual report in accordance with a Reporting Standard. This annual update of Resources and/or Reserves must comply with Listing Rule 18.17.</p>

Part 6 – Reporting Standard

No.	Main Board Rules	GEM Rules	Query	Response
	<u>Requirement for CPRs</u>			
17.	18.05, 18.09, 18.10	18A.05, 18A.09, 18A.10	When are CPRs required?	<p>A CPR is required in the following circumstances:</p> <p>(i) <i>For IPOs</i></p> <ul style="list-style-type: none"> • at the IPO stage for new applicant Mineral Companies (rule 18.05). <p>(ii) <i>For Relevant Notifiable Transactions</i></p> <ul style="list-style-type: none"> • where a Mineral Company proposes to acquire or dispose of assets which are solely or mainly Mineral or Petroleum Assets as part of a Relevant Notifiable Transaction (rule 18.09); • where an existing listed issuer proposes to acquire assets which are solely or mainly Mineral or Petroleum Assets as part of a Relevant Notifiable Transaction (rule 18.10). In this case, a Valuation Report will also be required. <p>(iii) <i>For Connected Transactions which are also Relevant Notifiable Transactions</i></p>

No.	Main Board Rules	GEM Rules	Query	Response
				<p>For clarity, a <i>Relevant Notifiable Transaction</i> is a transaction that falls into one of the classifications set out in rules 14.06(3) to (6), namely a major transaction, very substantial disposal, very substantial acquisition, or a reverse takeover.</p> <p>Companies' internal experts (who are likely to be qualified geologists and Competent Persons) may prepare estimates of Reserves at other times, such as updates of details of Reserves and Resources in annual reports. Updates on exploration, mining production and development activities in interim and annual reports may also include statements of Reserves and Resources.</p>
<u>Reconciliation of mineral reporting codes in a takeover context</u>				
18.	18.01(3) definition of Reporting Standard, 18.28 to 18.33	18A.01(3) definition of Reporting Standard, 18A.28 to 18A.33	Where a Mineral Company is involved in the acquisition of another Mineral Company that reports its Reserve and Resource information using a different mineral reporting code, would the Exchange accept both mineral Reporting Standards?	For comparability, we will require reconciliation to one of the accepted Reporting Standards. The JORC-type Codes are widely accepted as they evaluate Reserves and Resources on the basis of what is commercially extractable whilst some standards focus on "in-situ" estimates. We will consider whether other standards may be accepted from time to time.

No.	Main Board Rules	GEM Rules	Query	Response
19.	18.01(3) definition of Reporting Standard, 18.28 to 18.33	18A.01(3) definition of Reporting Standard, 18A.28 to 18A.33	If the target of an acquisition reports its Reserve and Resource information using Canadian NI 43-101, whilst the Mineral Company reports using the JORC Code, would the Exchange accept both Reporting Standards?	Yes, because differences in presentation of Reserves and Resources under the JORC-type Codes are only minor. The Mineral Company or listed issuer must, however, highlight any material differences in these Reporting Standards in the shareholder circular discussing the Relevant Notifiable Transaction.
<u>Methods for estimating Petroleum Reserves</u>				
20.	18.33(1)	18A.33(1)	Does the Exchange accept both “deterministic” and “probabilistic” methods of estimating Reserves?	Yes, it is for Competent Persons and issuers to decide whether to estimate Reserves under the deterministic or probabilistic method. The reason for their choice should be disclosed to investors. Under Rule 18.33(1), where estimates of Reserves are disclosed using the probabilistic method, the Competent Person must state the underlying confidence levels applied.
<u>Profit Forecasts</u>				
21.	14.61, 11.17, 18.34, Appendix 1A(34)(2),	19.61, 14.29, 18A.34	Will valuations of Natural Resource assets (i.e. Reserves) based on discounted cash flows (DCF) be regarded as profit	Where a new applicant Mineral Company or listed issuer provides a valuation of Natural Resource assets (i.e. Reserves) based on

No.	Main Board Rules	GEM Rules	Query	Response
	Appendix 1B(29)(2)		forecasts under Rule 14.61?	DCF, the Exchange will not regard the DCF as a profit forecast requiring review by an independent accountant. However, issuers must disclose all relevant assumptions and the reason why a particular valuation method is chosen.
	<u>Disclaimers/Indemnities</u>			
22.	18.25, 18.26, 18.22	18A.25, 18A.26, 18A.22	Will the Exchange allow Competent Persons to obtain indemnities from the entity that commissioned the public report?	We consider Competent Persons should be entitled to protect themselves from liability to an extent consistent with market practice. As a guide, paragraph 39 of the VALMIN Code, states “a Competent Person should obtain from the Commissioning Entity an indemnity under which they will be compensated for any liability: (a) resulting from their reliance on information provided by the Commissioning Entity that is materially inaccurate or incomplete. (Such an indemnity does not absolve Competent Persons from critically examining the information provided); or (b) relating to any consequential extension of workload through queries, questions or public hearings arising from the Competent Person’s Report”. Listing Rule 18.25

No.	Main Board Rules	GEM Rules	Query	Response
				expressly permits a Competent Person to disclaim responsibility if he relied on other experts who are not Competent Persons on areas relevant to the CPR that are not within the Competent Person's area of expertise.
	<u>Obligations of Sponsors</u>			
23.	Chapter 3A, Rule 18.27, Practice Note 21	Chapter 6A, Rule 18A.27, Practice Note 2	What is the role of the Sponsor in relation to Mineral Companies?	<p>The obligations of sponsors are set out in Chapter 3A of the Listing Rules. For companies that fall within Chapter 18, Rule 18.27 requires that sponsors ensure that the Competent Person and/or Competent Evaluator satisfies the requirements of a Competent Person and/or a Competent Evaluator in Chapter 18, including whether the Competent Person and/or Competent Evaluator is independent, professionally qualified, and a member of an RPO.</p> <p>Reference should be made to Paragraphs 5 and 14 of Practice Note 21 (Due Diligence by Sponsors in respect of Initial Listing Applications) which sets out the typical due diligence inquiries a sponsor should undertake for the expert sections of the listing document.</p>