

QUATERLY HIGHLIGHT

May 2012

BMI Appraisals Limited

Key Basics of Valuations on Mineral Projects

Key Evaluation Related Aspects of Listing Rule Chapter 18 of the HKEx

- Effective on 3 June 2010 ("Effective Date")
- Governs the companies ("Mineral Companies") that, after the Effective Date:
 - i) listed ("IPO") with their major activities being the exploration for and/or extraction of mineral natural resources; or
 - ii) completed major or above transactions ("M&A") involving mineral natural resources assets
- For IPO and/or M&A:
 - i) only accepts evaluations prepared by Competent Persons ("CP") and/or Competent Evaluators ("CE")¹
 - ii) only accepts evaluations in compliance with defined standards ("Reporting Standards")²
 - iii) do not accept projects that mainly involve resources with low level of confidence³
- Requires Mineral Companies to perform annual disclosures ("Continual Obligations")⁴

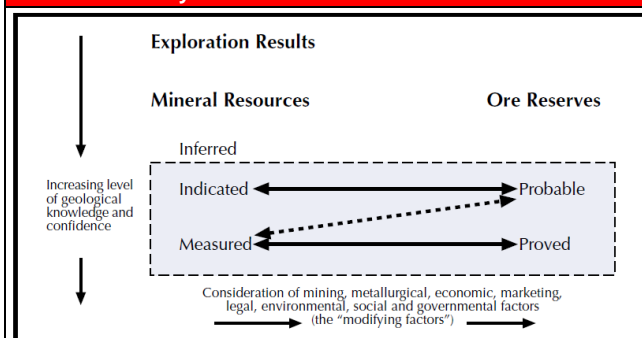
Requirements of Chapter 18 on IPO and/or M&A

Technical Report ("CPR")	Valuation Report
¹ Prepared by CP <ul style="list-style-type: none"> ➤ Member of recognized professional organization ➤ 5 yrs+ relevant mining experience 	¹ Prepared by CE <ul style="list-style-type: none"> ➤ Member of recognized professional organization ➤ 10 yrs+ general mining experience ➤ 5 yrs+ relevant valuation experience
² Reporting Standards <ul style="list-style-type: none"> ➤ Mineral: JORC/ NI43-101/ SAMREC ➤ Oil & gas: PRMS 	² Reporting Standards <ul style="list-style-type: none"> ➤ VALMIN/ CIMVAL/ SAMVAL
³ (IPO only) Included in Analysis, At Least a Meaningful Portfolio of <ul style="list-style-type: none"> ➤ Mineral: indicated resources ➤ Oil & gas: contingent resources 	³ Excluded in Analysis <ul style="list-style-type: none"> ➤ Mineral: inferred resources ➤ Oil & gas: possible reserves/ contingent resources/ prospective resources

Requirements of Chapter 18 on Annual Reporting

Technical and Valuation Report	Interim and Annual Report
No specific requirements	⁴ Continual Obligations <ul style="list-style-type: none"> ➤ Disclose resources/ reserves update ➤ Disclose exploration, development & production activities and expenditure incurred ➤ No retrospective effect

Classification System of JORC/ NI43-101/ SAMREC



Source: The JORC code

Chinese Code vs. JORC Code - Generic Correlation⁵

JORC Code	Chinese Code	
Reserves	Proved	111, 121
	Probable	122
Resources	Measured	111b, 121b, 2M11, 2M21, 2S11, 2S21, 331
	Indicated	2M22, 2S22, 332
	Inferred	333
	Non-equivalent	334

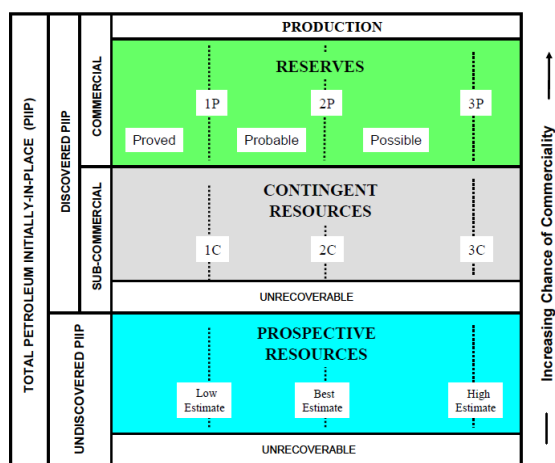
⁵ For reference only, the two codes are not directly transferable.

Classification	Geological Level of Confidence	Remarks	
Proved	Reserves	High	Economically minable part of
Probable		Medium	measured and/or indicated resources
Measured	Resources	High	Reasonable prospects of
Indicated		Medium	eventual economic extraction
Inferred		Low	

Points to Notice when Comparing Chinese Code with JORC Code

- Substantial additional works are needed for actual comparison because under the two codes:
- Exploration planning have different focuses
 - The importance of geological factors are different during geological modeling

Classification System of Petroleum Resources Management System ("PRMS")



Source: The PRMS

Classification		Prob. that Actual Amount Exceeds Estimate	Descriptions
Reserves	Proved (1P)	90%	<ul style="list-style-type: none"> ➤ Commercially recoverable ➤ From known accumulations
	Probable (2P)	50%	
	Possible (3P)	10%	
Contingent resources	1C	90%	<ul style="list-style-type: none"> ➤ Not currently commercially recoverable ➤ From known accumulations
	2C	50%	
	3C	10%	
Prospective resources	Low estimate	90%	<ul style="list-style-type: none"> ➤ Potentially recoverable ➤ From undiscovered accumulations
	Best estimate	50%	
	High estimate	10%	

VALMIN/ CIMVAL/ SAMVAL Compliant Valuation Methods

Stage		Descriptions	Dominant Methods
Very early	Exploration	Minimal holes drilled	<ul style="list-style-type: none"> ➤ Appraised value ➤ Cost approach ➤ Market comparables
Early		Several holes drilled	
Late		Pre-feasibility study completed ⁶	
Early	Development	Bankable feasibility study completed	<ul style="list-style-type: none"> ➤ Market comparables
Late		Full construction to be completed	
Early	Production	Commercial production commenced	<ul style="list-style-type: none"> ➤ Salvage value
Late		Reserves to be depleted in few years	
End		Mined closed with limited further exploration potential	

⁶A mineral project with only a resources (instead of reserves) estimation technical report and without at least a pre-feasibility study is typically unsuitable for VALMIN/ CIMVAL/ SAMVAL compliant discounted cash flow valuation.

Reliability Assessment of Outdated/ Non-International Standard Technical Report for Accounting Valuation

Party	Works	Descriptions
General valuer		<ul style="list-style-type: none"> ➤ Technical report reliability is project specific ➤ Cannot adjust by experience or industry norm
External technical expert	Technical due diligence	<ul style="list-style-type: none"> ➤ Limited scope study on existing resources/ reserves estimation ➤ Relatively small amount of cost and time ➤ Only assess reliability of existing estimation ➤ No adjustments provided even if study shows that reliability of existing estimation is in doubt
	Resources/ reserves update	<ul style="list-style-type: none"> ➤ A full review on all technical aspects of the project ➤ Relatively large amount of cost and time ➤ Provide conclusive updated resources/ reserves estimation ➤ Can also be used to fulfill Continual Obligations