

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 |

Chinese Code vs. JORC Code - Generic Correlation⁵

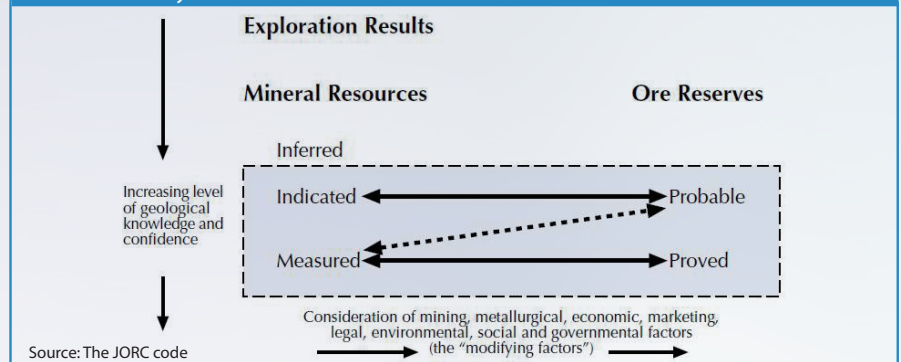
| JORC Code | Chinese Code | |
|-----------|----------------|---|
| Reserves | Proved | 111, 121 |
| | Probable | 122 |
| Resources | Measured | 111b, 121b, 2M11, 2M21, 2S11, 2S21, 331 |
| | Indicated | 2M22, 2S22, 332 |
| | Inferred | 333 |
| | Non-equivalent | 334 |

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

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



| Classification | Geological Level of Confidence | Remarks |
|----------------|--------------------------------|---------|
| Proved | Reserves | High |
| Probable | | Medium |
| Measured | Resources | High |
| Indicated | | Medium |
| Inferred | | Low |

Economically minable part of measured and/or indicated resources

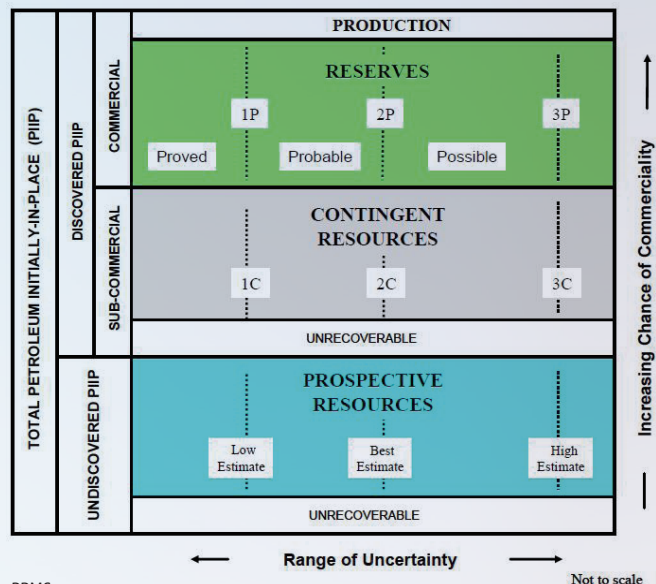
Reasonable prospects of eventual economic extraction

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

Not to scale

| Classification | | Prob. that Actual Amount Exceeds Estimate | Descriptions |
|-----------------------|---------------|---|--|
| Reserves | Proved (1P) | 90% | » Commercially recoverable » From known accumulations |
| | Probable (2P) | 50% | |
| | Possible (3P) | 10% | |
| Contingent resources | 1C | 90% | » Not currently commercially recoverable » From known accumulations |
| | 2C | 50% | |
| | 3C | 10% | |
| Prospective resources | Low estimate | 90% | » 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 | » Appraised value » Cost approach » Market comparables |
| Early | | Several holes drilled | |
| Late | | Pre-feasibility study completed ⁶ | |
| Early | Development | Bankable feasibility study completed | » Discounted cash flow » Market comparables |
| Late | | Full construction to be completed | |
| Early | Production | Commercial production commenced | » 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 | | » Technical report reliability is project specific |
| | | » Cannot adjust by experience or industry norm |
| External technical expert | Technical due diligence | » Limited scope study on existing resources / reserves estimation |
| | | » Relatively small amount of cost and time |
| | | » Only assess reliability of existing estimation |
| | Resources/ reserves update | » No adjustments provided even if study shows that reliability of existing estimation is in doubt |
| | | » 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 |

BMI Technical Consulting (Resources) Limited

Address: 33rd Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong

Contact: Dr. Tony Cheng

Tel: (852) 2593 9633

Email: tcheng@bmintelligence.com

Contact: Mr. Derek Chan

Tel: (852) 2159 5082

Email: dchan@bmintelligence.com

Website : www.bmitc-resources.com