



Submission to ASX re:

Updating ASX's admission requirements for listed entities

ASSOCIATION OF MINING AND EXPLORATION COMPANIES

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Contents

1. INTRODUCTION	3
2. EXECUTIVE SUMMARY	3
3. STATE OF THE INDUSTRY	4
4. RESPONSE TO ASX PROPOSALS	6

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1. INTRODUCTION

Thank you for the opportunity to comment on the proposals detailed in the *Consultation Paper – Updating ASX’s admission requirements for listed entities dated 12 May 2016*.

The Association of Mining and Exploration Companies (AMEC) is the peak national industry body representing hundreds of mining and mineral exploration companies throughout Australia.

The proposed changes to the ASX Listing Rules are directly relevant to AMEC members. The following comments are therefore provided in that context. In doing so, AMEC has consulted widely with members and held industry meetings in Perth, Brisbane and Sydney to develop the response.

2. EXECUTIVE SUMMARY

AMEC fully supports the objective to ensure that the ASX market continues to meet the principles of quality and integrity, and remains internationally competitive.

AMEC agrees with the general thrust and objectives of the Consultation. However, in doing so it is crucial that any changes do not detrimentally affect the ability of companies to list on the ASX and raise equity capital in an extremely competitive market place.

The ASX should be encouraging Initial Public Offerings (IPOs) in the mineral exploration sector, and not creating additional barriers to the listing process. This acknowledges the fact that there have been only 22 mineral exploration IPOs in the last 4 years.

The argument that there has been no increase in the thresholds since 1992 and there needs to be an allowance for inflation or CPI is not valid when considering the enormous difficulty in raising capital in the mineral exploration sector, especially in the current market. This compares to 126 in 2007 alone.

The key economic issues surround global commodity price, supply/demand dynamics and exchange rates to name but a few.

The ASX has identified the Technology sector as one of key concern in relation to back door listings and as a catalyst for a number of the proposed changes in the Consultation Paper. It is critically important to separate the mineral exploration sector from this issue.

AMEC recommends the ASX should determine a means by which the Mineral Exploration sector will be treated separately and ‘carved’ out of the ASX Listing Rules in relation to the proposed changes.

AMEC is seriously concerned that the proposed changes from the ASX and ASIC will drive new listings to other exchanges. The ASX should take extreme care in implementing any changes to the Listing Rules to ensure that they do not detrimentally affect the capacity of legitimate companies in the minerals sector from raising much needed equity capital.

3. STATE OF THE INDUSTRY

The mining and mineral exploration industry has continued to experience considerable financial and economic pressures, falling commodity prices, massive unemployment, reduced international competitiveness and capital investment going to offshore and competing projects.

This has continued to be caused by:

- Lower discovery rates,
- High and increasing production and operating costs,
- Lower grades and higher strip ratio waste removal,
- Deeper deposits requiring increased pre-production expenditure and the subsequent higher mining and extraction costs, and
- Tighter margins.

Many projects are finely balanced with low margins and limited cash flow with the result that cost saving and efficiency measures are being applied on a daily basis by emerging miners in order to keep their operations viable.

A number of these cost pressures are beyond the control of companies as they are compulsory expenses applied by Government agencies and utilities, such as with corporate taxation, power, water, stamp duty, tenement rentals, shire council rates, fees and charges, levies, superannuation, regulation and compliance costs. Significant costs are also incurred through other payments such as third party royalties to native title groups.

These costs can only be sustainable in an environment of high commodity prices. Companies have therefore had no alternative but to find internal savings to meet these compulsory payments. This has been accomplished through projects being closed, put on care and maintenance or deferred; reduced exploration; increased production efficiencies; operational savings; or through job losses.

Of particular concern is the fact that the share of greenfield mineral exploration drilling activity has been declining over the last decade (Table 1). Greenfield exploration expenditure is also at a 10 year low. These are significant signs as the mines of tomorrow are discovered through greenfield exploration (Table 2).

Australian Greenfields v Brownfields Drilling as % of Total Metres Drilled

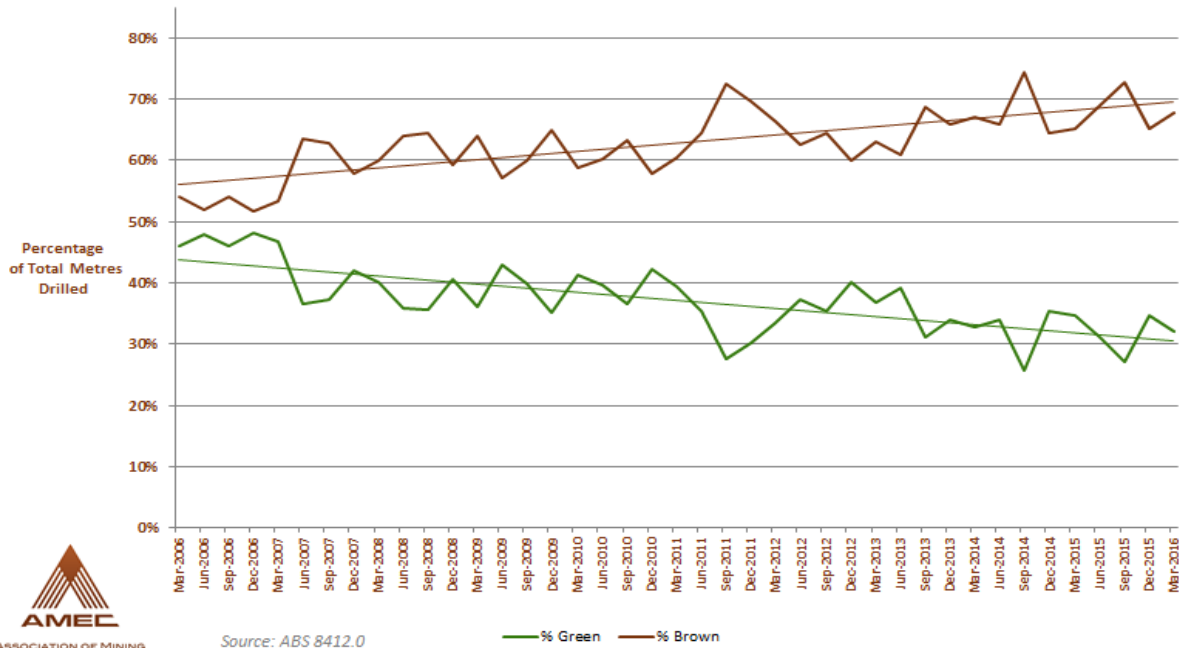


Table 1 – Share of metres drilled

Australian Mineral Exploration Expenditure

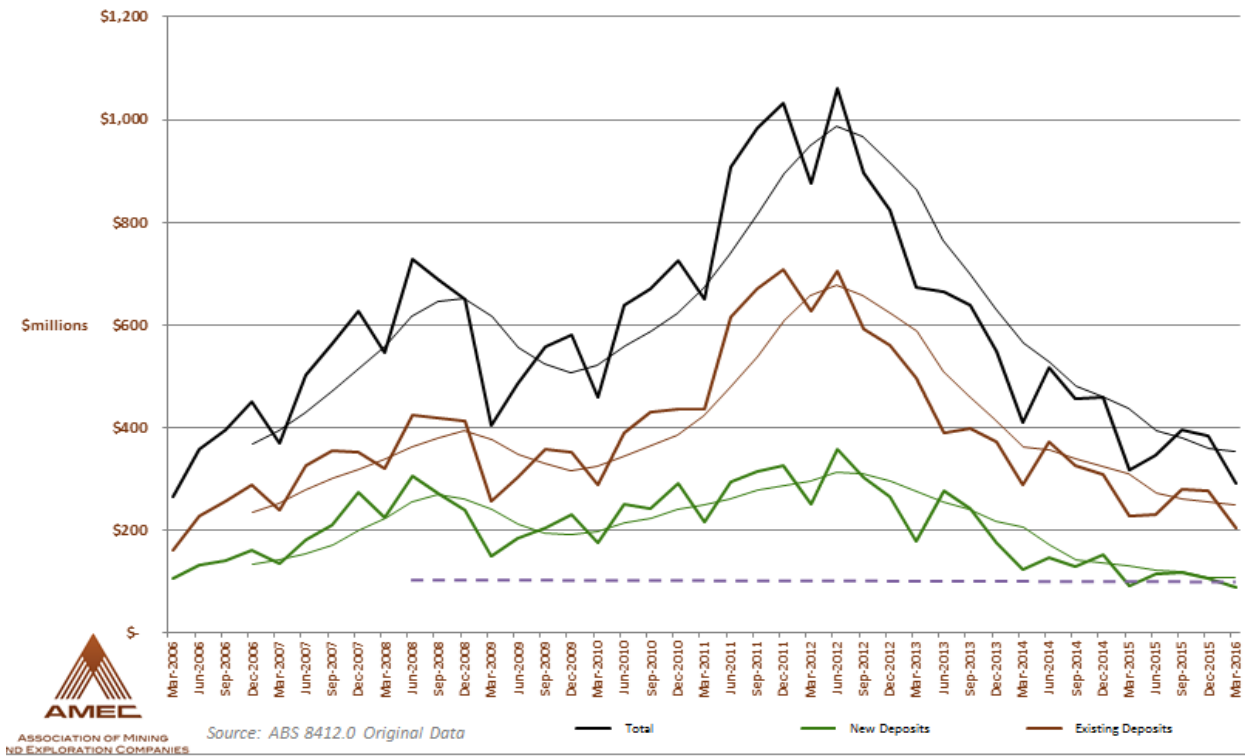


Table 2 – Share of exploration expenditure

The number of mineral related Initial Public Offerings (IPOs) highlights the difficulties the majority of companies are experiencing in raising capital (Table 3). The high of 126 in 2007 has since seen

a sharp decline in the number of mineral exploration IPOs to the extent that there has been only 12, 6, 3 and 1 in each of the last 4 years.

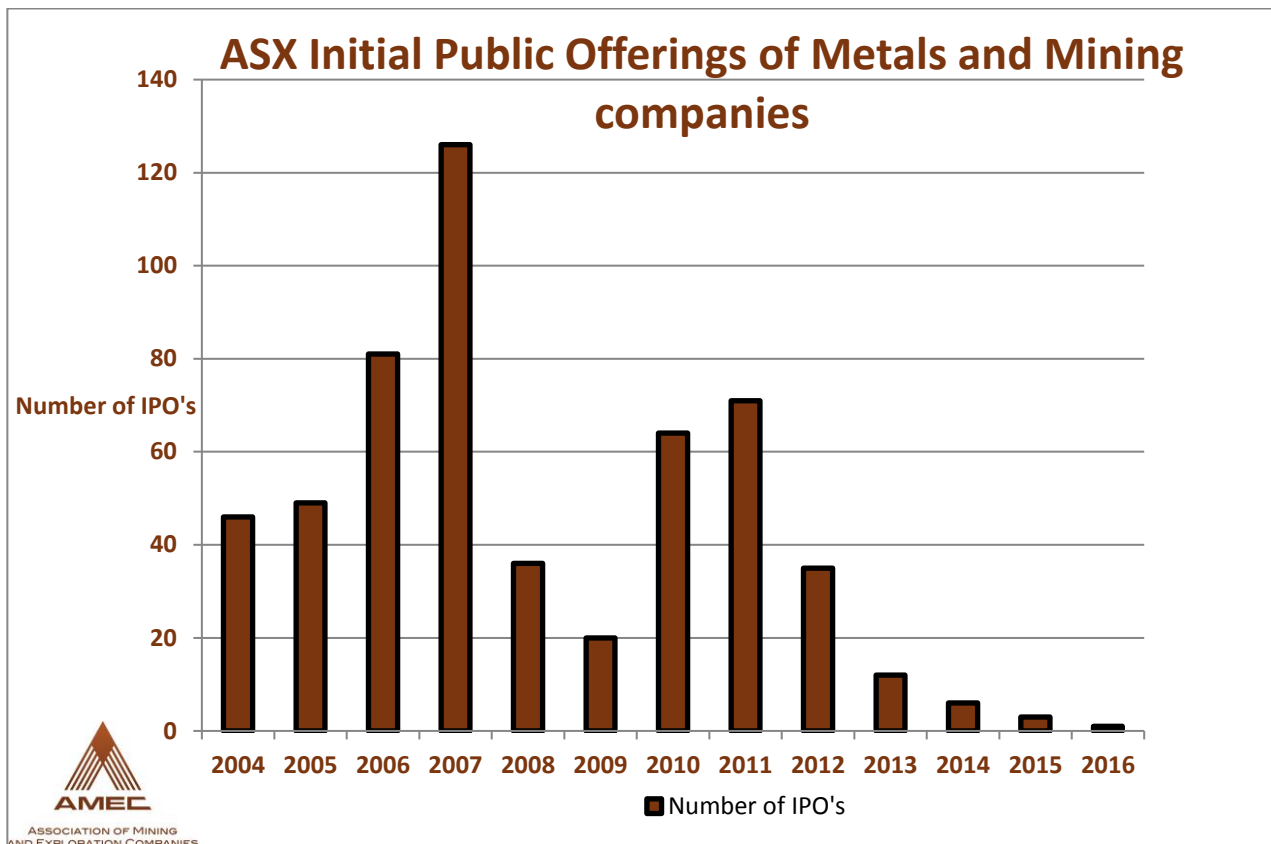


Table 3 – Number of mineral exploration IPOs

The number of ASX listed companies in the BDO Accountants Explorer Quarterly Cash Update quarterly series has reduced by 129 companies (representing 15%) since September 2013 (when the research commenced). This is reflective of the state of the industry, and significantly reduces the probability of finding new deposits and the mines of tomorrow.

To place this in perspective *'the probability of finding an economic deposit on any piece of ground is 1/100, whereas finding one that is of 'world class' is 1/1000.'*¹

There is a growing number of international jurisdictions with mineral resources which are competing in the same market place as Australian producers. This is evidenced by the number of jurisdictions increasing 43% from 78 to 112 in the Canadian based Fraser Institute Survey over the last decade alone. Australia's share of global exploration spend has also reduced from 23% to 12% over that period.

4. RESPONSE TO ASX PROPOSALS

AMEC provides the following responses to the proposals detailed in the *Consultation Paper – Updating ASX's admission requirements for listed entities dated 12 May 2016*.

¹ Gold and Minerals Gazette – August 2008 edition – Editorial page 4

<u>Current requirement</u>	<u>Proposed change</u>	<u>AMEC response</u>
Profit test	Increase the consolidated profit requirement under the profit test for the 12 months prior to admission to at least \$500,000	In view of the state of the industry AMEC considers that the existing profit test threshold should be maintained. Mineral exploration companies do not make profits.
Asset test	Increase these thresholds to an NTA of at least \$5 million or a market capitalisation of at least \$20 million	<p>Most IPOs (around 60%) in the last 5 years have been sub-\$5m. There is sufficient data to support maintaining the status quo.</p> <p>There appears to be little correlation between size of listed company at IPO and current market cap. The most successful, Highfield Resources, was only a \$4m IPO. The asset test was increased in late 2012 and since then the market has not changed.</p> <p>AMEC recommends that the ASX leave the asset test at \$3m for the minerals sector, and carved out of the Listing Rules.</p> <p>AMEC understands that entities without a track record of profitability may also apply for admission on the basis of the market capitalisation test, however it does not support the test being increased to \$20million. A number of companies would be precluded from listing under such a condition.</p> <p>AMEC recommends the current level of \$10 million should be maintained.</p> <p>The proposed change may also inadvertently encourage companies to inflate the valuation of certain assets to meet the test.</p>
Free float requirement	Introduce a rules-based 20% minimum free float requirement for ASX listings at the time of admission	The 20% requirement will not affect the vast majority of companies however it will catch some from emerging markets. AMEC agrees with the proposal.
Spread test	Change the minimum spread requirement for ASX listings to require: <ul style="list-style-type: none"> • 200 security holders if the entity has a free float of less than A\$50 million, or 100 security holders if the entity 	Companies with a market cap of less than \$50m will require a shareholder base of 200 non-affiliated security holders. Each security holder must hold a minimum main class of security of at least \$5,000.

	<p>has a free float of A\$50 million or more; and</p> <ul style="list-style-type: none"> Each security holder counted towards spread must hold a parcel of securities with a value of at least A\$5,000 	<p>AMEC supports the reduction in the shareholder base of 200 non-affiliated security holders. However it would prefer to see that each security holder must hold a minimum main class of security of at least \$2,000 especially given the current market circumstances.</p> <p>AMEC does not support the proposal that each security holder must hold a minimum main class of security of at least \$5,000. The level of \$5,000 is considered too high for small investors.</p>
Working capital	Standardise the current \$1.5 million minimum working capital requirement by extending the additional requirements that currently apply only to mining and oil and gas entities, to all entities admitted under the assets test	AMEC agrees with the proposal as already applies to mining entities.
Audited accounts	<p>Produce audited accounts for the last 3 full financial years. If the accounts for the last full financial year are more than 8 months old, it is proposed that the entity also be required to produce audited or reviewed accounts for the last half year.</p> <p>An entity seeking admission under the assets test be required, unless ASX agrees otherwise, to produce 3 full financial years of audited accounts for any entity or business to be acquired by the entity at or ahead of listing. This change will have particular application to backdoor listings</p>	<p>Industry accepts that if a company has three years of audited accounts then it should provide them as a matter of record.</p> <p>Companies will be expected to provide a copy of any audited accounts that have been prepared over the past three years.</p> <p>It is critically important that it is NOT mandatory that a company has three years of audited accounts.</p> <p>This change must not in any way be dependent upon or linked to ASIC requirements for three years of audit data.</p> <p>The listing rules should specify where the ASX will accept audited accounts for a period less than three years.</p> <p>AMEC recommends that provision must be made for companies that have limited trading history.</p>
ASX discretion	Reinforce ASX's absolute discretion on admission and quotation decisions and to state that ASX will take into account the reputation, integrity and efficiency of its market in exercising these discretions.	<p>AMEC understands that 5% of companies are reviewed with 2.5% passing through the review whilst 95% successfully pass through the review committee.</p> <p>AMEC also understands that the appeals tribunal will no longer exist.</p> <p>AMEC agrees with the proposal.</p>

	Amend Guidance Note 1 for ASX to provide examples of when ASX may exercise its discretion and circumstances where an applicant does not have an acceptable structure and operations for a listed entity	
Foreign exempt listings	Require that an overseas exchange on which a foreign exempt listing is listed to be one 'acceptable to ASX' and also amend the assets test for foreign exempt listing to require such entities either to have either minimum net tangible assets of \$2 million (as is currently the case) or a minimum market capitalisation of \$2,000 million	AMEC agrees with the proposal.
Guidance Note 12 amendments	Entities that announce a back door listing transaction will have their securities suspended from trading from the time of the announcement until they have recompiled with the Listing Rules (Chapters 1 and 2)	Industry has concern with this proposal as companies should be permitted to continue trading if they have provided full prescribed information concerning the new venture, including all risk factors. Such an approach will allow the market to determine a position post announcement and not deprive shareholders with the ability to trade in the shares. Alternatively, the ASX could disallow capital raisings until after the shareholder meeting that approved the transaction.
Transition period		AMEC considers that any proposed changes to the ASX Listing Rules, following further consultation with industry, should be undertaken over at least a 6 to 12 months timeframe.