

GLOBAL FINANCIAL VENTURES UK LTD

MEMO ABOUT AIM LISTING PROCESS AND BENEFITS

The Background to AIM

The LSE created AIM to cater for young and growing companies, providing a means for smaller businesses to raise capital by accessing institutional investors through the London capital market. AIM is open to companies from all sectors and from all parts of the world and provides an environment that is intended to be sufficiently regulated as to maintain investor confidence but not so stringent as to preclude less established companies from joining its ranks. AIM rules are decidedly lax. Unlike many other countries, neither the securities regulator in the UK (namely, the Financial Services Authority) nor the LSE is directly involved in overseeing the activities and suitability for admission of AIM companies. This task is the responsibility of the "nominated adviser" (more commonly referred to as the "nomad") to each company. Firms that are qualified to act as nomads are included on a list maintained by the LSE, they fully understand the AIM rules and it is not uncommon for a nomad to also act as the AIM company's financial adviser and "broker".

AIM rules - Eligibility for Admission

A company intending to list on AIM must:

- a.. appoint a nomad and a broker;
- b.. satisfy its appointed nomad that the company and its securities are "appropriate" for the market; and
- c.. comply with the AIM Rules.

The AIM Rules set out the procedure for gaining admission to AIM as well as the ongoing obligations of the company and its directors once the company has been admitted. AIM Rules are generally (with a couple of exceptions) much less onerous than those imposed on companies listed in Canada or the US.

An AIM-listed company is under the general obligation to disclose any new developments not known to the public concerning, among other things, its financial condition and its sphere of activity, which, if made public, would be likely to lead to a substantial movement in the price of its AIM securities. However, unlike in Canada and the US subject to limited exceptions, dealings in the company's AIM securities during certain close periods by the company's directors and applicable employees (namely, those likely to have unpublished, price-sensitive information as a result of his/her employment at the company) are prohibited.

An AIM listing will also bring the company and its management within the gambit of UK securities laws, in particular if an offering of the company's securities is concluded contemporaneously with the AIM admission. It would therefore be prudent for a non-UK company to retain UK qualified counsel

with the necessary expertise.

The Admission Process - Standard and Fast-Track

There are two ways to list on AIM. The standard route, which can take between three and six months, requires the company to produce an admission document that is submitted to (but not vetted by) the LSE. Drafting the admission document is usually the most time-consuming part of the standard admission process. As with a US/Canadian prospectus, the admission document must comply with certain form and content requirements under UK laws and, in general, must include all information as investors would reasonably require, and reasonably expect to find there, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the company and the rights attaching to the company's securities. As the admission document is usually also used as a "pathfinder" by the company's broker to market the company's securities where there is a contemporaneous offering of securities, the company and its financial and legal advisers will devote a substantial amount of time and effort into the "due diligence" process and into preparing and verifying the admission document. The admission document must be made available to the public, usually through the company's nomad. At least 10 working days prior to the effective admission date, the company must also announce its intention to apply for admission by issuing an announcement in the form required by AIM. This 10-Day Announcement is a simple document that sets out very basic information about the company, for example, its name and address.

Companies with already listed securities (known as "Quoted Applicants") can take advantage of the fast-track route, which could shorten the entire process to between a month and six weeks. To qualify for the fast-track route, the company must:

- a.. have securities already listed on any one of a number of AIM "Designated Markets" for at least 18 months prior to the proposed date of admission.
- b.. The Designated Markets include the TSX (but not the TSXV), Australian Stock Exchange, Johannesburg Stock Exchange and Deutsche Bourse;
- c.. and provide a website address of a page containing the company's most recently published annual report and accounts (i.e. financial statements) prepared in accordance with UK or US GAAP or International Accounting Standards with a financial year end not more than nine months prior to admission. Companies with their financial statements prepared in accordance with Canadian GAAP often engage their auditors to reconcile the financial statements with either UK or US GAAP for the purposes of admission. In lieu of an admission document, Quoted Applicants are required to produce an announcement at least 20 working days prior to the effective admission date. This 20- Day Announcement must include all the information required for a 10-Day Announcement and specify, among other things, any other information that has not been made public that would otherwise be required under the AIM Rules if an admission document had been produced. Assuming that the Quoted Applicant, as a result of its existing listing, has made prior public disclosure, the 20-Day Announcement is usually substantially shorter than an admission document. However, the contents of the 20-Day

Announcement and the existence of the Quoted Applicant's public information will still need to be verified and the amount of time and rigour that will likely be expended on the due diligence process and the preparation of the 20-Day Announcement should not be underestimated.

Listing Issues

An AIM listing is fairly straightforward as all the necessary steps are generally within the control of the company and its advisers. However, there are a few issues that should be addressed and resolved early in the process.

Working capital statement.

For a company that is following the standard route, its directors must be able to state in the admission document that the working capital available to the company and the other companies in its group is sufficient for at least the next 12 months from admission. For a company that qualifies for the fast-track route, the directors of the company must be able to state the negative, namely that they have no reason to believe that the company's working capital will be insufficient for the 12-month period post-admission. The company's auditors are usually required by the nomad to produce a working capital report or a "comfort letter" in support of these statements, although the nomad may sometimes take the view that a full audited working capital report is not required for companies following the fast-track route.

Lock-in Requirement.

Where a company's main business activity has not been independent and earning revenues for at least two years, all related parties (i.e. the company's directors and the company's subsidiaries, among others) and applicable employees (i.e. an employee of the company holding 0.5 per cent. or more of the AIM listed securities, among others) at the date of admission must agree not to dispose of any of their interests in the company's AIM-listed securities for one year from the date of admission. In order to comply with this requirement, each related party and applicable employee is required to enter into a lock-in agreement/undertaking with the company prior to admission.

Financial Statements.

As discussed above, in order to take advantage of the fast-track route, the company's accounts must be prepared in accordance with UK or US GAAP or International Accounting Standards with a financial year end not more than nine months prior to admission. Financial statements prepared in accordance with any other standards, for example Canadian GAAP, must be reconciled with UK or US GAAP or International Accounting Standards prior to admission.

Verification Process.

The admission document (in the case of companies following the standard route) and the 20-Day Announcement (in the case of Quoted Applicants) will usually be subject to a rigorous verification process undertaken by the company and its legal counsel. This process is not dissimilar to the Canadian-style due diligence undertaken by underwriters in connection with prospectus offerings but generally involves a more formal and detailed

written analysis of the information in the admission document and must be backed by the directors of the company. However, depending on the nature of the disclosure in the admission document and in the company's public record, verification can be a lengthy and time-consuming exercise and its scope and timing should be agreed to fairly early in the process.

Settlement of AIM securities.

Securities to be listed on AIM must be eligible for electronic settlement. If an offering of securities to UK investors is made contemporaneously with the AIM application, it is common that these investors will prefer the securities to be capable of settlement through CREST. However, CREST is a system that caters primarily to securities of UK companies; securities of non-UK issuers can only become CREST eligible indirectly. In the case of Canadian issuers, the participation of the Canadian depository, CDS, and the US depository, DTCC, will generally be needed in order for the issuer's securities to become capable of settlement through CREST. As each depository has its own internal rules and requirements, it is advisable to agree the settlement mechanics with the depositories as soon as possible once it has been decided that the securities are to be settled through CREST.

Conclusion

Ultimately, the decision to list on AIM will be based largely on financial and commercial factors and after the company has consulted with its financial and business advisers. Although a company considering an AIM listing should be aware of the legal implications of operating in the UK market, neither this nor the admission process itself should be seen as a deterrent to listing, particularly for a US or Canadian company that is already listed on a stock exchange.