



The Bre-X Story An Insider's Perspective CIM MES Discussion Group

Bryan A. Coates
September 29th, 2021

Bre-X Story

- Provide an insider insight into one of Canada's most significant fraud
 - What happened
 - New measures established to avoid reoccurrence
 - Personal impact
 - Lessons learned

Bre-X Fraud

- One of the most important fraud in the mining/financial sectors
 - Market capitalization: \$6 billion
 - Acquisition target for large companies (Barrick, Placer Dome, Freeport, Teck)
 - + 70M ounces gold deposit in Indonesia
 - Junior exploration company
 - Kilborn (SNC Lavalin) Report
 - International suspense
 - Espionage, corruption (?), disclosure, etc.
 - World class advisors: JP Morgan (USA), Republic, National Bank (USA), RBC (Canada), Bennett Jones, Sullivan & Cromwell, PwC, KPMG, Kroll, etc.
 - Mining Analysts – recommendations
 - Canadian & USA investment houses/brokers

Bre-X Fraud (cont'd)

- Fraud discovered during Freeport McMoran's due diligence
 - Unable to replicate drill results
- Strathcona Minerals (Graham Farquharson) was mandated to examine the allegations
 - \$1 M drilling program
 - Report issued May 4, 1997
 - « Regretfully no gold »

Bre-X Fraud (cont'd)



Strathcona Mineral Services Limited

12th Floor, 20 Toronto Street, Toronto, Ontario, Canada M5C 2E8

Telephone: (416) 869-0772
Fac: (416) 367-3638

May 3, 1997

CONFIDENTIAL

Mr. David Walsh
President and Chief Executive Officer
Bre-X Minerals Ltd.
119 - 114 Street NW
Calgary, AB T2N 1Z6

Dear Mr. Walsh:

Busang Technical Audit - Interim Report

Enclosed is our report covering that portion of the technical audit of work on the Busang property that we have completed to date including the very conclusive assay results from 175 core samples. **We very much regret having to express the firm opinion that an economic gold deposit has not been identified in the Southeast Zone of the Busang property, and is unlikely to be.**

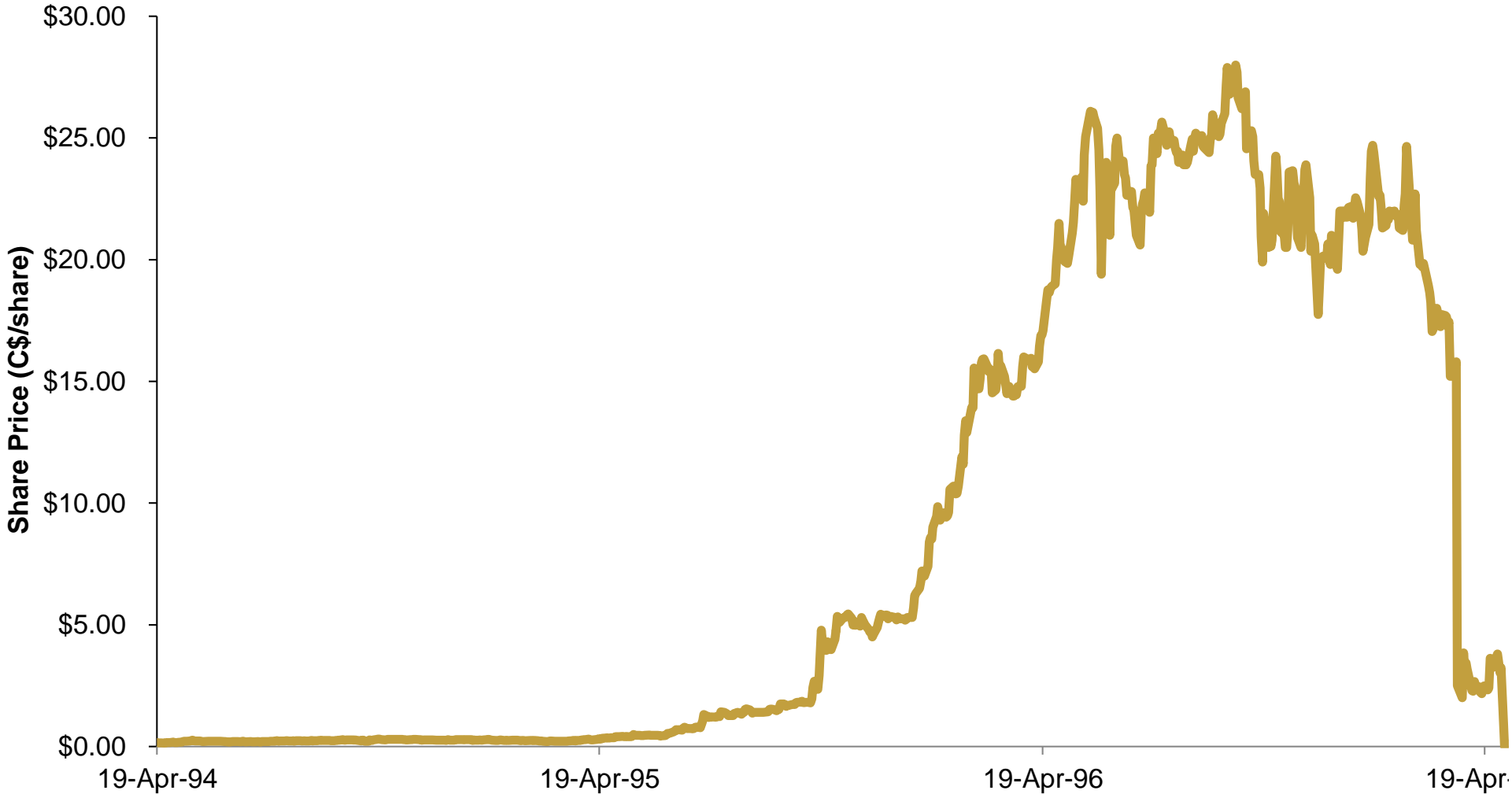
We realize that the conclusions reached in this interim report will be a great disappointment to the many investors, employees, suppliers and the joint-venture partners associated with Bre-X, to the Government of Indonesia, and to the mining industry everywhere. However, the magnitude of the tampering with core samples that we believe has occurred and resulting falsification of assay values at Busang, is of a scale and over a period of time and with a precision that, to our knowledge, is without precedent in the history of mining anywhere in the world.

Yours sincerely,

A handwritten signature in black ink that reads "Graham Farquharson".

G. Farquharson

Bre-X Story



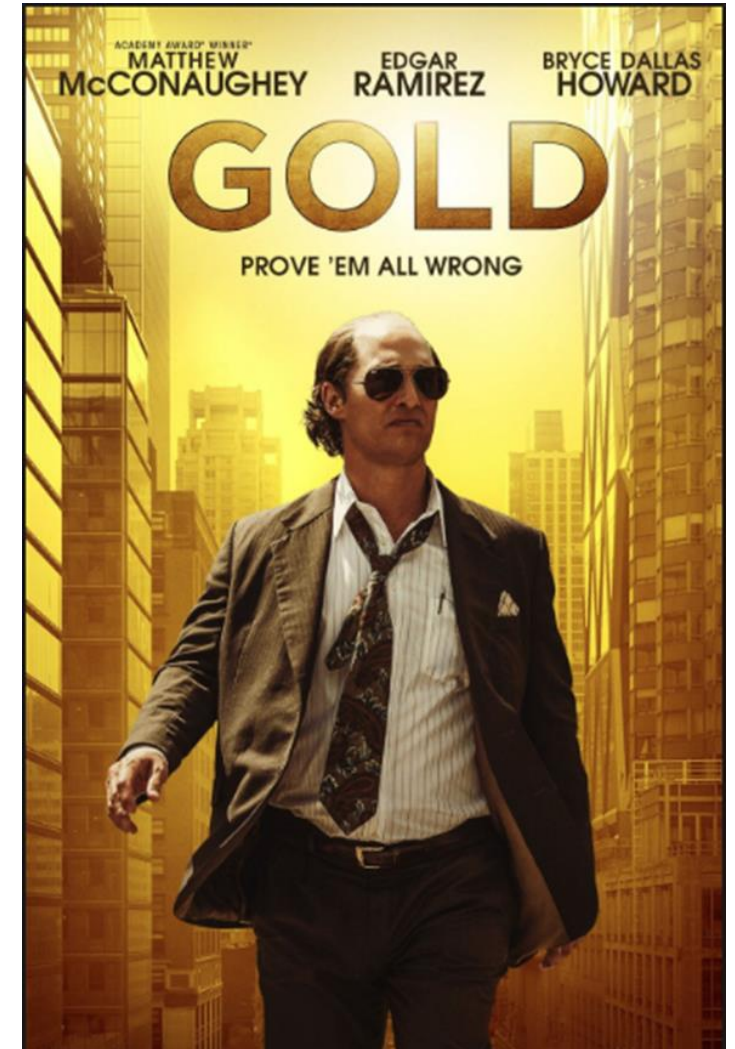
Bre-X Story

- 6 books published
 - The Bre-X Fraud (D. Goold & A. Willis)
 - Fool's Gold: The Making of a Global Market Fraud (B. Hutchinson)
 - Bre-X Gold Today, Gone Tomorrow (J. Whyte & V. Danielson)
 - Fever: The Dark Mystery of Bre-X Gold Rush (J. Wells)
 - Bre-X: The Inside Story (D. Francis)
 - Bre-X: Dead Man's Story (A. Lenarciak)
- Numerous articles – newspapers – magazines
 - Canadian Business, Fortune, etc.



Bre-X Story

- A movie « Gold » – December 2016 (Matthew McConaughey)



The Environment / Setting

- Mining is a high-risk industry
 - Commodity prices
 - Project execution
 - Estimates
 - Wealth distribution
- An industry with companies of various sizes
 - Prospectors / Junior Exploration Companies
 - Operating companies
 - Emerging (junior producers)
 - Intermediate producers
 - Senior producers
- An industry in liquidation
 - Opening of a new mine → depletion of resources

The Environment / Setting (cont'd)

- Risk Capital → Discovery / Development
- Search for deposit → Sale / Joint venture for development
- Open industry (« ease of entry »)
- Need for significant capital to develop
- Mining of resources
 - Collective asset (ownership) / State-owned
- Industry with colorful actors / players / participants
 - « Rags to riches »
 - Relations between prospectors/promoters and senior management of established (large) companies
 - Each (world class) discovery has its intrigue and often is subject to litigation

The Voisey's Bay Story (Diamond Fields)

- Deposit discovered in 1993
 - Search for diamonds
 - Discovery of a significant nickel deposit in Labrador
- Robert Friedland
 - CEO of Diamond Fields
 - Friend of Steve Jobs
 - Exceptional promoter
 - Before Diamond Fields: a colorful past
 - Environmental incident and bankruptcy
 - Galactic Resources – Summitville Mine (USA)



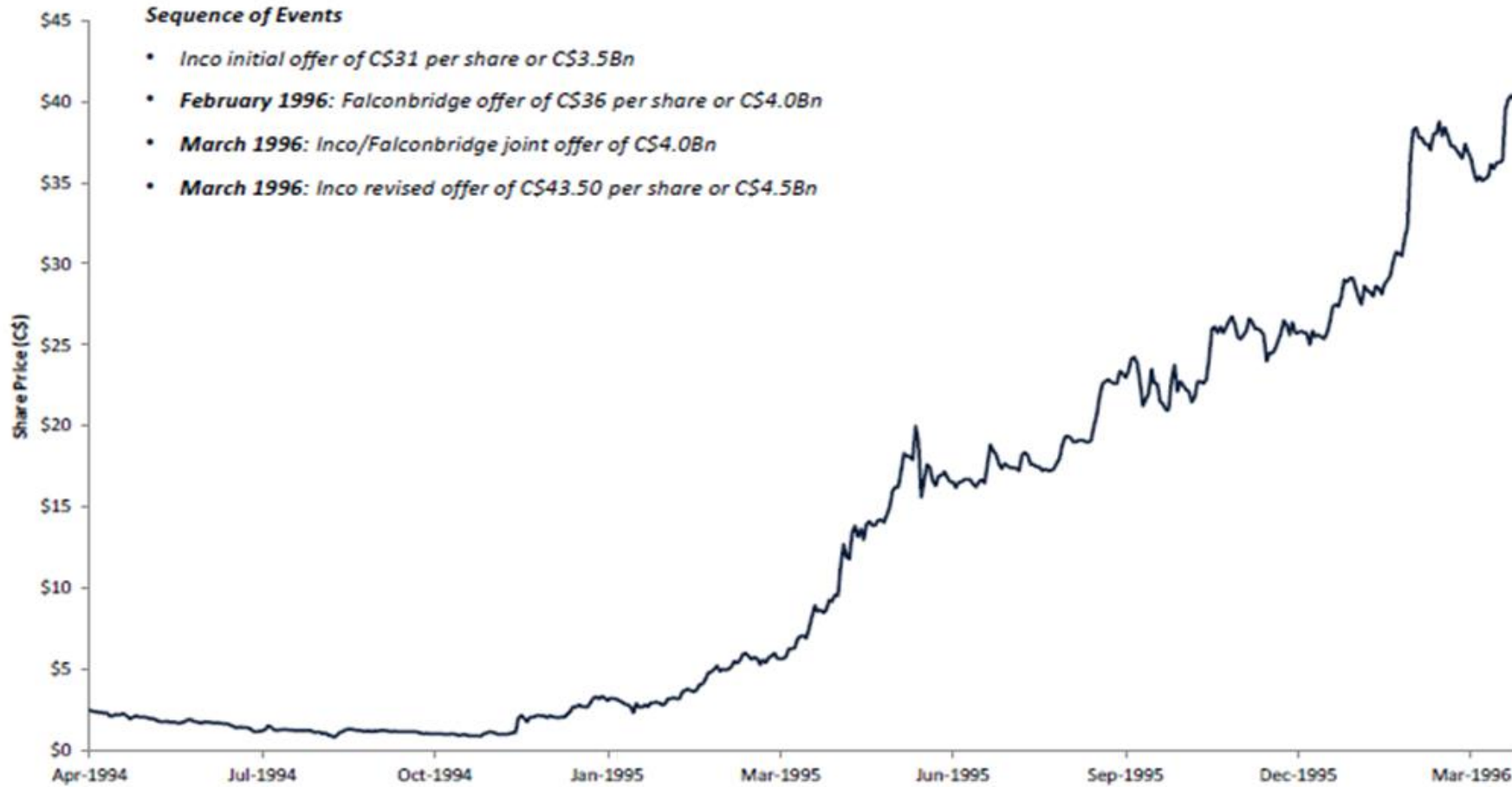
Robert Friedland

The Voisey's Bay Story (Diamond Fields)

- Auctioned company
 - Teck
 - Inco
 - Falconbridge } Leaders in nickel production
- Sold to Inco in March 1996 - \$4.3 billion (\$174 per share – pre-split)

Value creation at the Drill Bit (Exploration)

Diamond Fields Share Price Performance



Sale of Arequipa Resources (Peru)

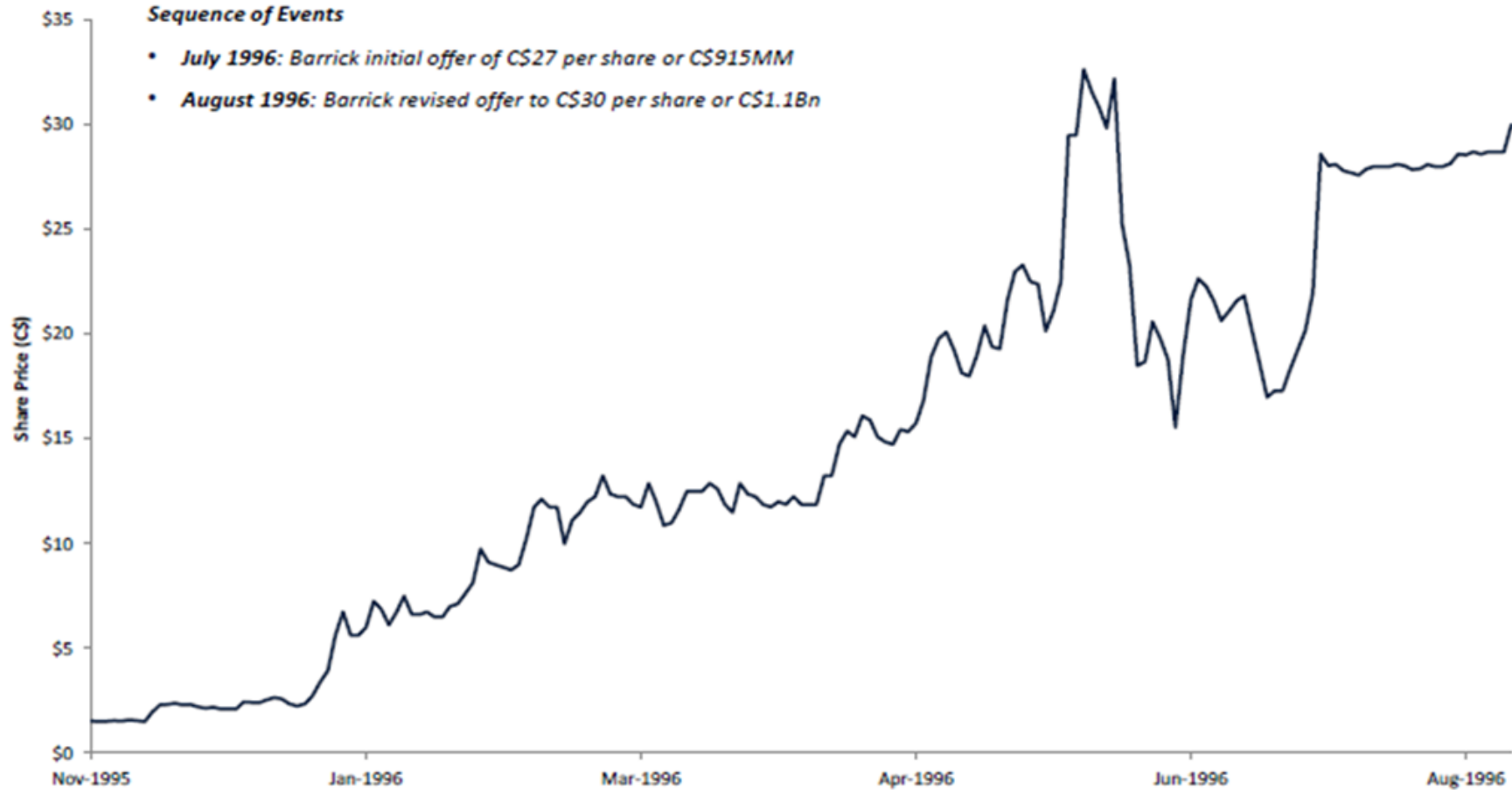
- Discovery of a gold deposit by Arequipa Resources (Pierina deposit)
- Sale of Arequipa Resources to Barrick Gold for \$790 million in August 1996
 - 6,5 M ounces of gold
- One of Barrick's best mines for over 20 years



Catherine McLeod-Seltzer
President & CEO

J David Lowell
Chairman

Arequipa Share Price Performance



Indonesia (1996)

- One of the most difficult jurisdictions from an ethical standpoint
 - President Suharto (dictatorship ?)
 - Wife - Madame 10 % (Ms. Tien)
 - Lack of transparency
 - Corrupted bureaucrats/technocrats
- Country had world class deposits
 - Grasberg
 - Inco involved (PT Inco)
- Little knowledge in Canada and USA about Indonesian mining
- Environment was favorable to fraud

Grasberg Mine (Indonesia)

- One of the world's greatest deposit with challenging conditions



Busang Project

- World class deposit
 - +70 M ounces of gold
 - Production cost less than \$100/ounce
- Region was not well known
- Promoter - David Walsh (Montréal/Calgary)
- Geologist
 - John Felderhoff (Ok Tedi)
 - Filipino geological team (led by Michael De Guzman)
- Players not well known with the North American mining industry
- Other colorful participants involved (McLucas, Meruk et al.)



David Walsh, President & CEO (left)
John Felderhoff, Executive VP Exploration (right)

Bre-X

- New company (junior exploration company)
- Company actively promoted – family business
- Operations - « broche à foin » (disorganized)
- Legal and financial aspects – not best practices
- Credibility – increasing acceptability
 - New members of Senior Management and Directors (Francisco/Coates/Kavanagh)
 - New advisors (Bennett Jones, KPMG, Investment Bankers)

Bay Street

- Canadian and US Investment Banks
 - Major discovery
 - « Everyone wants piece of the pie »
 - Analysts wanted success
- \$\$\$ and \$\$\$ - Greed
- Bay Street wanted this to happen
 - Another Voisey's Bay
 - Another Arequipa
 - Entrepreneurial succes

Transactions

- With its “exploration success” Bre-X became a highly desirable company
 - Barrick
 - Placer
 - Teck
 - Freeport
 - Etc.
- September 1996 – Board mandate to find JV partner
- Pressure for auction
- Impact on Indonesia Government
- Intrigue on the property – history and transfer

The Global Gold Industry (1996)

- Many major gold operating companies
 - South Africa (Goldfields, Anglo Gold)
 - Canada (Barrick, Placer Dome, Teck, Cambior, etc.)
 - USA (Newmont, Homestake, Freeport McMoran)
 - Australia (Rio Tinto, etc.)
- Barrick wanted to be the leading gold producer (No. 1)
 - Peter Munk - Entrepreneur



Peter Munk
Barrick Gold's Founder and Chairman

Barrick Board and International Advisory Board

- Well connected members – many former leading politicians

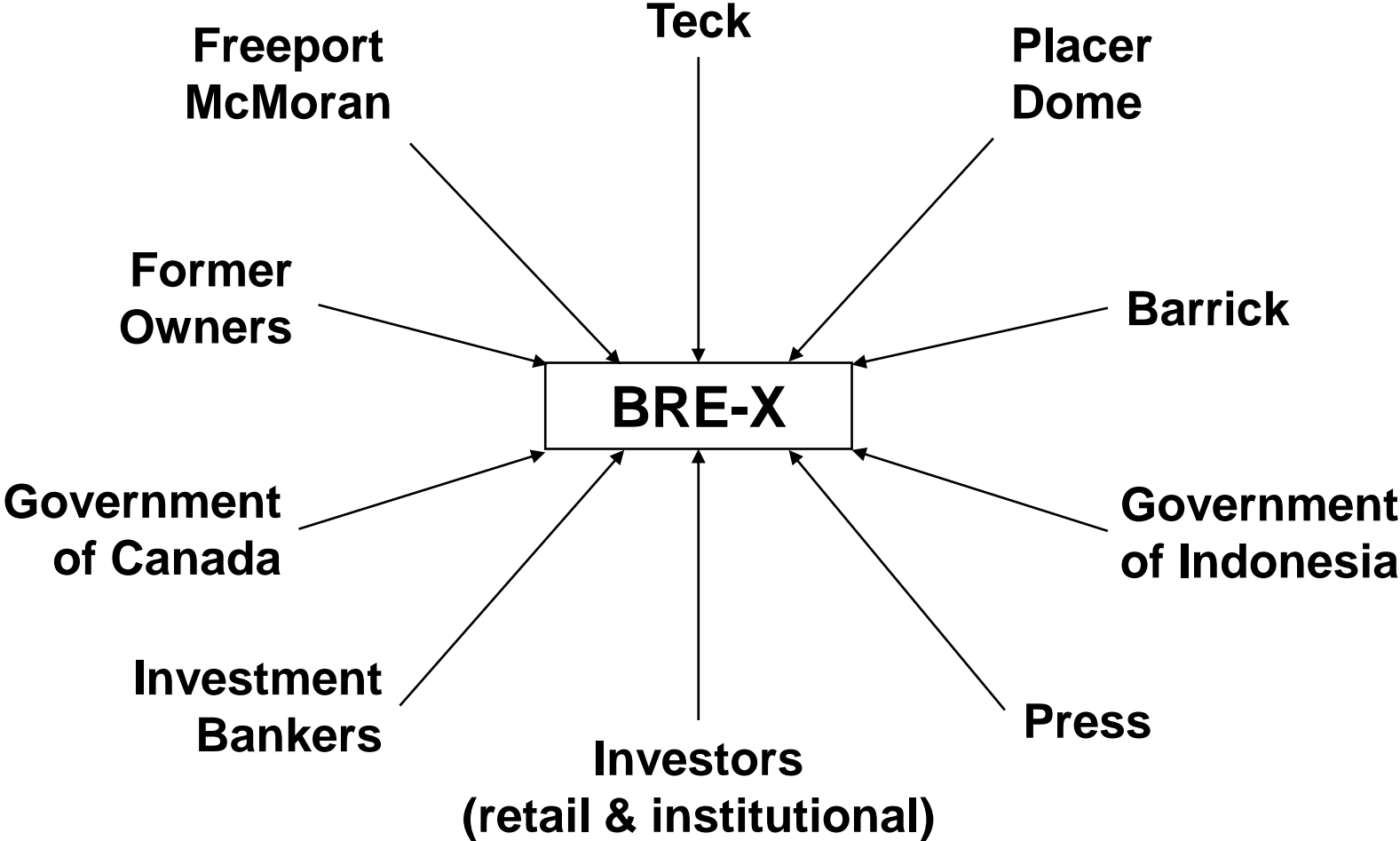
Directors

- Howard L. Beck, Funding Partner
Davies Ward & Beck
- Marshal Cohen, Former Deputy
Minister of Finance
- Hon. Trevor Eyton, Member of the Senate
- Rt. Hon. Brian Mulroney
Former Prime Minister of Canada
- Hon. Edward Ney, Former U.S. Ambassador to
Canada

International Advisory Board

- Honorary Senior Advisor
President George Bush (41st US President)
- Chairman
Rt. Hon. Brian Mulroney
- Former World Leaders

Circle of Pressure



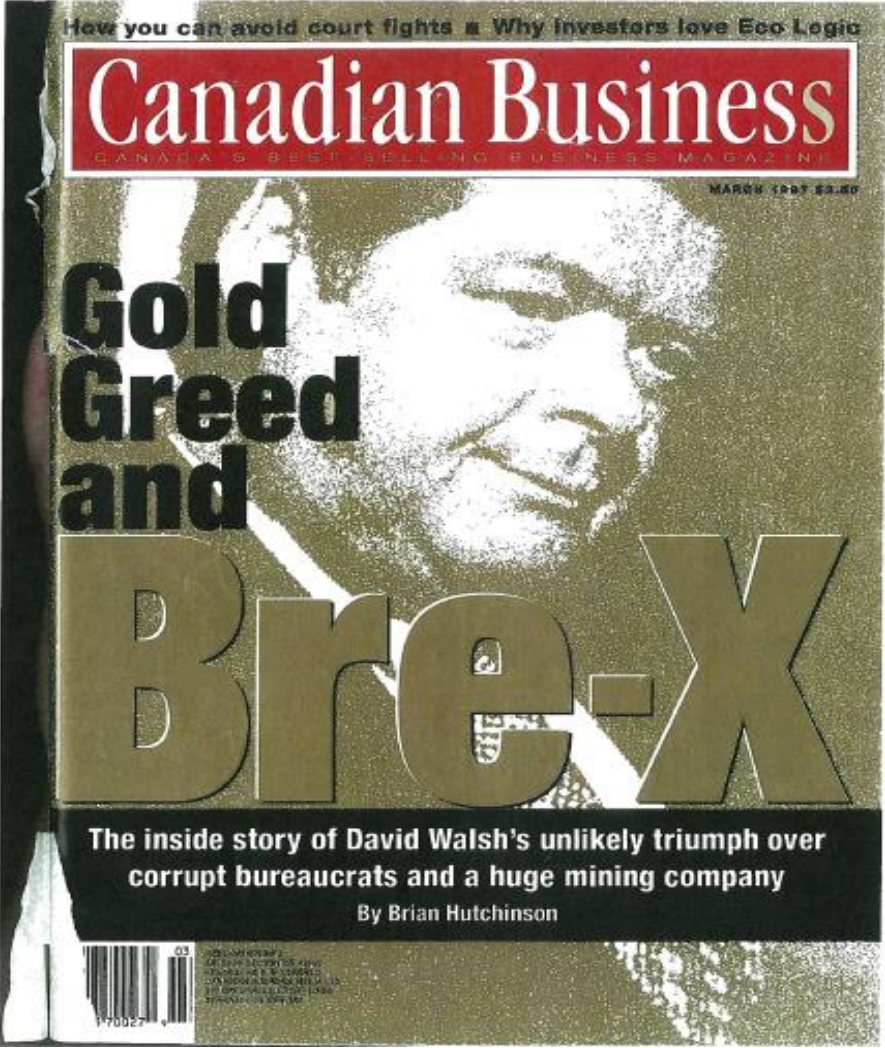
M&A Transaction

- Pressure on Bre-X to do a deal for the development of the project
 - World class operator
- Intense lobbying efforts to position bidding companies for success
 - Relationship with government
 - Pressure on advisors
- Attack on Bre-X reputation
- Story of “David versus Goliath”
 - Captivating story for media and industry players
- Small investors/coalition against certain companies

Government of Indonesia

- The Government was at the centre of negotiations
 - Minister of Mines (Sudjana)
 - Facilitator
 - President Suharto
 - External pressure
 - Bob Hassan and Freeport
- Issues related to mining titles and the “Contract of Work”
- Discussions between Bre-X and the Government
- International story/intrigue - reputation
- Embarrassment

One of many newspaper / magazine reports



Pressure on members of the permanent Government

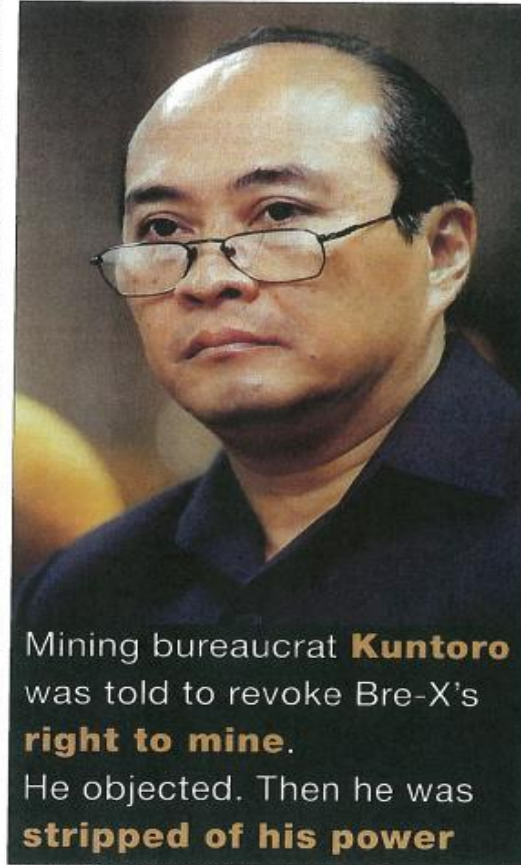
COVER STORY

develop Busang. Bre-X was an exploration company, after all; Walsh, Felderhof and Francisco knew nothing about production. The question was who, and at what price. Walsh opened the bidding in public last May at Bre-X's annual meeting. "We'd want a walk-in, cash payment for 25% of Busang," he told shareholders. "I'd say \$2 billion for the 25% sounds about right."

Pretty heady numbers for a guy who could barely scrape together gas money a few years earlier. Then again, Walsh's circumstances had rather improved. Walsh was rich beyond belief. Over the winter he sold a small chunk of his Bre-X shares, scooping up \$11.4 million. Jeannette exercised an option to buy 320,000 Bre-X shares at \$1.26, selling 70,000 of them for \$4.1 million. The couple moved to a new home in Nassau, the Bahamas, and sold their Calgary home to their sons for \$1,000. The Walshes continued to exercise options and some of the new shares throughout 1996. By December, their holdings in Bre-X and Brees were worth \$322 million on the open market. Finally, Walsh seemed to have all his problems licked. Except one.

BUSANG, THE PLACE THAT MADE Walsh one of Canada's richest men, is located in one of the globe's poorest, most internally divided countries. Indonesia's population of 200 million is composed of more than 300 ethnic groups speaking 583 languages and dialects. And this incredibly diverse population is spread over 13,677 islands. Borneo, the largest of the islands, has been heavily logged. This has led to topsoil erosion and flooding, particularly devastating during the monsoon season.

Everything that happens in this remote spot comes under the iron hand of Jakarta. Suharto, a former army general who came to power in 1966, has managed to maintain his position as president for 31 years by crushing opponents. His regime is blamed for the death of hundreds of thousands of Indonesian people who have dared to resist, or even question, his authority. Officially, Suharto says he wants to promote democracy, but civil servants are required to support him during elections, and he jails politicians and writers who don't subscribe to the official state ideology. He is an avowed enemy of communism, yet Suharto heads a militarized political machine—Golkar—that could have been conceived by the Politburo. He



Mining bureaucrat **Kuntoro** was told to revoke Bre-X's **right to mine**. He objected. Then he was **stripped of his power**

has pushed Indonesia toward a modern, Western economy, but allows feudal practices such as nepotism and corruption to run roughshod.

Especially nepotism. While millions of Indonesian citizens live in poverty—the

average annual income is less than US\$1,000—Suharto's six children have used their position to accumulate vast wealth. Almost every major deal that gets signed in the country features a Suharto son or daughter as a partner. Criticism of

Strategic Alliance with PT Panutan Duta (Oct 1996)

- Agreement between Bre-X and Panutan Duta (Panutan Group) – for advisory services – Disclosed publicly
- Group owned by the son of President Suharto (Sigit Harjojudanto)
- Mandate
 - « Under the terms of a Memorandum of Understanding (MOU), subject to the fulfillment of certain conditions, Bre-X and Bro-X have retained Panutan as a consultant to assist in administrative, technical and other support matters within the Republic of Indonesia, including the identification of issues concerning the acquisition, exploration, development and production from mineral resource properties and other interests. Bre-X and Bro-X maintain the sole right and authority to determine the method of bringing their respective properties into production, including the right to select any major mining partners. »

Strategic Agreement - Terms

- 40 months @ \$1 million/month
- 10 % of Busang (« carried interest »)
- Financing for acquisition of other participations
- Company services for Busang
 - 60 % Bre-X/Bro-X
 - 40 % Panutan Duta
- Supply contracts: « utilities, petroleum, etc. »

Strategic Agreement

- Why?

Strategic Agreement

- Because Barrick had contracted the daughter of the President Suharto (« Tutut ») as advisor
- Questions - Ethics
- Extortion ?
- Corruption ?
- Justification ?
- Fiduciary duty to protect assets/company ?

Transaction – February 17, 1997

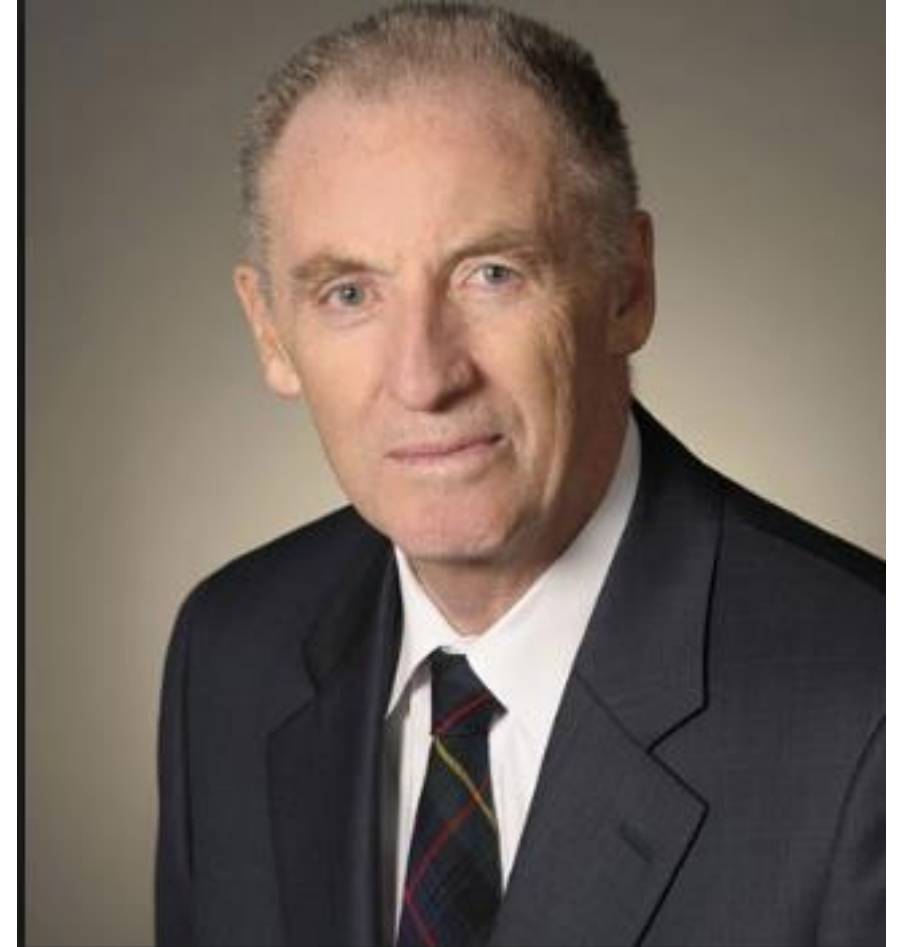
- Following a long period of discussions, an agreement occurred between Bre-X and Freeport McMoran with the support of Government (Bob Hassan)
- Freeport McMoran had deep knowledge of the country
 - Operator of the Grasberg Mine
 - Close ally/friend of President Suharto (golf partner)
- Joint venture
 - Bre-X – 45%
 - 2 Indonesian companies – 30%
 - Republic of Indonesia – 10%
 - Freeport – 15%

Freeport McMoran – Due Diligence

- Freeport executed due diligence activities
 - Unable to reproduce drilling results
- Ask for explanations
- Michael de Guzman returns to Indonesia from PDAC to resolve mystery
 - He falls from helicopter on way to site (suicide? murder? disappearance? etc.)
- Meeting with Francisco/Board
 - Appointment of Strathcona Mineral Services

Independent Engineer Investigation (Strathcona)

- Strathcona Mineral Resources mandated
- “Salt job - highly unlikely”
- Trip to Indonesia
- \$1 million drilling program
- Conclusion: “no economic deposit”
- Security aspects
- Others
 - Stock trading (TSX, MSX)
 - Investigation
 - International news
 - Corruption?
 - Fraud?



Graham Farquharson, President Strathcona
Mineral Services

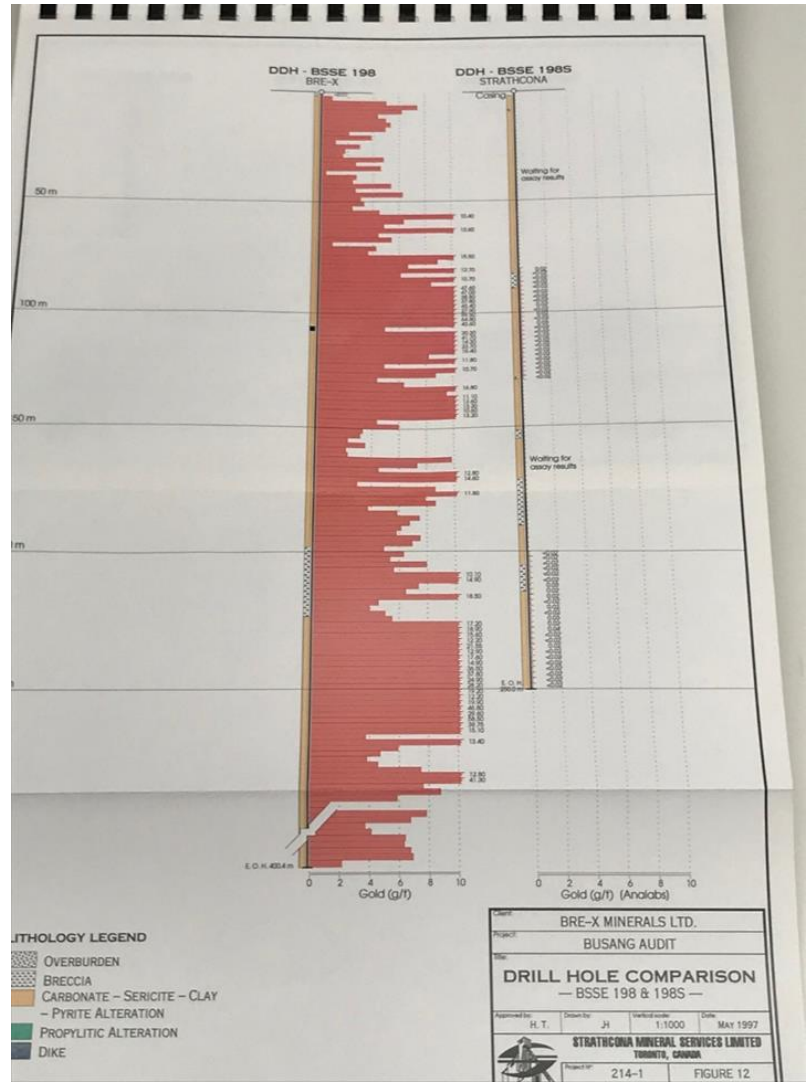
Handling of drill core



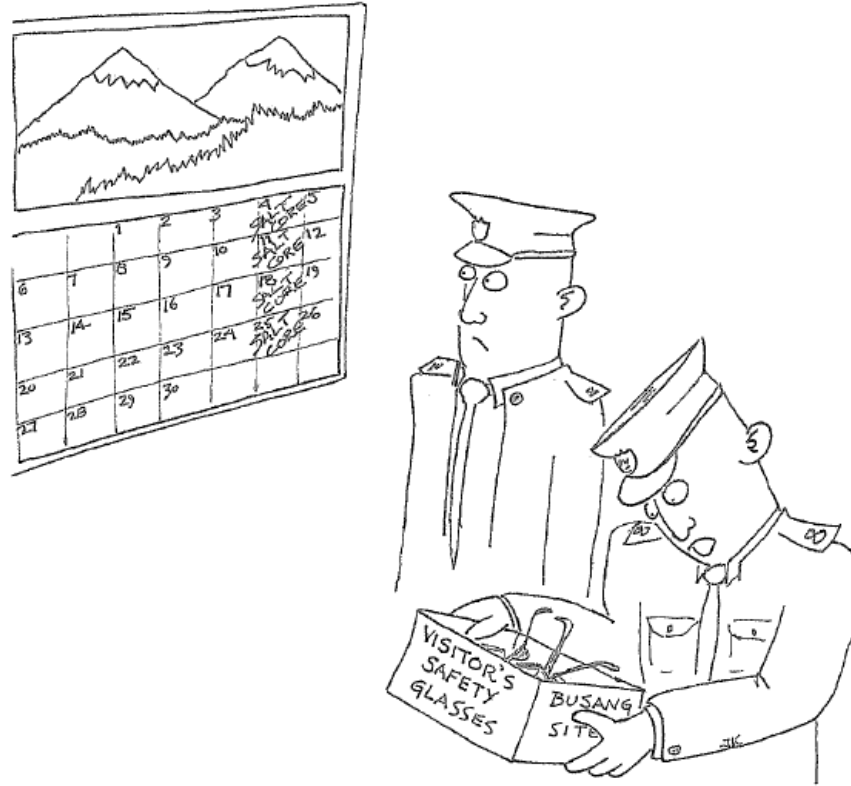
John B. Felderhof, Executive Vice President Exploration and Vice Chair



Strathcona Twin Hole Assay Results – Where is the Gold?

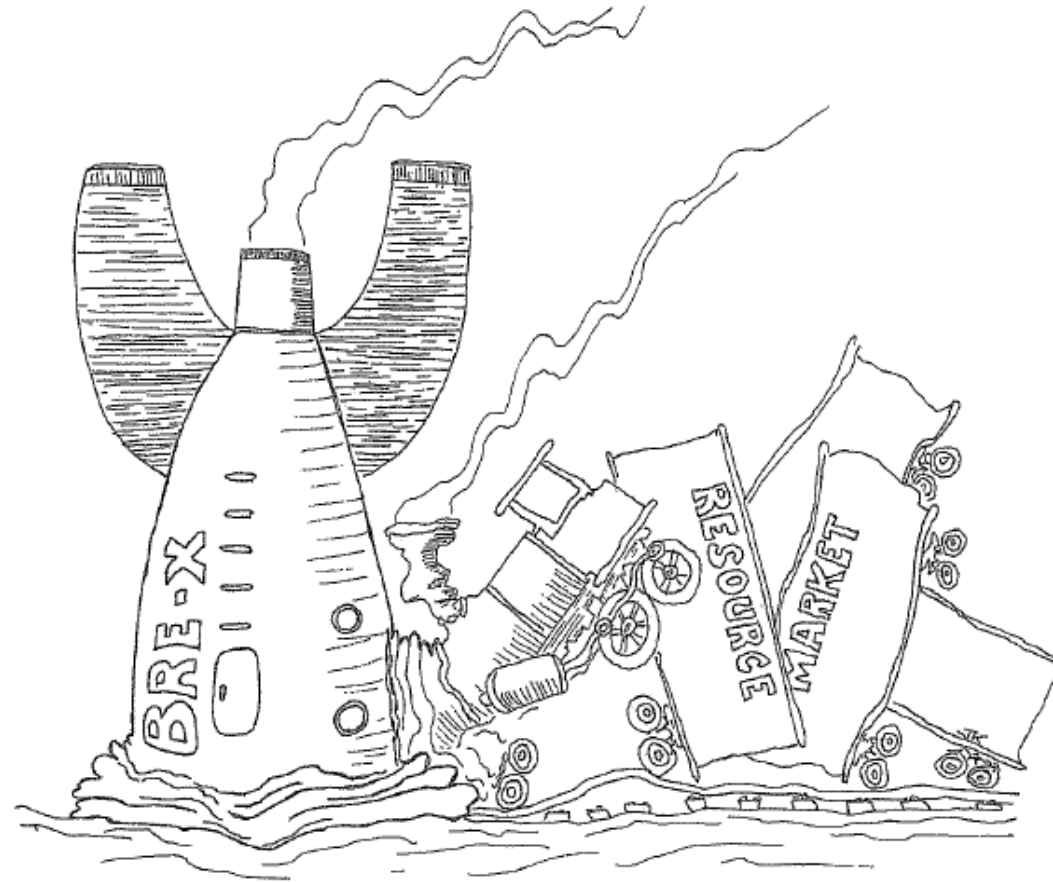


WHAT THE RCMP FOUND DURING THEIR RECENT VISIT TO THE BUSANG SITE



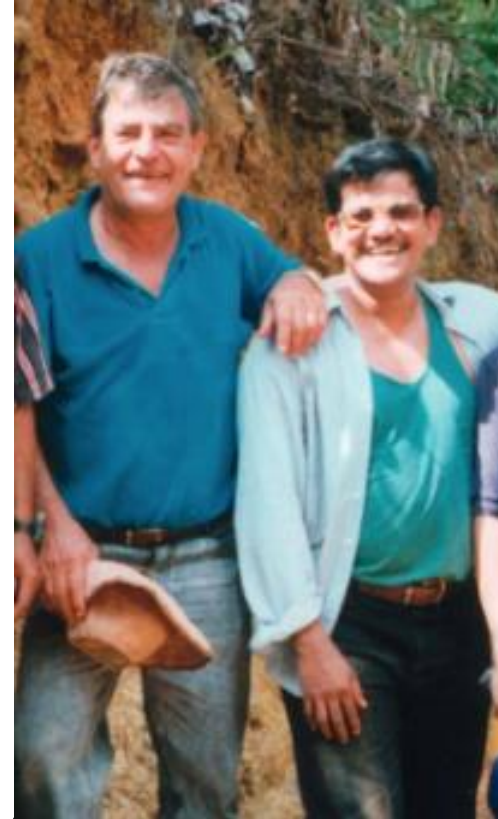
Hey! All these visitor safety glasses have
rose-coloured lenses!

Impact on Gold Sector - 1996-2001 was devastating

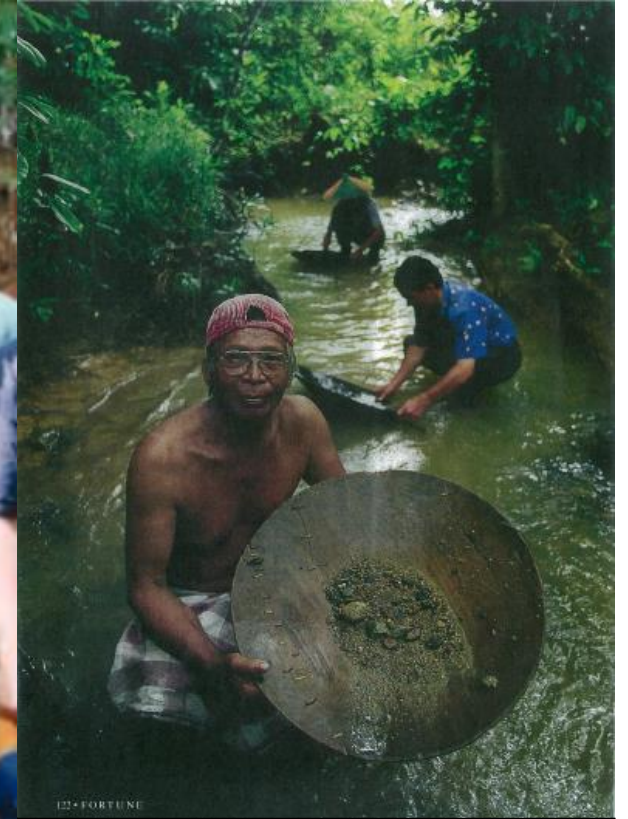


Busang – Fraud – How?

- Property previous explorer – no success
- No splitting core
- « Salting » of samples
- Alluvial gold used
- Opening of sample bags
- « Pool Room » to salt samples
- Special theory by de Guzman on origin of deposit
 - Maar Diatreme
- Unconventional assaying (fire assay not used – cyanide soluble leached 36 hours)



John Felderhof (left)
Michael de Guzman (right)



Dayak tribal pans for gold

Busang – Fraud – How? (Cont'd)

- Consultants' review:
 - PetraScience (Anne Thompson) – no gold in any samples
 - Normet (90% recovery from gravity)
- Fire at Busang – geological office (geology, surveying & drafting)
 - Suspicious helicopter pilot
- Young Canadian geologists – questioned practices
- Closed group of geologists (De Guzman et al.)

Red Flags – G. Farquharson/Strathcona

- No gold geochemical anomaly over deposit
- No gold outcrop samples - “It had been leached”
- Spotting drillholes not influenced by previous drilling
- Busang geologists never went to drill sites
- Selected core intervals designated visually as “mineralized” and received different sample treatment
- In over 60,000 m of core logging no reports of visible gold
- No gold identified in 103 petrographic samples selected to represent deposit

Red Flags – G. Farquharson/Strathcona (cont'd)

- Only “in-fill samples” designated as “non-mineralized” could be prepared at Busang
- All other sample bags delivered to Samarinda had to be opened to “confirm core logging” and check for bag breakage
- Despite backlog of samples at Samarinda and assay labs at Balikpapan awaiting samples – No samples were shipped unless “authorized”
- Mineralogical studies identified gold in metallurgical samples as being “coarse, rounded, and with gold-rich veins”
- Metallurgical test work indicated more than 90% gold recovery in gravity concentrate

Red Flags – G. Farquharson/Strathcona (cont'd)

- Metallurgical recovery was independent of finesse of grind
- Request for drillholes exclusively for metallurgical test work was denied
- Drill core not split – all 14 kg of core from each two-meter sample “required” for accurate assay
- Well-equipped sample preparation facility at Busang under-utilized despite large backlog of core
- Could one deposit contain as much as 8% of the known gold resources of the world?

Regulatory Regime – Mining Sector

- Establishment of a specific framework for the mining sector
 - NI - 43-101
 - Disclosure specifically required for new projects / new reserves
 - Qualified Person (« QP »)
- Standard established to protect investors and other stakeholders

Report NI 43-101

FORM 43-101F1
TECHNICAL REPORT
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World Class Standard

Fraud – Clues/Suggestions

- Sometimes, its too great / beautiful
 - Incredible deposit ???
- Important that professionals fulfill their obligations
- Know the business/enterprise
- Better standards
- Quality of advisors and management
- Advisors – sometimes “Each its own”
- Important players (“Big Boys”) don’t always follow the rules

Personal Impact of the Bre-X Fraud

- Young Family – 4 kids (3, 7, 8, 10)
- Potential loss of my CPA designation
- No financial gain (options/shares)
- Potential future employment
- Lawsuits - \$\$\$ (no D&O coverage)
- Personal safety
- SEC investigation
 - 2 days – 16 hours of testimony
- Impact on personal reputation – for life
 - Meeting people
 - Suspicion (guilty?) friends and family
 - Future employers (Canadian Malartic)

Conclusion

- Can it happen again?
 - Of course
 - “People do bad things”
 - Pursuing dreams
- Be cautious – be curious – be vigilant
- Respect your roles and your professions
 - Public confidence

- Kenny Wells (CEO in Gold) - “We weren’t fooled – we just did not look”