HOW TO MAKE A MOTZA FROM THE MINING INDUSTRY WITHOUT GETTING YOUR HANDS DIRTY

The Anatomy of a Successful Leveraged Buy-out
(The Arimco/Australian Resources Story)
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Outline of Presentation

1. Birth of Arimco
2. Evolution through a major JV arrangement to become a significant explorer and miner
3. Rapid growth
4. Termination of the major JV arrangements leaving Arimco with interests in a number of mining operations and a plethora of exploration projects
5. Why Arimco was an attractive acquisition
6. The acquisition sequence
7. Period as a private company
8. Relisting as Australian Resources
9. Exit of the LBO group with a major tax-free return

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In the Beginning

In 1985, a private (unlisted) company negotiated the right to earn 50% interest in all the Australian assets of Cyprus Minerals Australia Company ("Cyprus").

At the time Cyprus US had significantly reduced funding to Cyprus Australia.

Cyprus Australia (and precursor Amoco Minerals Australia) had been an active and very successful mineral explorers since about 1970.

Spent ~A$70M over ~15yrs.
Birth of Arimco

ASX Listed Sunland Petroleum Corporation NL acquired & reconstructed in 1986

Petroleum assets sold & Sunland re-named Arimco NL

- 45.9% of Arimco controlled by one shareholder

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## Arimco JV Spend

(1\textsuperscript{st} Cyprus JV)

A$20M spend over 3 yrs to earn 50% of Cyprus’ Australian interests. This was mainly spent on:

- Participation in 4 mines
  - Gidgee (Au) – WA
  - Sheahan Grants (Au) – NSW
  - Moline (Au) – NT
  - Selwyn (Au/Cu) Qld
- Mt McClure (Au) - DFS
- Numerous (~30) exploration projects (mainly 100% Cyprus) throughout Australia
- **Earn-in completed early (~18 months)**
Cyprus’ Mining & Exploration Projects (circa 1986)
<table>
<thead>
<tr>
<th>Mine/Development (~1986)</th>
<th>1st JV - Arimco earning 50% of Cyprus equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gidgee Au Mine WA</td>
<td><strong>53% Cyprus</strong>&lt;br&gt;1986 reserves – 0.97Mt @ 4.9g/t Au</td>
</tr>
<tr>
<td>Sheahan Grants Au Mine NSW</td>
<td><strong>50% Cyprus</strong>&lt;br&gt;1986 reserves – 0.86Mt @ 4.8g/t Au</td>
</tr>
<tr>
<td>Moline Au Mine NT</td>
<td><strong>50% Cyprus</strong>&lt;br&gt;1986 – Nil defined Resources&lt;br&gt;1990 Reserves – 0.32Mt @ 2.8g/t Au</td>
</tr>
<tr>
<td>Selwyn (Starra) Au/Cu Mine Qld</td>
<td><strong>75% Cyprus</strong>&lt;br&gt;1986 - O/C +U/G Reserves – 4.71Mt @ 6.3g/t Au, 2.2% Cu</td>
</tr>
<tr>
<td>Mt McClure Au Development</td>
<td><strong>51% Cyprus</strong>&lt;br&gt;1986 – Nil defined resources&lt;br&gt;1990 Resources – 2.9Mt @3.3g/t Au</td>
</tr>
</tbody>
</table>
Other Advanced Cyprus Projects included in the 1\textsuperscript{st} JV

- **Yarrie (WA):** 880,000t @ 3.7g/t Au (51% Cyprus)
- **Oceana (Tas):** 4.0Mt @ 19.4% Pb, 4.0% Zn, 106g/t Ag (100% Cyprus)
- **Forestania (WA):** 8.13Mt @ 2.6% Ni, 0.1% Co (45% Cyprus)
- **Medcalf (WA):** 16Mt @ 0.8%V2O5, 12% TiO2 (100% Cyprus)

Other Projects with resources (not JORC) in May 1986 IM to Arimco
## Period of Rapid Growth for Arimco

<table>
<thead>
<tr>
<th>Year</th>
<th>Significant Event</th>
<th>Arimco Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>August 2&lt;sup&gt;nd&lt;/sup&gt; Cyprus/Arimco JV - Arimco Farms into Gold Ridge (Sol. Is.) for US$3.5M</td>
<td>Earning 50%</td>
</tr>
<tr>
<td>1987</td>
<td>April Gidgee Au Production Starts</td>
<td>Earning 26.5%</td>
</tr>
<tr>
<td></td>
<td>December Sheahan Grants Au Production Starts</td>
<td>Earning 25%</td>
</tr>
<tr>
<td>1988</td>
<td><strong>January</strong> Arimco Earns interest in 1&lt;sup&gt;st&lt;/sup&gt; Cyprus JV</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>April Starra (Selwyn) Au-Cu Production Starts</td>
<td>37.5%</td>
</tr>
<tr>
<td></td>
<td><strong>June</strong> Arimco earns interest in 2&lt;sup&gt;nd&lt;/sup&gt; Cyprus JV</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td><strong>December</strong> Arimco raises A$25.24M in rights issue</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td><strong>January</strong> Moline Au Production commences</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td><strong>April</strong> Major restructure of Cyprus JVs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>September Arimco pays maiden 2 cent dividend</td>
<td></td>
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1989 Restructure of the Cyprus JVs

Arimco to Cyprus

- Transferred 12.5% interest in Selwyn
- Cyprus allotted 4.8M Arimco shares for no consideration
- Ownership then is 50% Cyprus 25% Arimco, 25% Elders
- 4.9% of Arimco

Cyprus to Arimco

- All production interests in Gidgee, Sheahan Grants, Moline Mines & Mt McClure development
- All but 5 of the Australian exploration projects
- Gold Ridge Project (Sol. Is.)
- Paid ~A$6.5M for 8.66M additional Arimco shares
- Cyprus Philippine interests (incl. Didipio) for 2% NSR

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Position in early 1990

Control of Arimco up for sale

Producing Mines (Arimco share)
- Gidgee Au WA – 53%
- Mt McClure Au WA – 51%
- Selwyn Au/Cu Qld – 25%
- Moline Au NT – 50%
- Sheahan Grants Au NSW – 50%

Exploration
- Numerous projects throughout Australia
- Gold Ridge – Solomon Islands
- Philippine projects (mainly Didipio)

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Failure of 1st Takeover

Bid by French Company Cogema

Complicated offer involving cash plus equity in a French gold mine

Disallowed by the ASC

- unfairly benefited the controlling shareholder (then controlling ~31% of Arimco) above the other Arimco shareholders

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Why was Arimco an attractive acquisition in 1990?

<table>
<thead>
<tr>
<th>Good Financials and Production Profile</th>
<th>At 30 June 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989/90 Net profit</td>
<td>A$9.42M</td>
</tr>
<tr>
<td>Operating profit</td>
<td>A$22.29M</td>
</tr>
<tr>
<td>Arimco share of total production</td>
<td>78,688 ozs Au/3,138t Cu</td>
</tr>
<tr>
<td>Arimco share of contained Au in reserves &amp; resources (mines and advanced projects)</td>
<td>&gt;1Mozs Au</td>
</tr>
</tbody>
</table>
Events Following 1st Sale Attempt (1991/92)

**Jan 1991**
- Arimco moves to 100% of Gidgee Gold mine

**July 1991**
- Interest in Sheahan Grants mine sold

**Nov 1991**
- JV with Oresearch NL to develop Mt McClure mine – Arimco interest 51%

**Jan 1992**
- Production at Moline ceases
2nd Sale Process (1992)

Initial bid by Plutonic Resources Limited ("Plutonic") on Xmas eve 1991

A short bidding duel between Plutonic and US group - Green Equity Investors ("GEI")

- GEI was a US private venture capital group managed by Leonard Green Partners

Bidding sequence summarised on next slide
Bidding Sequence 24 Dec 1991 to 23 Mar 1992

Value of Bids

Mid point value - low of $0.37; high $0.48

A$/Arimco FP Share

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Why Australia/Why Arimco of interest to USA LBO group??

This is only supposition

GEI knew Australian commercial & regulatory environment from a previous (presumably successful) exercise

Believed to have had an agent looking out for opportunities

Publicity about the first sale attempt:

Yates Garden Seeds

provided a strong indication that there was a willing majority shareholder as seller

Arimco details would have been publicly available

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Successful T/O

GEI successful bid for Arimco
• Cost - A$63.5M

Delisted from the ASX in May 1992

Then operated as a private company

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Exit Arimco at a substantial profit by quickly building up the company and relisting on the ASX

<table>
<thead>
<tr>
<th>Obtained backing of existing management – ‘friendly T/O’</th>
<th>Retained selected management</th>
<th>Resulted in:</th>
<th>Maintained operations &amp; exploration budgets while private</th>
<th>Increase Arimco attributable Au production through acquisition</th>
<th>2 GEI directors on the Arimco board</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Offered shares in Australian subsidiary of LGP (GEI) with loans to assist with purchase</td>
<td></td>
<td>• GEI Dutch Antilles entity holding 98.2% of Arimco • 1.8% held by Arimco executives prior to re-listing</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

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GEI Bid Structure and Financing

GEI used a Dutch Antillies entity which in turn controlled an Australian subsidiary of GEI to purchase Arimco.

Funding of T/O approx. as follows:
- A$15M of GEI funds
- Mezzanine debt through Citicorp for balance of purchase price (repayable within 12 months)

Citicorp debt refinanced through Rothschild
- Resulting debt $35 to Rothschild; remainder to Citicorp

Arimco assets used as security

Strong Arimco cash flow supported grant of loan

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Major Assets at Time of T/O

**Production assets held by Arimco**

- Gidgee Gold Mine WA – 100%
- Selwyn Gold/Copper Mine Nth Qld – 33.3%
  - moved from 25% to 33.3% in July 1992 after Elders exited from the project

**Development & Advanced Exploration**

- Mt McClure Gold Mine (development) – 51%
- Gold Ridge – Solomon Islands – 100%

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Arimco Parameters at T/O
(Figures as at 30 June 1992)

Operating Statistics

132,080 ozs. Au share of Prod.
• Ave. Price Received A$514/oz.

3,975t Cu share of Prod.
• Ave. Price Received A$0.99/lb

Ave. cash cost net of Cu revenue
• A$260/oz.

Financials

Revenue
• A$75.09M

EBITA
• A$26.78M

Op Profit before tax
• A$7.24M

Cash Flow from Operations
• A$19.01M

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Period as a Private Company

Specifically hired 2 staff for acquisition hunt
- to up-grade Arimco production profile for re-listing
- Numerous Australian projects (predominantly gold) reviewed

Change in exploration focus
- exited from Solomon Is & Philippines
- focus on the 3 mine areas (Gidgee, Mt McClure, Selwyn)

Farmed-out numerous other Oz exploration assets

Production commences at Mt McClure in Apr 1992

July 1992 – Elders exits Selwyn
- ownership then Cyprus 66.67%, Arimco 33.33%

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Re-listing Requirements

Arimco share of production pre-float of Australian Resources (circa 1993) after increase to 1/3rd Selwyn ownership was

- ~181,000ozs. Au, ~9,000t. Cu

Financial Advisors/Underwriters indicated >200,000ozs. Au production required to successfully re-list
need to revisit these date and figures from ARL prospectus
Peter T Goldner, 1/06/2018
Search for more Au

> 1 year spent evaluating numerous Australian Au projects as potential acquisitions

Then heard Cyprus US were planning to exit Australasia

Focus switched to Cyprus projects
  Gold Cross mine NZ (100% Cyprus) & Selwyn mine NW Qld (66.67% Cyprus)

Entire Cyprus portfolio valued by Arimco
  Eventually bought outstanding 66.67% of Selwyn
    • Accomplished in March 1993

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How much to buy Cyprus equity in Selwyn?

Peter T Goldner, 13/06/2018
Purchase of 2/3rds of Selwyn

Increase to 100% of Selwyn (March 1993) resulted in a forecast production for Arimco of:

>234,000ozs gold  >16,000t copper

This was considered by management and underwriters as adequate to support relisting on the ASX

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Re-Listing on the ASX

Listed as Australian Resources Ltd (“ARL”) in late 1993 – shares issued at $1

Amount Raised – A$66.3M (after expenses)

Net cash available - A$28.4M after repayment of A$38.6M debt

Remaining debt of A$25.8M as gold loans

ARL R&R parameters at 30 June 1993

<table>
<thead>
<tr>
<th>Reserves (Pv+Pb)</th>
<th>Resources (M+I)</th>
<th>Inf Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>508,360ozs Au, 77,460t Cu</td>
<td>317,868ozs Au, 3,530t Cu</td>
<td>335,918ozs Au, 429,060t Cu</td>
</tr>
</tbody>
</table>

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ARL Capital Structure

**Shares**

- Total issued capital – **223M** FP shares
- GEI + Staff - **153M** FP A$1.00 shares
  - **150.19M** FP shares (~67% of Arimco) held in GEI Dutch Antilles subsidiary (tax free jurisdiction)
- New shareholders – **70M** FP shares

GEI had 2 board seats

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GEI Undertaking to ARL

Not to sell any shares within 6 months of listing

unless the share price was above A$1.40/share for 5 consecutive trading days

To retain 89.2M shares (~40% of Arimco) for a period of 12 months after listing

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### Prospectus Forecast c/w (Actual at 30 June 1994 – post listing)

<table>
<thead>
<tr>
<th>Category</th>
<th>Forecast</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of Au production</td>
<td>234,169ozs</td>
<td>235,172ozs</td>
</tr>
<tr>
<td>Ave. Au price received</td>
<td>A$520/oz</td>
<td>A$546/oz</td>
</tr>
<tr>
<td>Share of Cu production</td>
<td>16,054t Cu</td>
<td>15,189t Cu</td>
</tr>
<tr>
<td>Ave. net Cu price received</td>
<td>A$0.37/lb</td>
<td>NA</td>
</tr>
<tr>
<td>Ave. cash cost net of Cu credits</td>
<td>A$272/oz</td>
<td>A$197/oz</td>
</tr>
<tr>
<td>Revenue</td>
<td>A$145.7M</td>
<td>A$149.3M</td>
</tr>
<tr>
<td>EBITA</td>
<td>A$51.45M</td>
<td>A$58.75M</td>
</tr>
<tr>
<td>Op Profit after tax</td>
<td>17.61M</td>
<td>A$28.56M</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>A$53.38M</td>
<td>$60.27M</td>
</tr>
</tbody>
</table>

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Fees etc Received by GEI

- Directors fees (2 GEI directors)
- Plus management and financial advice fees
- Plus reimbursement of out of pockets for the GEI representatives
  - Travel (from LA), accommodation, etc
- The GEI management fees from 1993-1996
  - A$1.394M
- ARL Dividends to GEI 1993-1996
  - A$15.77M ($0.105/share)

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GEI’s Final Takeaway – the Motza

**GEI’s purchase of Arimco cost A$63.5M**
- Approximately A$15M contributed by GEI investors
- Remainder borrowed

**Funds obtained by GEI sell out of ARL**
- Jan 1994 – 1st tranche: 50M shares @ $1.58/sh
  - A$79M (>4 times GEI initial investment in <2 years)
- Jan 1996 – 2nd tranche: 100.19M shares @ $1.40/sh
  - A$140.27M

**GEI Total tax free Motza made in ~4 years**
- A$236M (incl dividends & Management fees)

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ARL post GEI

ARL operated successfully until the ides of March 1999 when it collapsed and was eventually liquidated.

That is a story which will remain untold

Thank You