

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)

DISCLAIMER

This presentation contains **REARWARD-LOOKING** statements based on the **waning** memory of the presenter backed by available historically published documents which may no longer be in the public domain.

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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

In the Beginning

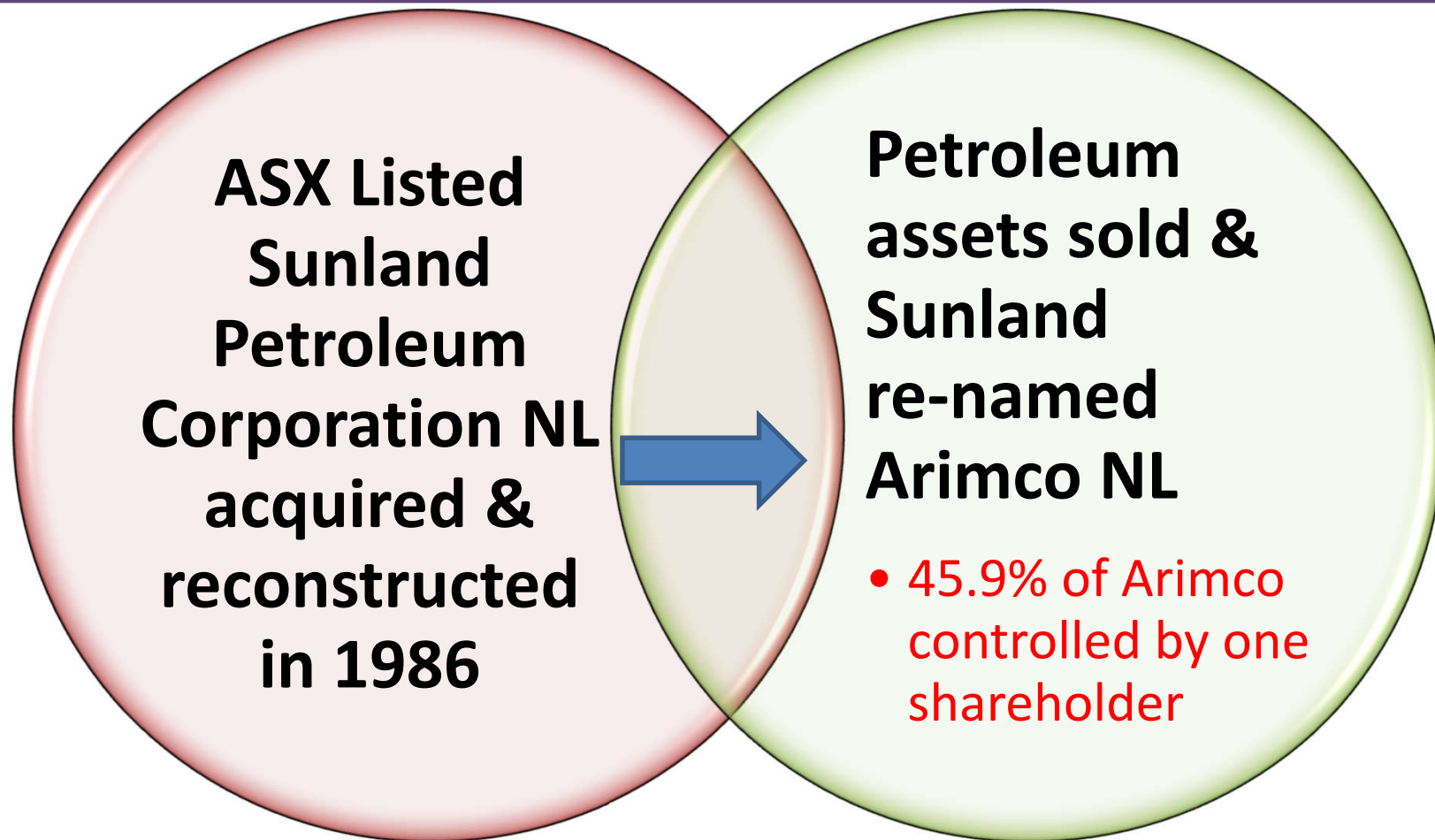
In 1985, a private (unlisted) company negotiated the right to earn 50% interest in all the Australian assets of Cyprus Minerals Australia Company (“Cyprus”)

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



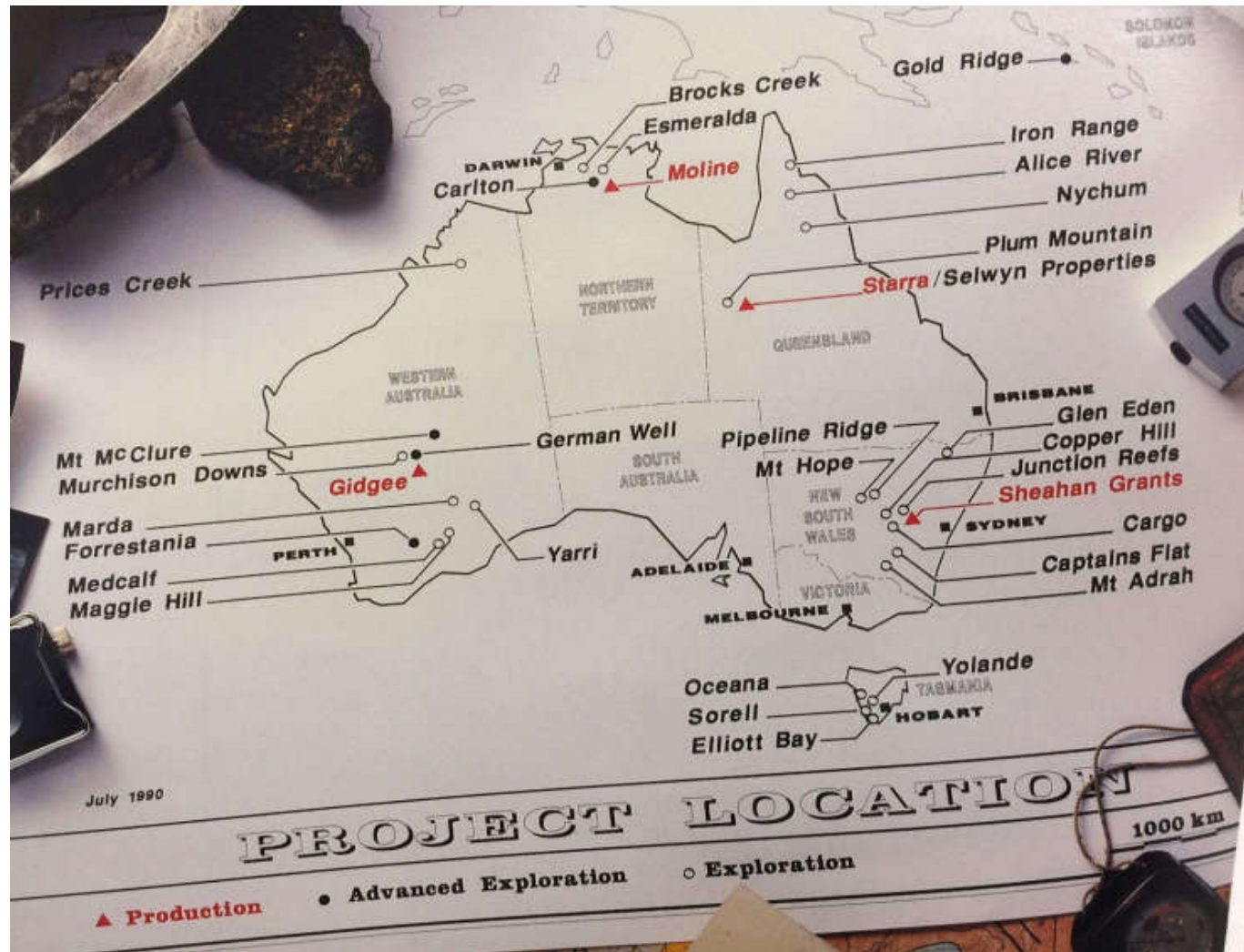
Arimco JV Spend

(1st 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)**

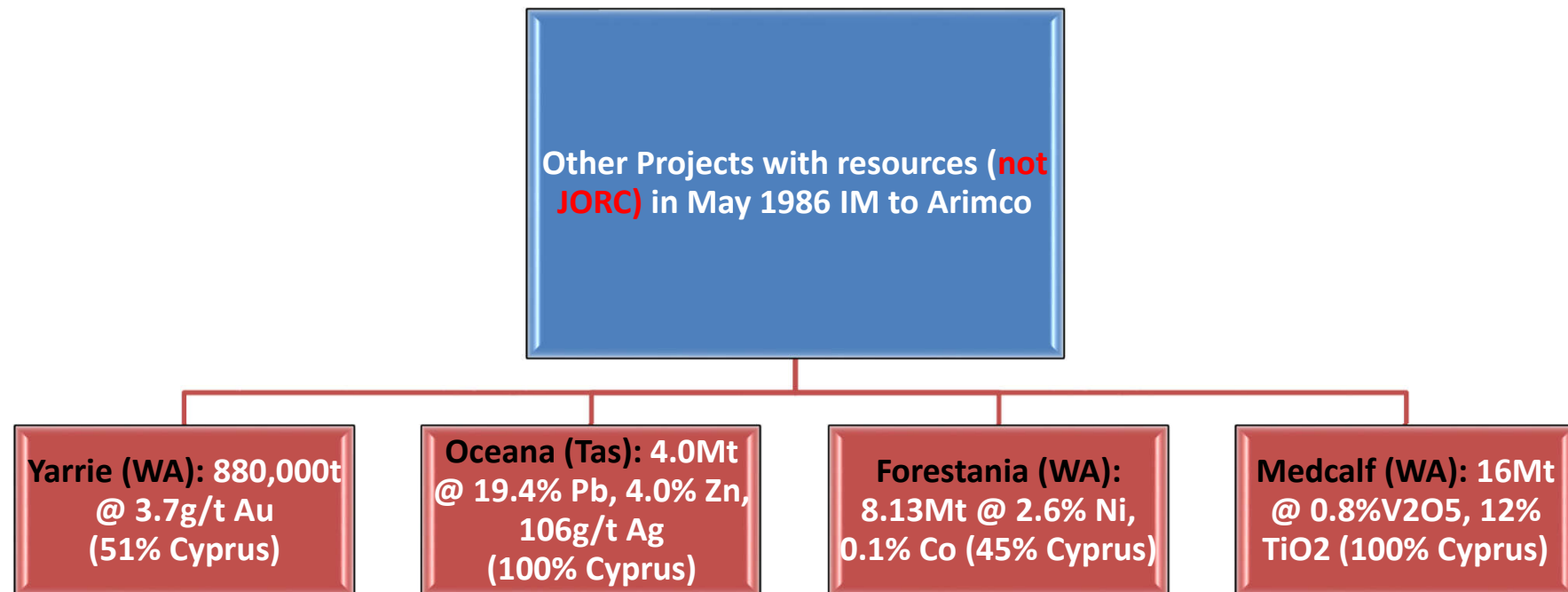
Cyprus' Mining & Exploration Projects (circa 1986)



Presentation to the Sydney Mineral Exploration Discussion Group - 18 June 2018

| Mine/Development (~1986) | 1 st JV - Arimco earning 50% of Cyprus equity | |
|-----------------------------------|---|--|
| Gidgee Au Mine WA | 53% Cyprus 1986 reserves – 0.97Mt @ 4.9g/t Au |  Gidgee |
| Sheahan Grants Au Mine NSW | 50% Cyprus 1986 reserves – 0.86Mt @ 4.8g/t Au |  Sheahan Grants |
| Moline Au Mine NT | 50% Cyprus 1986 – Nil defined Resources 1990 Reserves – 0.32Mt @ 2.8g/t Au |  Moline |
| Selwyn (Starra) Au/Cu Mine Qld | 75% Cyprus 1986 - O/C +U/G Reserves – 4.71Mt @ 6.3g/t Au, 2.2% Cu |  Starra |
| Mt McClure Au Development | 51% Cyprus 1986 – Nil defined resources 1990 Resources – 2.9Mt @3.3g/t Au | |

Other Advanced Cyprus Projects included in the 1st JV



Period of Rapid Growth for Arimco

| Year | | Significant Event | Arimco Interest |
|------|-----------|---|-----------------|
| 1986 | August | 2 nd Cyprus/Arimco JV - Arimco Farms into Gold Ridge (Sol. Is.) for US\$3.5M | Earning 50% |
| 1987 | April | Gidgee Au Production Starts | Earning 26.5% |
| | December | Sheahan Grants Au Production Starts | Earning 25% |
| 1988 | January | Arimco Earns interest in 1 st Cyprus JV | 50% |
| | April | Starra (Selwyn) Au-Cu Production Starts | 37.5% |
| | June | Arimco earns interest in 2 nd Cyprus JV | 50% |
| | December | Arimco raises A\$25.24M in rights issue | |
| 1989 | January | Moline Au Production commences | 25% |
| | April | Major restructure of Cyprus JVs | |
| | September | Arimco pays maiden 2 cent dividend | |

1989 Restructure of the Cyprus JVs

Arimco to Cyprus

Transferred
12.5% interest
in Selwyn

- Ownership then is 50% Cyprus 25% Arimco, 25% Elders

Cyprus
allotted 4.8M
Arimco shares
for no
consideration

- 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

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)

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

Why was Arimco an attractive acquisition in 1990 ?

| Good Financials and Production Profile | At 30 June 1990 |
|--|--------------------------------|
| 1989/90 Net profit | A\$9.42M |
| Operating profit | A\$22.29M |
| Arimco share of total production | 78,688 ozs Au/3,138t Cu |
| Arimco share of contained Au in reserves & resources (mines and advanced projects) | >1Mozs Au |

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

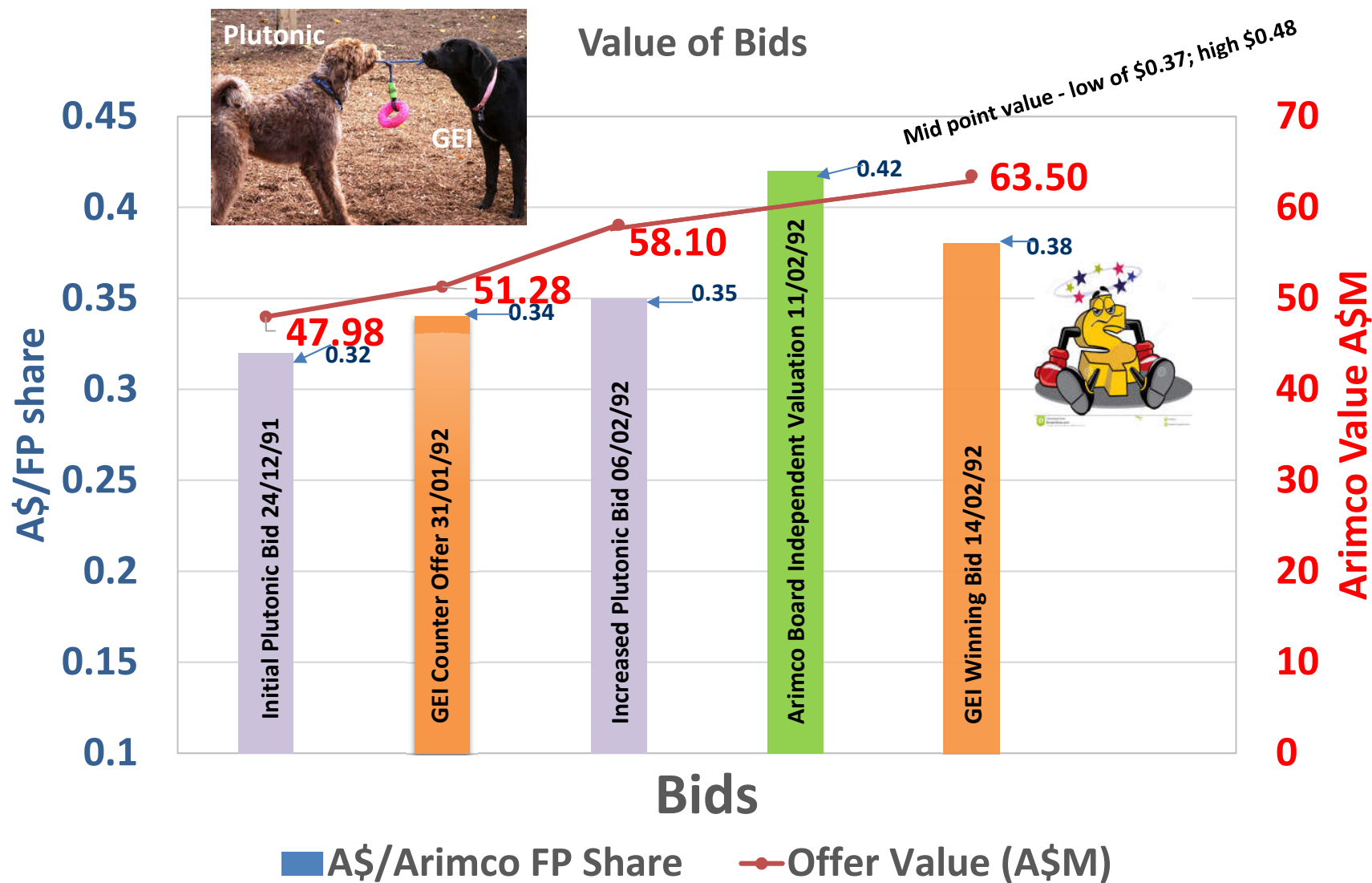


A short bidding duel between Plutonic and US group - Green Equity Investors ("GEI")

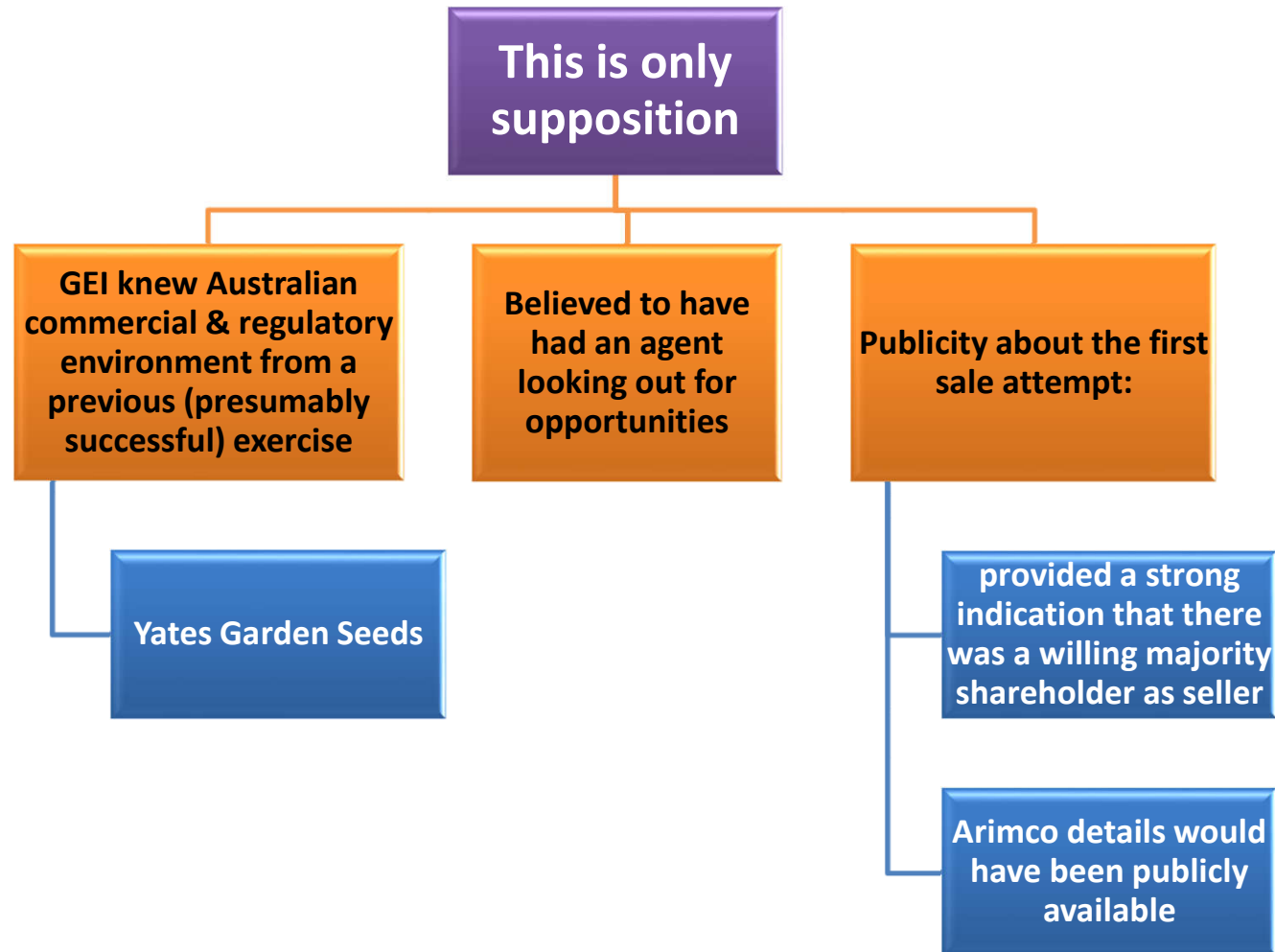
- GEI was a US private venture capital group managed by Leonard Green Partners

Bidding sequence summarised on next slide

Bidding Sequence 24 Dec 1991 to 23 Mar 1992



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



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**

GEI Game Plan and Modus Operandi

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

| | | | | | |
|---|---|--|--|---|--|
| Obtained backing of existing management – ‘friendly T/O’ | Retained selected management <ul style="list-style-type: none">• Offered shares in Australian subsidiary of LGP (GEI) with loans to assist with purchase | Resulted in: <ul style="list-style-type: none">• GEI Dutch Antilles entity holding 98.2% of Arimco• 1.8% held by Arimco executives prior to re-listing | Maintained operations & exploration budgets while private | Increase Arimco attributable Au production through acquisition | 2 GEI directors on the Arimco board |
|---|---|--|--|---|--|

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

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%

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

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%

Relisting 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**

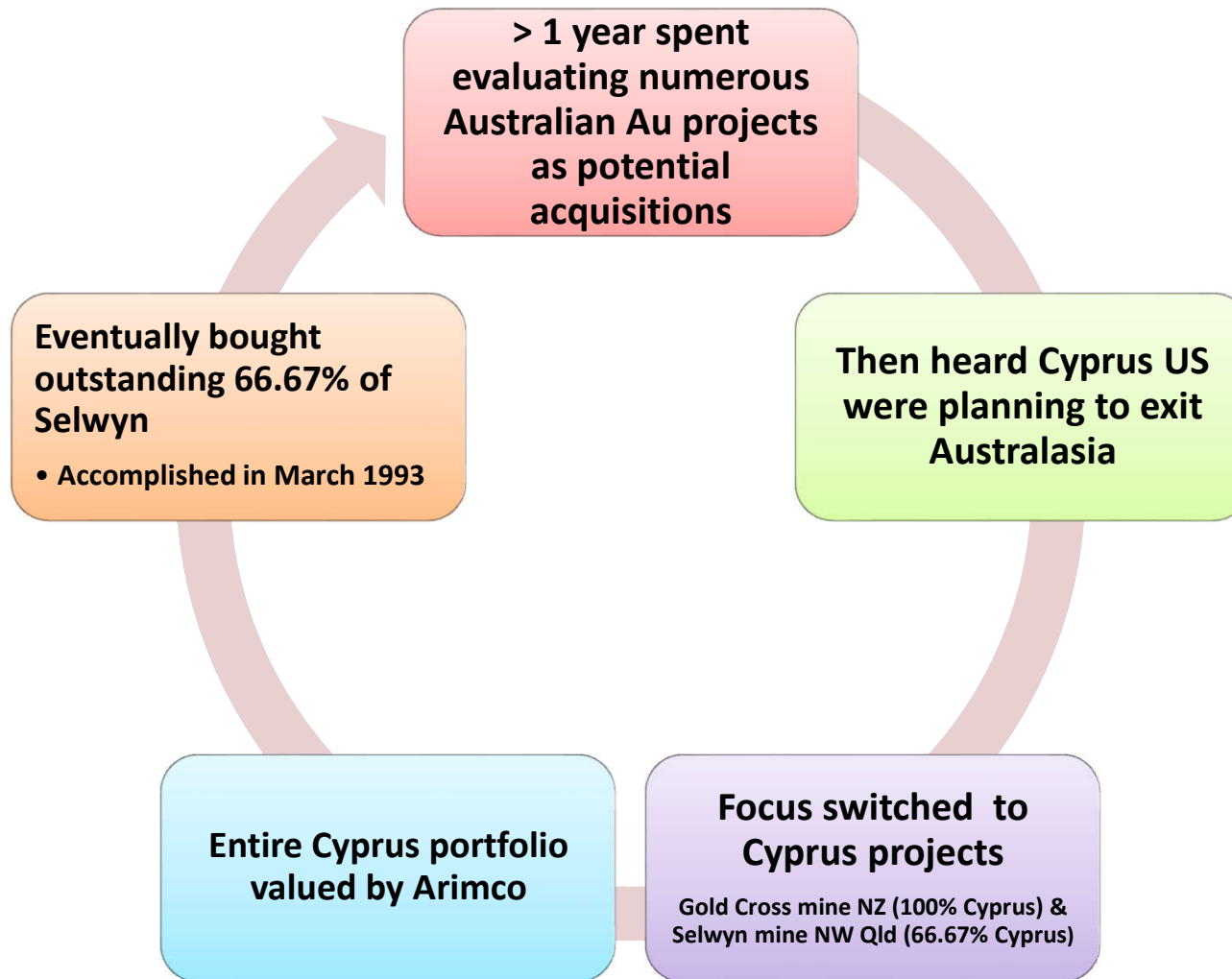
**Financial
Advisors/Underwriters
indicated >200,000ozs. Au
production required to
successfully re-list**

ptg11

need to revisit these date and figures from ARL prospectus

Peter T Goldner, 1/06/2018

Search for more Au



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



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

Reserves (Pv+Pb)
508,360ozs Au, 77,460t Cu

Resources (M+I)
317,868ozs Au, 3,530t Cu

Inf Resources
335,918ozs Au, 429,060t Cu

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

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

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

| | |
|----------------------------------|------------------------------------|
| Share of Au production | • 234,169ozs (235,172ozs) |
| Ave. Au price received | • A\$520/oz (A\$546/oz) |
| Share of Cu production | • 16,054t Cu (15,189t Cu) |
| Ave. net Cu price received | • A\$0.37/lb (NA) |
| Ave. cash cost net of Cu credits | • A\$272/oz (A\$197/oz) |
| Revenue | • A\$145.7M (A\$149.3M) |
| EBITA | • A\$51.45M (A\$58.75M) |
| Op Profit after tax | • 17.61M (A\$28.56M) |
| Cash flow from operations | • A\$53.38M (\$60.27M) |

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)

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)**



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