

The Bre-X Story – Lessons Learned

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Introduction

- ❧ The Bre-X story started in 1993 when David Walsh, the Chairman of Bre-X Minerals Ltd. bought controlling interest in the Busang gold deposit on the Busang River in Borneo, Indonesia.
- ❧ Over the next four years the Bre-x shares exploded from CD\$0.25 in a private offering to \$CD280.
- ❧ Bre-X split the stock in a 10/1 reverse split to \$28 in 1997.
- ❧ During a huge share appreciation Bre-X revised their reported gold reserves from 1 million ounces to 200 M ounces, by the far the largest gold deposit anywhere in the world.

Introduction

➤ Paul Queneau asked me to tell this tall tale to the Recycling Short Course this June as Bre-X, as you will see, may be the largest recycling story in the history of the resource industry.

Introduction



<http://calgaryherald.com/news/local-news/bre-x-the-real-story>

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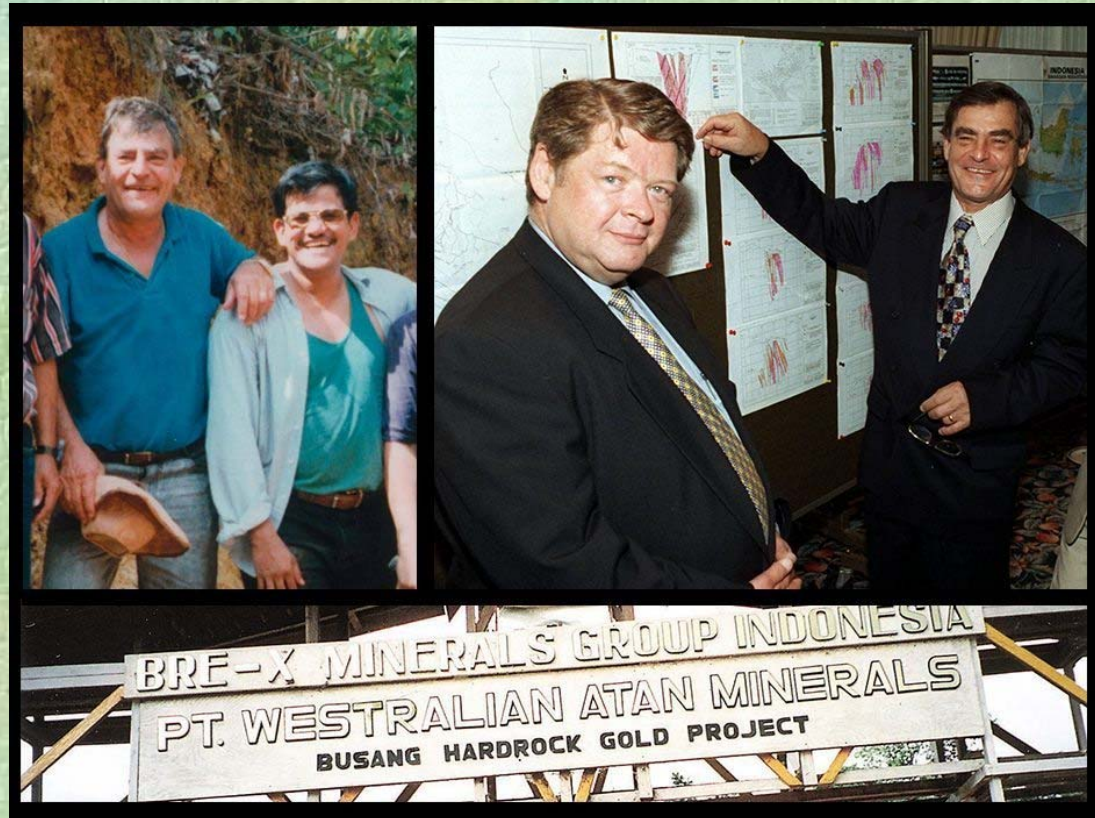
The cast of characters

- ❧ David Walsh – Founder and Chairman of Bre-X
- ❧ Paul Kavanagh – Bre-X director who brought in Strathcona to be sure the Bre-X directors performed their fiduciary duty.
- ❧ John Felderhof – Vice president of Exploration for Bre-X
- ❧ Michael de Guzman – Chief Geologist for Bre-X
- ❧ Graham Farquharson – Partner, Strathcona Mineral Services Limited – retained by the Bre-X Board of Directors to investigate irregularities in the Bre-X Busang drill program and reported drilling results

The cast of characters

John Felderhof with
Michael de Guzman
(photo on the left)

David Walsh with
John Felderhof,
Looking much
younger two years
earlier.
(photo on the right)



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The cast of characters

- Egizio Bianchini, stock broker and geologist with Nesbitt Burns considered one of Canada's top gold analysts, said "What most people are now realizing is that Bre-X has made one of the great gold discoveries of our generation."
- Hard to believe that after the Bre-X scandal Bianchini went to BMO as Global Group Co-head of Metals and Mining



<http://calgaryherald.com/news/local-news/bre-x-the-real-story>

The Bre-X story time line

➤ In part from: <http://www.visualcapitalist.com/bre-x-scandal-history-timeline>

The Bre-X story time line

- ❧ 1989: David Walsh founded Bre-X Minerals Ltd. in 1989 as a subsidiary of Bresea Resources Ltd. In 1993 Walsh followed the advice of geologist John Felderhof and bought a property in the middle of a jungle near the Busang River in Borneo, Indonesia.
- ❧ 1994: Initial drill results were encouraging, and the drill program was ramped up.
- ❧ 1994: de Guzman, Felderhof and Walsh sell off a portion of their exercised options for \$100 million.

The Bre-X story time line

- ❧ 1996: Bre-X hits a snag with the Indonesian government, who claimed that Bre-X was not playing by the “rules” of the country. Bre-X’s exploration permits are revoked.
- ❧ 1997: After many major miners express interest in Bre-X, eventually a joint venture is reached that gives Indonesia 40% share (Suharto), Bre-X 45%, and Freeport McMoRan a 15% share of interests. Freeport is picked because they were co-operators of the Grasburg copper mine in Indonesia with Rio Tinto.
- ❧ 1997: Freeport begins due diligence on deposit and starts to twin holes that were already drilled. Freeport reports “minor amounts of gold” in some holes.

The Bre-X story time line

- ❧ 1997: Freeport report confirms that there is no gold at Busang, and samples were tampered with by someone.
- ❧ Strathcona gets call from Bre-X Board Member & lawyers March 1997 a few days after Chief Geologist, Bre-X, Michael de Guzman falls out of a helicopter in Kalimantan, Indonesia?
- ❧ In less than two weeks the Bre-X shares went from CD\$16/share to CD\$2/share
- ❧ Felderhof flees to the Grand Caymans.

The mystery never ends



Dr. Daniel Umar, who did the autopsy on Michael de Guzman, can't even be sure of the man's identity.

Ted Rhodes / Postmedia Network

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The Bre-X story time line

- Egizio Bianchini is first the hero of Nesbitt Burns and was praised by their chairman as “we stick by and defend our people” but shortly later was fired by NB.
- In 2007 Felderhof returned to Canada to clear his name. On July 31, 2017 Felderhof, the only person to face legal charges in the Bre-X Minerals gold scandal was acquitted of all of the insider trading and other securities charges he faced. Must have had a great lawyer!
- Bre-X Chairman David Walsh died in 1998 after suffering a brain aneurysm at his home in the Bahamas.

Some Strathcona red flags

- No core splits.
- Geologists decided what core samples would be sent to the assay lab based on a visual exam at the core storage area at Busang. Those core samples were further examined by the same geologists (usually de Guzman) on the “pool table”.
- Only selected samples by them are sent to the assay lab for analysis.
- Egizio Bianchini of Nesbitt Burns on his due diligence trip was not allowed to go into the core shack or visit the Bre-X office. Yet he still signed off as “one of the great gold discoveries of our generation”.

Some Strathcona red flags

- No visible gold in any of the core boxes.
- All of the holes drilled by Bre-X had some 3 gram/tonne assays
- Twin holes by Freeport and Strathcona had no gold
- Initially it appears that de Guzman was salting with cut pieces of jewelry, but expensive and tedious.
- A more detailed examination by Strathcona determined extensive evidence of rounded placer gold in virtually all of the Bre-X core samples. de Guzman bought the placer gold in the Busang market for \$60,000.
- **Bre-X for two years had been re-cycling placer gold bought from the artisanal miners in Busang to sweeten the assays in the greatest salting scam in mining history.**

Core at Busang



Strathcona video

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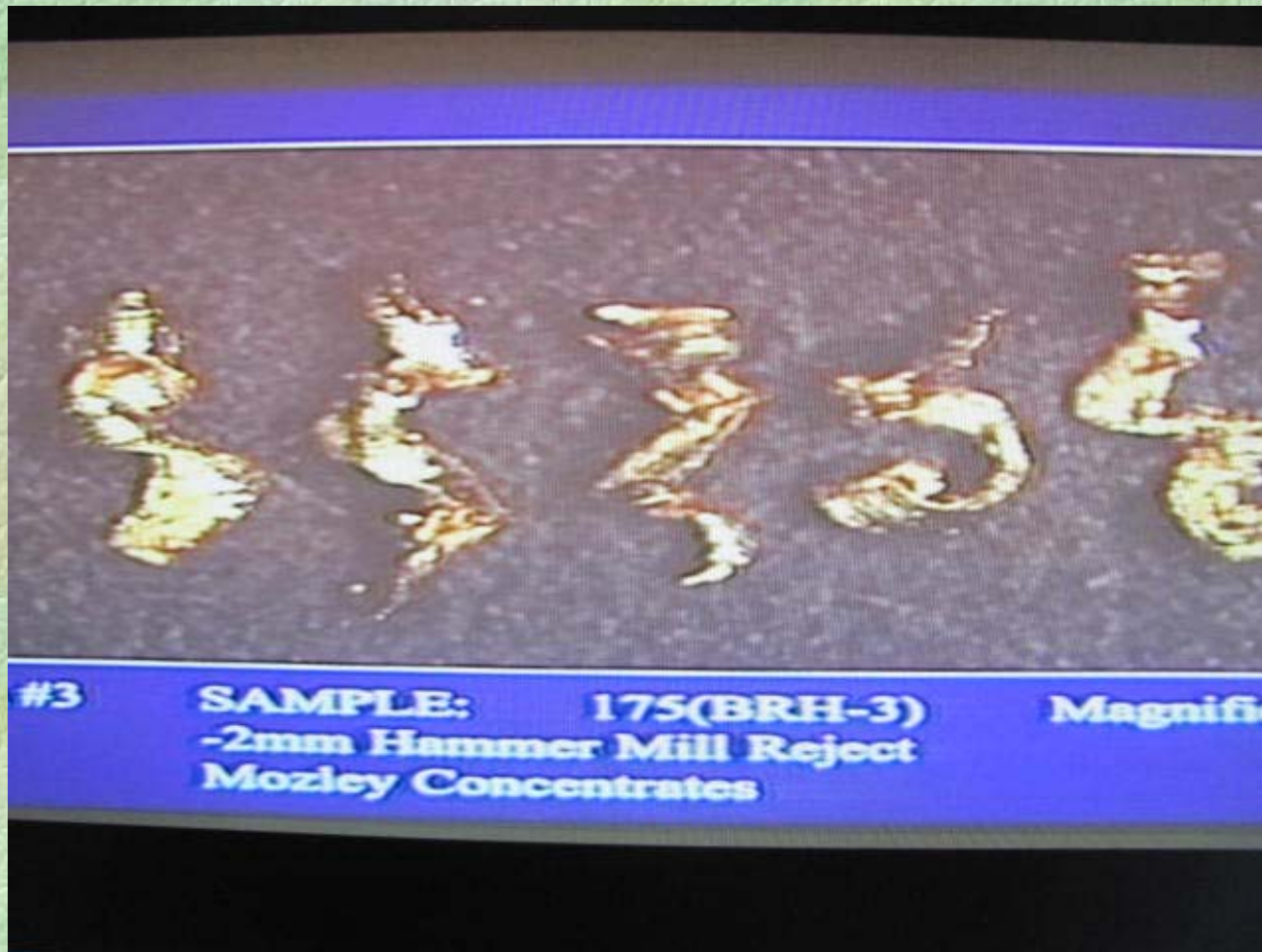
Comparison of “market gold” to cuttings examined by Strathcona



Strathcona video

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de Guzman's early salting gold



Strathcona video

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Lessons learned

- ❧ Strathcona actually had a list of 20 red flags found during their investigations, obvious questionable practices that were not caught by investment firms and independent consultants or the red flags were ignored.
- ❧ Field procedures need to be consistent and monitored by third parties or qualified professionals.
- ❧ Industry technical and economic reports needed to be drastically revised with specifics on disclosures and certification by professionals.
- ❧ Worldwide mining industry professional organization created the concept of Qualified Person or Qualified Professional.

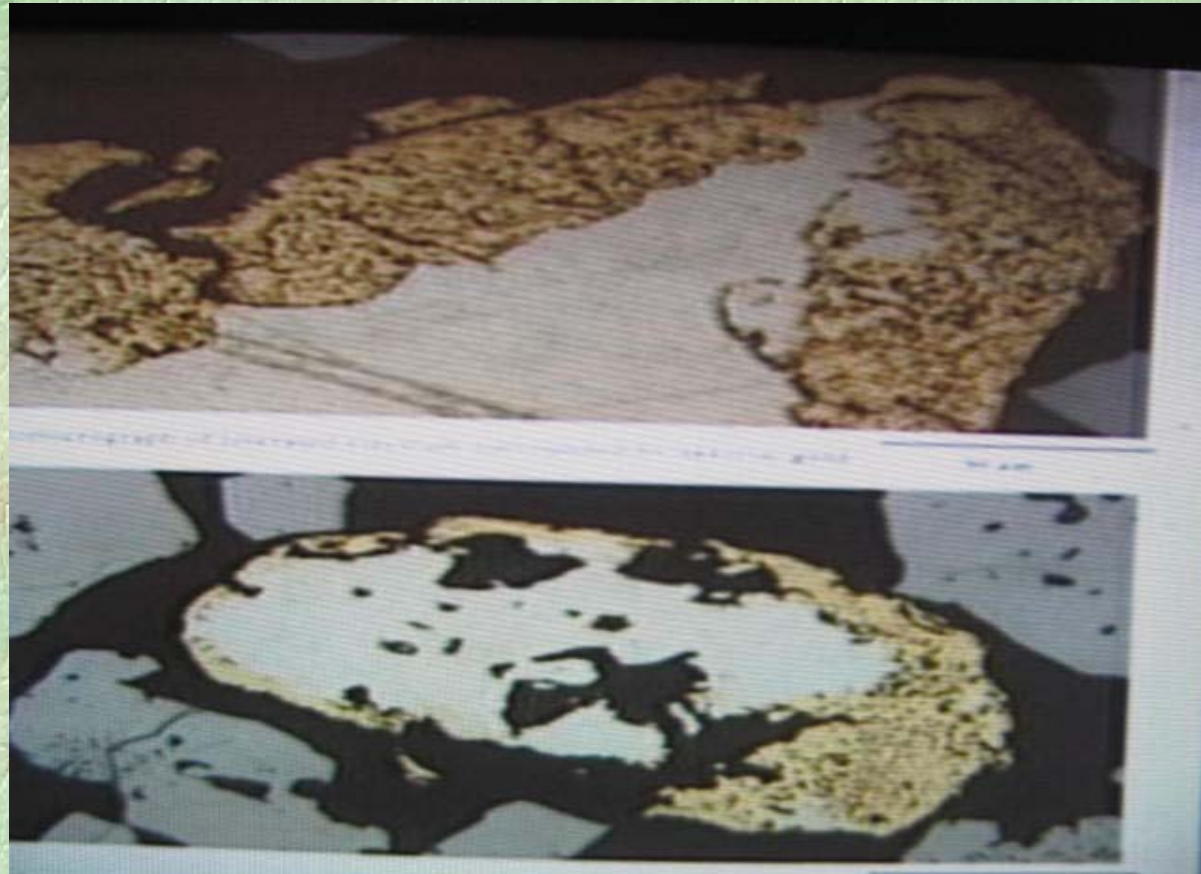
Busang gold versus sample bag gold



Strathcona video

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Electrum – gold & silver



Strathcona video

Lessons learned

- Mining industry organizations participating in QP's registration and monitoring mining related reports.
- The Committee for Mineral Reserves International Reporting Standards (CRIRSCO) members are:
 - JORC (Australasia) CBRR (Brazil)
 - CIM (Canada) Commission Minera (Chile)
 - PERC (Europe) KOMPERS (Indonesia)
 - KAZRC (Kazakhstan) MPIGM (Mongolia)
 - NAEN (Russia) SAMCODES (South Africa)
 - SME (United States of America)

Lessons learned

- Participating professional societies include:
- Association of Professional Geologists of Ontario (APGO)
- Association of Professional Engineers and Geologists of British Columbia (APEGBC)
- Australasian Institute of Mining and Metallurgy (AusIMM)
- Geological Society of London (GSL) for Chartered Fellows
- Society of Mining, Metallurgy, and Exploration Registered Member program (SME RM)

Lessons learned

- The Mining and Metallurgical Society of America (MMSA) is recognized by CRIRSCO as having an equivalent program for qualified professionals (QP).

Lessons learned

- Standards for determining resources and reserve are now one international standard. The U.S. is the last hold out with on-going debate with the SEC
- If it is too good to be true then most likely it is not true.
- Gold fever tends to attract a majority of interested investors and they tend to want to own part of the dream.
- Professional organizations should have oversight and review procedures in place to look for scams; always need to be on guard for scams.
- Mining scams can be found in all mining sectors from precious metals to industrial minerals.

Hard to believe isn't it. A new
low for re-cycling.



Strathcona video

References:

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- Dr. Graham Farquharson, Reflections, the Bre-X Saga, presented to the Society of Economic Geologists, Colorado School of Mines, November 6, 2001