The Toronto International Leadership Centre for Financial Sector Supervision

Bre-X Minerals Limited

Susan Wolburgh Jenah
Ms. Susan Wolburgh Jenah

- Vice Chair – Ontario Securities Commission (OSC)
- Formerly General Counsel & Director of International Affairs - OSC
- Former Chair of the CSA Legislative Committee
- BA from the University of Toronto
- LLB from Osgoode Hall Law School
- Frequent participant at international training conferences

Promoting Leadership
Key Issues

- The importance of effective standards for continuous disclosure and verification of asset valuation;
- Factors that allowed fraud to occur;
- The importance of interagency cooperation; and
- The need for independent and adequate funding of a regulatory agency, including the ability to work and share information with other local or international agencies and governments.

Promoting Leadership
## Core Principles

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<th>CP #</th>
<th>Principles for:</th>
<th>A Focus On …</th>
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<td>The Regulator</td>
<td>Powers, resources &amp; capacity</td>
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<td>Self Regulation</td>
<td>SROs and direct oversight</td>
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<td>Enforcement</td>
<td>Comprehensive enforcement powers</td>
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<td>Cooperation in Regulation</td>
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<td>Issuers</td>
<td>Timely &amp; accurate disclosure</td>
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<td>The Secondary Market</td>
<td>Detection and deterrence of unfair trading practices</td>
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Promoting Leadership
Major Events

- Jul. 1989  Bre-X begins trading on the Alberta Stock Exchange
- 1989 - 1992  Average trading price of Bre-X shares is 25 cents.
- May 1993  Bre-X gains control of part of the Busang property in Indonesia.
Major Events

- **Oct. 1993**  Drilling begins
- **Sep. 1994**  Bre-X gains control of portion of Busang site believed to be the “mother-load”
- **Feb. 1995**  Bre-X announces estimate of 1 million ounces of gold
Major Events (cont’d)

- Mar. 1995  Bre-X’s share price increases to about $2.
- May 1995  Bre-X announces new estimate of 8 million ounces of gold
- Oct. 1995  Bre-X’s share price increases to about $18.
Major Events (cont’d)

- Dec. 1995  Bre-X’s share price increased to about $53 based on continued increases in resource estimates.

- Jan. 15, 1996  Bre-X announces that Busang could contain 30 million ounces of gold, but company officials estimate 25 million ounces.
Major Events (cont’d)

- Feb. 21 1996  Nesbitt Burns issues a research report increasing its estimate of total resources at Busang to 42.6 million ounces and increasing the 12-month target price of Bre-X’s share to $180 per share and the 18-month target price of $220 per share.
Major Events (cont’d)

- Apr 23 1996  Bre-X shares starts trading on the Toronto Stock Exchange. Within minutes of the opening of trading, the price of Bre-X shares skyrocketed to nearly $200.

- May 22 1996  Bre-X shares split 10-for-1.

- June 1996  Bre-X announces new estimate of 39 million ounces of gold.
Major Events (cont’d)

- June-July 1996 John Felderhof sells shares worth $22.6 million
- July 1996 Bre-X announces new estimate of 47 million ounces of gold
- Aug. 1996 John Felderhof sells shares worth $17.4 million
  Bre-X shares begin trading on NASDAQ
Major Events (cont’d)

- Aug-Sept. 1996  John Felderhof sells shares worth $22.9 million
- Sept. 1996  Bre-X shares hit all-time high ($6.2 billion)
- Oct. 1996  Media reveal Indonesian government inquiry
  Bre-X share price drops
  Morning trading of shares is delayed until 11:08 am
Major Events (cont’d)

• Nov. 1996  Bre-X circulates fax copies of a Far Eastern Economic Review article that claimed Barrick Gold applied pressure on Indonesian officials

Indonesia orders Bre-X to strike a deal with Barrick Gold
<table>
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<th>Date</th>
<th>Event</th>
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<td>Nov. 1996</td>
<td>Concerns expressed that Barrick Gold could be open to action under U.S. Foreign Corrupt Practices Act</td>
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<tr>
<td>Dec. 1996</td>
<td>Bre-X announces Busang has 57 million ounces of gold</td>
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Deadline for deal with Barrick Gold expires
Major Events (cont’d)

- Dec. 1996  President of Indonesia strips Bre-X’s mining license

Trading in Bre-X shares is halted on TSE and NASDAQ

TSE allows inclusion of Bre-X in the TSE 300 and TSE 100 indexes

Barrick and Bre-X announce tentative joint proposal
Major Events (cont’d)

- Jan. 1997  Fire in Bre-X’s Busang office destroys key documents
  Placer Dome proposes merger with Bre-X
  Indonesian timber magnate purchases 50% interest in the Indonesian company expected to hold Indonesia’s participation in Busang
Major Events (cont’d)

- Feb. 1997 Bre-X announces that Busang has 71 million ounces of gold
  Bre-X announces deal to develop a gold mine with Freeport-McMoRan Cooper & Gold Inc.
  Bre-X share price falls losing nearly $750 million
Major Events (cont’d)

- March 1997  Bre-X geologist Michael de Guzman dies in fall from helicopter. Death is ruled suicide but is considered suspicious.
  Bre-X admits that estimates may have been overstated.
  Share price plunges losing $3 billion in a day.
  TSE and NASDAQ halt trading.
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Group Discussion
Activity 1: Analyze the Situation

Group discussion followed by presentation

- Red Group
- Blue Group

Question #1
Question #2
Activity 1: Analyze the Situation

Red Group

1. How do the issues inherent in the Bre-X situation relate to the objectives of protecting investors, and of maintaining fair, efficient and transparent markets? What reforms could be made to the regulatory system to address the issues raised by the Bre-X situation?
Activity 1: Analyze the Situation

Blue Group

2. What powers and jurisdiction does the OSC need in order to effectively respond to Bre-X to maintain confidence in the Canadian capital markets, and to work cooperatively with other agencies (at the national and international level) to address inter-jurisdictional and international issues?
Table Group Discussions

25 Minutes
Full Group Presentations

20 Minutes

Promoting Leadership
Coffee Break
Activity 2: Develop a Focus

Stakeholder Analysis

- State your goal
- Identify strategies
- Identify key stakeholders and their needs, concerns, interests
- Indicate each stakeholder’s position regarding your goal
- Record the three most important stakeholders

Promoting Leadership
Stakeholder Analysis

A Stakeholder ...

- Can be supportive, neutral or against what you are trying to achieve
- Can help or hurt you in your efforts

  ➔ Supportive – defend and leverage
  ➔ Neutral – convert
  ➔ Against – convert or mitigate
The OUI Model

OUTWARD
Owners
Managers
Supervisory/
Regulatory
Bodies

OUTWARD
Service Providers
Trade Associations
Depositors
/Policyholders
/Investors
The Media

UPWARD
Executive
Legislative
Judiciary

INWARD
You
Your Staff

Promoting Leadership
Activity 2: Develop a Focus

To develop a focus consider whether...

- The stakeholders are supportive, against or neutral to your proposed changes.

- Their concerns, needs, wants, and vested interests that must be addressed in order to gain the stakeholders’ support?
Persuade Others Worksheet

Persuading Others Worksheet

Setting the stage to communicate a “Win-Win” situation

Shareholder Needs

Your Needs

Common Interests

Transparent dialogue and action toward shared vision

Promoting Leadership
Persuading Others

Group discussions followed by presentation

Stakeholder Presentation

- Red The Minister responsible for overseeing the Securities regulator
- Blue Companies in the Mining Industry
- Yellow The Media

Promoting Leadership
Table Group Discussions

20 Minutes

Promoting Leadership
Full Group Presentations

30 Minutes

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Running of Activity

1. Stakeholder analysis: 15 Minutes
2. Stakeholder Role-Play Planning: 30 minutes

A total of 10 minutes will be allocated for each role-play.
Lessons Learned

- Always expect the unexpected.

- You can always learn valuable lessons from a disaster to make positive changes to the regulatory regime.

- You can never introduce the necessary changes as quickly as you would wish, but you have to try to implement them in time to avoid another disaster.
Lessons Learned

- Never assume that the media will get it right, or that they will even try to; Do your best to give them the information which they need to get it right if they want to.

- Try to anticipate the concerns that stakeholders will have, and communicate effectively with them to try to alleviate their concerns.

- No matter how severe the problem, try to use it to achieve the long-term goals of your agency.
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End of Presentation