

To Marc Struik (CEO, BSGR)

From Cesare Morelli

Date: 15 June 2015

Subject: An account of the professional interactions between BHP Billiton and BSGR in 2005-06 in respect of some exploration titles in Guinea

Dear Mark,

As discussed, this note should provide you with a summary of the relationship between BHPB Billiton and BSGR during the years 2005 and especially 2006 when the 2 companies explored a potential commercial agreement or Joint Venture in respect of exploration licences held by BSGR in Guinea.

Please note that this account is purely based on my recollection of events only and is not supported by any documentary evidence, which I do not have since I left BHPB in January 2009. As such, I cannot be 100% certain about exact facts, e.g. dates and what was exchanged between the 2 companies almost 10 years ago and therefore there will be gaps in my representation.

I was appointed Regional Exploration Manager, Africa, by BHP Billiton ("BHPB") in May 2005. I resigned from the company in January 2009. When I took my Exploration Manager position, one of my key responsibilities was to grow the company's exploration portfolio in Africa i.r.o. all the mineral commodities sought by BHPB: Cu, Mn, Ni, diamonds, coal, potash, Iron Ore and Al bauxite.

BHPB at that time (2005) was already present in Guinea through the following projects:

- The Mount Nimba iron ore project, which was at pre-feasibility stage;
- The Boffa-Santou Al bauxite project, for which two large licences had just been granted by the Guinea State;
- Several exploration licence applications, which were pending, all for iron ore, including Nimba North, Diéké, Faranah and the so-called Simandou South and North blocks.

Of all the exploration licence applications, BHPB were granted the Nimba North, Diéké and Faranah blocks. However, the Simandou North and South blocks went to BSGR in early 2006. We believed that these blocks had also been applied for by other companies, in 2003 and 2004, including Rio Tinto, CVRD, a Chinese company (?) and others.

In terms of the Guinea mining law at that time, it was possible to have several companies applying and competing for the same ground, as the rule of "first come, first serve" was not applicable, and licences were rather granted based on technical and financial merits of the applying company and at the discretion of the Ministry of Mines.

As such, while we (BHPB) were obviously disappointed that we had not been granted the Simandou North and South blocks, this was explainable in terms of the Guinea legislation, but also because of the following realities:

- We were told (by the Ministry of Mines, I think) that the Guinea Government strategy with regard to mining was to diversify the operators in the country and not to grant “all the good ground to the majors only”;
- BHPB (as Rio Tinto) held already many licences over major deposits and mines in Guinea, both in Iron Ore and bauxite; to grant them more acreage would have gone against the government strategy;
- On the other hand, juniors are often catalysts of healthy competition for the majors (who are very often accused of “freezing ground” for the benefit of their own global strategies...) and are known to be much more flexible and quicker in developing minerals exploration projects.

So, all things considered, the grant of the Simandou North and South exploration licences to BSGR was not seen by BHPB as an anomaly or something untoward. And it is precisely based on this opinion that the management of BHPB decided to embark in discussions with BSGR. We knew that BSGR were granted these licences following the conclusion of an MoU with the Guinea Government and that such MoU contained specific “performance” terms and conditions, which we had an idea about following discussions with you and which appeared to be legitimate and justifiable.

If I recall correctly, our initial, exploratory talks were held in March-April 2006, with yourself and Mr Roy Oron. *We were led to believe (by yourselves) that you were interested in getting one of the major involved in a deal, not so much from a financial and investment point of view, but more for a technical input.* Indeed, we (BHPB) were proprietary of the Falcon gravity gradiometry system at that time and we punted this technique as being the state of the art tool for Iron Ore exploration.

The discussions between the 2 companies advanced positively during 2006, with draft deal proposals exchanged, meetings in South Africa and London and a site visit to the licences by the BHPB geologists (towards the end of 2006). It goes without saying that, had a deal been concluded, BHPB would have undertaken a thorough Due Diligence on BSGR and especially on their exploration titles. However, eventually a deal was never executed because we then understood that BSGR strategy had changed in that BSGR opted to develop the project by themselves and in doing so increase the value of the asset (for a better deal years later on). The subsequent and last discussions between BSGR and BHPB (in early 2007?) were held by colleagues from the Iron Ore Customer Sector Group and I was not privy of these and my interactions with you ended towards end of 2006.



Cesare Morelli