



18 June 2018



South32 Limited
(Incorporated in Australia under the *Corporations Act 2001* (Cth))
(ACN 093 732 597)
ASX / LSE / JSE Share Code: S32 ADR: SOUHY
ISIN: AU000000S320
south32.net

SOUTH32 TO ACQUIRE ARIZONA MINING IN AGREED ALL CASH OFFER

South32 Limited (ASX, JSE, LSE: S32; ADR: SOUHY) (South32) and Arizona Mining Inc. (TSX:AZ) (Arizona Mining) announced today that they have entered into an agreement for South32 to acquire the remaining 83 per cent of issued and outstanding shares of Arizona Mining via a plan of arrangement, representing a fully funded, all cash offer of US\$1.3 billion¹ (C\$1.8 billion). The offer price of C\$6.20 per share represents a 50 per cent premium to the closing price on 15 June and implies a total equity value for Arizona Mining of US\$1.6 billion¹ (C\$2.1 billion). Directors and officers of Arizona Mining, who own 34 per cent of the common shares on issue, have entered into voting support agreements and the directors of Arizona Mining entitled to vote, have unanimously recommended to their shareholders that they vote in favour of the transaction.

Arizona Mining is the owner of the Hermosa Project, containing the high grade base metals Taylor deposit, the Central zinc, manganese and silver oxide resource and an extensive, highly prospective land package with potential for discovery of polymetallic and copper mineralisation. The Taylor deposit is a greenfield development project that has a reported resource of 101 million short tons^{2,3} (Measured and Indicated Mineral Resources) at 10.4% zinc equivalent grade and is open at depth and laterally. The project is located close to key infrastructure in an attractive mining jurisdiction. A Preliminary Economic Assessment completed by Arizona Mining in January 2018 indicated that this low cost, long life project has the potential to deliver a very high Internal Rate of Return on investment².

South32 Chief Executive Officer, Graham Kerr said: "Our all cash offer for Arizona Mining will allow us to optimise the design and development of one of the most exciting base metal projects in the industry. We have been a major shareholder in Arizona Mining since May 2017 and an active participant in the Hermosa Project with representation on the operations committee and a nominee on the board of directors. Our deep understanding of this high grade resource and surrounding tenement package, and extensive experience at Cannington, makes us the natural owner of this project and ensures we are well positioned to bring it to development, delivering significant value to our shareholders."

¹ Based on a CAD/USD exchange rate of 0.7574 as of 15 June 2018.

² The information in this announcement that relates to the Mineral Resource estimates and the Preliminary Economic Assessment (PEA) of Hermosa Project (Taylor and Central Deposit) is based on the "National instrument 43-101 Technical Report" dated 16 January 2018 and filed by Arizona Mining on SEDAR (www.sedar.com) in accordance with National Instrument 43-101 as required by Canadian securities regulatory authorities. Quantities are stated in short tons. Commodity weights of measure are in ounces per short ton (oz/ton) or percent (%) unless stated otherwise. See also Mineral Resources – clarifying statements in this market announcement.

³ The estimates of the Taylor sulphide Mineral Resources contain 15.2 million tons of Measured Mineral Resource (4.0% Zn, 4.0% Pb & 1.6 g/t Ag) and 85.8 million tons of Indicated Mineral Resource (4.2% Zn, 4.0% Pb & 2.2 g/t Ag). The % Zinc equivalent calculation including assumptions are available in the PEA of Hermosa Project (Taylor and Central Deposit) dated 16 January 2018, filed by Arizona Mining on SEDAR (www.sedar.com).

Arizona Mining founder and Executive Chairman, Richard Warke said: “South32’s all cash offer of C\$6.20 per share represents a premium reflective of the truly world class nature of the Hermosa Project and allows shareholders to realise immediate value. In addition, the transaction is not contingent on financing, which significantly reduces transaction risk.

Our board of directors and a special committee of three independent members from the board of directors evaluated this offer and determined that it represented the best outcome for all shareholders. Importantly, South32 knows the asset well and understands the significance of the strong relationships that we have built in Arizona with all of our stakeholders. I wish South32 all the best in developing Hermosa and the Taylor deposit.”

Terms of the Transaction⁴

The Transaction will be effected by way of a statutory plan of arrangement pursuant to the *Business Corporations Act* (British Columbia) (BCBCA) and will require the approval of:

- at least 66.67 per cent of votes cast by Arizona Mining shareholders at a shareholder meeting expected to take place in the September 2018 quarter. South32 is eligible to vote its existing 53.2 million common shares in Arizona Mining, equivalent to 17 per cent of the common shares outstanding, in favour of the Transaction; and
- a simple majority of the votes cast by Arizona Mining shareholders, excluding South32 and any other persons required to be excluded in accordance with Multilateral Instrument 61-101 of the Canadian securities regulatory authorities.

No vote will be required by South32 shareholders in connection with the Transaction.

As part of the Transaction, South32 will either acquire or cancel the outstanding options and warrants in Arizona Mining. The holders of options and warrants that are in-the-money will receive cash consideration equal to the purchase price less the exercise price of each Arizona Mining option or warrant. South32 has also entered into an arrangement designed to manage foreign exchange rate exposure associated with the Transaction.

The Arrangement Agreement includes customary deal protection provisions including a non-solicitation clause, notification rights and a right to match in the event of a superior proposal, as well as a C\$67 million termination fee payable by Arizona Mining to South32 under certain circumstances.

In addition to a positive shareholder vote, the Transaction remains subject to a limited number of conditions, a full list of which is set out in the Arrangement Agreement, including:

- receipt of interim and final court orders pursuant to the statutory arrangement provisions of the BCBCA;
- no material adverse effect concerning Arizona Mining; and
- other customary conditions for a transaction of this nature.

The Transaction is not subject to any regulatory approvals.

Subject to the conditions precedent being met, the Transaction is expected to close in the September 2018 quarter.

South32 has retained Goldman Sachs as lead financial adviser, Canaccord Genuity as financial adviser, Osler, Hoskin & Harcourt LLP as Canadian legal adviser and Perkins Coie as US legal adviser, in relation to the Transaction.

⁴ Capitalised terms have meanings defined in the Arrangement Agreement.

Arizona Mining has retained Scotiabank as lead financial adviser, Maxit Capital as financial adviser to the special committee and Davies Ward Phillips & Vineberg as legal adviser, in relation to the Transaction.

Board Recommendation and Voting Support Agreements

The Arrangement Agreement has been unanimously approved by the directors of Arizona Mining entitled to vote who have recommended that Arizona Mining shareholders vote in favour of the Transaction.

Scotiabank has provided an opinion to the Arizona Mining board of directors and Maxit Capital has provided an opinion to the Arizona Mining special committee stating that, and based upon and subject to the assumptions, limitations, and qualifications set forth therein, the consideration offered pursuant to the Transaction is fair, from a financial point of view, to the Arizona Mining shareholders, excluding South32.

South32 has entered into voting support agreements with all directors and senior officers of Arizona Mining who hold common shares, including the founder and Executive Chairman, pursuant to which these shareholders agree to vote in favour of the Transaction subject to the terms and conditions of such agreements. This group of shareholders collectively represents 34 per cent of Arizona Mining's outstanding common shares.

Arizona Mining interim financing

In connection with the Transaction, South32 will provide Arizona Mining with a C\$70 million working capital facility at commercial rates (the Facility). The Facility comprises an initial tranche of C\$40 million available following signing and subsequent tranches up to a total of C\$30 million, subject to South32's consent. The Facility is being provided for agreed upon working capital and capital expenditure purposes based on the most recent operational budget for the Hermosa Project. In certain circumstances the Facility can be repaid in Arizona Mining shares at South32's election, but only to the extent South32's ownership of Arizona Mining does not exceed 19.9 per cent.

Conference call

South32 will hold a conference call at 7:30am Australian Western Standard Time on 18 June 2018 to discuss the Transaction, the details of which are as follows:

Conference ID: 538881

Australia: 1 800 558 698

Singapore: 800 101 2785

South Africa: 0800 999 976

United Kingdom: 0800 051 8245

United States: (855) 881 1339

International: +612 9007 3187

About South32

South32 is a globally diversified mining and metals company with high quality operations in Australia, Southern Africa and South America. Our purpose is to make a difference by developing natural resources, improving people's lives now and for generations to come. We are trusted by our owners and partners to realise the potential of their resources. We have a simple strategy to maximise the potential of our assets and shareholder returns by optimising our existing operations, unlocking their potential and identifying new opportunities to compete for capital.

About Arizona Mining

Arizona Mining is a mineral exploration and development company focused on the exploration and development of its 100 per cent owned zinc-lead-silver Hermosa Project located in Santa Cruz County, Arizona. Hermosa has 554 acres of private, patented mining claims and district exploration potential within 20,500 acres of unpatented mining claims. It comprises two deposits, the flagship Taylor deposit, a zinc-lead-silver sulphide and the Central deposit, a zinc-manganese-silver manto oxide.

FURTHER INFORMATION

JSE Sponsor: UBS South Africa (Pty) Ltd
18 June 2018

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This announcement contains inside information.

Further information regarding the Transaction can be found in the Arrangement Agreement and will also be included in an information circular, which is expected to be filed and mailed to Arizona Mining shareholders in July 2018. These key documents will also be available online at www.arizonamining.com and www.sedar.com.

Further information on South32 can be found at www.south32.net.

Forward-looking statements

This release may contain forward-looking statements, including statements about currency exchange rates, commodity prices, production forecasts, plans, development decisions, exploration and capital expenditure. These forward-looking statements reflect expectations at the date of this release; however, they are not guarantees or predictions of future performance. They involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this release. Readers are cautioned not to put undue reliance on forward-looking statements. Except as required by applicable laws or regulations, neither South32 Limited nor Arizona Mining Inc. undertakes to publicly update or review any forward-looking statements, whether as a result of new information or future events.

Mineral Resources – clarifying statements

The estimates of Mineral Resources for the Hermosa Project (Arizona Mining) are foreign estimates under the ASX Listing Rules reported in accordance with the National Instrument 43-101 (NI 43-101) and filed on SEDAR (www.sedar.com) on 16 January 2018.

In accordance with National Instrument 43-101, Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of mineral resources will be converted to Mineral Reserves. Inferred Mineral Resources are based on limited drilling which suggests the greatest uncertainty for a resource estimate and that geological continuity is only implied. Additional drilling will be required to verify geological and mineralisation continuity and there is no certainty that all of the Inferred Resources will be converted to Measured and Indicated Resources. Quantity and grades are estimates and are rounded to reflect the fact that the resource estimate is an approximation.

The categories of Mineral Resource classification used are in accordance with NI 43-101. NI 43-101 is a 'qualifying foreign estimate' (Chapter 19, ASX Listing Rules) and has similar categories of resource classification as the JORC Code (Appendix 5A, ASX Listing Rules).

South32 considers these estimates to be both relevant and material to South32 given that this project has the potential to be a material project to South32.

Reliability of estimate: South32 has experience of managing similar operations to the Hermosa Project. South32's key technical and operational personnel conducted site visits as part of the due diligence process. Arizona Mining provided information used to estimate Mineral Resources to South32 for review. The estimates of Mineral Resources were reported in compliance with NI 43-101 using independent consultants, AMC Mining Consultants (Canada) Ltd (AMC). The Qualified Person (as required by Canadian securities regulatory authorities) for the Mineral Resource estimate was Dinara Nussipakynova, P.Geo, an employee of AMC.

The basis for the estimate as provided to South32 consists of a geological database incorporating geology, analytical results and surface topography. Mining and processing recoveries are based on the PEA completed by Arizona Mining for the Hermosa Project (Taylor and Central Deposit). The PEA dated 16 January 2018 is available on SEDAR (www.sedar.com).

South32 believes that the information provided is the most recent publicly available. Following completion of the transaction it is South32's intention to conduct a work program to increase confidence in the resource to ensure that resources are reported in accordance with the JORC Code. The work program will include additional exploration by means of drilling and is anticipated to be completed within three years and will be funded using internal cash reserves.

Cautionary statement:

- The estimates of Mineral Resources for the Hermosa Project (Arizona Mining) are foreign estimates under the ASX Listing Rules and are not reported in accordance with the JORC Code.
- Competent persons have not done sufficient work to classify the foreign estimates as Mineral Resources in accordance with the JORC Code.
- It is uncertain, that following evaluation and further exploration, the foreign estimates will be able to be reported as Mineral Resources in accordance with the JORC code.

Competent persons' statement

In accordance with ASX listing rule 5.12, Matthew Readford, a Competent Person, employee of South32 and Member of the Australasian Institute of Mining and Metallurgy, confirms the information in this market announcement that relates to the Hermosa Project NI 43-101 foreign estimate filed on SEDAR (www.sedar.com) on 16 January 2018 is an accurate representation of the available data and studies for Hermosa Project provided to South32 by Arizona Mining. Matthew Readford has sufficient relevant experience for the type of deposit and method of extraction to qualify as a competent person in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code). Mr Readford consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.