

A 38 North Special Report



Hiding in Plain Sight

*Cowboys, Conmen and North Korea's
\$6 Trillion Natural Resource Prize*

J.R. Mailey
April 2016

US·KOREA
INSTITUTE AT SAIS

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EXECUTIVE SUMMARY

Kevin Leech became a billionaire through a series of investments in pharmaceutical and technology companies after selling his family's 38 funeral parlors across England. After losing everything when his company, an internet incubator named Ci4net.com collapsed, Leech emerged from bankruptcy in 2005 and engineered a series of mining deals with North Korea. This *38 North* Special Report profiles the story of this "cowboy capitalist," whose deals with Pyongyang raise serious questions about potential violations of economic sanctions on a global scale.

Announcements made by companies linked to Leech claimed to possess the rights to mine and sell North Korean gold, silver, lead, coal and rare earth minerals for 25 years. One company linked to him, Pacific Century Rare Earths Limited, even claimed to have discovered the largest deposit of rare earth elements in history in Jongju, just north of Pyongyang. That discovery, if confirmed, would potentially make North Korea a powerhouse in the global rare earth industry.

There was even an attempt to list two other Leech-linked mining assets on the Australian Stock Exchange (ASX). Documents filed by the company that would have held the asset, however, seemed to reveal that the asset was ultimately linked to the Natural Resources Development and Investment Corporation (NDIC), a North Korean entity designated under UN sanctions for its involvement in weapons proliferation. Other documents that are part of this investigation show that Leech's relationship to the NDIC dates back to at least 2009. To date, none of the individuals involved in these dealings with the NDIC have been convicted of any crime because of their operations in North Korea. Nor does the mentioning of any individual in this report necessarily suggest that they have broken any law or violated sanctions.

Dr. Louis Schurmann, an Australia-based South African geologist contracted by Leech to work on mining projects in North Korea, is one of the few names publicly associated with the British tycoon's mining ventures in North Korea. Publicly, he was listed as the head of a number of firms involved in Leech's North Korean gambit. However, Schurmann does not appear to have a stake in any North Korean mineral assets—and it may be that Schurmann's expert reputation was used to merely advance the credibility of otherwise dubious operations. In fact, there is a long list of companies and investors in half a dozen countries involved in the North Korean deals tied to Leech-linked companies, many of whom, until now, have been able to remain unnamed through the deft use of anonymous shell companies in opaque financial jurisdictions like the British Virgin Islands and United Arab Emirates.

In April 2016, however, the veil of anonymous shell companies was pierced. A deluge of 11.5 million documents became available from a law firm in Panama called Mossack Fonseca that revealed the identities of owners and directors of many previously hidden offshore companies. In the course of a parallel investigation, the Australian Broadcasting Corporation

(ABC) gained access to some of these documents. They provide new details about many—but not all—of the firms and individuals involved in Leech’s operations. The documents reveal that a group of men who have engaged in a number of controversial business transactions with one another over the course of a decade hold positions in virtually every company linked to Leech’s mining ventures.

One of the hidden directors revealed by the Panama Papers has been implicated in multi-million dollar securities fraud in the United States. This *38 North* investigation also found that Leech’s operations are linked to one of the most bizarre episodes of foreign investment in North Korea’s mineral sector dubbed by the media as “the trillion dollar con.” In that case, a Jersey-based convicted fraudster named Russell King reportedly engineered the takeover of a British investment bank called First London by claiming to manage the assets of deep-pocketed Middle Eastern royalty. Kevin Leech and several of his close associates became shareholders and directors of the bank and a letter of guarantee from First London helped King and his associates persuade the owners of Notts County FC, a professional English soccer team, to hand the team over for only £1. In order to recruit renowned coach Sven-Goren Eriksson, Notts County offered him millions of dollars worth of shares in Swiss Commodity Holding, a Kevin Leech-led company that claimed to possess lucrative mineral rights in North Korea. King, Eriksson and others linked to Notts County even travelled to North Korea together. When the deals were exposed as a ruse in 2010, First London imploded, Notts County fell into enormous debt and Swiss Commodity Holding’s North Korean mineral deals were cancelled by the NDIC.

Various reports and experts have questioned the viability of the deals linked to Schurmann and Leech. Moreover, a number of businessmen involved in the deals now claim that none of their agreements in North Korea have borne fruit. Despite numerous prior assertions by individuals and companies involved in these dealings that progress had been made toward mining and exporting North Korea’s minerals, several individuals linked to the deals now state that none of the mines are operational. (Schurmann does, however, stand by his geological assessments and reports of North Korea’s mineral potential.)

The questions about the validity of the claims made by these companies combined with the involvement of several individuals previously involved in securities fraud should trigger a thorough examination of the deals by securities regulators and law enforcement.

International sanctions imposed upon North Korea because of its nuclear and missile programs—even the more far-reaching sanctions recently imposed by the UN Security Council—are obviously only effective if adequately enforced. Efforts by international companies and individuals to acquire mineral assets from a UN-designated entity should trigger investigations of sanctions violations taking place on a global scale. Moreover, the results of this investigation highlight the need for countries like Australia to strengthen their sanctions enforcement efforts and institutions. The United Kingdom recently set up an office specifically charged with sanctions implementation; other countries should follow suit.

The findings of this investigation also highlight the degree to which unscrupulous investors and other criminals are able to abuse anonymous shell companies to conceal their operations and potentially evade sanctions. Eliminating this loophole should be a major priority for

governments seeking to bolster sanctions implementation. Curbing the abuse of these entities will require every country—especially major financial hubs—to establish low-cost, searchable public registries that contain basic information about the owners of any company formed in their territory. Reform-minded governments could take steps to shift the burden of compliance responsibility onto incorporation services firms themselves. Like banks, these firms should be required to undertake customer due diligence measures so that they know the identities of individuals who benefit from the companies that are formed. These firms should be held accountable for instances in which they have either knowingly provided services to entities under sanctions or failed to undertake the proper checks.

FOREWORD

This *38 North* Special Report is based on primary corporate records, media reports about the cases profiled and interviews with experts and individuals involved in the deals. During the course of this study, a parallel investigation into the same case was undertaken by the Australian Broadcasting Corporation (ABC). The author and researchers shared information pertaining to the deals discussed in the report. Some information in this report is based on ABC's reporting on the Panama Papers, a large trove of documents that was obtained from the Panamanian law firm, Mossack Fonseca, which provides details about the previously hidden directors and shareholders of anonymous shell companies. The author is thankful to those who helped provide information, analysis and insights, including numerous analysts and researchers affiliated with the US-Korea Institute at the Johns Hopkins School of Advanced International Studies and the Center for Advanced Defense Studies.

PART I: “THE GUTS TO GO IN THERE”

Few businessmen operating in North Korea speak openly about activities in the reclusive and repressive state. Even fewer serious investors would publicize business dealings with Pyongyang on LinkedIn. Rarer still is a geologist who would become involved in an attempt to float shares in a North Korean mineral asset on a public stock exchange. Dr. Louis Willem Schurmann has done all of the above.

When I first learned about Schurmann, his LinkedIn profile conveyed the image of a rugged and seasoned frontier investor.¹ Schurmann was born in Pretoria, South Africa, where he spent his formative years. After earning a Ph.D. in geology from the University of Pretoria, he gained over three decades of experience managing mining projects across Africa.² His list of hobbies included scuba diving, marine rescue, hiking and motorcycles.³ Below a headshot of Schurmann sporting a safari hat and red and gray backpack, he told of how his career has been hallmarked by his ability to demonstrate “cultural sensitivity in a multicultural environment” and his “excellent communication, people skills and team management” just before listing his affiliations with half a dozen firms active in North Korea—including what he has claimed is the largest discovery of rare earth elements in history.⁴

In a March 2016 phone interview with Schurmann, who is now based in Brisbane, Australia, he gave North Korea glowing reviews:

They have embarked on a big tourism drive. They have embarked on proper mining and export of minerals. They do want to become part of the world. But obviously the forces that are involved, they obviously probably are trying to work against that or [are] not really giving them a chance to do that.... They’ve opened these big water parks and ski resorts and they’ve actually revamped Pyongyang totally in terms of their monuments and the buildings...the restaurants...There’s a major change in the last 3-4 years since my first time. You can’t believe the change in that country. And a lot of people don’t recognize that.⁵

Schurmann even started a petition on Change.org in February 2016, a few weeks after Pyongyang controversially tested a nuclear bomb, calling for the government of Australia “to address the North Korean situation in an educated and honest manner.”⁶ The petition claims current and historical situation and perception of North Korea is based on misinformed

1 Archived version of LinkedIn profile for Louis Schurmann from 2014—copy on file with the author.

2 Ibid.

3 Ibid.

4 Ibid.

5 Author interview with Louis W. Schurmann, March 2016.

actions and uneducated opinions...Australia as the only proper democratic government in the region should step up to the plate and support North Korea in this time." Three months in, the petition had just one supporter: Louis Schurmann.⁶

Enormous Treasures...Hidden and Uselessly Buried

North Korea may be considered a final frontier for the global mining industry, but its possession of precious minerals is hardly breaking news. Arab geographers who visited Northeast Asia in the 9th century described the mountainous region beyond China—often referred to as “Sila,” after the “Silla dynasty” that controlled much of the Korean peninsula during that time—as very rich in minerals. “At the extremity of China is a country named Sila, very rich in gold,” Ibn Khordādbēh, an Arab postal administrator who visited the region in the 840s, wrote in his *Book of Routes and Kingdoms*. “The Muslims are so seduced by the beauty of the country that when they reach there they settle themselves and do not wish to leave.”⁷

Despite this early recognition of the Korean peninsula as a territory rich in minerals, the isolationist policies of the Choson Dynasty (or Yi Dynasty) that took power in the late 14th century severely restrained foreign powers seeking to make inroads on the peninsula. While most European powers shied away from the unknown and reclusive kingdom, an eager minority of foreign industrialists became convinced that the peninsula held untold mineral wealth. “Korea’s alien exclusion policy during the Yi dynasty (1392-1910) did much to create exaggerated and fanciful stories of Korea’s mineral wealth,” historian Spencer J. Palmer wrote in 1962. “Korean kings were reputed to have been buried in boxes of solid gold.” These “fanciful stories,” he suggests, piqued the interest of profit-seekers far and wide.⁸

In a memoir published in 1880, more than a decade after his final visit to Korea, a German adventurer named Ernst Oppert wrote of the peninsula’s fertile soils, abundant wildlife and bountiful fisheries. Above all else, however, Oppert gushed about the peninsula’s untapped mineral wealth. “Gold is found everywhere all over the country,” he wrote, “in quartz, and as dust in the river-beds; the province of Pieng’an, nearest to China, is reported to have the richest gold-mines of all.” Iron ore, too, could be found all over the country. The country also had “several beautiful species of marble and granite.” He told of mountain ranges believed to be rich in silver ore. Provinces along the frontier with Russia, he said, were generously endowed with coal and copper. Sulphur and arsenic, he claimed, could be found in Kangouen province. “I may state here as my decided conviction,” Oppert concluded, “that no other country on the whole Asiatic continent approaches Corea in mineral wealth.”⁹

6 Chamoni Geoconsultants, “Petitioning Hon Julie Bishop MP: Australia needs to address the North Korean situation in an educated and honest manner,” Petition posted to Change.org. Retrieved March 22, 2016. Archived copy on file with the author.

7 “Arab Accounts of the Geography of Korea,” “References to Silla in the writings of Arab Geographers from the 9th to the 16th Centuries,” From *Research Monographs on Korea*, Series G, Number 1, August 1948 (arranged and translated by Shannon McCune).

8 Spencer J. Palmer, “American Gold Mining in Korea’s Unsan District,” *Pacific Historical Review*, Vol. 31, No. 4 (Nov. 1962), pp. 379-391.

9 Ernst Oppert, *A Forbidden Land: Voyages to the Corea*, 1880.

However, according to Oppert, these “enormous treasures” were “hidden and uselessly buried in the bowels of the earth and of the mountains.” He found that most of the mines that had been discovered in Korea were closed and had fallen into disrepair. The few that remained in operations yielded precious little proceeds, he griped, as they were “absurdly small” and “worked in Korean fashion.” Independent mining, meanwhile, was illegal. “The searching and digging for precious metals is strictly forbidden,” he said, “and this prohibition is so rigorously kept that transgressors are threatened with capital punishment.”¹⁰

Eager to gain access to a slice of North Korea’s legendary fortune, Oppert conspired with a French priest and an American businessman to sneak into Korea and extract one of the fabled solid-gold tombs. “Ernst Oppert organized an expedition in Shanghai with the object of securing one of these valuable prizes,” according to one study. “He sailed up the Han River, started to excavate what he supposed was a royal tomb, but he had neither sufficient tools nor time to reach the coffin beneath the burial mound before he and his raiders were attacked by the Koreans. They barely escaped with their lives.”¹¹

Although a select few Western businessmen managed to gain a foothold in Korea’s mineral sector in the late 19th century, the vast majority were ejected during Japan’s occupation of the Korean peninsula.¹² Japanese firms, too, expended a great deal of effort on mineral exploration and extraction—but their presence ended following the end of World War II.¹³ During the Cold War, the Soviet Union also showed some interest in North Korea’s minerals,¹⁴ but investment in the country’s mines lagged far behind the rest of the world.

“The technology hasn’t changed since the 1960s,” Cha Ji Song, a North Korean defector who worked for 14 years at a copper and zinc mine, told the *Washington Post* in February 2015. “Almost everything is still done by manual labor.”¹⁵ Mining infrastructure has fallen into disrepair. A foreign investor using cutting-edge mining technology could indeed make a fortune in the Hermit Kingdom—and accounts about the untold riches buried under North Korea persist.

10 Ibid.

11 Spencer J. Palmer, “American Gold Mining in Korea’s Unsan District,” *Pacific Historical Review*, Vol. 31, No. 4 (Nov. 1962), pp. 379-391.

12 Ibid.

13 Betty L. King, “Japanese Colonialism and Korean Economic Development: 1910-1945,” *Asian Studies*, 1975.

14 See, for example, “Record of a Conversation of Cde. Stalin with Kim Il Sung and Pak Heon-yeong,” May 1950, Wilson Center History and Public Policy Program Digital Archive, Translated for NKIDP by Gary Goldberg.

15 Anna Fifield, “Cash-strapped North Korea steps up mining output,” *Washington Post*, February 28, 2015.

The Tiger's Lair

Business prospects in North Korea's mining sector are indeed tantalizing for a willing few. Often considered a frontier marketplace in the extractive industries, some entrepreneurs in the mining sector are said to gush in private about astronomically lucrative opportunities in North Korea. The country is believed to possess upwards of \$6 trillion in untapped deposits of coal, iron ore, gold ore, zinc ore, copper ore, limestone, graphite and other minerals.¹⁶

Schurmann did not mince words when discussing North Korea's mineral potential. "I've got 29 years' experience in geology in Africa in general, but I've never seen such a piece of real estate in terms of geology and potential of deposits in my life," he said. "It's got coal, it's got iron ore galore, it's got rare earth. They have the most rare earth at this stage in the world," he continued. "Just the small projects I've been working on have—I mean, just the one—has an excess of 140 million ounces of gold and that's just on the surface basically. No geophysical surveys have been flown there."¹⁷

"It's untapped, so what they've discovered, and it's a huge wealth, is only by the Japanese in the pre-40s on artisanal workings, surface-scratching, and obviously just mining down into where the ground level is—it's amazing," he said. "So it's really amazing and for any company who's actually got the guts to go in there when it's better and when they actually get to peace, will be the most—or the biggest rush in terms of mining projects the world has ever seen, and it's probably the last by all means unless they discover something on the moon or some other place."¹⁸

Having the guts to go in there is half the battle for would-be investors in DPRK minerals. Despite common perceptions that international sanctions strictly prohibit investing in North Korea, restrictions aren't as stringent as often believed. Several governments do impose strict bans on all imports and exports from North Korea, but most countries' sanctions apply only to specific individuals and entities. The biggest deterrent to most foreign investors is not the law but the stigma attached to doing business with Pyongyang.¹⁹

North Korea's mining sector has a particularly bad reputation. This, in part, is because several major coal mines are widely reported to be operated by forced laborers inside the country's network of prison camps. Human rights groups estimate that 80,000 to 120,000 political prisoners are detained in these prison camps where many are forced to work in fields, factories and mines under harsh conditions.²⁰ Although access to these so-called hidden

16 Andray Abrahamian and Geoffrey See, "North Korea's Resource Headache: North Korea has trillions of dollars worth of natural resources by some estimates. But could that be a curse?" *Diplomat*, May 1, 2012.

17 Author interview with Louis W. Schurmann, March 2016.

18 *Ibid.*

19 See, for example, J.R. Mailey, "A Tale of Two Kaesongs: Not All Foreign Investment is Created Equal," *38 North*, July 2014.

20 Elizabeth Shim, "International pressure puts North Korea on defensive for prison camps," *UPI*, February 8, 2016.

gulags is tightly restricted, rights groups and UN investigators have pieced together images of conditions inside the camps, mostly from defector testimonies. Accounts about mining inside these camps paint an unequivocally gruesome picture.²¹

Mornings in indoctrination classes, one former laborer recalled, were followed by long shifts—sometimes 16 hours or more—pushing coal-filled trollies up mineshafts without any safety gear.²² Toxic gas poisonings, explosions and cave-ins have been reported to be regular occurrences. Stories of loved ones lost to mining accidents or black lung disease are commonplace.²³ Defectors recount stories of prison guards who target and rape teenage girls en route to the mines after dark.²⁴ However, Pyongyang, for its part, still flatly denies the existence of the labor camps and refuses to cooperate with UN investigators.²⁵

Between defectors' horror stories and Pyongyang's propaganda is a narrative heard far less frequently. A small minority of informal entrepreneurs can actually earn a decent living in the mineral business. Near the top of the food chain are managers who run productive mines.²⁶ Although these mines are state-owned, managers are often only responsible for reaching a specified sales quota. Once they've reached their target, savvy managers can reap sizable profits by selling their remaining stocks.²⁷

Some economic opportunities have begun to trickle down, albeit ever so slightly. Local geologists under the employ of these miners can supplement regular salaries with modest bonuses for identifying economically viable deposits. Selling agents broker deals with domestic mineral buyers, taking home the difference between the miners' selling price and what they can fetch on the black market. These activities are technically illegal, but regulators and police theoretically tasked with stemming this trade often turn a blind eye, themselves having become reliant on bribes and kickbacks to supplement their meager budgets and income.²⁸

Enticing as the potential upside may seem, North Korea's business climate can frustrate even the most risk-tolerant entrepreneurs.²⁹ Many businesses that have taken the plunge complain about routine and widespread bribery and extortion.³⁰ Dilapidated infrastructure severely constrains mining productivity, with most facilities operating at a greatly reduced capacity.³¹

21 David Hawk, "The Hidden Gulag: The Lives and Voices of 'Those Who are Sent to the Mountains,'" A Report by the Committee for Human Rights in North Korea, Second Edition, 2012.

22 George Thomas, "Inside N. Korea's Prisons: Moms Kill Children to Survive," *CBN News*, September 7, 2014.

23 Cindy Saine, "North Korean Prison Camp Survivors Testify Before US Congressional Panel," *Voice of America*, September 19, 2011.

24 Heather Saul, "North Korean prison officers 'cooked prisoner's baby and fed it to their dogs,' more horrific accounts from UN report reveal," *Independent*, December 23, 2014.

25 Julian Ryall, "North Korea report to counter 'lies and fabrications,'" *DW*, August 15, 2014.

26 Andrei Lankov, "Capitalism in North Korea: Meet Mr X, one of the new business elite," *Guardian*, April 29, 2014.

27 Ibid.

28 Seol Song Ah, "'Donju' Profit on Abandoned Mines," *DailyNK*, April 14, 2014.

29 Mailey 2014.

30 Marcus Noland "Case Studies on Chinese Business in North Korea," *North Korea: Witness to Transformation*, February 5, 2014.

31 Choi Kyung-soo, "The Mining Industry of North Korea," *Nautilus Institute*, August 4, 2011.

Weak rule of law and underdeveloped institutions leave investors reliant on informal networks and personal relationships to settle disputes—a lesson that China’s Xiyang Group learned the hard way.³²

Xiyang ostensibly became the single largest investor in North Korea in April 2011 when it signed a \$38 million deal to form a joint venture that would mine for iron in North Korea’s South Hwanghae province.³³ The partnership proved short-lived, however, as attempts to settle a dispute with partners in Pyongyang quickly began to resemble outright extortion.³⁴ In the early morning hours of March 3, 2012, ten Xiyang Chinese staff members based in North Korea were awoken by nearly two dozen North Korean police. The joint venture was cancelled, they were told, and their time in North Korea had come to a close.³⁵ From there, the once-promising business relationship devolved into an acrimonious public dispute. “Xiyang Group’s investment in North Korea was a nightmare,” the company reflected in a statement released in August 2012, “and we were taking our lives in our hands when we entered the tiger’s lair.”³⁶

Schurmann’s experience in North Korea was nothing like Xiyang’s nightmare. “There’s no bribery. I’ve not paid one cent in any currency to anyone in that country in the last four years as a bribe,” he said. “Our contracts are watertight.”³⁷

“So far, it’s been actually a joy. It’s a good place to work,” he continued. “The people are sophisticated to a point, but obviously trustworthy, respectful. They honor what they say and ask. The conditions out there were pretty good,” he noted. “I mean I had access to all communications. I had access to people who provided transport and translation services, access to the bush. I mean it was very easy in a sense. Compared to Africa, it’s actually a walk in the park.”³⁸

Screaming for Attention

Hundreds, if not thousands, of oil and mining companies are reported to do business with repressive regimes in unstable countries around the world and still manage to turn a profit—but in few other places around the world do investors have to worry about whether or not their business partners are under sanctions for working to develop nuclear weapons.

Money being fungible, a logical link can be drawn between mineral royalties flowing into Pyongyang’s coffers and the regime’s expenditures on uranium enrichment or missile production. The mining sector, after all, is one of few ways that Pyongyang has left to earn foreign currency. “There are very limited ways for North Korea to make money: selling

32 Stephan Haggard and Marcus Noland, “Networks, Trust, and Trade: The Microeconomics of China–North Korea Integration,” PIIE Working Paper, May 2012.

33 Michael Rank, “Chinese company vents venom on North Korea,” *Asia Times*, August 15, 2012.

34 Adam Cathcart, “The Plot Thickens: Documenting the DPRK-Xiyang Spat,” *Sino-NK*, September 6, 2012.

35 Adam Taylor, “Chinese Firm Complains That North Korea ‘Cheated’ Them Out Of Millions Of Dollars,” *Business Insider*, September 7, 2012.

36 Statement by Xiyang Group posted to *North Korea Economy Watch*, August 4, 2012 [in Chinese].

37 Author interview with Louis W. Schurmann, March 2016.

38 Ibid.

weapons, smuggling and mining,” Choi Kyung-soo, president of the North Korea Resources Institute in Seoul, told the *Washington Post* in February 2015. “Because of sanctions, it’s very hard for them to make weapons or to sell drugs, so the only legitimate way for North Korea to make money these days is from selling minerals.”³⁹

The link between minerals and nuclear weapons, however, may be more tangible and straightforward, as North Korean mining companies have been directly involved in weapons proliferation. Once involved in a major copper mining project, Korea Mining Development Trading Corporation (KOMID) wound up on the UN sanctions list in April 2009. KOMID, it turned out, was far more than a mining company. According to the US Department of Treasury, KOMID is also “North Korea’s primary arms dealer and main exporter of goods and equipment related to ballistic missiles and conventional weapons.”⁴⁰ Once KOMID was placed under sanctions, Wanxiang Resources Limited Company, its Chinese partner, had to pull out of a copper mining joint venture.⁴¹

For his part, Schurmann dismissed concerns about North Korea’s nuclear program, claiming that it was merely a move to get attention. “They’ve been playing this nuclear card to actually get attention,” he insisted. “They want to talk to America. They want a peace treaty signed after 60-70 years,” he said. “They’re just screaming for attention.”⁴²

39 Anna Fifield, “Cash-strapped North Korea steps up mining output,” *Washington Post*, February 28, 2015.

40 “Treasury Imposes Sanctions Against the Government of the Democratic People’s Republic of Korea,” Department of Treasury, January 2, 2015.

41 Chris Green, “Chinese Mining Project Pulled,” *DailyNK*, July 30, 2009.

42 Author interview with Louis W. Schurmann, March 2016.

PART II: INVESTOR, BANKER, FRAUDSTER, SPY

Schurmann believes that North Korea is on the verge of a turn-around. "This is the time," he said. "This is when North Korea needs to stand up and actually be counted as a member of that region, rather than being ousted and isolated either by the world or by themselves." And Schurmann insists that he is not alone in his optimism. "There are people out there with money who actually recognize that North Korea will have a future," he said, "and that they are basically based right slap in the middle of a host of countries which will actually represent 30 percent of the current Western GDP."⁴³

Schurmann says that his activities in North Korea are backed by foreign investors from Europe. The main backer, he said, is a Jersey-based tycoon named Kevin Ronald Leech. "Kevin Leech is the main guy," Schurmann said. "His shareholders are basically people from Europe and mainly Switzerland."⁴⁴

When I first asked Schurmann about Leech, he spoke glowingly of him. "He's a really unique person. Although he's 73, I've never seen a guy with so much passion to help and actually make a difference in the world," Schurmann said.⁴⁵

Leech became a millionaire as an undertaker in Manchester, operating a chain of 38 funeral parlors across the United Kingdom. After selling off his family funeral parlor business in 1982, he moved to Jersey and became a billionaire through investments in biotech and media start-ups. For years, Leech's life was one of lavish villas, extravagant parties and private jets. In 2000, a major piece of Leech's corporate empire was Ci4net.com, Inc., a New York-listed "internet incubator" that acquired stakes in 40 separate internet companies, often for undisclosed sums. At its peak, the company was said to be worth over \$1 billion, with its stock trading at \$101 per share in March 2000. But then the dotcom bubble burst. By January 2001, Ci4net.com's shares were trading at a meager \$1.20 per share. When the dust settled in 2002, Leech appeared to have lost nearly everything and still owed millions to creditors.⁴⁶

Leech's fall from grace, he claimed, caught him by surprise. "I never thought the technology stocks would get hit on both sides of the Atlantic like they did. My borrowings had been reasonable and conservative compared to the total of my wealth at the time," Leech told *The Guardian* in 2004. "But was I caught with my pants down? Yes."⁴⁷

43 Ibid.

44 Ibid.

45 Ibid.

46 Stephen Foley, "Jersey courts start trawl of bankrupt tycoon's web of trusts," *Independent*, October 11, 2002; Conal Walsh, "The fall and rise of Kevin Leech," *Guardian*, December 26, 2004.

47 Conal Walsh, "The fall and rise of Kevin Leech," *Guardian*, December 26, 2004.

Leech disappeared from the spotlight for several years after filing for bankruptcy in 2002, spending time in Zambia working for a charity for orphaned children. But the business world had not seen the last of Kevin Ronald Leech. “As far as business goes, I’m picking up the pieces. I intend to work again—that’s all I’ve ever done in life,” Leech said. “I don’t want to retire on a bad note, I want to be a useful member of society. I have some ideas, mainly in the high-technology field, and soon I’ll be getting back on the road.”⁴⁸

And soon enough, he was back on the road. After being released from his bankruptcy in 2005, Leech began his triumphant return with a few small investments. In 2006, through a trust called Condor Ventures, Leech purchased a 28 percent stake in Accura Pharma, a firm which, according to one account, sought to “find medical treatment for dogs that chase their tails.”⁴⁹ The company, which some had suggested was worth upwards of £135 million, was deemed a failure within three years of Leech’s involvement.⁵⁰

According to company documents, in late 2007, Leech partnered with renowned British poker player Dave ‘Devilfish’ Ulliott among others to launch an online poker venture called Devilfish Gaming Plc.⁵¹ When the company was listed on London’s AIM stock exchange in February 2008, its market capitalization was estimated to be around £3.2 million. However, Devilfish seemed to be another gamble that did not pay off. Leech, a founding director of the company, reportedly resigned from the board due to ill health in August 2010, just a month before trading in the company’s shares was suspended by the AIM. In November 2010, the company—which had not turned a profit since going public—was sold for a mere £300,000, less than a tenth of its value just two years earlier.⁵²

But Leech’s biggest move back into the business world was the quiet acquisition of a large stake in First London, a British investment bank that included Air Marshal Sir John Walker, the retired head of Britain’s intelligence agencies MI5 and MI6, among its list of prominent advisors. Leech acquired a 34 percent stake in the bank in October 2007 through Condor Ventures, a trust under his control.⁵³

Reports and company documents indicate that several other individuals with links to Leech’s publicly-traded internet companies also became involved in First London as shareholders and/or directors, including Linden Boyne, Ci4net.com’s chief operating officer, and Lee Cole, Ci4net.com’s vice chairman who has been described as “Leech’s side-kick.”⁵⁴ Andrew Turner, the brother-in-law of Cole who had also been involved in transactions pertaining to Ci4net.com and served as chief financial officer of another Leech-controlled firm in the

48 Ibid.

49 Jamie Oliver and Tony Goodwin, *How They Blew It: The CEOs and Enterprises behind Some of the World’s Most Catastrophic Business Failures*, Kogan Page, September 2010.

50 Ibid.

51 Devilfish Gaming Plc, “First Day of Dealings,” announcement posted to PLUS Markets, March 5, 2008.

52 Ibid.

53 Jamie Oliver and Tony Goodwin, *How They Blew It: The CEOs and Enterprises behind Some of the World’s Most Catastrophic Business Failures*, Kogan Page, September 2010.

54 See, for example, Ci4net.com’s Annual Report Pursuant to Section 13 Or 15(D) The Securities Exchange Act of 1934 For The Fiscal Year Ended, January 31, 2000.

1990s, became a director of First London on June 12, 2007.⁵⁵ Attempts to identify contact information for Andrew Turner, Linden Boyne and Lee Cole in support of this investigation were unsuccessful. None of the individuals listed as directors have been charged with a crime in relation with the activities of First London; nor does this report intend to suggest as much. One person who is said to have conned individuals in relation to First London, however, is another Jersey-based businessman named Russell King.

Lord Voldemort

Russell King served two years in prison for insurance fraud after a 1991 conviction for filing a £600,000 claim for a “stolen” Aston Martin eventually revealed to have been hidden in his garage.⁵⁶ King had also been involved with a controversial company called Belgravia Financial Services that made headlines in 2006 for its unsuccessful bid to acquire Newcastle United, a struggling soccer team that had just been relegated from the English Premier League to the less-prestigious League Two.⁵⁷

In mid-2008, First London announced that it had purchased Belgravia for £30 million.⁵⁸ Belgravia’s team was to immediately become involved in the management of First London Asset Management Ltd., the bank’s most valuable asset.⁵⁹ “Belgravia has built an exceptional business and has an excellent range of funds which have consistently outperformed the market,” said Guy Saxton, then CEO of First London. “This acquisition is immediately accretive to earnings and is synergistic to our investment banking and proprietary investing businesses, and allows us to leverage Belgravia’s significant experience and global network.”⁶⁰

The deal quickly soured and securities regulators in London denied having approved the transaction. In August 2008, Jersey police reportedly mounted a raid on Belgravia’s offices. Within months, a criminal inquiry had been opened.⁶¹ An investigation by the Jersey Financial Services Commission (JFSC) identified widespread irregularities at Belgravia. “Significant monies were loaned on an unsecured and interest-free basis to related parties without regard to the intended use of the monies or ability to repay,” JFSC found. “Records were

55 “Stock Pledge Agreement between Internet Plc, Ci4net.com, Inc., United States Trust Company of New York, as agent for Global One Communications Pty, and Global One Communications Pty, Ltd, May 9, 2001; The list of officers for First London Plc is available at Companies House in London, UK.

56 King’s insurance fraud case has been discussed in a major BBC television documentary and several newspapers. See: “The Trillion Dollar Con,” *BBC Panorama*, April 2011; Niel Sears, “Sven-Goran Eriksson ‘duped into managing football minnows by businessman who promised billions in incredible fraud,’” *Daily Mail*, April 19, 2011.

57 “Belgravia ends Newcastle Utd bid,” *BBC*, January 18, 2007; Matt Scott, “The gardener, the Notts County fixer and the lost fortune,” *Guardian*, September 30, 2009.

58 First London Securities plc, “Acquisition Agreement to Acquire Belgravia,” Press Release, June 9, 2008.

59 *Ibid.*

60 *Ibid.*

61 “Embattled Belgravia under police probe,” *Trustnet Offshore*, November 13, 2008.

not maintained identifying the source of certain monies received or payments made.” The company, investigators found, had claimed publicly to possess land that it did not, in fact, own.⁶²

After having £1.9 million of his assets frozen in October 2008 and with authorities now bearing down, King fled the country to Bahrain.⁶³ Wasting little time before setting up his next project, King managed to gain introductions to members of the country’s royal family. Although the royals strongly denied any formal link to the convicted fraudster, King began to claim responsibility for managing Bahraini royal wealth. This invention would be the centerpiece of an outlandish series of scams stretching from London to Pyongyang.⁶⁴

Each of King’s scams would build on the last. King used the reputation of his fictitious Bahraini backers to wrest control over 49 percent of First London. The Bahraini investors, King insisted, would use their fortune to underwrite the bank’s acquisitions around the world. In the end, King secured control over the shares without paying a cent to the bank. The acquisition was made through a firm called Bahrain Capital.⁶⁵

Next, King and First London succeeded where Belgravia could not, acquiring struggling fan-owned English soccer team Notts County FC. Promising that deep-pocketed Middle Eastern backers would make the investments needed to propel the floundering League Two team back into the Premier League, King convinced the Notts County Fans Trust to hand the team over for just £1. He even brought in someone to pose as a Bahraini prince to help make his case. A £5 million bank guarantee from First London added yet another layer of credibility to King’s pitch.⁶⁶

It was reported that the acquisition of Notts County went through another web of opaque companies with virtually untraceable ownership, with British Virgin Islands-registered Qadbak Investments billed as the core entity that represented the fictitious Middle Eastern families’ business interests.⁶⁷

Meanwhile, reports indicate that King was the one actually calling the shots at Notts County. To help run the club, he brought in staff from a certain Belgravia Group—an entity legally distinct from his botched Jersey operation, albeit one with the exact same business address. Two of King’s associates—Nathan Willett and his son, Peter Willett—are said to have played a particularly prominent role at Notts County. A friend of Nathan Willett, Peter Trembling, ostensibly became the club’s top manager. “Russell King wanted to get involved in my

62 Jersey Financial Services Commission, “Belgravia Financial Services Group Limited Update N°5,” Press Release, July 28, 2010.

63 Rob Draper, “More problems for Sven as Notts County takeover man Russell King fights allegations of £330,000 Rolls-Royce swindle,” *Mail Online*, September 26, 2009.

64 “The Trillion Dollar Con,” *BBC Panorama*, April 2011.

65 “Ibid.”

66 Ibid; Ian Griffiths, “First London—the firm that made the guarantee,” *The Guardian*, November 26, 2009.

67 Paul Kelso, “Revealed: the middle-men acting for Notts County’s mysterious new owners,” *Telegraph*, September 24, 2009.

business at the time, Affinity Partnerships, which worked with lots of banks as a credit card consultant,” Trembling later recalled to the *Nottingham Post*. “He said he had contacts all over the world and I’d make a lot of money.”⁶⁸

King reportedly instructed subordinates to keep his name off the club’s books, prompting staff to begin calling him “Lord Voldemort,” after the villain in the Harry Potter series more affectionately known as “He-Who-Must-Not-Be-Named.” King relished the nickname, going so far as to begin signing emails “Lord V.”⁶⁹

However, after numerous Notts County officials, including Peter Trembling, were forced to duck and dodge questions about the club’s true owners, a statement was released by one Anwar Shafi claiming that Notts County was owned by the Shafi and Hyat families, who had “extensive business interests throughout the Middle East, Japan, Kazakhstan and Pakistan.”⁷⁰ And if that didn’t ease concerns, fans’ fears soon subsided when the club brought in several high-profile players and a world-renowned coach, Sven-Goren Eriksson, the former manager of the English national soccer team.⁷¹ Curiously, Eriksson’s compensation came not in the form of cash but rather in shares of a firm called Swiss Commodity Holding (SCH).⁷²

Not for Millions but Billions

SCH was registered in Switzerland in March 2009. The founder and president of SCH was Kevin Ronald Leech.⁷³ A website created for the company, however, claimed that the firm had been around for more than a decade. “The Group initially started as a private office in the early 1990’s providing investment and development expertise for a wide range of business interests,” the site said. “The Group currently focuses on natural resources, infrastructure and industry. SCH also provides strategic investment advice and consultancy to major institutions, Governments and multi-national businesses.” It also claimed to have a headquarters in Zurich and offices in Europe, North America, the Middle East, Southeast Asia, the Far East and Australia as well as a massive investment portfolio. “With over 40 offices and industrial operations in 12 countries, SCH employs, directly or indirectly, in excess of 101,000 people,” it said. “[The company] currently owns and manages a broad range of investments with a total portfolio value in excess of CHF160 billion (\$160 million).”⁷⁴

SCH, it seemed, was very busy throughout its first six months, often charting a path similar to that of King’s Belgravia. Shortly after gaining a high-profile shareholder in Eriksson, the company acquired First London’s asset management component (FLAM)—the prized asset

68 “Peter Trembling on Notts County, wages and Sven,” *Nottingham Post*, April 19, 2011.

69 See, for example, “The Trillion Dollar Con,” *BBC Panorama*, April 2011.

70 “Notts County reveal Shafi and Hyat families as club investors,” *Guardian*, September 27, 2009.

71 “Sol Campbell joins Sven Goran Eriksson as Notts County’s blockbuster signing,” *Daily Mail*, August 25, 2009.

72 Matt Scott, “Sven-Goran Eriksson calls in lawyers to recover his money,” *Guardian*, December 14, 2009

73 Corporate filings for Swiss Commodity Holding obtained from Swiss Corporate Registries—copy on file with the author.

74 Archived copy of Swiss Commodity Holding’s website from 2009. Copy on file with author.

that Belgravia once coveted—for £173 million in mid-October 2009.⁷⁵ These moves appeared to be a drop in the ocean compared to the Swiss upstart's portfolio. By the time it acquired FLAM, SCH had begun claiming to possess rights to mineral assets worth \$1.9 trillion and had approached Rothschild and Cazenove about listing its assets on a public stock exchange.⁷⁶ Although the company was tight-lipped about the location of its mining permits, reports would later indicate that SCH had business in North Korea.⁷⁷

Russell King and Nathan Willett made several trips to Pyongyang in 2009 on behalf of SCH, bringing representatives from First London and Notts County with him.⁷⁸ Eriksson took part in one such trip to Pyongyang with King in October 2009, believing he was there to talk soccer with his North Korean hosts, but soon found that SCH was the primary agenda item. "I was there for football and they went to visit people at the palace," he said. "I saw them handing out share certificates in Swiss Commodity Holding to people. These were not for millions but billions."⁷⁹

Figure 1. Photo of SCH Delegation in Pyongyang



(Source: BBC Panorama)

Eriksson (the soccer coach) and Sir John Walker (the retired head of MI6 and then director of First London) soon reportedly suspected that King had taken them for a ride. Eriksson had grown suspicious prior to the trip. Despite claims that Notts County's owners were enormously wealthy, the club's bills went unpaid.⁸⁰ Worse, just a few weeks prior to Eriksson's adventure to Pyongyang, a member of the Shafi family—one of the supposed families behind

75 Ben Harrington and Rowena Mason, "SCH—the biggest company you've never heard of," *Telegraph*, October 25, 2009.

76 Ibid.

77 Ibid.

78 "Kim Yong Nam Meets Swiss Commodity Holding AG Delegation," *Korean Central News Agency*, October 22, 2009.

79 Matt Scott, "Sven-Goran Eriksson: How I was conned at Notts County," *The Guardian*, February 12, 2010.

80 See, for example, "The Trillion Dollar Con," *BBC Panorama*, April 2011.

the takeover of the club—publicly denied any involvement with Notts County and claimed not to have made any statement to that effect. “This statement was not made by me,” Shafi told *The Guardian*. “I have no investment of any sort in Qadbak. We are not tycoons, not even in Pakistan.”⁸¹ Abid Hyat Khan—the man ostensibly representing the other Khan family—was wanted by British police for allegedly stealing £1 million in 2008.⁸²

The ruse soon became evident at Notts County. Players deserted as their salaries went unpaid. Debts mounted. By early 2010, an unpaid tax bill of £600,000 put the entire future of the club in jeopardy. Eriksson then cut his losses, leaving Notts County just after the takeover with four years still left on his contract.⁸³

\$12 Million in Unlawful Gains

Just as First London was losing its grip on Notts County, several of its directors found themselves in legal trouble across the Atlantic. Lee Cole and Linden Boyne—the First London shareholders whose ties to Leech go back more than a decade—also came under investigation in the United States for securities fraud allegedly committed during a period that overlapped significantly with the takeover of First London.⁸⁴

The scandal revolved around a publicly-traded company called Electronic Game Card Inc. (EGMI) that was reportedly controlled by Cole and Boyne from 2007 to 2009. “EGMI repeatedly reported non-existent revenues and assets, misrepresented its business operations, and failed to disclose related-party transactions,” the SEC alleged. “Those misrepresentations and others like them were just part of a scheme that Cole and Boyne orchestrated through EGMI to reap approximately \$12 million in unlawful gains.”⁸⁵

The SEC alleged that Cole and Boyne were working to artificially inflate the company’s stock price all the while siphoning off millions into secret offshore accounts. “While they were making material misrepresentations to inflate EGMI’s stock price, Cole and Boyne also secretly funneled millions of shares of EGMI stock to entities based in Gibraltar that they secretly controlled,” the SEC said.⁸⁶ “They directed the Gibraltar entities to sell the shares, and proceeds of those sales were transferred to people or entities associated with Cole and Boyne or to EGMI itself. Cole and Boyne bolstered their lies by providing falsified documents to the company’s outside auditors.”⁸⁷ The SEC also said that Andrew Turner and a Gibraltar-based associate of Cole and Boyne’s named John Lister “were connected to at least ten of the eleven

81 Matt Scott, “Sven-Goran Eriksson’s exit rounds off one of football’s murkiest sagas,” *Guardian*, February 11, 2010.

82 See, for example, “The Trillion Dollar Con,” *BBC Panorama*, April 2011.

83 Matt Scott, “Questions remain over Notts County affairs ahead of court date,” January 26, 2010; Matt Scott, “Sven-Goran Eriksson’s exit rounds off one of football’s murkiest sagas,” *Guardian*, February 11, 2010.

84 “The City Diary: First London tests the patience of its investors,” *Independent*, September 4, 2010.

85 *Securities and Exchange Commission v. Lee Cole, Linden Boyne, Kevin B. Donovan and Timothy Quintanilla*, Civil Action No. 12 Civ. 8167 (RJS) (S.D.N.Y.).

86 *Ibid.*

87 *Ibid.*

Gibraltar Entities” involved in the scam. (However, neither Turner nor Lister are accused of committing any crimes pertaining to the EGMI case, nor does this report suggest that they have done anything wrong pertaining to that case.⁸⁸)

“In reality, many of the company’s purported contracts were phony, the purported investments were merely in entities affiliated with Cole or Boyne, and the bank account did not exist,” the SEC said. “As a result of EGMI’s false claims, the company’s outstanding common stock was once valued as high as \$150 million. EGMI is now bankrupt and its stock is worthless.”⁸⁹

The scheme was not entirely disconnected from the First London takeover. Additionally, one of the entities named by the SEC, Alms Limited, was also listed as a director of First London. First London also served as a “corporate advisor” to one of EGMI’s subsidiaries, Prize Mobile Group Plc, a company listed on the London Stock Exchange’s PLUS Market.

They Just Wanted Names

Boyne’s alleged bad behavior in the United States, it seemed, did not prevent him from continuing to do business with the Kevin Leech. In late 2010, Boyne was one of two directors of a Leech-linked firm called Coremin Capital Limited.⁹⁰ This company would later change its name to SRC Mining Services Limited, and Leech formally served as one of its directors, albeit briefly, in 2015.⁹¹ In the meantime, another company called “Coremin”—described in numerous reports as a successor to SCH—found itself right in the middle of a fresh scandal involving First London.⁹²

First London fared even worse than Notts County. In July 2010, the firm was sent into administration, with £8.7 million in outstanding debts. Hasan Mirza, the administrator assigned to the First London case, uncovered significant irregularities. SCH had supposedly purchased the bank’s most valuable asset, FLAM, for £173 million in “special dividends” to be paid in specified installments, but no funds were ever transferred to the bank’s investors. In fact, the asset was apparently transferred to a third party: Coremin.⁹³

“My investigations reveal that all of the subsidiary investments that the company disposed of, namely FLAM, were disposed of at an undervalue and not at arm’s length and are therefore challengeable and avoidable,” Mirza concluded.⁹⁴ “Despite a lack of co-operation [from First

88 *Securities and Exchange Commission v. Cole et al*, No. 1:2012cv08167—Document 140 (S.D.N.Y. 2014).

89 Securities and Exchange Commission, “SEC Charges Executives and Auditor of Electronic Game Card Company with Fraud,” Press Release, November 8, 2012.

90 A directors list for this company is available at Companies House in London, UK.

91 Copies of the corporate filings for each of these companies are on file with the author.

92 Simon Goodley, “Collapsed bank First London may face legal action over sale of assets prior to administration,” *Guardian*, January 26, 2012; “The City Diary: First London attracts attention,” *Independent*, September 11, 2010.

93 “The City Diary: First London tests the patience of its investors,” *Independent*, September 4, 2010.

94 Simon Goodley, “Collapsed bank First London may face legal action over sale of assets prior to administration,” *Guardian*, January 26, 2012.

London], I have identified the assets that were transferred to Coremin Inc for a deferred consideration, which subsequently became a deferred contingent consideration. I understand that Coremin Inc itself has been struck off and the agreement is in my opinion null and void.”⁹⁵

As for Russell King, victims of another of his alleged fraud schemes started to catch up with him. In September 2010, he was barred from leaving Bahrain as a result of an inquiry into a separate multimillion-dollar scam he orchestrated in Jersey years earlier.⁹⁶ BBC’s *Panorama* caught up with Sir John Walker, the retired British intelligence chief who had sat on First London’s board, and asked him about his experience dealing with King. “What do I think of Russell King? Not a lot,” he said. “He was good at chat, but that was his business. He was a con man. I was taken the same way Sven was taken. They just wanted names.”⁹⁷

In April 2011, the case was referred to the UK Serious Fraud Office (SFO). But when the Australian Broadcasting Corporation (ABC) inquired about an update on the case, the SFO provided little clarity. “I’m afraid that I can neither confirm nor deny our interest in the matter that you referred to,” an SFO representative told ABC in an email on March 17, 2016. “However, for your guidance, you might find it useful to contact Nottinghamshire Police about the matter.”⁹⁸

But when asked about Russell King, Nottinghamshire Police said there was no active case against him. “[T]here was some communication between the SFO and Nottinghamshire Police around five years ago about this individual,” an official from the Nottinghamshire Police told ABC a few days later, “but there is no on-going Nottinghamshire Police investigation.”⁹⁹

Swiss Commodity Holding also hit a snare in North Korea. *The Guardian* uncovered a June 24, 2010 letter from North Korea’s Natural Resources Development & Investment Corporation (NDIC) to SCH (addressed to Kevin Leech and Lee Cole) notifying the investors that their contract had been terminated. “SCH AG has seriously violated the clauses of the non-disclosure and non-transfer/waiver obligations,” the letter said, “by divulging the contents and trying to sell the assigned rights to a third party without any prior consent of NDIC.”¹⁰⁰

“[T]he validity date of the...Agreements has been overdue without any sign of implementation by the SCH AG side,” the letter continues, “and there is still no evidence at all that SCH AG has the financial competence to carry it out.”¹⁰¹

Leech’s representatives confirmed that Leech had a relationship with a NDIC. “The document that you claim to have had sight of dated 24 June 2010, if authentic, was a document which was subject to a strict confidentiality agreement and whoever showed you that document is

95 Ibid.

96 Simon Goodley, “Russell King prevented from leaving Bahrain,” *Guardian*, September 10, 2010.

97 “The Trillion Dollar Con,” *BBC Panorama*, April 2011.

98 Email from UK Serious Fraud Office to Australian Broadcasting Corporation—copy on file with the author.

99 Email from Nottinghamshire Police Department to Australian Broadcasting Corporation—copy on file with the author.

100 Simon Goodley, “Elusive tycoon Kevin Leech and the North Korean mining rights,” *Guardian*, January 14, 2014.

101 Letter from Natural Resources Development and Investment Corporation to Kevin Leech and Lee Cole of Swiss Commodity Holding, June 24, 2010.

in breach of that confidentiality agreement,” a legal representative for Kevin Leech told *The Guardian*. “For the avoidance of doubt Mr. Leech confirms that the Swiss Commodity Holdings [sic] relationship with National [sic] Resources Development & Investment Corporation was terminated by mutual agreement at the end of 2010.”¹⁰²

102 Simon Goodley, “Elusive tycoon Kevin Leech and the North Korean mining rights,” *Guardian*, January 14, 2014.

PART III: THROUGH THE BACK DOOR

In a 30-minute television documentary, BBC's Panorama dubbed King's ruse "The Trillion Dollar Con."¹⁰³ But were SCH's claims about North Korean mineral assets a complete farce? Was Kevin Leech in on King's scheme or had the former undertaker been taken for the same ride as First London and Notts County?

Conned or not, Leech appeared determined to finish what he had started in North Korea. Swiss corporate records show that Leech formed another company, Sunmin Resources Corporation AG, on March 31, 2011.¹⁰⁴ *The Guardian* found that, like SCH before it, Sunmin claimed to hold rights to develop North Korean minerals. "Sunmin currently own rights to mine all precious metals, rare earth elements, rare earth metals and transition metals in five specific provinces of North Korea," according to a Sunmin presentation from early 2011. "Sunmin has just completed on agreements which gives the company 50 year rights to mine world class reserves of precious metals, base metals and rare earth metals in North Korea." The document said that the "first public spin out of selected assets on the Hong Kong Stock Exchange, with a value to Sunmin at listing of a minimum of \$1.5 billion" would occur in approximately 120 days.¹⁰⁵

A Much-Needed Link

Schurmann and Leech appear to have first crossed paths just after Swiss Commodity Holding went belly up in 2011 or 2012. At the time, Schurmann had just become Principal Metals Geologist at an Australian geological consulting firm called Salva Resources. While there, Schurman says, an Australian businessman named David Henty Sutton approached the company about doing some geological consulting work for a few projects in North Korea. "He came around to Salva Resources, where I worked as a consultant," Schurmann said of Sutton, "and he basically gave me the consultancy job to help with reporting some of the findings in North Korea."¹⁰⁶ (Sutton denies recruiting Schurmann.¹⁰⁷)

As it turns out, As it turns out, Sutton has links to Kevin Leech dating back more than a decade. He had served on the "global advisory board" of Leech's Ci4net.com, Inc.¹⁰⁸ Sutton now appears to run a Sydney-based company called Dayton Way Financial. Dayton Way Financial Pty Ltd is an Australian financial services company that specialises in emerging

103 "The Trillion Dollar Con," *BBC Panorama*, April 2011.

104 Sunmin Corporate records are available on Switzerland's corporate registry.

105 Simon Goodley, "Elusive tycoon Kevin Leech and the North Korean mining rights," *Guardian*, January 14, 2014.

106 Author interview with Louis W. Schurmann, March 2016.

107 Email from David H. Sutton, April 1, 2016.

108 Ci4net.com, Inc. "46 CEOs Network at ci4net.com's First Partner Company Forum," Press Release, May 12, 2000.

resource and energy companies,” the company says on its website. “We were founded in August 2009, with the aim of providing a much-needed link between investors and global resource investment opportunities.”¹⁰⁹

“The returns on these investments can be great, but more often than not, so is the risk,” it says. “We can help select the best opportunities to mitigate risk, while maximising your returns.”¹¹⁰

Salva was at least temporarily involved in the deals and has confirmed it was “contracted to do a geological review of historical data,” but declined to comment further about its operations in North Korea when questioned by reporters in 2014.¹¹¹ By the time Salva was bought out in April 2013, Schurmann had already struck off on his own and started a new firm, Brisbane-based Chamoni Geoconsultants, that was directly contracted for several North Korean projects.¹¹²

Schurmann, at some point, became familiar with Leech’s involvement in the botched First London deal. “I said, ‘well, Kevin, what the hell is this?’” Schurmann recalled. “And he told me that it was a misguided investment from his side. He went over to...Beijing for a very long time trying to fix this.”¹¹³

Leech’s ostensible links with British intelligence also seemed to assuage Schurmann’s concerns. “I know for a fact that Kevin speaks periodically to MI6 about these things,” Schurmann said when I asked him about Leech’s links with the First London case. “They talk to him about information and he chats to them.”¹¹⁴

That’s How Far these People Will Go

If SCH ran afoul in North Korea for disclosing too much information about its mining operations, Chamoni appeared to miss the memo. A website created for Chamoni did little to conceal Schurmann’s activities in the DPRK. Just below a commanding photo of an arms-crossed Schurmann in a charcoal glen check suit, a message on Chamoni’s homepage told visitors that “Recently, Louis has become active in Democratic People’s Republic of Korea.”¹¹⁵

Select “Asia” from the menu on the left-hand side and you would be shown some rather bleak photos of project sites in North Korea. One photo, labeled “One of several ore bodies at the Sinhung Gold Mine,” showed half a dozen shirtless North Koreans at work in shallow gravel pit. Another image showed a few dozen North Koreans—some visibly barefoot, others holding

109 Website for Dayton Way Financial Pty Ltd.

110 Email from David H. Sutton, April 1, 2016.

111 Mark Willacy, “Brisbane-based geologist Louis Schurmann linked to huge North Korea rare earths mining project,” *Australian Broadcasting Corporation*, August 5, 2014.

112 “HDR Acquires Salva Resources,” HDR Press Release, April 2, 2013.

113 Author Interview with Louis W. Schurmann, March 2016.

114 Author Interview with Louis W. Schurmann, March 2016.

115 Archived version of Chamoni.net from 2014—copy on file with the author.

shovels—with an ox-drawn wooden cart crossing a stream. The caption below the photo read, “Local population constructing roads.” Other images showed a rickety “water-based ball mill” made from wood and a shabby processing plant at North Korea’s Hwapung coal mine.¹¹⁶

Figure 2. One of several ore bodies at the Sinhung Gold Mine.



(Source: Chamoni.net.)

116 Ibid.

Figure 3. Local population constructing roads.



(Source: Chamoni.net.)

Figure 4. Water-based ball mill.



(Source: Chamoni.net.)

Figure 5. Hwapung Coal Mine.

(Source: Chamoni.net.)

Among Chamoni's clients were four Schurmann-linked firms operating in North Korea, each listed on the company's webpage, as well as Schurmann's LinkedIn profile.¹¹⁷ The first was Black Eagle Gold Pty Limited, which claimed to possess rights to a North Korean polymetal deposit discovered by the Japanese just prior to World War II and counted one Louis Schurmann as its CEO and Chairman.¹¹⁸ The second was Asian Tiger Gold Corporation Pty Limited, where Schurmann served as Director, which ostensibly operated North Korea's Kumwha and Daegak Gold mines.¹¹⁹ Anju National Energy Company Pty Limited (ANEC) planned to build a power plant in Anju. Last, but not least, was SRE Minerals, the firm involved in the Jongju rare earth operation.¹²⁰

Although the rare earth project may be the most well-known operation linked to Schurmann, he claimed to be involved in quite a few other promising projects in North Korea. "That's the rare earth project," Schurmann said when I asked about his operations in Jongju. "We have seven other projects, plus another six nearly defined and discovered carbonatites. And then we have about four gold projects between Pyongyang and Wonsan on the east coast, a couple of gold projects on the east coast from Wonsan to Hamhung, and then there's the coal deposits on the west coast. And then there's several other deposits of gold and silver."¹²¹

117 Ibid; Archived version of LinkedIn profile for Louis Schurmann from 2014—copy on file with the author.

118 Ibid; Archived version of LinkedIn profile for Louis Schurmann from 2014—copy on file with the author.

119 Ibid; Archived version of LinkedIn profile for Louis Schurmann from 2014—copy on file with the author.

120 Ibid; Archived version of LinkedIn profile for Louis Schurmann from 2014—copy on file with the author.

121 Author interview with Louis W. Schurmann, March 2016.

Schurmann also noted that control over all of these projects is split evenly between his camp and the North Korean government. “We’ve got a lease and it’s a 50/50 deal with the department of mines,” Schurmann said. “The license is actually safeguarded in Singapore,” he continued, saying this was to ease the concerns of investors. “We were pretty antsy in the beginning because we weren’t really sure about the security of tenure so they decided to actually have the license out of the country, so we do a deal on a project—it’s a 50/50 deal, but the license is held within a company in Singapore, where we can actually fly in legal support,” he said. “That’s how far these people will go to actually have a real business where there’s no risk.... You de-risk it by having your legal plan to your license not in North Korea.”¹²²

Two firms linked to Schurmann’s activities in North Korea, AAT Corporation and EHG Corporation, appear neither on Chamoni.net nor his LinkedIn page. Evidence obtained from documents these firms filed in Australia confirm that his clients’ North Korean mining licenses were, in fact, channeled through Singapore. But the same documents appear to contradict Schurmann’s statements about the identity of his North Korean partners, raising serious questions about who exactly Schurmann and Leech were dealing with in Pyongyang.

A Great Deal of Risk and Uncertainty

AAT Corporation and EHG Corporation had been around for decades, but neither had any experience in the mining sector before Schurmann and his associates came along. In fact, neither company had not done much of anything for several years. For most of its existence, AAT Corporation was known as Autron Corporation. The company manufactured electronics and machinery before going into liquidation in 2011. Even then, AAT still had something highly coveted by many investors in the mining sector: a listing on the Australian Securities Exchange (ASX).¹²³

Floating shares on a public securities exchange is an attractive option for miners like Schurmann, given the capital intensive nature of the extractive industries. However, initial public offerings (IPOs) can be costly and lengthy processes that require substantial disclosure. For investors in capital-intensive industries such as mining, investors need to access finance in a hurry. Instead of starting from scratch, a firm eager to float its shares could acquire a defunct company like Autron and use its listing to access capital markets. Dubbed a “backdoor listing” or “reverse takeover,” this option has become increasingly common among mining companies. For some, these backdoor listings have the added bonus of attracting far less attention and scrutiny than IPOs.

Backdoor listings may be a quick and dirty option when compared with an IPO, but the acquisition process is far from automatic. Waiting in the wings are creditors seeking to collect on outstanding debts and shareholders eager for compensation for their otherwise worthless stocks. But those seeking a listing through the backdoor need not fret. In virtually every

122 Ibid.

123 Information about AAT and EHG corporation’s activities prior to 2012 can be obtained through the Australian Stock Exchange.

city with a stock exchange, there is cottage industry of accountants and lawyers capable of rehabilitating or, as it is known in the industry, recapitalizing the shells of defunct listed companies.

Shell company vendors are in high demand, especially in Australia. “Every time an administrator advertises a shell, they will get 20 to 30 people responding,” Steve Nicols, a Sydney-based accountant, told *The Australian* in July 2014.¹²⁴ Nicols has spent much of the past decade recapitalizing discarded shells of ASX-listed companies, completing 17 reverse takeovers by November 2014.¹²⁵

With Nicols’ help, Schurmann and his associates could breathe new life into the carcass of the forsaken electronics manufacturer and use its listing to access capital markets. When Nicols’ accounting firm made a move to recapitalize Autron in August 2011, so began Autron’s transformation from defunct electronics manufacturer to miner of North Korean precious minerals.¹²⁶

The company’s shares were diluted to the point that they were virtually worthless to usher in a new cluster of shareholders. Each of AAT’s three board members was dismissed and temporarily replaced by Nicols and two other Australian businessmen. Although trading of its stock remained suspended, AAT’s shares changed hands about a dozen times through private placements throughout 2012. By the end of November, AAT’s shareholder composition and board structure had been transformed. Nicols’ team was out, and Schurmann and two associates—David Sutton (the man Schurmann says recruited him) and Bill Urquhart—were in.¹²⁷

On December 5, 2012, two weeks after Schurmann joined the board, the company announced that it had acquired a 25-year sub-license “to mine, process and sell all gold, silver and lead” in North Korea’s Sinhung region. Other records show that AAT paid AU\$250,000 for the sub-license a few months prior, in October 2012.¹²⁸ “The signing of the sub-license is the first step in what the board of AAT is confident will be a rejuvenation of the fortunes of AAT,” the company said in a December 5, 2012 announcement.¹²⁹

As AAT’s metamorphosis neared completion, Nicols and his team were already busy recapitalizing a second ASX-listed shell company that would soon wind up in Schurmann’s orbit. The formula was the same: diluting shares, ushering in new investors, replacing board members, changing the company’s name, and transferring an asset to the new company. This time, Ellect Holdings Corporation—the shell of another defunct electronics company—

124 “Shelling out for a backdoor listing,” *Australian*, July 9, 2014.

125 Author interview with Steve Nicols, November 2014.

126 Autron Corporation Limited, Deed of Company Arrangement with Billabong Capital Partners Limited, November 10, 2011.

127 Filings for AAT Corporation can be obtained on the Australian Stock Exchange’s website.

128 AAT Corporation’s filings can be obtained through the ASX. See, for example, AAT Corporation, “Recapitalisation Proposal: Independent Expert’s Report,” prepared by Lawler Corporate Finance, October 8, 2013.

129 AAT Corporation, “Signing of Sub-license to Extract Minerals in Democratic People’s Republic of Korea,” Document filed with the Australian Stock Exchange and signed by David Sutton.

became EHG Corporation. That company announced its intention to acquire a different North Korean mineral asset, the “Kumwha Poly-metallic deposit” located in an area called Holdong.¹³⁰ It said that it had signed a “binding term sheet” with a Singapore entity called EG Mining pertaining to the asset.¹³¹

There is no evidence to suggest that any of the accountants involved in processing the reverse takeover of AAT or EHG took any steps to conceal the nature of either company’s business. To the contrary, Nicols’ firm even advertised its involvement with AAT and EHG on its website, acknowledging the latter’s involvement in North Korea. “Our company became involved in July 2012 with a recapitalisation plan,” the site said of EHG. “The company is progressing with a gold, lead, silver project in North Korea.”¹³² This, however, does not necessarily suggest that Nicols personally knew that AAT or EHG were dealing with entities under sanctions. Nor does it suggest that he or his firm acted illegally.

As part of the recapitalization process, an independent expert’s report was prepared to evaluate the advantages and disadvantages of the takeover. The report, prepared by Australian accounting firm Lawler Corporate Finance, highlighted that the lack of a feasibility study and “a great deal of risk and uncertainty” adversely impacted AAT’s value. “[W]e are of the view that fair market value of an AAT share is \$nil per share,” the expert concluded. In other words, they thought the company was worthless.¹³³

130 EHG Corporation “EHG Corporation to Acquire Mineral Licenses,” Statement filed with the Australian Stock Exchange, March 8, 2013.

131 Ibid.

132 Archived version of Benelong Capital Partners’ Web site, retrieved in November 2014—copy on file with the author.

133 AAT Corporation, “Recapitalisation Proposal: Independent Expert’s Report,” prepared by Lawler Corporate Finance, October 8, 2013.

PART IV: THE PAPER TRAIL

The only North Korean company that appears anywhere on EHG's filings is "Korea Natural Resources Development & Investment Corporation," the firm that had partnered with Leech years earlier.¹³⁴ NDIC, it turned out, was merely a brand used by another North Korean entity called Green Pine Associated Corporation. This firm, according to the UN, took over many of the operations previously under the purview of KOMID, the North Korean "mining" firm that was designated in 2009 for its role in weapons proliferation. By the end of 2011, Green Pine—and NDIC—had been placed under sanctions by the United States, the European Union and the United Kingdom.

The UN followed suit on May 2, 2012, effectively cutting off NDIC from legally engaging in international commerce. "Green Pine is also responsible for approximately half of the arms and related materiel exported by the DPRK. Green Pine has been identified for sanctions for exporting arms or related material from North Korea," according to the UN. "Green Pine specializes in the production of maritime military craft and armaments, such as submarines, military boats and missile systems, and has exported torpedoes and technical assistance to Iranian defence-related firms."¹³⁵

They Must Have Been Aware

Schurmann denies any links to NDIC or any North Korean entities under sanctions. "No, that must be a mistake because any company or any personality we deal with is not on that list of sanctions," he said. When I emphasized that NDIC was listed by name in his company's shareholders' agreement, he modified his stance slightly. "I mean, well, I'll have to check on that. Perhaps it's just a different acronym or something because none of the people we deal with or who I deal with as a consultant or my client—they do not operate or even have any association with people who are blacklisted at all."¹³⁶

Later, however, when questioned by ABC about EHG and AAT's possible links to NDIC by ABC, Sutton stressed that the name was similar but that the companies are different. "AAT and EHG were negotiating sub licenses with TG Mining and EG Mining whose ultimate license was with Korea Natural Resources and Development Investment Corporation," he said in an email to ABC. "Although this had a similar sounding name it was confirmed at the time that this was a separate legal entity and was unrelated to Green Pine Corporation."¹³⁷ However, an article

134 EHG Corporation "EHG Corporation to Acquire Mineral Licenses," Statement filed with the Australian Stock Exchange, March 8, 2013.

135 United Nations Security Council, "Narrative Summaries of Reasons for Listing: Green Pine Associated Corporation," May 2, 2012.

136 Author interview with Louis W. Schurmann, March 2016.

137 Email from David H. Sutton to Australian Broadcasting Corporation, April 1, 2016.

published by *The Guardian* in 2014, says that another Leech-linked company (namely SCH) partnered with “Natural Resources Development and Investment Corporation” years earlier. The document shows that NDIC uses the name “Korean Natural Resource Development and Investment Corporation” as well as “Natural Resource Development Investment Corporation” (without the word “Korea”) interchangeably.¹³⁸

“We were advised at the time of the transactions that the UN sanctions in place at the time were not in place to stop mining and general economic development but they were put in place specifically to stop the development of nuclear weapons and weapons of mass destruction,” Sutton wrote to me in an email in late March 2016. “Therefore, as long as any mining company adhered strictly to the parameters of the sanctions that were put in place by the UN and others to prohibit human rights abuses and stop the development of weapons of mass destruction then the company mining would not be acting irresponsibly.” “The point was moot,” he said, “because the contracts were never finalized.”¹³⁹

In an email on April 6, 2016, Sutton claimed that AAT and EHG received legal advice from their “counterparty” asserting that the proposed deal did not violate sanctions. “The boards of AAT and EHG received a legal opinion from their counter party at the time of discussing agreements that clearly stated that the contemplated transactions did not violate any sanctions.”

While it is possible that there was a typographical error, it seems unlikely that the inclusion of NDIC on each company’s filings was a mistake, especially considering that the same company was mentioned in connection to Schurmann’s main client for North Korean projects, Kevin Leech, several years prior.¹⁴⁰ An Australian accountant involved in reverse takeovers said in an interview in November 2014 that any announcement or press release issued by a public company must be reviewed and approved by a manager or director of that company.

“One would imagine the ASX would have some monitoring system given that the Australian Government is a signatory to the UN sanctions against North Korea to ascertain whether any activities in NK involve sanctioned companies,” according to Thomas Clarke, a corporate governance specialist at the University of Technology, Sydney, who reviewed the EHG and AAT case. “Indeed the ASX’s role is to ensure that the entities being listed and invested in are acceptable companies which are founded properly, legally, and in this case, that’s seriously in doubt.”¹⁴¹

“Having looked at the documents that [EHG and AAT] submitted to the ASX it’s quite clear that they are forming a relationship with a sanctioned entity in North Korea,” he added during an interview with ABC. “They must have been aware of that and the ASX should have been aware of it too.”¹⁴²

138 Letter from Natural Resources Development and Investment Corporation to Kevin Leech and Lee Cole of Swiss Commodity Holding, June 24, 2010.

139 Email from David H. Sutton to Author, April 1, 2016.

140 Simon Goodley, “Elusive tycoon Kevin Leech and the North Korean mining rights,” *Guardian*, January 14, 2014.

141 Thomas Clarke Interview with Australian Broadcasting Corporation, March 2016.

142 Ibid.

The ASX, however, denies any responsibility for enforcing sanctions (though it has said, as detailed in Part VI, that AAT and EHG fell short of its listing standards). “ASX’s role, through its listing rules, is to ensure that listed companies keep the market properly informed. It is then for the market and other parties to act on that information,” a representative from the ASX wrote in an email to ABC.¹⁴³ “Companies are responsible for the content of their disclosures and for the legality of that content, such as compliance with a UN sanctions list. ASX does not vet or approve announcements,” the ASX representative continued. “If material matters are brought to ASX’s attention, we may ask a company to make a clarifying statement or to disclose additional information to the market before we allow trading to resume.”¹⁴⁴

Clarke, the Australian corporate governance specialist, believes that service providers bear some professional responsibility in cases like AAT’s. “Lawyers and accountants, as professionals, do have a professional duty to ensure that activities they are engaging in and the entities they are advising are acting legally,” he said. “In this case, this entity was directly contravening a commitment by the Australian Government to comply with UN sanctions. They should have realised that and done something about it.”¹⁴⁵

They Must Have Had Intimate Knowledge

While the shareholders of a company like AAT or EHG may call the shots, the process of identifying the companies’ true owners is much easier said than done. Trying to make sense of the flurry of transactions involved in the reverse takeovers of AAT and EHG is simply dizzying. It can be incredibly difficult to differentiate between those actually investing in the company and those who, like Steve Nicols, are merely shepherding the transaction.

Mapping the shareholders and directors of the companies tied to Schurmann’s activities helps complete part of the puzzle. Sutton and Urquhart, for example, appeared to be more than just along for the ride in North Korea. Each held shares in the newly transformed company. A few days after the acquisition was announced, on December 17, 2012, Sutton-linked Dayton Way Financial, even loaned AU\$230,000 to AAT.¹⁴⁶

Sutton stepped down from AAT’s board in late August 2013. Around the same time, however, he became director of EHG, which had announced several months earlier that it intended to acquire a sub-license to mine gold in North Korea that derived from NDIC. He remained on the board of that company for more than a year until May 2015.¹⁴⁷

Documents filed in Australia and Singapore appear to show that a large amount of AAT’s shares were purchased by a firm controlled by Alberto Migliucci, an Australian commodities trader who founded Petra Commodities, a boutique advisory and investment firm specializing

143 ASX email to Australian Broadcasting Corporation, March 2016.

144 Ibid.

145 Thomas Clarke Interview with Australian Broadcasting Corporation, March 2016.

146 AAT Corporation’s filings can be obtained through the ASX. See, for example, AAT Corporation, “Recapitalisation Proposal: Independent Expert’s Report,” prepared by Lawler Corporate Finance, October 8, 2013.

147 EHG Corporation, Annual Report to the ASX, May 18, 2015.

in natural resource projects in East Asia. According to the company's website, "PETRA COMMODITIES sources Asian natural resources projects of the highest calibre through an established network of corporate and ultra-high net worth individuals."¹⁴⁸

On paper, it appeared that Migliucci had invested significant sums into AAT during the period in which it ostensibly had an agreement to mine and export North Korean minerals. On August 22, 2013, AAT received a AU\$40,000 loan from Penta Group, a Singapore-registered firm that, at the time of the loan, listed Migliucci as its sole shareholder. Two months later, AAT announced that it had received a proposal from Penta Group to recapitalize. Ultimately, Penta Group paid AU\$388,000 for 97.93 percent of AAT and agreed to pay an additional AU\$210,000 to satisfy the company's outstanding debt obligations. Migliucci's Penta Group became a substantial shareholder in EHG Corporation just a few months later.¹⁴⁹

When I reached Migliucci by phone and asked him about his involvement in the company in April 2016, he told me that he was merely involved in the company in order to gain access to its shell. When I asked why the assets were held by the company for almost a year after he came on board, he stressed again that he had no involvement with the North Korean mineral asset and no involvement in the management of the company. His firm's involvement with AAT spans 13 months, during which the backdoor-listed firm held a DPRK mining asset. EHG, too, made announcements about the progress being with regard to its DPRK mineral asset two months after Migliucci's Penta Group became a shareholder.¹⁵⁰ The public paper trail seems to lead to Migliucci's Penta Group—but he denies any involvement with North Korean minerals whatsoever. As of the time of publication, Migliucci had not responded to an email asking him to clarify this discrepancy.

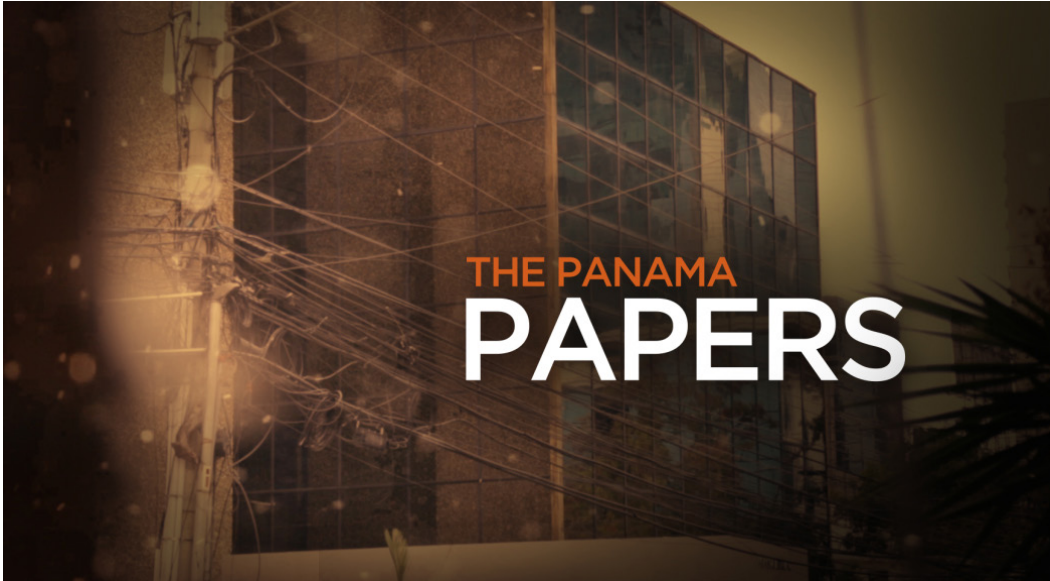
Australian corporate governance expert Thomas Clarke argues, however, that each of EHG and AAT's directors and shareholders should be held responsible, in part, for each company's deals with NDIC. "As directors of a company they must always act in legal and proper fashion and forming a business relationship with a sanctioned entity is not fulfilling those duties," Clarke told ABC in March 2016 after reviewing documents filed by each company. "As the major shareholder they must have had an intimate knowledge of the company and must have understood the activities of the company in forming the relationship with a North Korean entity and therefore the shareholder should have questioned this and prevented it happening."¹⁵¹

148 Petra Commodities website, retrieved March 2016.

149 AAT Corporation's filings can be obtained through the ASX. See, for example, AAT Corporation, "Recapitalisation Proposal: Independent Expert's Report," prepared by Lawler Corporate Finance, October 8, 2013.

150 EHG Corporation, "Notice of initial substantial shareholder," December 12, 2013; EHG Corporation, "Update on the Kumwha Deposit Project," February 5, 2014.

151 Thomas Clarke Interview with ABC, March 2016.



(Source: Australian Broadcasting Corporation.)

The Panama Papers

Public records filed with the Australian Stock Exchange also show that AAT acquired the Sinhung license from Singapore-registered TG Mining Company Pte. Ltd. (TGM-Singapore), which is owned by EEA Holdings, a shell entity in Dubai with untraceable ownership. The company that granted TGM-Singapore its sub-license is a British Virgin Islands (BVI)-registered firm that also bears the name TG Mining (TGM-BVI). However, according to AAT's filings, TGM-BVI has two shareholders. The first is "National [sic] Resource Development and Investment Corporation," the mining company under sanctions.¹⁵² (Correspondence and a media report suggest that Leech's representatives have used this spelling before when referring to NDIC.¹⁵³) The second is a company called TTS Resources Limited, whose place of registration and ultimate owners are undisclosed. The chain of companies linked to EHG is similar, though in EHG's case, NDIC's name is not constructed incorrectly.¹⁵⁴ Pacific Century Rare Earths Limited—the highly-touted Schurmann-linked North Korean rare earth initiative—has an entirely separate North Korean partner (Korea Natural Resources Trading Corporation), but the owners of its other parent company, SRE Minerals, are also hidden.

The widespread use of anonymous shell companies obscures the ownership structures of most of the firms involved in Leech's ventures in North Korea. These shell companies let foreign investors keep their names firmly off the books. For example, the names of key individuals involved in the deals appear nowhere on publicly-available corporate records. Leech—who Schurmann and Sutton identified as a key player in the deals—is entirely absent

152 AAT Corporation's filings can be obtained through the ASX. See, for example, AAT Corporation, "Recapitalisation Proposal: Independent Expert's Report," prepared by Lawler Corporate Finance, October 8, 2013.

153 Simon Goodley, "Elusive tycoon Kevin Leech and the North Korean mining rights," *Guardian*, January 14, 2014; Letter from NDIC to Swiss Commodity Holding, June 24, 2010.

154 EHG Corporation, "Notice of initial substantial shareholder," December 12, 2013; EHG Corporation, "Update on the Kumwha Deposit Project," February 5, 2014.

from public documents pertaining to the companies. Moreover, the four intermediary firms that were involved in the negotiations to acquire sub-licenses from NDIC—EGM-Singapore, TGM-Singapore, EGM-BVI, and TGM-BVI—as well as Dubai-registered EAA Holdings, each have ownership structures that are hidden from the public. This information is crucial for investigators seeking to understand who was actually doing business with NDIC, a UN-designated entity. Without it, investigations would come to dead end.

In April 2016, however, the veil of anonymous shell companies was pierced. A deluge of 11.5 million documents became available from a law firm in Panama called Mossack Fonseca that revealed the identities of the beneficial owners of many previously hidden offshore companies. In the course of a parallel investigation, the Australian Broadcasting Corporation gained access to some of these documents. The documents, which I have also seen, provide new details about many—but not all—of the firms and individuals involved in the North Korean mining ventures linked Schurmann and Leech. Importantly, these records show significant continuity between the individuals involved in Ci4net.com, the takeover of First London, EGMI and Leech's current activities in North Korea. The names John Lister, Andrew Turner, Linden Boyne and Kevin Leech all appear in the leaked corporate records. Their appearance on these records, however, does not necessarily suggest that they were involved in these companies at points when they were doing business with North Korea.

- **EAA Holdings:** The director of EAA Holdings—the parent company of EGM-Singapore and TGM-Singapore—is John Lister, the Gibraltar-based businessman named (but not accused of any crime or wrongdoing) in the SEC's securities fraud case against Lee Cole and Linden Boyne. Lister confirmed his involvement with EAA in an email in April 2016, but says his involvement was indirect. "I have had no involvement with North Korean Mining other than the indirect involvement via EAA Holdings Limited's relationship with Dayton Way Financial PTY Limited," he wrote.¹⁵⁵ The Panama Papers indicate that Lister was involved in EAA in October 2013 and February 2015. John Lister asserts that he has "never had any dealings with any North Korean Officials what-so-ever."¹⁵⁶
- **Pacific Century Rare Earth Minerals:** According to documents from May 2015, the beneficial owner of Pacific Century was Andrew Turner, the brother-in-law of Lee Cole and former First London director who was also named (but not accused of any wrongdoing) in the EGMI case. As of August 2014, the director of Pacific Century was Kevin Leech. SRE Minerals' website claims that Pacific Century is "jointly held by Korea Natural Resources Trading Corporation (being responsible for the development of the DPRK rare earth industry) and private equity company SRE Minerals Limited."
- **SRE Minerals:** Documents from February 2015 indicate that SRE Minerals' "shareholders" were EAA Holdings and Dayton Way Financial. Individuals and entities identified at that time as beneficial owners include John Lister, Andrew Turner and Dayton Way Financial. In September 2012, Kevin Leech was listed as a director of SRE Minerals.

155 Email from John Lister to Author, April 5, 2016.

156 Email from John Lister to Author, April 4, 2016.

- **Dayton Way Financial:** The Panama Papers as well as several interviews with individuals involved in Dayton Way Financial, reveal new information about who has been involved in the company. More interesting, however, is the discrepancy between statements made by these men with reference to the ownership structure of the company. “I am a director of a company called EAA Holdings Limited which has an interest in DWF Advisory Limited which purchased Dayton Way Financial PTY Limited in February 2015,” John Lister said in an email in April 2016. Sutton’s take was different.¹⁵⁷ “John Lister is not the owner and has never been the owner of Dayton Way Financial PTY Limited,” Sutton wrote in an email to ABC on March 31, 2016. Sutton also denies any links to the North Korean government.
- **EG Mining (BVI):** EGM-BVI—the company that reportedly planned to acquire a mining license from NDIC—listed in January 2013 as its directors Kevin Leech and another company called ECB Services. ECB, in turn, listed Linden Boyne as its director in January 2013. David Sutton has confirmed to ABC that Leech also represented TG Mining and EG Mining—seemingly the iterations of the firm that were incorporated in Singapore. “Mr Leech was representing TG Mining Limited and EG Mining Limited, the companies that AAT and EHG had entered license negotiations with.” According to Sutton, “all dealings with regards to the licenses were conducted through the sub licensors representative Kevin Leech.”¹⁵⁸

In plainer terms, the Panama Papers reveal that a group of men who have engaged in a number of controversial business transactions with one another over the course of a decade have held positions in most of the companies connected to the North Korean ventures linked to Leech and Schurmann. Their involvement in these companies, once again, does not necessarily reflect any sort of wrongdoing or crime, but it is clear that significant effort was made to create untraceable corporate structures for the deals involving mining in North Korea. Repeated calls were placed and emails sent to several of the individuals named above. I received several brief written responses from David Sutton and John Lister. Only Schurmann was willing to speak candidly about his involvement.

157 Ibid.

158 Email from David Sutton to Author, April 1, 2016.

PART V: “TAKEN OUT OF THE SYSTEM”

The Holdong Workers District is a small mining town tucked away in the mountains of Yonsan County in North Korea’s North Hwanghae Province. It is also the site of the location of the Kumwha poly-metallic deposit for which Schurmann-linked EHG Corporation announced its intention to acquire a mining sub-license in March 2013.¹⁵⁹ According to some estimates, Holdong may be one of the largest gold mines on earth.

According to *DailyNK*, mining in Holdong came to a screeching halt in October 2013. “A directive ordering operations to cease from the second half of the year was issued to Holdong and Eunpa mines in Yeonsan County, North Hwanghae Province. These mines are shut now and their shafts are just filling up with water,” a North Korean source told *DailyNK*. “Mine officials have told me that this order came down stating that neither provincial nor Central Party managed-enterprises were allowed to mine for gold.” The mining hiatus, *DailyNK*’s source said, was connected to the downfall of a powerful North Korean politician named Jang Song Thaek.¹⁶⁰

Jang’s rise to prominence was somewhat unlikely in the first place as he was somewhat of an outsider with respect to the Kim family. Despite being only an average student at King Il Sung University in the early 1960s, he became well known for his charm and charisma around campus as a result of his leadership of a performing arts group. While at the university, he met and formed a relationship with Kim Kyong Hui, the eldest sister of Kim Jong Il and daughter of Kim Il Sung, who did not approve of the relationship. Though he was expelled from Kim Il Sung University, he maintained his relationship with Kim Kyong Hui, and the two eventually married in 1971.¹⁶¹

Over the next four decades, Jang worked his way up through the North Korean government’s bureaucracy. Although his ascent was no doubt aided by his status as son-in-law of Kim Il Sung and brother-in-law of Kim Jong Il, he faced significant obstacles along the way. Some say he was once expelled from the central party for a brief stint in the late 1970s.

Jang was also a key interlocutor with China. He spent a week in Beijing in August 2012, where he met with China’s president and prime minister and signed agreements for the development of several special economic zones. In fact, Xiyang Group’s nightmare notwithstanding, Chinese miners have achieved modest success in North Korea. The mere establishment of a joint venture was virtually unthinkable in North Korea only a decade earlier. The number of Sino-North Korean mining partnerships has grown steadily since the first such venture’s launch in 2004. By the time Schurmann set up shop in North Korea in

159 EHG Corporation “EHG Corporation to Acquire Mineral Licenses,” Statement filed with the Australian Stock Exchange, March 8, 2013.

160 Oh Se Hyeok, “Gold Mining Stopped to Unify Funds,” *DailyNK*, December 27, 2013.

161 “Jang Song Thaek,” *North Korea Leadership Watch*, retrieved March 2016.

2012, the Chinese were, by most accounts, the dominant foreign player in the North's mineral sector.¹⁶² And many North Korea watchers credit Jang for the regime's change in posture towards investment.¹⁶³

According to Schurmann, Jang may have been a bit too close with the Chinese. "The Chinese tend to take them for a ride," Schurmann said, "and that's why the uncle was actually taken out of the system, because he was actually committing major fraud by exporting minerals over the border without really knowing what it is."¹⁶⁴ The "uncle" Schurmann was referring to was Jang—and being "taken out of the system," in this case, meant Jang's execution in 2013.

Schurmann did not appear to take issue with how Pyongyang dealt with Jang. "He was exporting iron ore, paying the government possibly \$20 a pound, when the iron ore was worth \$60-70 a pound," Schurmann elaborated. "Plus, he'd have credits of 35 grams of gold in it. So what he did was treason to the state," he said. "He was caught. He was under house arrest until his court case happened. I think it was about 3-4 months and then obviously he was put to death and not fed to dogs and shot with cannons and all that crap," he said. "I mean, the guy was found guilty of treason and they dealt with it the way they do."¹⁶⁵

Other experts have confirmed that Jang's links abroad and commercial activities at home contributed to his demise, as Kim Jong Un had grown uneasy about perceptions of Jang as China's man in Pyongyang.¹⁶⁶ Nam Jae-joon, South Korea's top spy, told the South Korea's parliament that the purge was ignited by a dispute over the coal business. The state press confirmed that "selling off precious resources of the country at cheap prices" was one of the "acts of treachery" that led to Jang's ouster. "He instructed his stooges to sell coal and other precious underground resources at random," according to Pyongyang's prosaic explanation of Jang's demise. "Consequently, his confidants were saddled with huge debts, deceived by brokers."¹⁶⁷

Thus, it would appear that a mine linked to Leech and his associates was caught up in one of the most important political disputes of Kim Jong Un's reign. "By doing this just a few months before the Jang Song Thaek purge, the authorities moved to integrate foreign currency-earning activities and confiscate those enterprises and funds formerly managed by Jang prior to his purging," a North Korean source told *DailyNK* in reference to the Holdong Mine. "[The authorities] wish to greatly reinforce their control over these foreign-currency earning enterprises' resources so as to bring together the management of Kim Jong Eun's ruling funds."¹⁶⁸

162 Drew Thompson, "Silent Partners: Chinese Joint Ventures in North Korea," US-Korea Institute at SAIS, February 2011.

163 "Jang at the Fulcrum of Regime Future," *DailyNK*, January 26, 2011.

164 Author interview with Louis W. Schurmann, March 2016.

165 Ibid.

166 Zhu Feng and Nathan Beauchamp-Mustafaga, "Purge of Jang Song-Taek and its Impact on China's Policy Toward North Korea," *Joint US-Korea Academic Studies*, Vol. 25, 2014. Washington, DC: Korea Economic Institute of America.

167 "Traitor Jang Song Thaek Executed," *Korea Central News Agency*, December 13, 2013.

168 Oh Se Hyeok, "Gold Mining Stopped to Unify Funds," *DailyNK*, December 27, 2013.

Game Changer

Against the backdrop of Jang's demise, the timing and openness of a December 4, 2013 announcement by SRE Minerals was all the more striking. Just one day after international media caught wind of Jang's ouster, SRE Minerals announced that Pacific Century Rare Earth Minerals (its joint venture with Korea Natural Resources Trading Corporation) would have the rights to develop all rare earth element deposits around Jongju, a city located about 90 miles north of Pyongyang.¹⁶⁹

Schurmann seemed to have a hand in every aspect of the Jongju operation. Salva Resources, a mining-focused consulting firm, employed Schurmann from June 2011 to November 2012 to carry out a technical assessment of the concession, now dubbed "the Jongju Target." He was listed in 2014 as the Executive Director of SRE Minerals and Director of Operations at Pacific Century.¹⁷⁰ Based on the initial assessment, the Brisbane-based geologist had big news to share with the world: "The Jongju Target would appear to be the world's largest known REE occurrence." Schurmann's study found that the Jongju Target may hold over 215 million tons of rare earths—more than the combined total of known deposits on Earth.¹⁷¹

Rare earth elements play a crucial role in the global economy. They are critical inputs for heavy industry and communications technology and have important military uses. "There are important defense applications, such as jet fighter engines, missile guidance systems, antimissile defense, space-based satellites and communication systems," according to a December 2013 report by the Congressional Research Service.¹⁷²

Revelations in 2010 that China controlled roughly 97 percent of the global rare earth production created a panic in foreign capitals about potential embargoes or supply disruption. This sentiment was not lost on Pacific Century.¹⁷³ "In January 1992, Comrade Deng Xiaoping said that 'there is oil in the Middle East and there is Rare Earth in China,'" the company says on its website. "The Jongju 'Super Target' has the potential of six times the reserves of China and will re-transform the Global Rare Earth industry in the near future."¹⁷⁴

Voice of America (VoA) called SRE Minerals announcement a potential "game changer." It stated, "The potential bonanza could offer the isolated and impoverished North a game-changing stake in the rare earths industry."¹⁷⁵

169 "Company Overview," website for Pacific Century Rare Earth Minerals Limited.

170 Archived version of LinkedIn profile for Louis Schurmann from 2014—copy on file with the author.

171 "JV to Develop World's 'Largest Known REE Deposit' in North Korea," *The Street*, December 5, 2013.

172 Marc Humphreys, "Rare Earth Elements: The Global Supply Chain," *Congressional Research Service*, December 16, 2013.

173 Government Accountability Office, "Rare Earth Materials in the Defense Supply Chain," *Briefing before Congress*, April 1, 2010.

174 Pacific Century Rare Earth Minerals website, Retrieved March 24, 2016.

175 Daniel Schearf, "North Korea's Rare Earths Could be Game Changer," *Voice of America*, January 17, 2014.

Doomsday Prophets

A few months after Jang's fall from grace, things seemed to be progressing for EHG at the Holdong gold mine, according to a February 2014 statement issued by the company. "EHG Corporation has made progress towards finalising contracts for the acquisition of the Kumwha gold-silver-lead and copper deposit in North Korea," the company reported. "Work over the past months includes providing financial commitments to install equipment at the deposit to assist with de-watering the site and finalising negotiations over the terms of the relevant license agreements." The company went on to say that it had been "meeting with several large investor groups throughout the UK, Malaysia and China for the purposes of obtaining significant financial support."¹⁷⁶

And Schurmann himself continued to appear confident. "Our agreements are watertight, signed at sovereign government level," Schurmann told *Financial Times* in March 2014. "I'd rather invest in North Korea before I touch countries like Mongolia, Myanmar, Congo—those countries are more unstable than North Korea."¹⁷⁷

By mid-2014, however, Schurmann's activities in North Korea began to draw more and more scrutiny. A Japan-based rights activist named Ken Kato caught wind of Schurmann's activities in North Korea and brought the case to the attention of Australian media and wrote hundreds of letters to legislators and regulators in Canberra, urging them to investigate the case. "The North Korean mining sector is totally controlled by the state and is one of the main sources of funds for nuclear and missile programs," he warned.¹⁷⁸

Schurmann appeared unflinching and unapologetic in the face of the activist's allegations. "Have you ever thought that doomsday prophets like your [sic] cause most of the problems??" Schurmann wrote in an email to Kato. "What we are doing is making a difference ... a POSITIVE one ... try it."¹⁷⁹

Kato expressed disagreement in a letter to Australian legislators. "Billions of dollars Dr. Schurmann is going to provide will definitely make a positive difference for the North Korean regime," he wrote, "but a nightmare for the North Korean people and the international community."¹⁸⁰

SRE Minerals' operations were fiercely criticized by several Australian members of parliament who echoed many of Kato's concerns. "To maintain its iron-fisted hold over the North Korean population, the Pyongyang regime needs hard currency, and it is clear that these projects could provide billions of dollars to the North Korean leadership," Michael Danby, a member of

176 EHG Corporation, "Company Update on the Kumwha Deposit project," ASX Announcement, February 5, 2014.

177 Simon Mundy, "North Korea: Glimmer of hope," *Financial Times*, March 11, 2014.

178 Letter from Ken Kato to Members of Australia's Parliament, June 2014.

179 Email from Louis W. Schurmann to Ken Kato, June 3, 2014.

180 Letter from Ken Kato to Members of Australia's Parliament, June 2014.

parliament from Australia’s opposition party, wrote in August 2014. “As North Korea experts have argued, these projects could not have been approved without the upper echelons of the regime allowing it—or without them taking a cut.”¹⁸¹

I Take It as Hoax

In late 2014, Leech’s North Korea operations appeared to take a turn for the worse. Although neither EHG nor AAT had even begun trading on the ASX, both companies hit a snare. On September 19, 2014, EHG announced that it would “no longer pursue the Kumwha Deposit transaction”:

[A]s with any ASX entity that proposes to conduct business in emerging markets, the Company must be able to satisfy the ASX about a wide range of potential risks and other legal obligations. These include, but are not limited to, sovereign risk, legal risks (such as compliance with UN sanctions), compliance with ASIC’s Emerging Country Issuers requirements and more generally the requirements of Chapters 1 and 2 of the ASX Listing Rules (such as structure and operations). Reputational and ethical issues are also important as emphasised by Principle 3 of the ASX Corporate Governance Council Corporate Governance Principles and Recommendations. Taking all of these matters into consideration, the Board has formed the opinion that, despite all best efforts, the Company will be unable to satisfy ASX that such a transaction is appropriate for an entity to be listed on the market conducted by ASX under Listing Rule 1.1, Condition 1.¹⁸²

Sovereign risk. Compliance with UN sanctions. Reputational and ethical issues. It appeared that the ASX had at least attempted to use some of its power to derail the deals after all.

The Australian Securities and Investments Commission (ASIC) became aware of the case and took some action against AAT. On November 11, ASIC fined AAT AU\$27,000 for “failing to lodge annual and half-yearly financial reports” in 2012 and 2013.¹⁸³ Two days later, AAT announced that it had parted ways with its North Korean venture. “AAT announces that it has transferred all of its rights and obligations under the Sinhung Mining Sub-License to a third party for the remaining period of the Sub-License,” the announcement said. The company has now been fully delisted.¹⁸⁴

The unraveling seemed to continue. The website for Chamoni Geoconsultants was taken down, and details about these affiliations were removed from his LinkedIn profile.¹⁸⁵ Experts grew increasingly skeptical about the viability of some of Schurmann’s rare earth claims. One South Korean analyst has even questioned Schurmann’s integrity. “The numbers are not

181 Michael Danby, “A time for action on North Korea investment,” *ABC News*, August 20, 2014.

182 EHG Press Release, Cancellation of Kumwha Deposit, September 19, 2014.

183 ASIC, “14-301MR AAT Corporation Limited fined for failing to lodge financial reports,” November 13, 2014.

184 AAT Corporation, “Transferring of the Sub-license,” Press Release, November 13, 2014.

185 Archived version of LinkedIn profile for Louis Schurmann from 2014—copy on file with the author.

backed up with any solid data; it is nothing but a list of what they have under the ground," Choi Kyung-soo, a senior researcher at the North Korea Resource Institute, told *Australia Mining* in January 2016. "He has absolutely no credibility. Whatever he says, I take it as hoax."¹⁸⁶

Schurmann, however, has stood by his initial conclusions. "I studied the data and with no claim or political role I called it what it is," Schurmann told *Australia Mining* in response to Choi's statement. "I've been on site, I've seen the drill cores with my own eyes, and I've done the work."¹⁸⁷

While some evidence appeared to indicate that Schurmann's North Korean venture was on the wane, other signs suggested that the South African's mining operations in the Hermit Kingdom had new life. In March 2015, a new website was launched for ANEC, the Schurmann-linked firm that planned to build a power plant a few hours outside Pyongyang. The page did not provide much information, just a large logo bearing the company's name above a generic email address. By March 2016, the company was claiming to have "a 25-year agreement to mine all coal (including lignite) and to develop downstream products in the region of Anju City, South Pyongyang Province, Democratic People's Republic of Korea."¹⁸⁸

But when I reached Schurmann in March 2016, he stated that he was no longer a director of the North Korea-linked companies that had contracted his firm, Chamoni. But that did not fully explain why he deleted any evidence of his working for these companies in the first place. "The fact that I changed my LinkedIn profile was that (due to the 'down turn' in mineral / commodity markets), it seems that a chance in landing new jobs or new contracts is easier if my profile is less 'overpowering,'" he wrote. "For further details on me and my career (and my clients and contracts), please contact DFAT [Australia's Department of Foreign Affairs and Trade].... I'm sure they will assist you."¹⁸⁹

When I spoke to Schurmann in March 2016, just a few weeks after fresh UN sanctions were handed down on North Korea in response to its January 2016 nuclear test, he said that he was currently in a holding pattern. "At the moment, it's quiet," he said. "[Leech] has not called me with instructions to help him with a new contract yet. I think he was waiting to find out what the new sanctions would entail and how he would handle it."¹⁹⁰

186 Cole Latimer, "Is North Korea's massive rare earths deposit a massive lie?" *Australia Mining*, March 30, 2015.

187 Ibid.

188 Website for Anju Natural Energy Corporation, retrieved March 24, 2015.

189 Email from Louis W. Schurmann, March 2016.

190 Author interview with Louis W. Schurmann, March 2016.

PART VI: STRANGER THAN FICTION

If the story of an Australia-based geologist, a massive rare earth deposit, a web of offshore companies and accounts, and a North Korean arms trader seems like the plot of a thriller novel, that's because, well, it actually is. In *Full Force and Effect*—a Tom Clancy novel following the exploits of the always-reluctant action hero Jack Ryan—a young and “untested” North Korean dictator is looking to “prove his strength” by expanding the country’s nuclear program. “Until now, that program was impeded by a lack of resources. However, there has been a dramatic change in the nation’s economic fortune,” reads the novel’s plot summary. “A rich deposit of valuable minerals have [sic] been found in the Hermit Kingdom. Coupled with their nuclear capabilities, the money from this find will make North Korea a dangerous force on the world stage.”¹⁹¹

The similarities do not end there. In the novel, US intelligence agencies are hard-pressed to identify the foreign actors involved in a new rare earth minerals project in Jongju. After learning that the Chinese miners working on the project previously had been ejected by the regime a year prior, President Jack Ryan even asks his advisers to identify the project’s new backers. “Easier said than done, Mr. President,” Ryan is told. “This transaction...is a dead end. It only leads to a shell company.” Strikingly, it turns out, one mysterious foreigner involved is an Australian geologist. The North Korean partner in the novel is the same as SRE Minerals’ Korean Natural Resource Trading Corporation. A former senior official at MI6 even plays a key role in the thriller to boot. (No sign of Sven Goren-Eriksson in the Jack Ryan tale, however.)¹⁹²

Published a year after the big announcement of Pacific Century’s December 2013 rare earth find, it is entirely possible that Schurmann’s case inspired the plot of *Full Force and Effect* in the first place. Reading the book, I was struck by the level of granular detail about the process of extracting and exporting minerals from North Korea—far more detail than I had seen with regard to Schurmann’s operations. In fact, I had not seen a single shred of evidence that any minerals had actually been mined or extracted by any company linked to Leech or Schurmann.

I asked Schurmann directly whether or not any firm he had been involved in had actually mined or exported anything from North Korea. “No, no. No, no, not yet. And not at this stage. We mainly are in exploration stage at the moment,” he said. “Well, the rare earth one, we have a program which will probably finish exploration probably in 2017. Obviously, we can start earlier, but, you know, you need to really understand the whole body before you define and design a plan. So the rare earth mines plans are a really big item, well, highly priced and highly valued items, and you really need to do a lot of science to actually get it right because every deposit is different.”¹⁹³

191 Mark Greaney, *Tom Clancy—Full Force and Effect*, (G.P. Putnam’s Sons: December 2014), pp. 688.

192 Ibid.

193 Author interview with Louis W. Schurmann, March 2016.

Schurmann's claim seems to contradict information he had posted to his LinkedIn profile years earlier. "Our exploration programs have been finalized, and our exploration office/compound will be constructed by end June 2014," he wrote about Pacific Century Rare Earth Minerals. "The two mines are currently operational, but our focus will be on improving production and recoveries," he wrote in reference to his involvement with EHG-linked Asian Tiger Gold. "Our 2014 activities will include mine and plant upgrades and a detailed exploration program to support the historical information."¹⁹⁴

I wondered, though, could the mining contracts in Schurmann and Leech's possession, like the deals in a Tom Clancy novel (written by Mark Greaney), be purely fiction? Was this just the latest "fanciful story" about North Korean mineral wealth in the tradition of Ernst Oppert? Were the claims made by Leech and Schurmann too good to be true?

Schurmann and his associates have, at times, claimed that the North Korean deals had not been executed—but earlier statements gave the impression that the operations were moving full speed ahead.

Flawed and Obviously Not Trustworthy

An entire genre of investor seems to be devoted to doing business in conflict-affected and isolated states. "If you truly want to see the underbelly of capitalism, just stay in a hotel in an African capital the week after a coup," one Western academic told me in May 2014.¹⁹⁵ Places like Congo and Myanmar—places supposedly unappealing even to Schurmann—are churning with so-called cowboy capitalists that seek entry into a new market on the ground floor. Many such pragmatists see North Korea as a final frontier, comparing the isolated state to China in the 1980s. The comparative advantage held by many such investors is a mere willingness to invest where others simply will not, either for legal or reputational reasons. When examining business deals in closed societies like North Korea, it can be difficult to discern between the cowboys and the conmen.

Leech, for example, has routinely been involved in business deals alongside alleged fraudsters like Russell King, Lee Cole and Linden Boyne. And numerous companies associated with Kevin Leech have folded since he was released from bankruptcy in 2005—Pharma, Devilfish Gaming, First London, Swiss Commodities Holding, Sunmin, AAT, EHG and perhaps more. Great fanfare accompanied the launch or acquisition of many of these companies, but none so far has yielded much success. Could he really have been, as he once put it, "caught with his pants down" so many times?

When I first spoke to Schurmann, he seemed to have the utmost confidence in Leech's intentions. "What he's doing is assisting North Korea in what they do to do the right thing," Schurmann said of Leech. "So like what they're doing with tourism, he's trying to get them to actually use the export of commodities and mining to do that in an upright and proper

194 Archived version of LinkedIn profile for Louis Schurmann from 2014—copy on file with the author.

195 Author Interview, May 2014.

way, which is obviously comparable to Western standards. And obviously, doing it in an open manner... And it's not a power drive; it's not a money drive. It's just passion in trying to make something right which has been wrong for a very long time."¹⁹⁶

In fact, Schurmann suggested that Leech was helping North Korea choose the path of openness and transparency. "You can't invest in a country if the amounts of money you need to actually open up a mine, when it's based on a transaction which is flawed and obviously not trustworthy. That's a no," he said. "And I think what they are doing—my clients—is actually being pathfinders to actually address and help North Korea enter into a period, which will come soon, where they are legitimate and what they do in terms of benefits—between mining and other industries—is open and fair and based on Western standards."¹⁹⁷

When I finally reached Leech by phone in March 2016 and attempted to ask him about his involvement in North Korean mining deals, he declined to provide any information about his operations. "I wouldn't be the person to speak to, no," he said when I asked him about his mining deals in North Korea. "No, no questions, no answers. Okay?"¹⁹⁸

I pressed, noting that I'd seen his name on corporate records alongside the likes of Lister, Turner, and Boyne. "I don't know, I don't—no, no, I'm not the kind," he said. "Not at all, okay? Alright? Okay?" I asked about his involvement with North Korean companies that were under sanctions. "Not at all. Not at all," he said. I rattled off names of companies for which he has been listed as a shareholder and director, asking about his involvement in Sunmin. "Not at all," he said again.¹⁹⁹

I continued, informing him that I had seen his name on corporate records for Swiss Commodity Holding and Pacific Century. He said nothing. Music then began playing in the background, and, a moment later, the call went dead.²⁰⁰

Weird. Very Weird.

Throughout the whole ordeal involving Russell King and First London, many of the deals involved trading in other people's reputations, whether it was Sir John Walker, Sven-Goren Eriksson or fictitious deep-pocketed Middle Eastern royalty. I wondered, was Schurmann's reputation the latest to be used as currency? Was this skydiving, motorcycle-loving, marine rescue enthusiast just the sort of rugged South African miner that could lead would-be investors in companies like AAT and EHG to believe that purchasing stakes in a North Korean mineral asset was actually a good idea?

Indeed, Schurmann certainly fit the role of a rugged frontier investor willing to brave the unknown terrain that is North Korea's mineral sector. Schurmann did admit to me that his clients thought it was important "for him to be seen as a director" of the companies

196 Author interview with Louis W. Schurmann, March 2016.

197 Ibid.

198 Author Interview with Kevin Leech, March 2016.

199 Ibid.

200 Ibid.

contracted by his firm, Chamoni. "Obviously, they wanted me involved and wanted to show to the locals in Korea that obviously I was not just floundering around, taking pictures, but obviously director of the company," he said. "So that actually gave me the legitimacy to do what I could do."²⁰¹

"They were fascinated by my gung-ho, Rambo-type of style," he said of the North Koreans he had encountered. "And I know that the North Korean guys were very impressed, because they had never had access to such skills and, you know, equipment experiences, so they loved me to bits."²⁰²

Highlighting accusations of others along the way that their names had been used to pull off elaborate ruses, I asked Schurmann directly whether or not he thought there was any chance that he, too, had been deceived. "I've never been coached," he said, emphasizing that his assessments of North Korea's mineral potential were genuine. "I obviously have been pointed to the right direction and obviously introduced to this gold mine and that gold company, and this rare earth thing. I mean, that's how they guided me, but the work I've done has never been affected by their input. I never got that feeling that they were using me in a sense."²⁰³

But when I relayed the exchange I had with Leech, his client, Schurmann's reaction was conflicted. "I believe he's doing it for the better. I believe he's got enough money that he doesn't need to do this for income. I don't think this is a devious way to make money in North Korea," he said. "Why isn't he clarifying his position so he can be open and clear and honest and then we all can feel better? I'm certainly not feeling better now."²⁰⁴

"He could have given you all the information and clarified everything," he said. "He gave you nothing, which is weird. Very weird."²⁰⁵

201 Author interview with Louis W. Schurmann, March 2016.

202 Ibid.

203 Ibid.

204 Ibid.

205 Ibid.

CONCLUSION: “A RATHER TEPID RESPONSE”

The case profiled in this report raises important questions about sanctions compliance and the efficacy of several financial regulatory and sanctions enforcement mechanisms. This concluding section highlights some of those challenges, encourages regulators and law enforcement to look more closely at this case and makes recommendations about how to address some of the structural deficiencies exposed by the case.

Credible Allegations of Non-Compliance

Economic sanctions imposed on regimes like North Korea are intended to build leverage for negotiations or to restrict the target regime’s capacity to carry out problematic activities, such as the development of nuclear weapons. A wide range of factors impact the effectiveness of sanctions, including the degree to which sanctions programs are aligned with clear diplomatic objectives and are supplemented with parallel diplomatic efforts. However, regardless of a sanctions program’s level of sophistication, one thing that will certainly undermine its impact is inadequate enforcement.

The case profiled in this report raises serious questions about sanctions compliance. For instance, the Australian Department of Foreign Affairs and Trade had been made aware of the activities in North Korea linked to Schurmann. The case was even discussed in Australia’s Senate in October 2014. “We take our sanctions obligations very, very seriously,” Katrina Cooper, senior legal adviser to DFAT, responded when questioned by Australian Senator Peter Whish-Wilson about the deal. “Given the seriousness of that allegation, I wouldn’t want to go into specifics on this particular case.” When pressed about whether or not the department would look into it further, she declined to comment substantively. “Given the sensitivity of the matter and the seriousness of the allegation, I would prefer not to provide any more information on the matter.”²⁰⁶

More than 18 months later, little clarity has been provided by Australian authorities about their investigations. “The Department of Foreign Affairs and Trade is unable to comment on specific cases,” DFAT wrote to ABC when questioned about the case. “We take credible allegations of non-compliance with sanctions very seriously and, where appropriate, refer them to the Australian Federal Police.”²⁰⁷ However, a law enforcement source told the Australian Broadcasting Corporation that the case had never been referred to the Australian police.²⁰⁸

206 “Australian Senate Estimates—Foreign Affairs Defence & Trade: Rare earth minerals mine in North Korea,” October 22, 2014.

207 Email from DFAT to Australian Broadcasting Corporation, March 2016.

208 “Panama papers reveal evidence Australians are involved in deals with North Korea that could be in breach of sanctions,” ABC 7.30, Australian Broadcasting Corporation, April 6, 2016.

Clarke, the corporate governance expert, questioned the commitment of the Australian government as a whole to fulfilling its sanctions enforcement obligations. “It’s very apparent that a relationship was being formed between Australian entities and a North Korean sanctioned entity that is actually heavily involved in missile technology in North Korea,” he told ABC. “I think it’s very apparent from the documentation and somehow there has been neglect by all of the relevant authorities in Australian and this has been allowed to happen without any comment or restrain.”²⁰⁹

“Rather than applying sanctions the Australian Government and the ASX seem to have allowed a coach and horses ridden through them by the people involved in forming this corporate relationship with one of the primary arms manufacturers in North Korea,” Clarke added. “Really it’s a very serious potential issue of sanctions busting and that they don’t seem to have acted or don’t seem to have really cared that this was taking place.”²¹⁰

The case outlined in this report also has numerous implications for government agencies responsible for enacting and enforcing economic sanctions. First and foremost, DFAT should consider referring the case to Australian law enforcement for further investigation. (Schurmann claims that DFAT has thoroughly looked into his involvement and determined that he has not broken any laws.) The Office of Financial Sanctions Implementation (OFSI)—the UK office established in April 2016 to deal exclusively with sanctions designations and enforcement—should consider opening an investigation into whether or not any British citizens involved in these deals were in violation of sanctions. Singaporean authorities should examine the role that any Singaporean entity played in the deals, especially given that Singapore-registered firms were also engaged in transactions with NDIC.

Additionally, the US Department of Treasury’s Office of Foreign Assets Control should also examine the case. Specifically, OFAC should examine whether or not the resale of licenses to operate in mines controlled by NDIC constitutes having “materially assisted, sponsored, or provided financial, material, or technological support for” the sanctioned entity, an act that, in itself, would be grounds for placement under US sanctions. A designation in such a case would send a clear message to international investors that helping designated entities bypass sanctions will simply not be tolerated.

A Lack of Regulatory Scrutiny

The case profiled in this report also reveals several regulatory deficiencies that require policymakers’ attention. A North Korean mineral asset that appears to be sourced from an entity under sanctions was acquired by a company on its way to a listing on the Australian Stock Exchange. These documents were publicly available for several years without any comment from Australian law enforcement. There is a need for Australia to strengthen its institutional framework for enforcement of sanctions. One step the government could take would be to create a specialized office for the specific purpose of sanctions administration.

209 Thomas Clarke Interview with Australian Broadcasting Corporation, March 2016.

210 Ibid.

There also may have been less scrutiny on the planned backdoor listing of these assets than there would have been had there been on an initial public offering. Experts have criticized the lack of regulatory scrutiny on these transactions in the past. “Clearly, the lack of regulatory scrutiny has caused, irrespective of how effective reverse mergers might be for meeting the needs of a broad range of companies, increasing concerns about the degree to which these mergers are used as a means of committing fraud or other securities violations (particularly in the area of misleading financial statements),” according to a report written by Erik P.M. Vermeulen for the Organization of Economic Development and Cooperation (OECD). “The financial regulatory body in Australia has had a rather tepid response to the wave of fraudulent backdoor listings similar to their British counterparts,” the report said. “In fact, there are no specific references to backdoor listings or reverse takeovers in the Listing Rules of the Australian Stock Exchange.” Moving forward, backdoor listings should receive the same level of scrutiny as IPOs.²¹¹

Due diligence and sanctions compliance responsibilities should also extend to corporate service providers. For example, several service providers knowingly processed transactions that sought to list a North Korean mineral asset on the ASX. Some of the documents processed even included the name of a sanctioned entity. In the future, service providers should be required to perform at least cursory checks to ensure that the transactions that they are facilitating do not violate sanctions or other laws.

The rampant abuse of anonymous shell companies, meanwhile, makes it virtually impossible for investigators to determine who actually benefits from many of the firms linked to Leech’s mining deals in North Korea. Closing this loophole is among the most pressing challenges in the fight against crime, corruption, and illicit finance. Curbing the abuse of these entities will require every country around—especially major financial hubs—to establish low-cost, searchable public registries that contain basic information about the owners of any company formed in their territory. Providing false information should be illegal, and territories that fail to meet these standards should be identified as money-laundering havens.

However, for most countries, including the United States, passing legislation to enact meaningful reforms on beneficial ownership transparency will likely take several years. In the meantime, the United States and other governments could take steps to shift the burden of compliance responsibility onto incorporation services firms themselves. Like banks, these firms should be required to undertake customer due diligence so that they know the identities of individuals who benefit from the companies they form. Crucially, these firms should be held accountable for instances in which they have either knowingly provided services to entities under sanctions or failed to undertake the proper checks.

211 Erik P.M. Vermeulen, “Rules on Backdoor Listings: a Global Survey,” paper presented to the Indonesia-OECD Corporate Governance Policy Dialogue, December 2014.

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