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WORKSHOP ON LEGAL AND INSTITUTIONAL BARRIERS TO COLLABORATION RELATING TO ORPHANED/ABANDONED MINES

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Agenda

- Definition
- Two Types of Abandoned Mines
- Creative Solutions - The Northern Experience
- Giant Mine Agreement with Miramar Mining
- Faro Memorandum of Understanding (MOU) with Cominco
- Conclusion



Definition

An orphaned/abandoned mine is one where:

- There is no solvent owner, and
- The environmental liabilities exceed the value of the remaining mineral resources



Two Types of Abandoned Mines

Where there is no mineral resources with value remaining

- The solution is money

Where there are still mineral resources with value remaining

- The solution is to reduce or limit the environmental liability to less than the value of the remaining mineral resources, and
- Use the private sector to exploit this value in a way that reduces the Crown's environmental liabilities



Creative Solutions The Northern Experience

The Giant mine in the Northwest Territories

- Royal Oak mines put into Interim Receivership in April 1999
- Interim Receiver ceased production at the Giant mine in September 1999
- Giant and Colomac mines abandoned by the Interim Receiver in December 1999
- Giant mine Agreement with Miramar Mining in December



Creative Solutions The Northern Experience

Cont'd

The Faro mine in the Yukon

- Anvil Range Mining ceased production in January 1998 and was put into Interim Receivership in April 1998
- Faro not abandoned because DIAND funding operations of Interim Receiver
- August 1999 MOU with Cominco and Yukon Territorial Government (YTG)
- Negotiations on agreement ended in early 2001



Giant Mine Agreement with Miramar Mining

- Miramar created a single purpose subsidiary (Miramar Giant Mine Ltd. or Giantco) to purchase the Giant mine assets from the Crown for \$10
 - all environmental liabilities to Giantco
- Crown's claim for environmental liabilities limited to assets of Giantco
- Miramar indemnified by Crown against existing environmental liabilities
- Miramar responsible for funding Giantco for ongoing environmental compliance measures and any remediation of the environmental impact of Giantco's operations
- DIAND to fund emergency expenditures related to existing environmental liabilities



Giant Mine Agreement Cont'd

- Miramar recommenced mining Giant property with ore shipped to Con mine mill in Yellowknife
- Miramar paid \$425,000 into a reclamation trust for Giant on closing and must pay a share of the profits from mining Giant ore into the trust
 - trust to fund environmental liabilities that will fall to the Crown at the end of the agreement
- Minimum two-year term to agreement
- Agreement amended in November 2001 to require DIAND to make a contribution to ongoing environmental compliance costs and extend term of agreement indefinitely
- Giantco will be wound-up under the *Bankruptcy and Insolvency Act* at the end of the agreement
- Reclamation would be funded by DIAND and the reclamation trust



Faro MOU with Cominco

- Faro mine assets and environmental liabilities would be transferred to a newly created company (Trustco) which would be wholly owned by a trust - trustee indemnified by DIAND
- Cominco would act as a contractor to Trustco and be indemnified by DIAND against existing environmental liability
- Cominco responsible for remediation of environmental impact of its operations
- Prior to the mine being put back into production:
 - Cominco would contribute management for care and maintenance activities
 - DIAND and YTG would fund out-of-pocket costs of care and maintenance



Faro MOU with Cominco Cont'd

- Cominco would have the option of putting the mine back into production by funding the necessary capital costs and working capital
- Cashflow from operations would be sheltered from income tax by old Anvil Range tax pools
- Cashflow from operations would be divided between:
 - Contributions to a reclamation trust
 - Repayment of Cominco's costs of putting the mine back into production
 - Repayment of DIAND and YTG funding during care and maintenance
 - Profit to Cominco
- Reclamation would be funded by DIAND and the reclamation trust



Conclusion

Creative use of existing legal mechanisms can deal with legal barriers:

- Corporate limited liability
- Indemnification
- Insolvency Legislation



Thank You