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

Presenter - Mr. Robert Lauer
The Department of Indian and Northern Affairs Canada
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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
• 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 1999

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