



MINING STANDARDS TASK FORCE RELEASES FINAL REPORT

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SUMMARY

The Mining Standards Task Force (the "Task Force") was formed in July, 1997 as a joint initiative of the Ontario Securities Commission (the "OSC") and The Toronto Stock Exchange (the "TSE") to examine the need for higher standards relating to the conduct of mineral exploration and mining activities as well as the disclosure of results from those activities. The Co-Chairmen of the Task Force were Morley Cascallen, Vice-Chair of the Ontario Securities Commission, and John Carson, Senior Vice-President, Market Regulation of the TSE. Other members of the Task Force were drawn from diverse backgrounds such as mineral exploration and mining, law, accounting, the securities industry and regulatory fields.

In the June, 1998 edition of the PDAC Communiqué we reported to you on the interim report of the Task Force which was released in June, 1998. We are now pleased to provide this summary of the final report of the Task Force which was released on February 2, 1999 following comments from a number of commentators, including the PDAC.

The Task Force's final report, "Setting New Standards", contains recommendations which, if implemented, will have a significant impact on geoscientists and mining engineers, public mineral exploration and mining companies, brokers and analysts.

The purpose of this summary is to highlight the impact of the Task Force's recommendations on mining professionals, companies, brokers and analysts. The first part of the summary relates to the role of the Qualified Person and the qualifications, responsibilities and accountability of geoscientists and mining engineers. The second part describes the impact of the Task Force's recommendations on corporate governance, field practices and disclosure policies of mineral exploration and mining companies. The third part relates to the manner in which the Task Force expects brokers and mining analysts to convey their recommendations to investors.



HIGHLIGHTS

The Task Force recommends that:

- a "Qualified Person" be responsible for (i) all scientific and technical matters relating to the design, implementation and assessment of mineral exploration, development and mining programs including the practices and procedures followed and (ii) ensuring that such programs comply with industry standards;
- all Qualified Persons be (i) engineers or geoscientists with a minimum of 5 years' experience relevant to the subject of their reports and (ii) members of a recognized professional association as recognized by Canadian securities regulators and regulated under provincial legislation;
- the TSE adopt certain "Best Practices" Guidelines until such time as the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") can develop a nationally accepted set of best practices guidelines to be followed by Qualified Persons in the conduct of mineral exploration, development and mining operations;
- assay laboratories be accredited;
- companies be required to have mineralized rock samples from exploration programs analyzed by accredited laboratories where such results will be reported to the public;
- the CIM definitions of resources and reserves be used in all technical reports and disclosure documents;
- Canadian companies be obliged to report resources and reserves in accordance with the CIM definitions while foreign companies be permitted to report resources and reserves in accordance with other recognized reporting systems such as those accepted by regulators in Australia, the United States and the United Kingdom;
- technical reports be prepared by Qualified Persons and contain certain prescribed categories of information;
- public disclosure by mineral exploration and mining companies contain certain prescribed information and report resources and reserves in accordance with the CIM definitions;

- the TSE adopt, and require TSE-listed companies to adhere to, a set of recommended disclosure standards;
- corporations and their directors and officers be subject to limited statutory liability in the event of misleading disclosure;
- mining analysts be required to disclose their qualifications, experience and state the basis of their calculations and projections in their research reports; and
- mining analysts use the same terminology and apply the same disclosure standards to their reports that mineral exploration and mining companies are obliged to use in their disclosure documents.



THE ROLE OF THE QUALIFIED PERSON

1. What is a Qualified Person?

The Task Force's introduction of the Qualified Person in the Canadian mineral exploration and mining industry was derived from the role of the Competent Person in Australia, the United Kingdom and South Africa for the purposes of ensuring that individuals who supervise and report on mineral exploration, development and mining activities are properly qualified and accountable.

The Task Force defines a Qualified Person, whether such person is "in-house" or an independent consultant, as being:

- a suitably qualified person in the specific field;
- a member in good standing of a recognized professional association with educational, licensing and disciplinary procedures; and
- possessed of at least 5 years' experience in his or her field, including specific experience relevant to the project being designed, managed or reported on.

The Task Force points out that "Qualified Person" is a regulatory term and not a license. Whether an engineer or geoscientist can become a Qualified Person is dependent on his or her ability to join a recognized professional association. To the extent that such associations for geoscientists do not currently exist in Ontario and Quebec, the Task Force recommends that those provincial governments implement legislation to provide professional associations for geoscientists.

Given the international nature of the industry in which Qualified Persons operate, the Task Force recommends that Canadian professional associations extend reciprocity to engineers and geoscientists who are members of professional associations in other Canadian provinces as well as other countries.



2. What are the Responsibilities of a Qualified Person?

The central recommendation of the Task Force is to formalize the role and responsibility of

the Qualified Person in the development and reporting of all scientific and technical information disclosed to the public, including responsibility for: [\(i\) all scientific and technical matters relating to the design, implementation and assessment of mineral exploration and development programs or mining operations and ensuring that such programs and operations meet industry standards;](#) [\(ii\) the estimation and classification of resources and reserves;](#) and [\(iii\) the review, approval and certification of all scientific and technical reports and disclosure relating to exploration and development programs and mining operations.](#)

(i) Technical Reports

The Task Force recommends that a Qualified Person who prepares a technical report be required to take reasonable steps to verify the integrity of the data relied upon, give an opinion on the quality of such data and disclose the source of the data (including whether independent samples have been taken).

While the Task Force recommends that technical reports be prepared by independent (i.e., not owning any securities of the company or its parents or subsidiaries) Qualified Persons in certain circumstances (such as a company becoming a reporting issuer, filing a prospectus, or listing on an exchange), the Task Force is satisfied that, once Qualified Persons become regulated by a recognized professional association with disciplinary powers, the benefits of independent status may not outweigh the costs, provided that the technical report discloses any relationship between the Qualified Person and the company.

The Task Force recommends that proposed National Instrument 43-101* ("NI 43-101") require the following specific information be included in all technical reports on exploration results:

- a brief description of the recent exploration history on the property including the results of all previous exploration work; and
- details of the exploration program results, an interpretation of the data and an assessment of the property, including any recommended plan for future work on the property.

In respect of technical reports on material sample or assay results, the Task Force recommends that technical reports include:

- a description of the geology, mineral occurrences and nature of mineralization found;
- mineral distribution, rock types, geological controls, and other parameters, as appropriate, used to establish the sampling interval and the identification of any significantly higher-grade sections within an average lower-grade interval and whether and how any higher-grade assays have been cut;
- details of the location, number, type, nature, spacing and density of samples collected and the area covered;
- identification of any drilling, sampling or recovery problems that could have materially affected the accuracy and reliability of the results;
- details of the type of analytical methods used, sample size and the name and location

of the assay or analytical laboratory used and its accreditation status; and

- the true width of individual samples, to the extent known.

* NI 43-101 is an instrument which has been proposed by the Canadian securities regulators. NI 43-101, which will replace National Policy 2-A will prescribe the form and content of technical and scientific reports and establish standards for all oral and written disclosure made by mineral exploration and mining companies.

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(ii) The Design, Implementation and Assessment of Exploration and Development Programs

The Task Force recommends the involvement of Qualified Persons in the design, implementation and assessment of exploration and development programs as a means of ensuring that professional standards and experience are part of the process. These changes are expected to make the perpetration of fraud more difficult and should improve the quality and reliability of reporting and disclosure.

The Task Force concluded that minimum industry standards should be applied to field activities and recommends that the CIM be responsible for formulating appropriate guidelines. The Task Force recommends that Qualified Persons be responsible for designing programs suitable for the specific needs of a project and ensuring that these programs are carried out in accordance with the industry standards described in the guidelines. Any failure by a Qualified Person in the discharge of these responsibilities would make the Qualified Person subject to disciplinary action by his or her professional association.

Until such industry standard guidelines are promulgated, the Task Force recommends that the TSE adopt a "Best Practices Guide" which prescribes certain activities which must be undertaken during the course of an exploration program. The "Best Practices Guidelines" provide that Qualified Persons must, in designing and supervising exploration programs, consider specifics relating to sampling, drill logging, sample security, sample preparation, assaying and testing, data verification and quality control.

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(iii) Public Disclosure

Having provided for the role of the Qualified Person in the design, implementation, supervision and reporting on all mineral and development programs or mining operations, the Task force sought to maintain continuity in the flow of information by involving the Qualified Person in the release of information on these activities to the public.

The Task Force recommends that technical information which is made available to the public be based upon a written report prepared by a Qualified Person and that such Qualified Person review all disclosure based on his or her report.

The Task Force recommends that the Qualified Person be responsible for all public disclosure relating to exploration results, estimates of resources and reserves and feasibility studies. The Qualified Person will be required to satisfy himself or herself as to the integrity

of the technical data being reported upon and will also be required to ensure that all reporting (a) complies with the requirements of securities regulators and (b) provides the public with the same information (if not at the same level of technical detail) as contained in the technical reports underlying the disclosure.

After noting that reporting systems do not provide detailed guidelines on the reporting of exploration results, the Task Force recommends that the CIM and the Canadian Council of Professional Geoscientists develop national exploration reporting guidelines.

Notwithstanding the important role of the Qualified Person in the disclosure process, the Task Force noted that the ultimate responsibility and liability for the contents of public disclosure rests with the company's directors and officers.

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3. What are the Legal Responsibilities of the Qualified Person?

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(i) Statutory Civil Liability

Currently, persons who file reports with securities regulators under National Policy 2-A face potential statutory civil liability for the contents of those reports as well as the disclosure based upon such reports.

The Task Force recommends that this liability be increased so that Qualified Persons will face statutory civil liability for disclosure based upon their technical reports and opinions. However, the Task Force also recommends that adherence to industry standards and best practices be a defense available to Qualified Persons.

(ii) Professional Disciplinary Action

One of the prime objectives for requiring Qualified Persons to be members of professional associations is to make Qualified Persons subject to effective disciplinary procedures. The Task Force therefore recommends that professional associations be proactive, timely and diligent in their enforcement efforts as well as willing to publish the results of such proceedings.

The Task Force noted that, at present, misconduct for which professionals are disciplined does not explicitly include a failure to correct or report a situation which results in financial harm. The Task Force recommends that professional associations discipline Qualified Persons for failing to report situations which the Qualified Person believes may endanger the public's financial welfare.

(iii) Common Law Liability

The Task Force acknowledged that legal responsibility for a company's affairs, including responsibility for its public disclosure, rests with the company's officers and directors. It is therefore up to the company's officers and directors to ensure that projects are under the management of a suitable Qualified Person and that disclosure is both based upon written scientific reports and reviewed by the Qualified Persons who prepared such reports.

The Task Force recognized that, by expanding the responsibilities of the Qualified Person, its recommendations would increase the legal liabilities of these persons.

(iv) Minimizing Liability

The Task Force pointed out that the Australian Valmin Code requires experts and the companies who retain them to enter into detailed retainer agreements which specify the terms governing the preparation of technical reports. The Task Force then suggested that Qualified Persons and the companies who retain them should enter into detailed retainer agreements which clearly set out the scope of the Qualified Person's retainer and provide for a procedure by which the Qualified Person reviews corporate disclosure.



MINERAL EXPLORATION AND MINING COMPANIES

Not surprisingly, the recommendations of the Task Force will most affect companies engaged in exploration and development activities. In particular, such companies will be required to evaluate their practices in the areas of: [\(i\) corporate governance and staffing](#); [\(ii\) the classification and reporting of resources and reserves](#); and [\(iii\) the nature and content of their public disclosure](#).

1. Corporate Governance and Staffing

While the TSE reviews a company's in-house mining expertise at the time of original listing, the Task Force observed that the TSE has historically not conducted follow up reviews to ensure that listed companies continue to retain appropriate in-house mining expertise. The Task Force noted that all stock exchanges should require listed companies to have, on a continuous basis, management which has the appropriate depth and expertise in the company's operations. Such persons need not, however, fall within the definition of a Qualified Person.

The Task Force recommends that the TSE require the directors of mineral exploration and mining companies to establish corporate systems which: (i) identify and manage the risks relating to material projects; (ii) engage Qualified Persons when necessary; (iii) establish corporate policies for the conduct of exploration and mining programs; and (iv) ensure adherence with generally accepted industry standards.

The Task Force recommends that all public mineral exploration and mining companies (whether or not listed on the TSE) adopt the TSE's general corporate governance guidelines and report to shareholders when they depart from them.

In light of the Task Force's recommendations concerning the responsibilities of Qualified

Persons, such companies will be obliged to ensure that the geoscientist or engineer with responsibility for each of its major projects worldwide is a member of a "recognized" professional association and is familiar with the CIM classification system. These Qualified Persons should, in addition to their technical duties, understand the applicable disclosure standards and be able to review and comment upon scientific and technical disclosure relating to projects under their supervision.

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2. Uniform Classification and Reporting of Resources and Reserves

In an effort to standardize the reporting of resources and reserves so that investors and analysts can compare the relative merits of mineral projects, the Task Force recommends a uniform classification system. In the absence of an internationally recognized classification system, the Task Force recommends that regulatory authorities require mineral exploration and mining companies to classify and report their resources and reserves using the definitions promulgated by the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM guidelines"). However, Canadian companies who are obliged to report "other mineralized material" in filings with the United States Securities and Exchange Commission, will be permitted to reconcile this category with its reported resources.

The Task Force recommends that foreign companies who use the following reporting systems which are substantially similar to the CIM guidelines be permitted to report their resources and reserves in accordance with those systems:

- the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves (the JORC Code);
- Principles of a Resource/Reserve Classification for Minerals, contained in the SME Guide for Reporting Exploration Results (Working party #79) or other guidelines based on USGS Circular 831 (1980); and
- "Definitions of Resources and Reserves" approved by the Council of the Institution of Mining and Metallurgy (United Kingdom) 1991.

The Task Force recommends that disclosure relating to the reporting and disclosure of resources and reserves clearly describe the relationship between the reported categories and state whether the resources include the reserves or are reported separately. The disclosure must also state that only the reserves have demonstrated economic viability.

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3. The Nature and Content of Public Disclosure

The Task Force's views regarding public disclosure obligations are contained partly in its own recommendations and partly in its endorsement of the draft TSE policy entitled "Disclosure Standards for Companies Engaged in Mineral Exploration, Development & Production." The intent of the Task Force's recommendations and the draft TSE policy is to create a public record of each mineral exploration and mining company's material properties from the date of acquisition or discovery, which record will be updated upon the occurrence of material events affecting them, and in any event, on an annual basis.

The Task Force recommends that upon acquisition or discovery of a material property, a mineral exploration or mining company must describe, in an initial news release:

- the security of its tenure and legal nature of its mineral rights held under the laws of the applicable jurisdiction;
- the nature of its right to produce and market the minerals;
- the impact of any applicable environmental legislation; and
- a description of political or legal risks relating to the property.

As a project progresses and exploration results are released, the Task Force recommends that additional information be disseminated via news releases which are based upon technical reports as prepared and certified by Qualified Persons. These news releases must contain an adequate summary of the information contained in a technical report and must be reviewed and approved by the Qualified Person responsible for the technical report.

The Task Force expressed concern over the reporting of exploration results as being the area most vulnerable to inaccuracy, misinformation and abusive disclosure practices. A general guide to the content of news releases is provided by the Task Force as follows:

"Reports of exploration information must be as factual as possible, but by necessity, will include geological interpretations, projections and extrapolations based on the factual information being reported. Interpretations must be reasonable and in conformity with generally accepted geological theory and practice. The information must be complete and not selective, that is, both positive and negative results must be reported to permit reasoned assessment by investors and others."

While the Task Force has imposed upon Qualified Persons responsibility for the contents of continuous disclosure materials to the extent that it relates to data and opinions provided by them as professionals, it notes: "Primary responsibility for all public disclosure documents remain with the company's directors and officers." In endorsing the recommendations of the TSE Committee on Corporate Disclosure, the Task Force expressed the view that mineral exploration and mining companies, their principals and promoters should be held more accountable by the regulatory system for misleading continuous disclosure.

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BROKERS AND ANALYSTS

The Task Force noted that the role of the mining analyst is to interpret corporate disclosure in light of industry trends, international developments, commodity price trends, management capabilities and market conditions. The Task Force acknowledged that the analyst's role, as distinct from that of the company or the Qualified Person, is to assess the current and future value of a company's securities by attempting to quantify the value of a deposit on the basis of preliminary exploration information.

Given the importance of evaluation and opinion in an analyst's work, the Task Force

permitted analysts to have more latitude in interpreting data and recommends that analyst's reports:

- distinguish between information which is disclosed by a company as compared with the analyst's own opinions and projections;
- disclose the qualifications and experience of the analyst as well as the basis for calculations or projections contained in the report;
- employ the disclosure standards and terminology prescribed by NI 43-101 and the TSE disclosure standards for mineral exploration and mining companies; and
- disclose any conflicts of interest such as whether the analyst or anyone in the research group holds securities in the company being reviewed, the number of securities so held, or whether anyone in the member firm is an insider of the company being reviewed.

In respect of the conduct of analysts, the Task Force recommends that they comply with the "Standards of Professional Conduct" established by the Association for Investment Management and Research, whether or not they are members of that body. The Task Force recommends, as a longer term initiative, that Canadian self-regulatory organizations form a committee to establish minimum industry standards governing the supervision and conduct of all research analysts.

As well, the Task Force noted the duty of the mining analysts to ensure the integrity of the market and recommends that analysts advise the TSE's Market Surveillance department of any material breaches of disclosure standards by mineral exploration and mining companies or Qualified Persons.



CONCLUSION

The formation of the Task Force was, most obviously, a response to the controversy surrounding Bre-X Minerals Ltd. However, the Task Force's mandate and recommendations have formed the basis for NI 43-101 which will set the terms and references for technical reports on mining properties as well as disclosure derived from the contents of those reports. As well, the recommendations constitute an attempt to standardize the practices of mineral exploration and mining companies from the field to the public marketplace and to establish a regulatory framework which is applied consistently across Canada, in respect of companies whose operations are truly global.

Geoscientists and mining engineers, both in-house and independent, will be required to join and meet the educational and licensing standards of professional associations in order to become Qualified Persons. Geoscientists, for whom there are currently no professional associations in Ontario and Quebec, must await regulatory amendments which will enable them to join an established professional association or create a new one.

For all Qualified Persons, the Task Force's recommendations impose significantly higher levels of responsibility for the conduct of exploration and mining programs as well as the public disclosure relating thereto. The Task Force's recommendations will undoubtedly

increase a Qualified Person's potential legal liability to the same extent that it has increased his or her responsibility for the design, implementation and reporting on a project. However, by recommending the adoption of retainer agreements and the availability of a legal defense based on industry standards, the Task Force has attempted to ensure that this liability is measured by legal standards now applicable to those who appear before the disciplinary committees of professional associations.

Mineral exploration and mining companies will be obliged to follow standardized procedures in activities ranging from their field practices to the manner in which they disclose information to the public. Corporate officers and directors will have to establish systems for the conduct of exploration and mining programs, the preparation of technical reports thereon and the subsequent public disclosure of information contained in those reports. If the Task Force's recommendations are adopted, officers and directors who fail to discharge their duties will face limited statutory liability for the misleading continuous disclosure of their public companies.

Brokers and mining analysts will be obliged to adhere, wherever possible, to the same terminology and disclosure standards applicable to mineral exploration and mining companies. They will also be required to differentiate between their opinions and information provided by mineral exploration and mining companies, provide the basis for any conclusions, opinions or calculations contained in their reports and disclose any conflicts of interest.

Copies of the Task Force's final report can be obtained from TSE Publications (Telephone: (416) 947-4681) or (Fax: (416) 947-4708).