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by the

**PROSPECTORS AND DEVELOPERS ASSOCIATION OF CANADA**

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## EXECUTIVE SUMMARY

The Prospectors and Developers Association of Canada (PDAC) welcomes this opportunity to address federal, provincial and territorial mines ministers on major issues facing the exploration sector of the mineral industry. Some progress on diverse issues has been achieved at recent conferences and we appreciate ongoing ministerial encouragement. Issues PDAC is seeking support for:

- 1) **Securities reform**, an issue of longstanding importance to junior mineral exploration companies has gained national profile in the past twelve months. PDAC is participating in the extensive public debate with the knowledge that our call for *one set of rules consistently applied across Canada by one regulator* resonates with many other businesses and decision makers.
- 2) The temporary federal **Investment Tax Credit for Exploration in Canada (ITCE) program** of enhanced or “super” flow-through shares has been a lifeline for many PDAC member companies, consultants and service providers, and has allowed a significant and successful exploration effort to be mounted during a down market cycle of exceptional duration. PDAC estimates flow-through share financings have raised \$450 million between October, 2000 and June, 2003. The resulting discovery rate for flow-through related discoveries alone is a very respectable two per month. Canada has not experienced a similar flow-through discovery rate in over a decade. *A three year extension to the ITCE program is requested until investor interest returns the sector closer to capacity.*
- 3) **Community consultation**, particularly with aboriginal groups, can become a significant cost obligation for mineral exploration companies. The PDAC is *requesting ministerial support to have such expenditures made eligible for Canadian Exploration Expense (CEE).*
- 4) When a **consultation process results in material delays to assessment work programs, mineral rights may become at risk.** *Ministerial discretion may be required to grant extension(s) of time to complete the assessment work.* Clarification of legislation may be required in some jurisdictions; automatic extension(s) may be another consideration to create greater certainty.
- 5) Progress is being made between professional self regulatory organizations and professional associations with respect to issues related to inter-jurisdictional **incidental practice** on a temporary basis and **mobility.** *Ministers are asked to encourage and support efforts to facilitate professional practice across Canada.*
- 6) PDAC’s compilation of flow-through share financed discoveries by jurisdiction (Appendix A) since the introduction of ITCE in October, 2000, suggests those jurisdictions where **geoscience funding** is maintained at levels endorsed by ministers in a 2001 Action Plan, are being rewarded. This plan arose from a 1999 report entitled *Funding of Government Geological Surveys – How Much is Enough?*

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## 1. SECURITIES REFORM

The need to improve Canada's securities regulatory system is now firmly on the political agenda and there appears to be significant support and momentum for change. Securities reform was a major issue for the Prospectors and Developers Association of Canada (PDAC) in 2001 and 2002 and we thank the mines ministers for helping to bring this issue to the attention of their cabinet colleagues.

Mineral exploration companies finance their programs through the sale of shares because they have no cash flow. Financings tend to be small and relatively frequent, relating as they do to the stages of exploration. Junior companies therefore tend to pay a disproportionate amount in the regulatory costs of these financings. Our members are unable to take advantage of scale. The domestic capital markets are fragmented into 13 components, all of whom require differing documentation and collect fees.

Investors and mineral industry participants want effective prosecution of fraud, but they also want effective use of their money for exploration. Dissipation of investors' money on multi-jurisdictional compliance is a waste. That said, no one anticipates that change will be easy.

There have been many previous attempts over the past 70 years to rationalize a system which is fraught with competing interests, constitutional hurdles, fragmentation, and regional disparities. Ongoing attempts to create timely uniformity or a "passport" system within a 13 jurisdiction regulatory environment are likely to prolong the problem, while Canada's capital markets continue to decline in global relevance.

The complexity is evidenced by following PDAC submissions during the last four months to:

- 1) The Canadian Securities Administrators on the Uniform Securities Legislation (USL), which is proposing a single set of legislation to be adopted by each of the provinces and territories of Canada (except for British Columbia which is proposing its own form of legislation), yet which will allow local rules that will rebuild the complexity over time.
- 2) The British Columbia Securities Commission (BCSC) on its proposed new and innovative substantive securities legislation based on principles rather than extensive rules.
- 3) The Steering Committee of the Provincial Finance Ministers on its attempt to devise a "passport"- type securities regulatory framework in support of USL.
- 4) The federal Wise Persons' Committee (WPC) on its deliberations on an appropriate regulatory framework with prosecutorial impact. A brief summary of some PDAC remarks before the WPC is appended (Appendix 'B').

The current debate within Canada about how to streamline and make securities regulation across the country more cost effective is encouraging. While the issues are many, they are now open for discussion and ultimately political decision. In each of its submissions, the PDAC has repeated the message that, for our members and all similar entrepreneurial

companies from any sector, *one set of rules consistently applied across Canada by a single regulator* should be the goal. Essential elements must be:

- 1) that liberal exemptions for small companies such as those currently in effect or proposed by the BCSC be uniform across Canada and
- 2) prosecution of inter-provincial and international securities fraud is made possible and much more effective.

It has been enlightening to learn from other countries which have made the transition from a system similar to Canada's to one such as Australia's delegation arrangement of state regulatory powers. In this regard it is important to note that *national* does not have to mean *federal* and that sector expertise, rather than local rules needs to be recognized.

#### RECOMMENDATION

**THE TIME FOR ACTION IS NOW AND MINISTERS ARE ASKED TO SUPPORT THEIR CABINET COLLEAGUES IN RESOLVING THIS LONG STANDING NATIONAL PROBLEM.**

Reasons for ministerial input into securities reform:

- 1) Public awareness of the need for change has never been greater, and policy makers are urged to take advantage of this opportunity.
- 2) Provincial securities regulatory bodies and a multitude of regulations impede the efficacy of capital markets and job creation and act as barriers to Canada successfully participating in the global economy.
- 3) Pan-Canadian attempts to streamline the country's regulatory system have not succeeded for 70 years, strongly implying that the solution lies elsewhere, such as in a provincial delegation of powers.

## **2. FUTURE OF THE ITCE "SUPER" FLOW-THROUGH SHARE PROGRAM**

The federal Investment Tax Credit for Exploration in Canada (ITCE) was introduced in October, 2000 as a three year temporary program. The ITCE provides a 15% investment tax credit to individual investors who purchase flow-through shares, the proceeds of which must be applied to qualifying "grass-roots" mineral exploration activities. Under the program money raised must be spent in the field. In effect *ITCE can be viewed as an important system of transfer payments from a few urban centres to mainly northern and rural areas.*

Four provinces subsequently introduced harmonized programs: Ontario (December, 2000), Saskatchewan (March, 2001), British Columbia (July, 2001) and Manitoba (April, 2002). Quebec has renewed flow-through deductions on an annual basis, although the sizes of

available deductions were reduced in June, 2003. In February, 2003 the federal program was extended for an additional year and will now due to expire on December 31, 2004.

Between October 18, 2000, and June 30, 2003, approximately \$450 million that qualified for Canadian Exploration Expense (CEE) was raised. Although this is about half the amount the PDAC had hoped would be raised by this time, ITCE and its harmonized provincial equivalents have served as a life line for many junior exploration companies.

The temporary program has been in effect during a period of difficult market conditions that have included the melt down of the high technology sector, lackluster commodity prices and major corporate scandals. The problem is the industry awaits the return of investor confidence and the excitement which follows higher commodity prices.

The ITCE program has been successful for the following reasons:

- 1) **The money raised stays in Canada.** The program has encouraged some companies to return to Canada (e.g. Candente in Newfoundland), encouraged others to drill deeper (e.g. Miramar beneath its Hope Bay, Boston and Suluk deposits in Nunavut) and generally assume more risky grassroots projects than they would otherwise have done (e.g. Stornoway and others exploring the Melville Peninsula for nickel and platinum group metal potential and finding diamonds – the reverse of Voisey’s Bay).
- 2) **The program is a model for innovative and “smart” regulation.** It requires no extra administration for disbursement of what in effect are transfer payments, nor is there a requirement for government officials to pick “winners”. Economic activity is focused on rural and northern Canada, sustaining jobs or creating them in areas with limited choice of job opportunities, including aboriginal communities. Unlike high tech start-up companies or other entrepreneurial ventures, mineral deposits cannot be relocated to big cities, warmer climates or tax havens outside Canada. Operation and service sector jobs stay local.
- 3) **Exploration investment has significantly increased.** In 2001, the first full year of ITCE enhanced flow-through activity, CEE eligible financings more than doubled to \$165 million from the \$75 million raised in 1999, the last full year of “regular” 100% flow-through CEE. Activity levels increased again in 2002 with \$207 million raised (sourced from *Gamah International Limited*). This has been achieved with minimal foregone federal revenues and no undue upward pressure on costs.
- 4) The *Metals Economics Group* (MEG) reports that in 2002 **Canada overtook Australia**, our biggest competitor, for the first time in eight years. Canada became the most active mineral exploration country in the world in a period of declining global exploration. MEG attributes Canada’s relatively better performance to be due in part flow-through shares.
- 5) While awareness was slow to build, the program is well organized, easy to understand and focused. Since mining companies represent approximately 28% of all issuers

listed on the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSX-V), **the economic activity derived from raising flow-through funding in Canada's financial centres is significant.**

- 6) National, provincial and territorial **geoscience databases and mineral inventories are enhanced**, particularly with essential third dimensional information from drilling, a type of information not provided by government geoscience programs. While today's discovery may not immediately attract the financing required to advance it, changes in technology, access, commodity prices and other parameters make discoveries in inventory logical targets for future investigation.

A compilation of flow-through related discoveries to June, 2003, by jurisdiction totals 68 and are listed in Appendix A. The number demonstrates a dramatic turn around. Flow-through discoveries have averaged two per month since October, 2000, a rate not experienced in Canada since the late 1980's.

Excluding diamond discoveries, which are very subjective to assess, the PDAC estimates that seven of the metallic mineral discoveries as each is presently known will likely be permitted within the next decade as a future operating mine and an additional four will eventually be mined. However, in many instances not enough work has been done on these early stage mineral occurrences to hazard predictions about whether or not they will enter the production "pipeline" in the foreseeable future.

#### RECOMMENDATION

**THE PDAC RECOMMENDS THE ITCE PROGRAM BE EXTENDED ANOTHER THREE YEARS.**

Reasons to extend the ITCE program for three years:

- 1) Mineral exploration requires protracted, highly technical work, even after an initial discovery. Planning programs, consultation, revising plans and coordinating with contractors, frequently in remote locations; requires long term commitments. This is difficult at any time in a cyclical business. One year extensions of flow-through funding pose planning difficulties through uncertainty. A three year renewal of the ITCE program is more in keeping with the longer time lines which are necessary to provide continuity to remote exploration programs where year-round access is rarely possible.
- 2) The ITCE program was introduced to assist the mineral exploration sector to raise funding while investor confidence and interest were low. Liquidity, which is a reflection of investor interest, remains a serious problem. *While the industry awaits the return of investor confidence, a significant exploration effort can still be sustained by the continuation of the ITCE program.* On the other hand, failure to extend the program will immediately reduce exploration activity with a concomitant drop in mineral discoveries and their associated economic activity across the country.

- 3) On June 3, 2002, the mines and finance ministers from all three governments north of the 60th parallel co-signed a letter to Finance Minister Manley requesting that a preferential ITCE rate be introduced nationally to create more exploration activity in their jurisdictions. The territories lack the number of resident potential investors to make a difference. The territorial ministers clearly recognize that discovery rates equate to exploration activity levels and investors in urban areas drive the program.
- 4) Certain provinces continue to show interest in harmonizing with the ITCE program, which is an indication of increasing awareness that activity levels relate to discovery rates, filling the production “pipeline” and the sustainability of mining related jobs.

### **3. CONSULTATION AS A CEE ELIGIBLE EXPENSE**

In recent times, community consultation, particularly with aboriginal groups, has become a significant obligation for many mineral exploration companies. Costs associated with community consultation include expenditures for public notices, community visits, site tours, employee travel, rental costs for meeting facilities, translation services, and legal advice, as well as salaries, benefits, administrative overhead and other internal expenses necessary to carry out the consultation process.

Since exploration commonly occurs in remote areas of Canada, the cost of consultation expenditures can be considerable. For junior companies conducting relatively inexpensive early stage work, consultation costs can be disproportionately high. Given the critical importance of sustaining high-risk “grass-roots” exploration in support of the overall mineral development cycle, PDAC, in conjunction with the Mining Association of Canada (MAC), has recently requested of Finance Minister John Manley and Minister of National Revenue Elinor Caplan that Canada Customs and Revenue Agency (CCRA) review its position and confirm that these costs can be properly categorized as CEE.

In the past CCRA and Finance have considered such costs to be Canadian Development Expense (CDE) on the basis that such expenditures arise from acquiring a right, licence or privilege to prospect, explore, drill or mine for minerals in a mineral resource in Canada. With due respect, the PDAC considers these costs to belong in the CEE category since they are more closely connected with a need to conduct prospecting activity of existing subsurface rights rather than obtaining or acquiring mining or exploration rights from a province or territory.

#### **RECOMMENDATION**

**MINISTERS ARE ASKED TO SUPPORT THIS POSITION WITH THEIR FINANCE AND REVENUE COLLEAGUES THAT IS TO HAVE THE CURRENT DEFINITION OF CEE AMENDED TO INCLUDE COMMUNITY CONSULTATION COSTS.**

Reasons to include community consultation costs in CEE:

- 1) Community consultation is becoming an increasingly significant obligation at ever earlier stages of exploration.
- 2) CEE “soft” or flow-through eligible dollars are easier to raise than CDE “hard” dollars. The proposed change will assist companies with the perennial challenge that junior company’s face of raising sufficient funds to conduct exploration.
- 3) Considering the time it takes to explore, discover, prove-up, permit, build and commence mine production commonly exceeds ten years; CDE expenditures, which can only be “banked” seven years, may lapse.

Note: Impact or community benefit agreements as opposed to consultation should only be worked out once the economics of a project are understood by way of late stage feasibility studies. Negotiations for community benefit agreements should only be undertaken by operating companies rather than mineral exploration companies without cash flow.

#### **4. CONSULTATION WITH STAKEHOLDERS AS IT AFFECTS SECURITY OF MINING RIGHTS**

Under many provincial Mining Acts, it is a requirement to seek the consent of the surface rights owner, lessee, or any other person having an equitable interest in the land in question before any prospecting or exploration for minerals can occur, even though the mining rights holder has been granted an exploration permit, licence or lease for the mineral rights. In circumstances where such holder of the surface rights cannot be found or refuses to consent, the Minister may, by order, dispense with the need for the consent and allow the mining rights holder to enter the land and proceed with exploration. Certain statutes provide that the surface rights owner will be deemed to have consented if the surface rights owner refuses to respond to the consent request within 30 days or refuses to grant access for a prescribed reason. If the property is damaged in the course of the exploration activity, the mining rights holder is required to compensate the surface rights owner accordingly.

Explorationists are strongly encouraged to commence consultation with surface rights holders as soon as a right to minerals has been secured. In recent times, community consultation, particularly with aboriginal groups, has become a significant obligation and expense for many prospectors and developers, even where surface rights are not demonstrably owned or subject to a land claim at the time the mining rights were secured. Thus the time limits and rights of mines ministers with respect to surface rights holders do not seem to apply and an ambiguous situation is created.

A problem arises in that community consultation is not subject to specific directions or timelines and can result in significant delays to the commencement of field programs, even missed field seasons. At worst local community representatives can request an injunction to stop any exploration activity until the matter is settled before appropriate courts.

However, to attract and retain investors companies must work during available field seasons. While investors will chafe at delays, at least the underlying mineral asset rights should not be at risk. Unfortunately, during the consultation period, assessment work requirements to keep mineral rights in good standing remain in effect in some jurisdictions. Companies not able to work face in a worst case the loss of rights for failing to complete assessment work in a timely manner.

The solution is to allow the mineral rights holder, under these circumstances, a sufficient extension of time to satisfy community concerns and if necessary to re-finance the field work.

#### RECOMMENDATION

**AMENDMENTS SHOULD BE MADE, IF NECESSARY, SO THAT ALL MINING ACTS ALLOW FOR THE AUTOMATIC GRANTING OF EXTENSIONS OF TIME FOR ASSESSMENT WORK WHEN A CONSULTATION PROCESS RESULTS IN MATERIAL DELAYS TO THE IMPLEMENTATION OF SUCH WORK.**

Reasons for ministerial intervention:

- 1) If assessment work deadlines are not met, mineral rights revert to the Crown. Investors will not continue to finance projects where there are long delays, especially where security of mining rights could potentially be at risk. Nor will investors support projects in jurisdictions where a Catch-22 situation prevails with respect to mineral rights and consultation.
- 2) There is a potential double penalty. If prior project financing was by way of the sale of flow-through shares to investors and there is sufficient delay, a late penalty fee will be assessed on the issuer by CCRA. If the issuer has to invoke the so called “look back rule” the fee on unspent money is the “T”-Bill rate +2 %. Investors’ dislike “their money” going to the federal government as a fee rather than “drilling holes in the ground”.
- 3) In worst case scenarios investors may lose their tax credits or deductions if issuers do not spend flow-through money in a timely manner on a qualifying project. To prevent such “injury” to their investors, companies have in the past turned away from the project in question to a qualifying project in another jurisdiction in order to meet expenditure requirements.

This could in a worst case result in loss of the original mineral rights for the company for failing to perform assessment work and a loss of reputation for the jurisdiction which failed to extend assessment requirements. This is particularly true where the field season for certain types of work is short.

Since mining properties are commonly aggregates of claims with different assessment work deadlines and varying work requirements the potential for clerical error rises in proportion to complexity. Consideration should be given to reducing the paper burden by making extensions of time automatic in cases of material delay due to consultation.

## 5. PORTABILITY OF PROFESSIONAL STATUS

In 1999 a multi-stakeholder Mining Standards Task Force was struck to examine the role of geoscientists (geologists, geochemists and geophysicists) in publicly traded exploration and mining companies. This resulted in a variety of recommendations coming into effect in 2001 including the National Instrument 43-101 (NI 43-101), which regulates public disclosure of technical matters.

Key to NI 43-101 is the concept of programs being planned, supervised and results reported by Qualified Persons (QPs) who may be professional geoscientists. There are important issues for QPs related to membership in provincial/territorial, self regulating organizations (SROs) and the ability of QPs to work in every jurisdiction in Canada in a cost effective manner.

**Incidental Practice** means the ability to work *on a temporary basis* without paying fees in a jurisdiction other than the one a QP initially registered. **Mobility** is the ability to transfer membership from one jurisdiction to another with a minimum of time and money. Many of PDAC's individual members currently rank incidental practice and mobility as their personal top two concerns.

The problem is that most mineral exploration projects are of one to two field seasons' duration and only require the involvement of certain specialist geoscientists for periods of days or weeks in a season. To sustain themselves, geoscientist consultants require numerous projects and these are infrequently available in just one or two jurisdictions.

In order to tender on work, conduct work or even move to a province or territory other than the initial one of registration, QPs must incur the time and expense of becoming members of, and maintaining membership in, different SROs. Entrance requirements vary considerably. Some SROs include both professional engineers and geoscientists, while others do not.

Geoscientists are regulated provincially and in many jurisdictions are legislated by ministries other than mines. The high cost of doing business in multiple jurisdictions in Canada is a significant impediment to the flow of qualified specialist skills. It is easier for a Canadian to

practice overseas than to cross Canadian provincial boundaries. The Canadian patchwork does nothing to enhance Canada's global reputation.

There is a real need to ensure that QPs can work across Canada without incurring the time and cost of registering in every jurisdiction and paying annual dues to each to maintain standing. One partial solution is the Inter Provincial Mobility Agreement adopted by most SROs. However, this protocol only addresses mobility and not incidental practice.

PDAC commends the efforts of the Ontario and Quebec SROs in creating another partial solution. Both have signed a bilateral agreement that allows mobility and incidental practice between the two jurisdictions.

The Canadian Council of Professional Geoscientists (CCPG) and the Canadian Council of Professional Engineers (CCPE) are currently investigating the feasibility of implementing a more permanent solution, which would involve some form of multi-jurisdictional licensing. Other "passport" - type approaches to facilitate portability of registration across Canada are also under study. PDAC supports the efforts of CCPG and CCPE and recognizes that there are several complex legal and financial matters that need to be addressed before this issue can be resolved.

#### RECOMMENDATION

**IN THEIR RESPECTIVE CABINETS MINES MINISTERS ARE ASKED TO ENCOURAGE AND SUPPORT THE EFFORTS OF SROs, CCPG AND CCPE IN THEIR QUEST TO FACILITATE PROFESSIONAL PRACTICE ACROSS CANADA.**

Reasons for ministerial support:

- 1) Undue financial hardship to individual professional geoscientists working in our industry as consultants. Multiple registrations and annual fees for staff geoscientists are viewed by larger companies as unnecessary taxes on employment. CCRA treats corporate paid fees and dues as taxable benefits.
- 2) Investor interest is at risk. While investors welcome the protection afforded by QPs, they also want their money spent in the field by QPs, rather than spent compensating QPs for multi-jurisdictional compliance.
- 3) Exploration is underway in several Canadian jurisdictions for mineral deposit types which are mined very profitably offshore, but which remain unknown or largely untested in Canada. The dissemination of expertise from those most qualified in these "foreign" deposit types is required domestically. Multi-jurisdictional barriers impede practice of those few with the expertise.

- 4) “Artificial” shortages of QPs in certain jurisdictions could result in cost increases, delayed projects and even “lost” field seasons. For junior companies working within limited commodity price and financing cycles, the latter could be particularly harmful.

## 6. GEOSCIENCE FUNDING LEVELS

Table A-1 in Appendix A shows that Quebec has had more flow-through financed mineral discoveries over the last three years than any other jurisdiction. The province is the only jurisdiction which has routinely met or exceeded the geoscience funding commitments recommended by ministers in the 2001 Action Plan. This plan arose from a 1999 report entitled *Funding of Government Geological Surveys - How Much is Enough?* Quebec’s number one ranking in terms of number of flow-through discoveries is reflective of a generally very supportive position with respect to mining that includes not only geoscience funding but also exploration incentive programs of long-standing.

Ontario, which ranked a close second, has also demonstrated a strong commitment to geoscience through repeated investments in *Operation Treasure Hunt* and other geoscience programs.

Minister Dhaliwal’s announcement of special funding for geomatics is also very welcome. This funding for the creation of basic topographic maps for parts of Nunavut and the NWT is fundamental to compiling accurately located geotechnical data. PDAC is also pleased that NRCan’s commitment to the Targeted Geoscience Initiative has been extended for an additional two years. However, PDAC is disappointed that the program, which was originally targeted to stimulate mineral exploration, has now been extended to include programs that will primarily assist the oil and gas sectors.

PDAC commends both Indian and Northern Affairs Canada for its May 16, 2003, announcement of funding \$4 million for geoscience strategy for projects north of 60 over the next two years and the Government of British Columbia for its innovative program of short term geoscience delivery called *Rocks to Riches*.

### RECOMMENDATION

#### **MINISTERS ARE ASKED TO PROPOSE 2001 ACTION PLAN LEVELS OF GEOSCIENCE FUNDING WITHIN THEIR RESPECTIVE GOVERNMENTS.**

Reasons for ministerial support:

- 1) The empirical observation that the number of flow-through financed mineral discoveries per jurisdiction relates in some measure to geoscience funding levels, particularly for Quebec and Ontario, the two jurisdictions that have exceeded or remained closest to the 2001 Action Plan.

- 2) The entrepreneurs who run junior companies are eager to either test anomalies directly, i.e. those anomalies that are generated by government regional-type geotechnical surveys or indirectly by re-evaluating old mineral occurrences in the context of a new understanding of host rocks as provided by government mapping or remapping.
- 3) Significant areas of un-surveyed or under-surveyed land remain in many jurisdictions.

## APPENDIX A

### POST OCTOBER 18, 2000 FLOW-THROUGH RELATED DISCOVERIES BY JURISDICTION

#### DISCOVERY – DEFINITION

*A discovery is defined as an identified new mineral occurrence which has sufficient demonstrable three dimensional and grade potential to warrant the expenditure of additional money for further exploration.*

To qualify as a discovery a new mineral occurrence must:

- Have surface channel sample assays and drill hole assays from beneath or only drill assays from three or more holes which have grades and estimated true widths comparable to those found in operating mines of similar type deposits.
- Show continuity of mineralization by surface geology, drilling and/or geophysics.
- Justify a finance able program by a QP of additional exploration and/or development work.

Note:

At the moment PDAC believes production is eventually probable (++) or possible (+) for discoveries so indicated.

## JURISDICTIONS

	NAME	PDAC	REGION	COMMODITY	OWNER	NOTE
<b>Nunavut</b>						
	AV-1	1	Melville	Diamonds	Stornoway/Northern Empire Minerals/Hunter [BHPBilliton]	
	Cargo-1, Freighttrain	1	Baffin Island	Diamonds	Twin Mining	
	Qaumallak		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending
	Kalluk-1		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending

	Kalluk-2		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending
	Kalluk-3		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending
	Kalluk-4		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending
	Kalluk-5		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending
	Tuvaq-1		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending
	Tuvaq-2		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending
	Tuktu-1		Churchill	Diamonds	Shear Minerals/Northern Empire/BHPBilliton	results pending
	Anuri, Napaktulik Lake	1	Coronation	Diamonds	Kennecott (Rio Tinto), Tahera	
	Stellaria, Kirkerk Lake	1	Coronation	Diamonds	Ashton/Northern Empire Minerals/Caledonia Mining	
	Artemisia	1	Coronation	Diamonds	Ashton Mining of Canada/Pure Gold Minerals	
	Potentilla	1	Coronation	Diamonds	Ashton/Northern Empire Minerals/Caledonia Mining	
	Vega Pipe, Blue Ice Property	1	Victoria Island	Diamonds	Teck Cominco, Diamonds North	One of 8 diamondiferous kimberlites
	Hope Bay Belt		Bathurst Inlet	Gold	Miramar Mining Corp	
	Naartok	1	Madrid area	Gold		
	Suluk	1		Gold		
	South Suluk	1		Gold		
	Rand Spur	1		Gold		
	Patch 7	1		Gold		
	West Zone, High Lake	1		Cu, Zn	Wolfden, Teck Cominco	Polymetallic VMS (1.7km from prior B Zone)
<b>Northwest Territories</b>						
	DB - 2	1	Drybones Bay	Diamonds	New Shoshoni Ventures	
<b>Yukon</b>						
	Regal Ridge			Emeralds	True North Gems	
<b>British Columbia</b>						
<b>++</b>	Kemess North	1	Toodoggone	Au - Cu	Northgate Explorations Limited	
	Kemess North Nugget Zone	1	Toodoggone	Au - Cu	Northgate Explorations Limited	
<b>+</b>	Afton Deep Main Zone	1	Kamloops	Cu-Au-Pd-Ag	DRC Resources	34.3Mt @ 1.55% Cu, 1.14 g Au, 0.125 gmt Pd, 3.42 gmt Ag
	Afton Deep NE Extension	1	Kamloops	Cu-Au-Pd-Ag	DRC Resources	

	Kena	1	Nelson	Au	Sultan Minerals	
	Ted Vein, Tam Property	1	Vanderhoof	Au	Southern Rio Resources Ltd	
	Mosquito Creek	1	Wells	Au	Island Mountain Gold Mines	
	Myrtle Zone	1	Wells	Au	Int. Wayside Gold Mines Ltd	
	Upper Fir		Blue River	Ta/Nb	Commerce Resources	No drill holes yet.
<b>Alberta</b>						
	K296	1	Buffalo Hills	Diamonds	Ashton Mining/Encana/Pure Gold	
	K300	1	Buffalo Hills	Diamonds	Ashton Mining/Encana/Pure Gold	
	K6	1	Buffalo Hills	Diamonds	Ashton Mining/Encana/Pure Gold	24 of 38 pipes have diamonds
<b>Saskatchewan</b>						
	Star Project	1	Fort a la Corne	Diamonds	Shore Gold	
+	West Porky Main	1	Seebee	Au	Claude Resources	5km from Seebee
	West Porky West	1	Seebee	Au	Claude Resources	6km from Seebee
<b>Manitoba</b>						
	Twin Lakes West Gold	1	Monument Bay	Au	Bema Gold Corporation	
	Hunt Zone, Assean Lake	1	Thompson	Au	Int. Curator Resources Ltd	
	B-52, Assean Lake	1	Thompson	Au	Int. Curator Resources Ltd	
	BIF Zone, Assean Lake	1	Thompson	Au	Int. Curator Resources Ltd	
	Eden Lake			Rare Earths	Rare Earth Metals Corp	Carbonatite complex
<b>Ontario</b>						
	Engagement Zone	1	Wawa	Diamonds	Kennecott Canada/Band -Ore Resources Ltd	
	Magpie Mine Road East	1	Wawa	Diamonds	KWG Resources Inc. / Spider Resources Inc.	
	Cristal	1	Festival property	Diamonds	Pele Mountain Inc	
	Salon		Festival property	Diamonds	Pele Mountain Inc	
	Pol Roger		Festival property	Diamonds	Pele Mountain Inc	
	Destiny		Festival property	Diamonds	Pele Mountain Inc	
	Krug		Festival property	Diamonds	Pele Mountain Inc	
	PC		Festival property	Diamonds	Pele Mountain Inc	
	Veuve Clicquot		Festival property	Diamonds	Pele Mountain Inc	
	Moet		Festival property	Diamonds	Pele Mountain Inc	
	Mumm		Festival property	Diamonds	Pele Mountain Inc	

	B1		Festival property	Diamonds	Pele Mountain Inc	
	Genesis	1	Festival property	Diamonds	Pele Mountain Inc	
	Pommero		Festival property	Diamonds	Pele Mountain Inc	
	Dom Perignon		Festival property	Diamonds	Pele Mountain Inc	
	Rossignol		Festival property	Diamonds	Pele Mountain Inc	
	North Perch		Festival property	Diamonds	Pele Mountain Inc	
	East Perch		Festival property	Diamonds	Pele Mountain Inc	
	West Perch		Festival property	Diamonds	Pele Mountain Inc	
	Jubilee		Festival property	Diamonds	Pele Mountain Inc	
	95-2, Timiskaming		Cobalt	Diamonds	Sudbury Contact Mines Limited	New higher grades, 2002.
	Black Fox Zone	1	Matheson	Au	Apollo Gold Corp	Flow through also used on Glimmer open pit feasibility.
	Anoki South	1	Kirkland Lake	Au	Queenston Mining Inc	
	40 East Zone	1	Kirkland Lake	Au	Queenston Mining Inc	
	Golden Silvia Zone	1	McMurchie Twp	Au	KRL Resources Corp	
	La Carte North	1	Tyrell Twp	Au	Goldeye Explorations Limited	
<b>++</b>	Norman North	1	Sudbury	Ni-PGM	FNX Mining/Dynatec	
<b>+</b>	2000 Deposit/Norman S	1	Sudbury	Ni-PGM	FNX Mining/Dynatec	
<b>++</b>	Powerline	1	Sudbury	Ni-PGM	FNX Mining/Dynatec	
<b>++</b>	Ni Rim South		Sudbury	Ni-PGM	Falconbridge	Flow through used subsequent to discovery
	Shakespeare	1	Sudbury	Ni-PGM	Ursa Major Minerals Inc	
	McFauld's Lake	1	Attawapiskat	Cu-Zn	KWG/Sypder Resources	VMS (de Beers, new Archaean greenstone belt)
	Ben Nevis Gold	1	Kirkland Lake	Zn-Au	Wallbridge Mining Company Limited	VMS
	Abitibi Extension		Cochrane	Cu-Zn	Quaterra/Eastmain	Anomalous BM in VMS
<b>Quebec</b>						
	Renard Cluster, Foxtrot Property		Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
	Renard #1	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
	Renard #2	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
	Renard #3	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
	Renard #4	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	

	Renard #5	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
	Renard #6	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
	Renard #7	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
	Renard #8	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
	Renard #9	1	Otish Mountains	Diamonds	Ashton Mining of Canada /SOQUEM Inc.	
++	Lapa Contact	1	Val d'Or	Au	Agnico-Eagle Mines	Discovered 2002. Tonawanda and A Zones discovered in late '80s with MEDA enhanced flow through.
+	Pandora Contact	1	Val d'Or	Au	Queenston Mining Inc	
++	El Coco Zone 22	1	Val d'Or	Au	Agnico-Eagle Mines	
	Liz Zone	1	Noranda	Au	Kinross/Globex Mining	
	NIP zone	1	Noranda	Au	Kinross/Globex Mining	
++	Mesamax	1	Raglan	Ni-Cu-PGM	Canadian Royalties	
+	TK Zone	1	Raglan	Ni-Cu-PGM	Canadian Royalties	
	Tootoo	1	Raglan	Ni-Cu-PGM	Canadian Royalties	
<b>New Brunswick</b>						
	Main Zone	1	Clarence Stream	Au	Freewest Resources Canada Inc.	
	East Zone	1	Clarence Stream	Au	Freewest Resources Canada Inc.	
	Anomaly 'A' Zone	1	Clarence Stream	Au	Freewest Resources Canada Inc.	
<b>Newfoundland and Labrador</b>						
	Golden Promise	1	Badger	Au	Rubicon	
	Brady			Au	Linear	
	New World		New World Island	Au	Candente	

## DISCUSSION AND ANALYSIS

**In the final analysis the measure of success of any incentive program for mine exploration is how many potentially economic mineral deposits (and ultimately new mines) can be attributed to the program.**

The PDAC's definition of a discovery is modeled on the definition used by NRCan (Cranstone definition), but of necessity is more forward looking because sufficient work has yet to be done to calculate reserve/resources. PDAC's thresholds incorporate the "trigger"

elements of a discovery bonus system used by Falconbridge Limited in the 1980s. With respect to diamonds PDAC Director Robert Boyd, President Ashton Mining of Canada, suggests a minimum of two drill holes per pipe and recovery of stone (s) in excess of +0.425 sieve size in order to qualify as a discovery.

For the purposes of this analysis only 68 of the 96 entries have been counted; primarily because of verification concerns about pending results, type and timing of funding and expenditures according to the PDAC’s definition of what constitutes a flow-through eligible “discovery”. Because of the subjective nature of valuing rough diamond contents, diamond discoveries are excluded from the column of estimated “production likely” in the following table. Diamond finds require much more “benefit of hindsight” information before assessing whether production is likely.

Table A-1  
 JURISDICTION RANKINGS BY NUMBER OF FLOW-THROUGH DISCOVERIES

Jurisdiction Name	Number of Discoveries	Production Likely
Quebec	17	6
Ontario	15	4
Nunavut	13	
British Columbia	8	2
Manitoba	4	
Saskatchewan	3	1
New Brunswick	3	
Alberta	3	
Newfoundland	1	
Northwest Territories	1	
	68	12

**Quebec** leads with 17 discoveries, six of which are metallic minerals and deemed likely by PDAC to enter production. There appears to be a direct correlation between inducements and success. Inducements include appropriate government funding levels for geoscience and incentive programs. Even with recently announced reductions, Quebec still has the most liberal deductions for investors and incentives for “leveraging” expenditures once money has been raised.

In **Ontario** there also appears to be a correlation between the number of discoveries and geoscience funding and investment incentives. Successive extensions to *Operation Treasure Hunt* Ontario appear to have contributed to keeping exploration interest levels high. Surprisingly three of the four qualifying nickel/copper discoveries made in Ontario occur in Sudbury, a mining camp near to celebrating its 120th birthday. Two of the five gold discoveries were made in the 91 year old Kirkland Lake Camp and the recent VMS discovery 35 km to the northeast may finally allow Kirkland Lake to join the list of other communities

located along the Abitibi Greenstone Belt such as Timmins, Noranda and Val d'Or in having both gold and VMS base metal deposits. While Red Lake has been the focus of much gold exploration in the province, only Planet Exploration's discovery, of the discoveries so far, was flow-through financed.

Perhaps the most significant discovery in Ontario to June 30, 2003, is the McFauld's Lake volcanogenic massive sulphide (VMS) deposit found southwest of Attawapiskat while De Beers Canada was searching for diamonds. McFauld's Lake is perhaps the first new Archean VMS belt discovered in Canada in a couple of generations (?).

In **Nunavut** the search for diamonds continues to attract much attention with entire new kimberlitic fields identified. Officials at Miramar Mining Corporation indicated that they consider PDAC's counting only five of their discoveries in the Hope Bay Belt as being overly rigorous and not indicative of the importance of the role of flow-through financings. PDAC's equally cautious approach to Cumberland Resources, ongoing successes at the Meadow Bank Project by not allowing any credit for successfully filling in "gaps" with mineralization between some prior discoveries is questioned as being too tough.

The "metallic mineral sleeper" in Nunavut may be the cumulative impact of Wolfden Resources' VMS West Zone discovery at High Lake. Prior VMS discoveries as far away as Texasgulf's thirty year old Izok Lake discovery could be influenced if the West Zone continues to grow and satellite bodies are discovered at as yet un-drilled anomalies.

Successes in **British Columbia** are a reflection of greatly renewed activity in part due to the province having the second most liberal incentive programs for investors and "leverage" for field expenditures. The PDAC's count is perhaps again on the low side, primarily because in many cases companies are re-starting where they or others left off on what were "new" discoveries made some ten or more years ago.

Table A-2  
DISCOVERIES BY COMMODITY TYPE

Gold (31) – 46%  
Diamonds (25) – 37%  
Nickel/copper with high PGM tenors (7) – 10%  
Copper, zinc (lead) VMS with gold and silver credits (3) – 4%  
Copper/gold (2) – 3%

## APPENDIX B

### SUMMARY OF SOME PDAC TESTIMONY BEFORE WISE PERSONS' COMMITTEE

Calgary, Alberta, July 15, 2003

**Gregory Ho Yuen, Co-Chair, PDAC Securities Committee**

#### *The PDAC's Objectives*

The PDAC has sought securities reform which ensures "one set of rules consistently applied from coast to coast." Within this procedural framework, we have attempted to influence changes to the substance of securities laws to provide (i) the ingredients necessary to restore and maintain public confidence in the capital markets, and (ii) access to capital on a speedy, effective and cost efficient basis.

*How do you perceive the timeliness, responsiveness and flexibility of the current system in developing policies, rules and regulations and, where necessary, in revising or simplifying them to meet new circumstances?*

We believe that the evolution of new ideas has in some cases been relatively quick and very effective at the provincial level but not at the CSA level. For example, the 4 month hold period for securities placed under prospectus exemptions was an excellent idea. Initially introduced in B.C. it has spread to the other jurisdictions and is now a cornerstone to raise formation at the junior level. However, this concept took several years to migrate across the country.

I'll offer up two examples of where revision at the CSA level has bogged down. The first is National Instrument 54-101, the policy which now regulates communications between an issuer and its beneficial shareholders. This policy took about 4 years to enact and even then it was enacted in different stages across the country. The second example is the proposed policy on Integrated Disclosure which was first published by the CSA in 2000. Today, the draft BC legislation features a modified form of integrated disclosure known as Continuous Market Access while Integrated Disclosure seems to have foundered everywhere else – most notably in the draft Uniform Securities Legislation. In light of the divergence today between the BC Model and USL, it is obvious that the initial delay on integrated disclosure has had a ripple effect.

Our members feel despair when they look at the length of time that it takes for regulatory reform to be generated at the CSA level. Many fear that the slow pace and resulting compromises will kill the industry before it begins to enjoy the benefits they seek. Some of these members have concluded that the CSA is incapable of constructing a **substantive** legislation which fosters the formation of capital in a speedy and cost effective manner. Accordingly, they are willing to forego the obvious cost and efficiency advantages of a harmonized **framework** in order to have access to capital. I don't think that this means that

these members reject a single regulator. I think that their distrust of the CSA and provincial cooperation is a compelling argument for a single regulator as a framework provided that substantive law as administered by this single regulator recognizes the interests of junior issuers.

*Are there unique regional and local characteristics of capital markets across Canada that affect you? What regional and local requirements are met by the current structure and how? In particular do small and medium sized growth companies have unique needs and how does the current regulatory structure accommodate these needs?*

We have, to an extent, benefited from the favourable regulatory developments that originated on a regional basis and spread across the country. We are also an industry whose participants are generally located in Vancouver and Toronto. Our members face the same root issue: they don't have revenues so they require access to small amounts of public financing on a frequent basis. However, this doesn't mean that it is a regional industry or that the solutions to its problems are best solved on a regional basis.

We believe that the exploration industry is a national industry for several reasons. First, the issuers are resident in primarily BC and Ontario but they also exist in Quebec, Alberta, Saskatchewan and the Maritimes. Second, investors are resident in primarily in BC and Ontario but they also exist in Quebec, Alberta, Saskatchewan and the Maritimes. This means that issuers, regardless of their home jurisdiction, must raise financing in multiple jurisdictions – particularly as their projects advance. We don't accept the notion that certain provincial regulators should be charged with advancing the interests of certain industries or certain sized issuers because this implies that the other regulators are letting down companies or investors who reside in their jurisdictions. As well, we don't see why these so-called regional issues could not be handled by the local offices of a single regulator or by the office of a single regulator which is charged with administering the affairs of an industry or other issuer group.

The current regulatory structure does not address those needs. The fact that there are differences among the various jurisdictions means that local lawyers need to be retained to ensure that the terms of one offering are consistent and acceptable across the country. Where exemptive relief is required, there is additional uncertainty, cost and delay. As well, where exemptions exist in some jurisdictions but not in others, the available pool of investors differs from province to province.

There are also very few dealers available to serve the needs of the junior sector. I don't know whether the cumbersome dealer registration and compliance rules have brought this about but I'll make the observation. Several years ago, the industry seemed to be split between the bank owned dealers whose clients and internal cost structures led them to exclude small issuers and small financings from their list of targets and the independent dealers who served the niche fairly effectively, albeit for very high commissions. A number of small dealers seem to have disappeared and don't seem to have been replaced. If this is partly the result of regulatory barriers to entry, we urge the WPC to make recommendations that will ensure that investors and issuers have access to appropriate dealers and advisors.

*What would be the best securities regulatory system for Canada?*

I've given examples of the slow manner in which regulatory change has developed in the context of 13 regulators attempting to cooperate. I have also presented our view that the financing needs of mineral exploration industry and protection of its investors should not be considered a regional issue.

While this is clearly not our end goal, we recognize that the introduction of a “passport system” or some continuation of the mutual reliance system may be a necessary intermediate step. The political reasons for this are outside of our control. From a timing perspective, we recognize that it may result in the faster implementation of reform. Finally we recognize that it will enable us to enjoy some cost savings as a result of some level of integration and efficiency while we continue to enjoy the benefits of “regulatory competition” on a regional basis.

The end goal we advocate may not be attainable in one step for political and timing reasons but it should always be borne in mind. In our opinion the end goal, from a framework perspective, should be a regulatory system administered by one regulator overseeing one set of rules and applying them in a consistent manner. We believe that the end goal from a substantive perspective should have as its objectives (a) to ensure the public confidence in the integrity of the capital markets. This means the development of effective rules and tools for the aggressive enforcement initiatives. It also means the careful design of rules to ensure that issuers are obliged to make full disclosure of information that matters most. In our industry we believe that this has largely been achieved by NI 43-101 which addresses the nature and quality of technical and geological information disseminated. (b) access to capital for junior issuers. This means, initially, a conscious attempt to unify and liberalize the prospectus exemptions so that issuers, investors and securities dealers can get their financing transactions completed in a speedy and cost efficient manner. In the longer term we believe that this will require a revisitation of integrated disclosure and reconsideration as to whether hold periods will remain necessary and (c) a reduction in the duplication of filings, the elimination of filing fees and the simplification of the legislation.