

# Yukon Minerals Advisory Board

## 2003 Annual Report



The Board's primary objective is to help mold and encourage policy to ensure environmentally and socially responsible development of Yukon's superior mineral endowment

**Yukon Minerals Advisory Board  
April 2004**

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## Foreword

The Yukon Minerals Advisory Board [the Board] provides advice to Yukon Government on a variety of mineral resource related questions under the mandate outlined in Order in Council 1996/06 (Appendix A). The Board's primary objective is to help mold and encourage policy to ensure environmentally and socially responsible development of Yukon's superior mineral endowment. It is against this backdrop that the first annual report to the Minister of Energy, Mines and Resources and the Yukon Government legislature is presented.

Mineral wealth is identified by geological and geophysical reconnaissance, mapping, sampling and interpretation of the resulting data. The Yukon Geological Survey (YGS) publishes an array of sophisticated geological, geochemical and geophysical reports, widely accessed by the mining industry. The excellence of product delivered by the YGS and associated programs deserve high accolades and the Yukon Government is encouraged to continue its support of this valuable service. Greater access by the public to the YGS digital database will result in improved efficiency for academics, prospectors, and explorers.

Recent investment in mineral exploration and development in the Yukon has been significantly lower than comparable jurisdictions. Although exploration expenditures may reach \$25 million in 2004, it is the opinion of this Board that sustained investment of approximately \$50 million per year will be required to discover major new ore deposits in the Yukon. That such mineral wealth exists in the Yukon is not in dispute, it is merely a question of creating a business environment that enables and encourages responsible development of new discoveries.

Mineral exploration is a high risk and competitive business, and is commonly cyclic reflecting the capital and commodity markets. Worldwide mineral exploration is primarily focused where there exists permissive geologic terranes, sanctity of mineral title, and a commercial and permitting environment conducive to mine development on a competitive basis. Despite the presence of world class mineral deposits in the Yukon, recent new discovery rates are significantly lower than in adjacent jurisdictions with similar geological terranes. The Board is of the opinion that one of the significant contributing factors to this situation is uncertainty and difficulty related to the administration of the permitting process.

This Board feels compelled to sound a note of warning to the Yukon Government regarding the permitting issue. Within the mining community the Yukon is considered a costly, potentially difficult jurisdiction for investors due to the complexity and uncertainty of obtaining the requisite permits and licenses to advance a mineral discovery to development and production in a timely manner.

The Board supports sound environmental standards for the Yukon. However, the administration of the current permitting process to apply these standards is often cumbersome and complex. The Board considers that the disincentive created by the administration of the regulatory process impedes responsible development and sound environmental practices. The Board is further concerned that the administrative processes associated with the introduction of the *Yukon Environmental and Socioeconomic Assessment Act* (YESAA) may create an even greater disincentive. Government should not rely on new incentive programs to counterbalance these disincentives.

The Government is urged to immediately undertake a two phase program. First, appoint a group of knowledgeable government employees (project champions) to assist proponents

through the existing overly complex and uncertain permitting process and second, recognize that systemic problems exist in the administration of the permitting system and urgently develop a plan to reorient the process to improve efficiency. A focus on performance based standards, objectives and criteria needs to be established for project environmental and socioeconomic assessments.

The Yukon Minerals Advisory Board wishes to thank the Yukon Government for their continuing support of this Board. We respectfully submit this document and remain ready to assist the Government in all mineral resource related matters as appropriate.

Clynt Nauman, Chair

# Yukon Minerals Advisory Board

## 2003 Report to the Minister and the Yukon Territory Legislature

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## Executive Summary

### CURRENT RECOMMENDATIONS

The Board encourages the Minister and the Legislature to act on all the recommendations in this report, with special consideration being given to the following key recommendations:

- Increase the efficiency of permitting/licensing process
- Clarify the process for the implementation of YESSA
- Revise requirements for reclamation and closure plans to encourage contemporaneous reclamation and provide framework for annual review of security
- Support training opportunities for greater local employment in the mining sector
- Ensure consistent administration of the Yukon Quartz and Placer Mining Acts
- Continue to support the Implementation Steering Committee and Working Committee in the development of the “new regime” for the placer industry
- Take advantage of the renewed commitment by the federal government and initiate abandonment on appropriate Type II sites to facilitate final clean up and closure

### INDUSTRY OVERVIEW

Mineral exploration expenditures in Yukon rose to over \$13 million in 2003, nearly double the 2002 total. The increase in exploration was driven by an improved gold price and the increased activity of companies exploring for precious gems.

Gold exploration in Yukon focused mainly on intrusion-related gold systems within the Tintina gold province, which is comprised of several mineral-rich districts coincident with extensive regions of mid-Cretaceous plutonism. Exploration for base metals was directed mainly toward copper (with significant gold credits). The largest single exploration program in Yukon was a project in which \$2.1 million was invested to evaluate an emerald occurrence first discovered in 1998.

The number of projects involving diamond drilling did not increase in 2003; however, the total drilling footage (15,200 m) increased by 50% reflecting the ability of companies to raise enough funds to complete sizeable exploration programs. No percussion drilling was carried out in 2003. Claim staking in 2003 remained healthy with 3,571 claims staked, resulting in an increase in the number of claims in good standing to 44,022 (Burke, 2004).

The Yukon Placer industry averaged approximately 125 active operators and provided employment for over 600 people in the Yukon. During 2003 the Yukon placer industry produced a total of 50,865 raw ounces of gold (estimated value \$20.6 million), the lowest production since 1979. The uncertainty caused by the decision of Fisheries and Oceans Canada to revoke the Yukon Placer Authorization in December 2002 had a strong negative impact on investment in the industry. It is believed that this event contributed significantly to a 20% reduction in gold production from 2002, despite rising gold prices. It is clear that prompt development of the new regime to regulate the aquatic effects of placer mining will have a beneficial effect on the placer industry (McDougall, 2004 *personal communication*)

On April 1, 2003, responsibility for management of Yukon's mineral resources devolved from the Government of Canada (DIAND) to Yukon Government. With this change most DIAND employees transferred to Yukon Government (primarily to Energy, Mines and Resources). In this respect, 2003 was very much a transition year for resource management in Yukon. Reclamation activity continued at a number of sites in 2003 with more than \$2.5 million invested by industry to remediate active sites. Assuming activities were similar to 2001/2002, it is believed that more than \$15 million was spent by government on care and maintenance activities at Type II sites (Yukon Energy, Mines and Resources and Indian and Northern Affairs Canada, 2003).

The Yukon Chamber of Mines hosted the 30<sup>th</sup> annual Geoscience Forum, and conducted a focused review of the proposed YESAA regulations. The Chamber sees this work as critical to establishing a sustainable year-round mineral exploration and mining industry in the territory. The Board concurs with this focus.

In 2003, members of the Yukon Prospectors Association experienced increased activity primarily due to improved commodity prices and the Yukon Government's decision to grant claim holders a one year period of grace on filing of assessment credits.

## Recommendations related to functions of the Board

### *1. Reducing Constraints on the Responsible Development of Minerals and Mines*

#### 1 a) Efficiency/Organizational Structure of Government

The transfer of the federal government's Northern Affairs Program to the Yukon government took place on April 1, 2003. The Department of Energy, Mines and Resources, previously responsible for oil and gas, lands and agriculture has assumed the regulatory and management responsibility for forestry, lands and minerals from the Department of Indian Affairs and Northern Development.

The Yukon Government made some changes upon devolution with the intention of improving client services. These changes included:

- an integrated Lands counter that will also serve agriculture and combines former federal lands with YTG lands
- amalgamated Field Operations and Mining Inspections to create the Client Services and Inspections Division;
- Natural Resource Officers and Mining Inspectors in the district offices will inspect, monitor, enforce and ensure compliance for land use, forestry and mining regulatory requirements and
- Yukon Geological Survey (formerly Yukon Geology Program) will supply baseline geoscience information that will also support mineral and oil and gas exploration and development

The Department of Energy, Mines and Resources underwent the greatest reorganization, with the majority of the 254 federal employees transferring into the department. Equitable alignment of job levels and functions remains ongoing.

The Board notes that successful jurisdictions have organized government structure in such a way that the structure itself acts as an incentive to the resource industry. The Yukon government must ensure their structure is competitive. The Board has no evidence that the reorganization of the government as a result of devolution has provided any constraints on industry, yet it is premature to pronounce an improvement in government service delivery.

#### **The Board Finds and Recommends That:**

##### **Board Opinion:**

1. The Board recognizes the challenges facing the Yukon Government with devolution and applauds the intentions and the proactive approach to the reorganization.

**Recommendations:**

1. The Board reviews the efficiency of the post-devolution government reorganization after an adequate time period (at least one year of operation), and provides recommendations to Yukon Government to make the Department of Energy, Mines and Resources more efficient and competitive with other jurisdictions, as appropriate.

1 b) Permitting Efficiency

Within the mining community the Yukon is considered a costly, potentially difficult jurisdiction for investors due to the complexity and uncertainty of obtaining the requisite permits and licenses to advance a mineral discovery to development and production in a timely manner.

While the Board supports sound environmental standards for the Yukon, the administration of the current permitting process is often cumbersome and complex. The Board considers that the disincentive created by the administration of the regulatory process acts as an impediment to both responsible development and to implementation of sound environmental practices. The Board is further concerned that the administrative processes associated with the introduction of the *Yukon Environmental and Socioeconomic Assessment Act* (YESAA) may create an even greater disincentive. Government should not simply rely on new incentive programs to counterbalance disincentives.

At present there are numerous projects stalled in the permitting process and still others have simply abandoned efforts.

The Yukon Government is currently working on a protocol (previously the "Blue Book") to strengthen the cooperation between government agencies that interact with the Water Board. In addition Yukon is finalizing an internal cooperation agreement between appropriate departments for the management of the *Yukon Waters Act*.

**The Board Finds and Recommends That:**

**Board Opinion:**

1. The Yukon is not on a level playing field with other jurisdictions. The administration of the permitting process is slow, uncertain, oftentimes duplicative and internally conflicting in terms of requirements and departmental responsibilities.
2. Uncertainty and difficulty related to the permitting process is one of the significant contributing factors to the decrease in new discoveries in Yukon.
3. The administrative processes and the implementation of the *Yukon Environmental and Socioeconomic Assessment Act* (YESAA) may create a greater disincentive.

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| <b>Recommendations:</b> |
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| <ol style="list-style-type: none"> <li>1. Energy, Mines &amp; Resources (EMR), Executive Council Office (ECO) and Dept. of Environment (DOE) immediately form a technically competent group to partner with Industry to internally coordinate, manage and champion projects through the Yukon permitting/licensing process.</li> <li>2. EMR, ECO and DOE correct systemic problems existing in the administration of the permitting system and urgently develop a plan to redirect and reorient the process to improve efficiency.</li> <li>3. EMR, ECO and DOE implement a regulatory paradigm shift away from the current prescriptive process-driven permitting process and toward a performance driven (standards and criteria) best management practices approach.</li> <li>4. Ensure uninterrupted processing of projects through <i>Yukon Environmental Assessment Act</i> (YEAA) until YESAA Board and offices can effectively assess projects, regardless of implementation date.</li> <li>5. Develop process for adaptive review of YESAA during implementation.</li> </ol> |
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1 c) Reclamation Bonding

Current regulations are out of step with other jurisdictions, and with the Industry in general. Due to reduced risk tolerance of financing institutions, it is highly unlikely that any mining or exploration Company working under the current regulations in the Yukon could post a bond without providing (either directly or indirectly) 100% cash collateral.

Yukon Government in 2003 committed to adopting a revised reclamation and closure bonding policy before the end of 2004. It is the understanding of the Board that this work is ongoing.

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| <b>The Board Finds and Recommends That:</b> |
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| <b>Board Opinion:</b> |
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| <ol style="list-style-type: none"> <li>1. Posting 100% cash collateral for bonding is a disincentive to investment and exploration in Yukon.</li> <li>2. Progressive reclamation can be encouraged by timely review and adjustment of bonding amounts.</li> </ol> |
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| <b>Recommendations:</b> |
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| <ol style="list-style-type: none"> <li>1. Investigate alternative methods and facilities/instruments to secure reclamation liabilities.</li> <li>2. Develop framework for annual project review of reclamation and closure liabilities.</li> <li>3. Develop reclamation security release structure.</li> </ol> |
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1 d) A Note on Type II Sites

The remediation of Type II sites is an important concern in the Yukon. A Type II site is defined as a major mine site which, if abandoned without proper closure, could pose substantial financial liability to government. In 2001 and 2002, over \$15 million was spent annually on the care and maintenance on four sites in the Yukon (Yukon Energy, Mines and Resources and Indian and Northern Affairs Canada, 2003). Based upon these numbers, it was believed that close to \$15 million was also spent in 2003. Total reclamation of these sites was estimated by the Auditor General of Canada to be over \$250 million in 2002 (Yukon Energy, Mines and Resources and Indian and Northern Affairs Canada, 2003). A joint project office between the Federal Government and YTG has been established to coordinate the work related to Type II sites. In general, YTG has the regulatory and enforcement responsibilities for Type II sites, while Canada retains financial responsibility.

Considerable interest has been voiced by the mining industry in respect of renewed exploration/development investment in various Type II Sites in the Yukon and the areas surrounding them. However, as the Yukon has already experienced, the possibility is remote that a mining or exploration company would shoulder the entire historical liability attached to any particular Type II Site. Canada has the responsibility for historical liability at these sites but must first, presumably with the concurrence of the Yukon Government, move the properties to "abandoned" status.

In the February Throne Speech, Prime Minister Martin emphasized a further commitment of the Government of Canada to fund remediation of abandoned mine sites (Type II Sites) in Canada.

**The Board Finds and Recommends That:**

**Board Opinion:**

1. Yukon Government has an ideal opportunity to set in motion a process to clean up environmental problems at selected Type II sites, and stem the long-term flow of maintenance dollars.
2. Protracted maintenance and closure activities at selected Type II sites casts a negative image on industry.
3. Clean up of the sites could unlock asset values and renew investment by the mining industry in these important mineral districts.
4. Government may incur inflated care and maintenance and closure costs at Type II sites, thus setting an unrealistic precedent for future bonding requirements.
5. Recognize that appropriate technical remediation expertise exists in private industry.

**Recommendations:**

1. Yukon Government take advantage of the renewed commitment by the federal government and move forward to initiate the abandonment process for appropriate Type II sites in the Yukon.
2. Exercise fiscal restraint by moving more expeditiously from care and maintenance to remediation and closure activities.

### **1 e) Administration of *Yukon Quartz Mining Act* and *Yukon Placer Mining Act***

For nearly a century, the *Yukon Quartz Mining Act* and the *Yukon Placer Mining Act* have provided certainty of mineral tenure for the mining industry, an essential component of a healthy industry. Both Acts take their legislative lineage from the *Dominion Lands Act* of 1886, which itself drew upon experiences in other jurisdictions such as California and Australia. The Yukon's legislative system of disposing of mineral title, while viewed by some as archaic and complicated, nevertheless provides a platform of legal certainty upon which major investment can confidently be made.

Upon devolution, April 1, 2003, the Yukon Government became responsible for administration of the Yukon Quartz and Placer Mining Acts.

#### **The Board Finds and Recommends That:**

##### **Board Opinion:**

1. There is inconsistent application and interpretation of the Acts between the four mining districts in Yukon.
2. Previous practices with respect to administration of the Acts are being changed, without notice being provided to clients about system changes.

##### **Recommendations:**

1. Develop policy to ensure consistent administration of the Acts across mining districts.
2. Board monitor and review the administration of the Acts after an adequate time period following devolution (at least one year of operation), and provide recommendations to Yukon Government that would make the system more consistent and client friendly.

### 1 f) Development of a New Regime to Manage Placer Mining in Yukon

A "Record of Agreement" was signed in summer 2003 between the Department of Fisheries and Oceans, Yukon Government and Council of Yukon First Nations that establishes a process for developing a new regime to regulate placer mining. The committees, which include Klondike Placer Miners Association, are expected to propose a new framework by April 2004, for implementation before 2007. The framework is to be consistent with the regulations and policies of the federal Fisheries Act.

The current process establishes two committees to undertake this work: an Implementation Steering Committee (ISC) led by Senator Ione Christiansen; and a Working Committee (WC) directed by the Steering Committee. The new framework will ensure that the important fishery values in Yukon remain protected while allowing the important economic activity of the placer industry to continue. It will also ensure that the interests and concerns of the First Nations are considered in the formation of the framework.

**The Board Finds and Recommends That:**

**Board Opinion:**

1. The uncertainty created by the year-to-year application of the YPA at Minister DFO's discretion is a disincentive to investment in the placer industry.
2. The Yukon Placer Industry is an important and integral part of the Yukon social and economic landscape.

**Recommendations:**

1. Continue to support the ISC/WC at the highest levels of staff and funding to accomplish the tasks required to have the new framework outlined to the Minister in early 2004.
2. Recognize the high level of regulation of the placer industry and compliance of the industry to these regulations.
3. Commit to a steady and fair phase-in of the new regime to meet the 2007 implementation date.

1 g) Background and Status of Regional Land Use Planning

The process for undertaking regional land use planning in the Yukon is set out in Chapter 11 of First Nation Final Agreements. It is a multi-party process involving the Yukon Land Use Planning Council, the Yukon Government, affected Yukon First Nations, and Regional Land Use Planning Commissions.

The Yukon Land Use Planning Council (a three person board consisting of members nominated by the Yukon Government, Canada, and the Council of Yukon First Nation) is responsible for making recommendations to Government and each affected First Nation on policies, goals and priorities for land use planning; the identification of planning regions and boundaries for planning areas; General Terms of Reference for Regional Land Use Planning Commissions; other matters as Government and affected First Nations may agree. The Council also has a role, through its Secretariat, in assisting Commissions in developing regional land use plans.

**The Board Finds and Recommends That:**

**Board Opinion:**

1. The implication of the land use planning process in Yukon and how it will affect or restrict mineral exploration is unclear to the mineral industry at this time.

**Recommendations**

1. Board monitor the land use planning process and make recommendations at a future date.

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## ***2. Increasing Mineral Exploration and Development in the Yukon***

### 2 a) Yukon Mining Incentives Program (YMIP)

The Yukon Mining Incentives Program (YMIP) is designed to promote and enhance mineral prospecting, exploration and development activities in the Yukon. In the last 10 years this program has resulted in at least 10 significant discoveries, including new occurrences of beryl, gold and base metals. The program's function is to provide a portion of the risk capital required to locate and explore mineral deposits. The annual program is discretionary and reviewed each year in the government's budget. The program is open and available to all prospectors and exploration companies interested in exploring in Yukon.

The program contains four modules:

#### **1. Grassroots - Prospecting**

Qualified prospectors may apply for a contribution of up to \$10,000 per year to cover basic operating expenses while searching for new mineral occurrences in the Yukon. 100% of approved expenses are reimbursed.

#### **2. Grassroots - Grubstake**

Companies or individuals providing prospectors with a grubstake (basic operating expenses while searching for new mineral discoveries in the Yukon) may apply for a contribution of up to \$10,000 per prospector, per year. 75% of approved expenses are reimbursed.

#### **3. Focused - Regional**

Individuals, partnerships or junior companies undertaking basic exploration work directed at appraising the potential of an under explored area may apply for a contribution of up to \$15,000 per year. 75% of approved expenses are reimbursed.

#### **4. Target Evaluation**

Individuals, partnerships or junior companies undertaking basic exploration work directed at appraising the potential of an unevaluated occurrence or target may apply for a contribution of up to \$20,000 per year. The intent of this funding is to allow prospectors to evaluate new occurrences following discovery and to prepare them for option or sale. 50% of approved expenses are reimbursed.

Applications for YMIP grants are submitted annually (usually due March 1<sup>st</sup>) and evaluated by qualified personnel in the Mineral Development Branch of Energy, Mines and Resources. Strong competition for the grants has resulted in a substantial increase in the quality of the applications received in recent years. A comprehensive report on each grant program is a condition of receiving the grant. These reports become public after a period of two years.

The total budget for contributions in 2003/04 was \$728,000. The total value of accepted applications is approximately 20% higher than the allocated budget to accommodate applicants that don't complete approved programs.

| YMIP Program Summary 2003/04<br>(updated to Jan. 31, 2004) |                 |                   |
|--|-----------------|-------------------|
| NAME   | AMOUNT APPROVED | STATUS            |
| <b>Grassroots projects</b>                                 |                 |                   |
| 9 successful applications (\$10,000 each)                  | \$ 90,000       | 1 withdrawn       |
| <b>Focused Regional projects</b>                           |                 |                   |
| 18 successful applications (\$15,000 each)                 | \$ 266,500      | 2 withdrawn       |
| <b>Target Evaluation Projects</b>                          |                 |                   |
| 34 Successful applications (up to \$20,000 each)           | \$ 630,500      | 8 withdrawn       |
| <b>Grand Total:</b>  |                 | <b>\$ 987,000</b> |

(Yukon Energy, Mines and Resources, 2004).

Between 1988 and 2001, a total of \$9.7 million dollars was awarded through the YMIP grant program, which generated an additional \$16 million dollars being expended on exploration in Yukon.

#### The Board Finds and Recommends That:

##### Board Opinion:

1. The program has been successful in stimulating prospecting and exploration activities in Yukon.
2. Due to competition for grants, the quality of applications and proposed projects has improved.

##### Recommendations:

1. Continue to fund the YMIP in the amount of at least \$700,000 annually.
2. Monitor and adjust the balance between the various categories offered within the program based upon industry conditions.

#### 2 b) Geological, Geophysical & Geochemical Programs

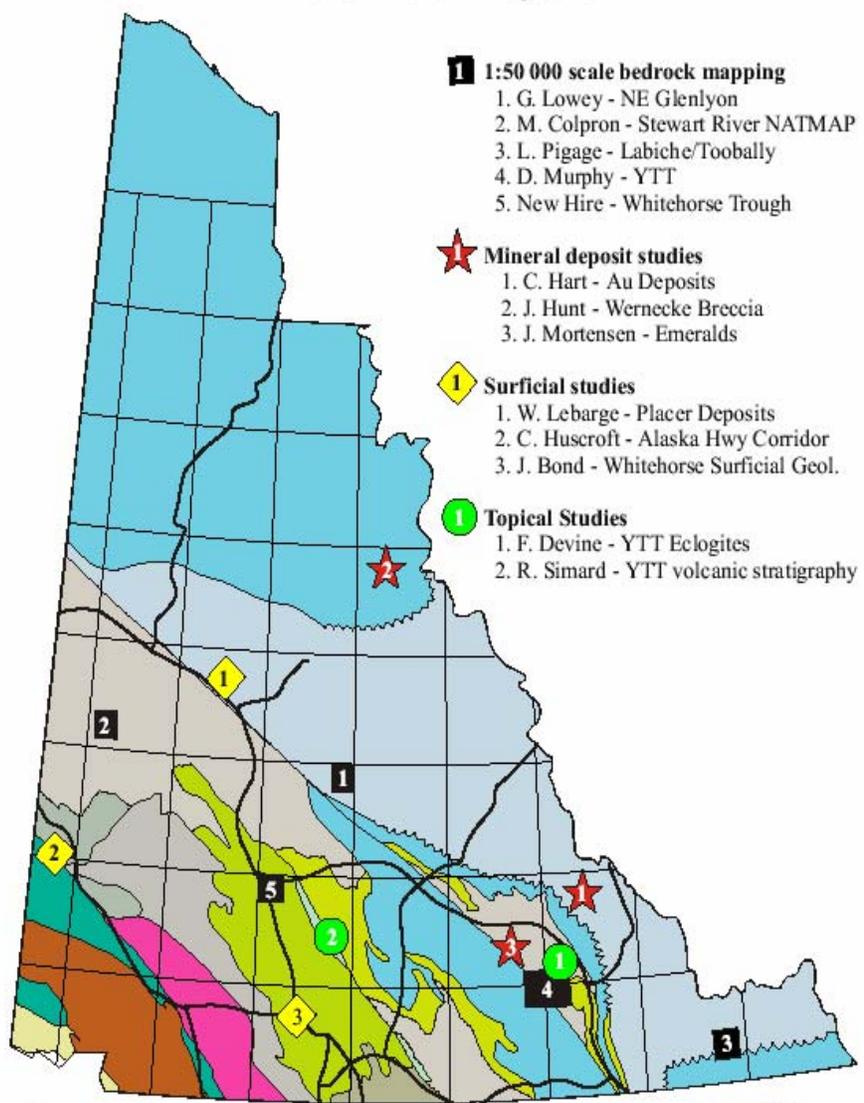
The Yukon Geological Survey's mandate is to build, maintain and communicate the geoscience and technical information base required to enable stewardship and sustainable development of the Territory's energy, mineral and land resources. The Survey contributes significantly to the geoscience knowledge base by collecting, compiling and distributing scientific and technical information on the geology and mineral deposits of the Territory.

Most of the survey's publications and databases are available for download, free of charge, over the Internet. Comprehensive, up-to-date databases include regional geology, regional stream geochemistry, mineral deposits, placer deposits, and mineral claims. These datasets can also be viewed on-line in the Map Gallery, the Survey's interactive map server.

Metallogenic summaries of the principal Yukon mineral deposit types are also available as 11" x 17" 'placemaps' and as summary articles.

The work of the Survey is reviewed by a Technical Liaison Committee that includes private sector and government agencies who have an interest in advancing knowledge about Yukon mineral resources.

## 2003 Field Projects



**Yukon**  
Energy, Mines and Resources

**YUKON**  
GEOLOGICAL SURVEY

**The Board Finds and Recommends That:**

**Board Opinion:**

1. Excellence of Yukon database is widely recognized.
2. Change in Technology and Programs required to access data and utilize databases are not readily available to all Yukoners.

**Recommendations:**

1. Minister of Energy, Mines and Resources in Yukon maintain a high profile for requests for funding requests from federal government for geological, geochemical and geophysical programs in Yukon.
2. Continue through the Technical Liaison Committee and other venues to review the effectiveness and delivery of Yukon Geology Program.
3. Yukon Government consider establishing public computer stations and programs to allow wider access to the excellent database.

### *3. Ensuring Capital Investment Attractiveness for the Exploration and Development of New Mines*

#### 3 a) Enhanced Northern Credit

In October, 2000, the federal government introduced a 15 percent federal Investment Tax Credit for Exploration (ITCE) targeted for flow-through share investors in "grassroots" exploration projects. The provinces of British Columbia, Saskatchewan, Manitoba and Ontario have offered harmonized provincial tax credits (20%, 10%, 10%, 5% respectively) for flow-through share investors, available only to taxpayers resident in those provinces.

The three northern Territories do not have the population base to offer harmonized credits for flow-through share investors. Because the Territories do not have sufficient resident investors, other mechanisms are required to compete.

An analysis commissioned by Yukon, NWT and Nunavut, and carried out by BDO Dunwoody in 2001 suggests that an enhanced northern flow-through program was the best mechanism to compete with the provinces in attracting exploration investment. A modest supplementary tax credit of 5% for exploration work carried out "north of sixty" would deliver the same tax benefit to an investor as a British Columbia or Ontario based project.

Yukon secured support from the Finance and Mines Ministers in NWT and Nunavut and Prospectors and Developers Association (PDAC) of Canada in 2002. A response from the federal Finance Minister to northern Minister's was non-committal and inconclusive. There has been no follow up to this.

The provinces are expected to object to a supplementary tax credit north of sixty since they would lose their tax advantage to attract investors. Federal Finance is expected to resist a proposal for special tax treatment on a regional basis, citing inconsistencies with current policy and implications for precedent.

The report "Tax Credits for Mineral Exploration Flow-Through Shares - An Evaluation of the Investment Tax Credit for Exploration in Canada and Related Provincial/Territorial Tax Incentives for Exploration" was presented at the 2002 Mines Ministers Conference in Winnipeg. This report acknowledged the different circumstances in the north and recommended further study on an enhanced northern credit. No progress has been made by the industry/government working group on the taxation issues since.

In February 2003, the Federal government extended the ITCE for one year. PDAC requested a three year extension to the ITCE program at the 2003 Mines Ministers Conference held the end of September 2003. Subsequently, the Federal Government has extended ITCE through December 31, 2005. The PDAC estimates flow-through share financings have raised \$450 million between October 2000 and June 2003.

**The Board Finds and Recommends That:****Board Opinion:**

1. The concept of an enhanced northern credit tax is an important issue and the Board has established a working group to focus on the topic.

**Recommendations:**

1. Enhanced northern tax credit needs to be further investigated and supported with appropriate resources.

## 3 b) Yukon Mineral Exploration Tax Credit (YMETC)

The Yukon government introduced the YMETC in 1999 as an incentive to help stimulate the mining exploration sector. The YMETC is a refundable corporate and personal income tax credit of 25% of eligible mineral exploration expenditures claimed by eligible individuals and corporations conducting off-mine-site exploration in the Yukon.

| <b>YMETC HISTORICAL PARTICIPATION</b>  |                           |              |                             |                                |                               |
|--|---------------------------|--------------|-----------------------------|--------------------------------|-------------------------------|
| Prepared February 6, 2004 by Revenue Services<br>(Based on Final Determination Figures provided by Finance Canada) |                           |              |                             |                                |                               |
|  | <b>ACTUAL<br/>\$000's</b> |              |                             | <b>PRELIMINARY<br/>\$000's</b> | <b>FORECASTED<br/>\$000's</b> |
| <b>CALENDAR YEAR YMETC<br/>RECOGNIZED</b>  | <b>1999</b>               | <b>2000</b>  | <b>2001<br/>March/April</b> | <b>2002</b>                    | <b>2003</b>                   |
| <b>Eligible Credit Rate in Calendar<br/>Year:</b>  | <b>22%</b>                | <b>22%</b>   | <b>22/25%</b>               | <b>25%</b>                     | <b>25%</b>                    |
| T1 - Personal Tax  | 96                        | 104          | 86                          | 113                            | 125                           |
| T2 - Corporate Tax   | 1,181                     | 1,737        | 1,864                       | 1,533                          | 3,300                         |
| <b>TOTAL YMETC</b>   | <b>1,277</b>              | <b>1,841</b> | <b>1,950</b>                | <b>1,646*</b>                  | <b>3,425</b>                  |
| Estimated Eligible Mineral<br>Expenditure claimed on Personal<br>Tax Returns                                       | 436                       | 475          | 356                         | 453                            | 500                           |
| Estimated Eligible Mineral<br>Expenditure claimed on Corporate<br>Tax Returns                                      | 5,366                     | 7,898        | 7,686                       | 6,133                          | 13,200                        |
| <b>TOTAL ESTIMATED ELIGIBLE<br/>MINERAL EXPENDITURE</b>  | <b>5,802</b>              | <b>8,373</b> | <b>8,042</b>                | <b>6,586</b>                   | <b>13,700</b>                 |

*\*final figures for 2002 are likely higher since the processing of some claims is delayed.*

In early 2004, the Yukon Government extended the YMETC until April 1, 2007. One factor in this decision is the strong indication by companies that the YMETC positively influences their decision to invest in exploration in the Yukon. In addition, an extension beyond the usual one year provides the industry with better stability for planning and also allows for strategic marketing of this credit to attract future investment.

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**The Board Finds and Recommends That:**

**Board Opinion:**

1. The majority of funds returned to applicants are reinvested in Yukon.
2. During periods of scarce exploration funding, the program has been successful in keeping companies in Yukon.
3. The “residency” issue, which is fundamental to qualification for the program, is confusing to companies.

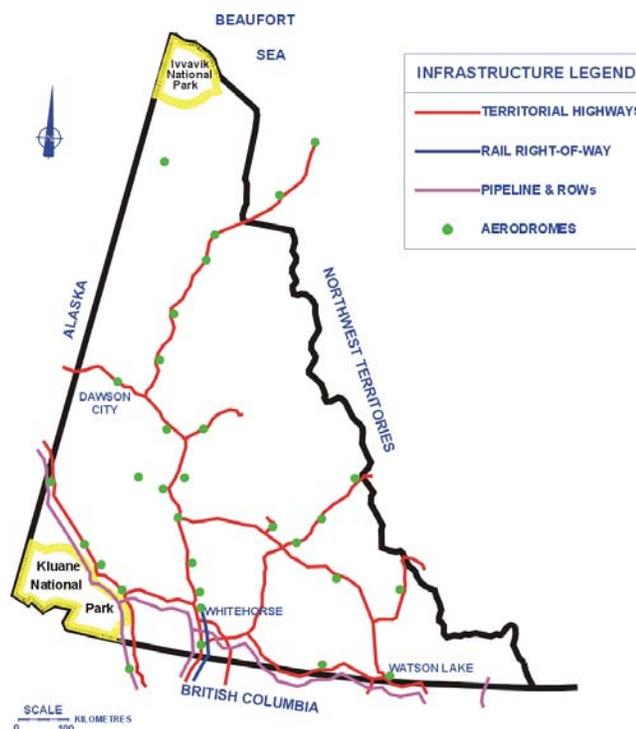
**Recommendations:**

1. Yukon Government continue with the YMETC and in early 2006 review the program with respect to further extending it on a multi-year basis.
2. Yukon Government clarify the “residency” issue.

## 4. Improving the Potential for Producing Mines to Remain Viable

### 4 a) Access & Infrastructure

#### Status of Infrastructure in Yukon



Source: Government of Yukon, Transportation Engineering

#### Highway Infrastructure

The Yukon is served by an extensive, modern highway system as seen in the figure above. The highway system is maintained and operated by the Yukon Government and includes nearly 4,700 kilometres of roads and more than 140 bridges.

#### Rail Infrastructure

A narrow gauge rail from Skagway, Alaska, connects Whitehorse to year round ice-free port facilities. The system has not been used commercially within Yukon in over 15 years and now serves only as a tourist railway from Skagway to Canada Customs at Fraser, B.C. and occasionally to Carcross, YT.

Recent U.S. political support for the construction of a route through the Yukon has resulted in the passage by the U.S. Congress of the *Rails to Resources Act* (2001), and discussions between Canada and the U.S. have begun with respect to possibly conducting a joint International Commission to study the feasibility of the rail connection. The Commission has not yet identified potential rail routes.

In recent months, there is renewed attention to this initiative by the Yukon Premier, Dennis Fentie and by Alaska Governor, Frank Murkowski. Attempts are now being made by the Alaska and Yukon governments to persuade their respective federal governments to fund a feasibility study.

Yukon is proceeding with work to strengthen the justification case for a feasibility study.

### **Port Infrastructure**

Port access is critical to Yukon's mineral industry - particularly important for the economical shipping of bulk commodities, such as concentrates from base metal mining and milling. The ports in Skagway and Haines, Alaska, play a pivotal role in the economic evaluation of Yukon deposits.

The Territory has long counted year round access to deepwater ocean ports among its most important attractants for investment in the mining industry. During the recent downturn in Yukon's mining industry, developments to accommodate additional cruise ship docking at Skagway may threaten that competitive edge.

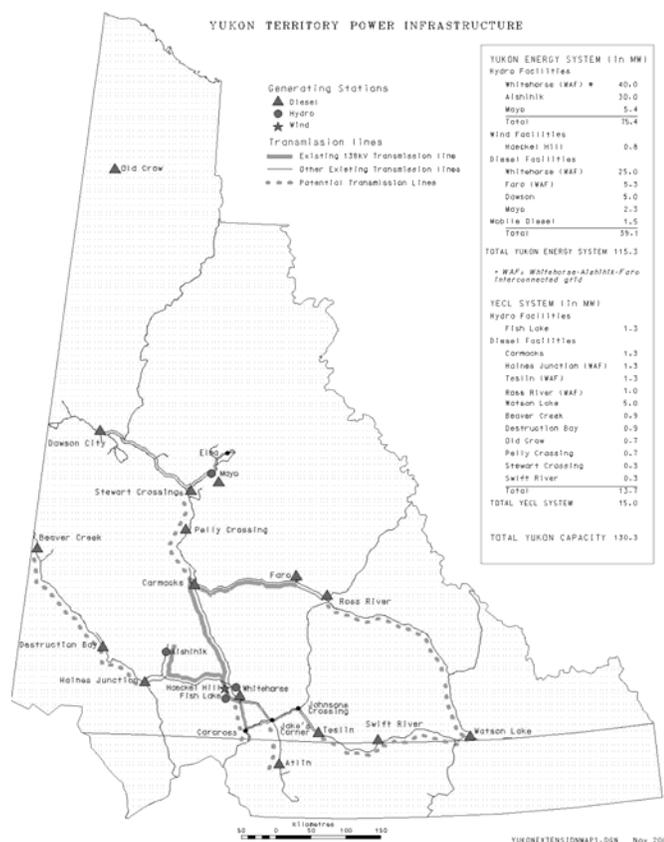
The ore-storage facility in Skagway is owned by the Alaska Industrial Development & Export Agency (AIDEA). The facility has been removed due to deterioration from rust. The foundation, ore-loading conveyor and support buildings remain on site.

### **Electrical Transmission Lines**

Yukon's electric power generation, transmission and distribution systems are relatively undeveloped (approximately 130 MW total capacity) and are not connected to the North American power grid (Yukon Energy Corporation, 2001). Yukon's main transmission grid (138 kV) connects power generation facilities at Whitehorse and Aishihik with communities in Yukon between Whitehorse and Faro. A sub-transmission line (34 kV) extends south from Whitehorse to Carcross and Teslin. A new 69 kV line has recently been completed connecting Dawson to the Mayo hydroelectric facility. A potential line to connect the two grids (Carmacks to Stewart Crossing) is currently being assessed.

The potential for new sources of electrical power generation in Yukon, including hydroelectric, wind, natural gas and possibly coal, is considered to be favourable. Factors influencing expansion of Yukon's grid and the development of new sources of electrical power would primarily be driven by industrial expansion in the Yukon. The following map, which provides summary information about the capacity and the location of Yukon's power generation and distribution systems, is reproduced with the permission of the Yukon Energy Corporation.

## Electric Power Facilities in the Yukon (used with permission of YEC)



## Pipelines

The Yukon currently has one existing gas pipeline, the 20" Kotaneelee gas pipeline, in the extreme southeast corner of the Yukon. It extends approximately 21 km. from Devon Energy's Kotaneelee Gas Field, to the Yukon border, thence approximately 157 km. to connect to the main North American gas pipeline system.

In the late 1970's and into the early 1980's Foothills Pipelines Ltd. conducted an exhaustive environmental and engineering study on a proposed route for a large diameter pipeline to convey Alaskan gas to the south. This route is known as the Alaska Highway route, which has been through national environmental permitting and is protected by a surveyed legal Right-of-Way. Foothills has also conducted similar work for a possible small diameter Dempster lateral line from the Eagle Plains field to the Alaska Highway line, connecting near Whitehorse.

**The Board Finds and Recommends That:**

**Board Opinion:**

1. Uncertain access to a deepwater port and infrastructure is a serious impediment for future base metal, coal and iron ore mineral development in the Yukon.
2. Construction of an energy related pipeline system will benefit resource development in Yukon.

**Recommendations:**

1. Pursue bilateral agreements with Alaska for deepwater port access and a railway line.
2. Lobby Ottawa for the railway line and continue to pursue access to either of the ports.

## 5. Participation by Yukon Residents in Mining Sector

### 5 a) First Nation Industry Involvement or Opportunities Initiative

The Yukon can, and should, make clear its unique position in Canada as having nearly completed its aboriginal land claims. As other Canadian jurisdictions enter into a potentially protracted period of uncertainty with respect to land ownership arising from assertion of aboriginal land claims, the Yukon is emerging with a positive relationship with First Nations as a result of bringing the Yukon Indian Land Claim to a satisfactory conclusion. The mining industry recognizes the importance of the settlement of the land claims and working together with First Nations on mineral related issues.

A First Nations Mineral Exploration and Development Symposium held in Whitehorse in March 2003, was a successful cooperation between the Yukon Chamber of Mines, the Council of Yukon First Nations and industry. Financial support was provided by the Yukon Government, other federal programs and industry sponsorships. There was strong consensus that more regular symposia were required. The second First Nations Mineral Exploration and Development Symposium was held March 30-31, 2004.

### The Board Finds and Recommends That:

#### Board Opinion:

1. Industry/First Nation partnerships are a commonly supported business practice in the mining industry.
2. Clarification and cross-cultural understanding are required for successful partnerships, benefit agreements and other commercial arrangements.

#### Recommendations:

1. First Nations Mineral Exploration and Development Symposium become an annual event supported by Yukon Government.
2. Recognize that partnership agreements between industry and First Nations are best negotiated as bilateral agreements, i.e. without government involvement.

### 5 b) Exploration Training

Yukon's once skilled and available workforce has dwindled since the early 1990's. During the 2003 exploration season, all sectors of the exploration industry had difficulty locating experienced field crews.

A proposal for a training program was completed but not implemented in 2003 primarily due to time constraints. This proposal has been reactivated and expanded and a training program consisting of classroom and field training is scheduled for mid-April to late-May 2004. The program will provide up to 75 Yukon residents with the necessary entry skills for employment in the exploration sector. The Department of Energy Mines and Resources is providing funding through the Yukon Mining Exploration Training Trust Fund.

**The Board Finds and Recommends That:**

**Board Opinion:**

1. Industry recognizes the decline in skilled exploration workers and expresses caution amidst the current optimism for the industry.

**Recommendations:**

1. Continue to support training opportunities and greater local employment /labour force development in the mining sector within the Yukon.
2. Graduates of the training program be considered “qualified” prospectors for the purpose of Yukon Mining Incentive Program.

## 6. Public Education Initiatives

### “Mineral industry support begins at home”

As markets demand more mineral and energy resources, economic pressure is on the minerals industry to develop those resources. At the same time, our citizens demand an environment that is appropriate for other uses, such as subsistence and recreation. Long-term support of a responsible mineral industry by the public can be encouraged through balanced and effective education in all levels of primary and secondary schooling in Yukon as well as balanced public education.

*Rock On Yukon* was an educational unit developed between the Yukon Chamber of Mines and interested teachers. Activities within the unit are written in a format which can be followed as a self directed activity card or centre by the older primary student, or followed as a class for the younger primary student.

The *Rocking-in-Yukon* educational publication, which is updated each year, provides general interest information about the mineral industry to teachers in the school system or any interested Yukon resident.

Yukon Geological Survey staff regularly provides materials, presentations and field trips for students as requested. “Mining Week” is planned for May. This is an annual weeklong series of events that focus on public education and awareness of the mineral industry.

Yukon Government Mineral Development has recently entered into a cooperative agreement with the Klondike Placer Miners Association to create and publish a regular series of articles in cooperation with the Yukon Geological Survey designed to provide factual information to the public about the mineral industry.

### The Board Finds and Recommends That:

#### Board Opinion:

1. Long-term support of a responsible mineral industry by the public can be encouraged through balanced and effective public education.

#### Recommendations:

1. Continue financial support for the *Rock On Yukon* and *Rocking-in-Yukon* programs and publications.
2. Continue to support and develop additional public awareness campaigns through the various Yukon media.



## References

Burke, M., 2004. Yukon Mining, Development and Exploration Overview, 2003. *In: Yukon Exploration and Geology 2003*, D.S. Emond and L.L. Lewis (eds.), Yukon Geological Survey, p. 2-26

Yukon Energy Corporation (2001); 2000 Annual Report

Yukon Energy, Mines and Resources and Indian and Northern Affairs Canada (2003); Type II Mine Sites under the Devolution Transfer Agreement

Yukon Energy, Mines and Resources website: [www.emr.gov.yk.ca](http://www.emr.gov.yk.ca)



Appendix A: Order in Council Creating the Yukon Minerals  
Advisory Board



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## Terms of Reference Yukon Minerals Advisory Board

### Organization

#### *Authority*

The Board is established under the *Economic Development Act* to advise the Minister of Energy, Mines and Resources on mineral development matters in accordance with these terms of reference.

#### *Mandate of the Board*

The Board shall:

- Make recommendations on specific matters referred to it from time to time, by the Minister;
- Undertake other initiatives, such as conferences and public workshops on mineral development matters, as requested by the Minister; and
- Make recommendations to the Minister to fulfill the objectives of the Board.

The Board shall table with the Legislature an annual report for the previous calendar year by May 1<sup>st</sup>. Matters to be addressed in this report include activities of the Board and, on the request of the Minister, recommendations on matters referred to it in the previous year.

#### *Objectives of the Board*

The Board shall recommend to the Minister measures, including government actions to:

- increase the potential for mineral exploration and development in the Yukon;
- attract capital for the exploration and development of new mines;
- ensure that mines can be developed feasibly and in a timely fashion;
- improve the potential for producing mines to remain viable;
- enhance Yukon participation in mining;
- reduce constraints, including government constraints, on the development of minerals in the Yukon; and
- outreach with first nations to explore the opportunities and benefits of mineral exploration and development in the Yukon.

#### *Duration of Mandate*

The Yukon Minerals Advisory Board will be subject to review after five years, in 2005, to determine its continuance, according to policy objectives and priorities at that time.

#### *Makeup of the Board*

The Board consists of the following representatives:

- Member of the Yukon Chamber of Mines;
- Member of the Klondike Placer Miners Association;
- CEO or senior managers of companies with Yukon mineral exploration projects and/or mines;
- CEO or senior managers of junior mining sector;
- Representatives of national mining associations;

- Other individuals who have at least five years experience in various aspects of the minerals industries.

The Board will consist of no more than 10 members.

Members will be appointed by the Minister of Energy, Mines and Resources. Appointments shall have a duration of up to 2 years, and terms can be renewed by the Minister.

The Minister shall appoint one member of the Board to serve as chair, for a period of two years. Such terms can be renewed by the Minister.

#### *Secretariat*

Secretariat services and other support as required, will be provided by Department of Energy, Mines and Resources. The secretariat will provide certain analytical, technical and administrative services necessary for the effective operation of the Board. Direction of the secretariat will normally be provided by the Chair.

Independent recording and minute-taking services will be provided for by the Department of Energy, Mines and Resources.

#### **Proceedings**

##### *Meetings*

The Board will meet, at minimum, once a year.

##### *Quorum*

A majority of the Board, including the Chair, constitutes a quorum.

##### *Conflict of Interest*

A member of the Board will not be considered to have a material conflict of interest if:

- The member has a financial interest in a mining company operating in the Yukon;
- The member has an interest in a mining company receiving financial assistance from government in association with a mineral exploration or development project;
- The member receives financial assistance from government in association with a mineral exploration or development project;
- The member has an interest in a mining company or property with regulatory applications and authorizations under consideration by the Yukon government.

##### *Board Procedures*

The Board may establish procedures and rules governing the conduct of its business.

##### *Public Access*

The minutes or other form of record of Board meetings shall be available to the public.