



**Securing a Future
for the
Minerals Industry
in the
Northwest Territories**

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Securing a Future for the Minerals Industry in the Northwest Territories

Thank you for the invitation to speak to you today at the Annual General Meeting of the NWT Chamber of Commerce. In this talk I will highlight the minerals industry in the NWT today, emphasize some positives and identify some causes for concern about the future of the minerals industry in the Northwest Territories. I will also talk a little about Canadian Zinc Corporation's Prairie Creek Mine Project and the business and economic and employment opportunities it will provide.

The minerals industry is the backbone of the economy of the Northwest Territories and always has been. Whether it will continue to be in the future is another question and is not guaranteed.

The minerals industry contributes significantly to the economy of the Northwest Territories. It is a major sector of direct and indirect employment, providing over 2,500 direct jobs. The Territories three diamond mines provide approximately 3,000 person years of employment.

The value of annual mineral production in NWT has increased from about \$400M in 1998 to over \$2 billion in 2008 and 2009. The contribution from mining to the Northwest Territories is estimated at about 50% of the NWT's GDP and economic base. Historically, this has been the case for more than 70 years. The NWT has hosted four world class mineral districts: Yellowknife Greenstone gold mining belt, which hosted the Giant and Con Mines, Yellowknife; Pine Point lead zinc deposit near Hay River; Lac de Gras, diamond mines and the Cantung Tungsten deposit.

The contribution by metal has changed since 1932. Originally, it was gold, then silver, with some lead, and then uranium. From the late 1960s, for about 25 years zinc and lead were the biggest contributors, even higher than gold and, since 2000 the largest contributor has been diamonds. From 1932 – 2008 (75 years), the total value of mineral production in the NWT has been estimated at \$35 billion (in 2008 adjusted dollars). While diamond mining is the largest portion at \$15 billion, zinc and lead combined is next at \$12 billion, with gold third at \$7 billion. Mining has contributed very significantly to economic growth (GDP) in the Northwest Territories. Since 1991 the NWT's GDP has tripled from \$1.6 billion to about \$4.5 billion in 2009.

Economic Opportunities in Mining

The mining industry has made major capital and operating investments in the NWT. Between 1999 and 2008 the mining industry made a cumulative investment of over \$10 billion, including \$7.8 billion on Northern businesses, of which \$3.5 billion was on Aboriginal businesses. Resource investment in the NWT has averaged more than 75% of total capital investment in the Northwest Territories and has been responsible for much of the infrastructure, including hydro power stations, the railroad to Hay River and indeed even the City of Yellowknife itself.

On the business front, the mining industry has created significant new business opportunities and many new Aboriginal companies have been formed providing goods and services to the NWT mines.

The mining industry provides numerous economic opportunities including in exploration, environmental management and monitoring, camp management, transportation, supply services, all of which create direct and indirect employment.

These opportunities also extend to more education and training; increased employment, business development, major capital investment and economic growth.

Aboriginal Employment

Canada's mining industry is the largest private sector employer of Aboriginal people. The number of Aboriginal employees in the mining work force in Canada has increased significantly between 1996 and 2009. Today Aboriginal employees represent 8% of Canada's mining work force, which is almost three times the national average (3%) for all industries. In 2009 there were over 4,500 Aboriginal employees in the Canadian mining industry.

Between 1997 and 2008 the NWT mines increased Aboriginal employee levels from 175 to more than 800 people in 2009, for a cumulative total of over 25,000 person years.

Mineral Exploration Declining in NWT

Mineral exploration is the life blood of the mining industry. Exploration in the NWT has declined significantly in the past two years and is falling way below other Territories and Provinces. Exploration expenditures in 2009 in the NWT were estimated by Natural Resources Canada at \$29.5 million, down a staggering 80% from \$148 million in 2008, by far the largest decline in Canada. This is the lowest

level since 1993 and represents only 1.7% of Canadian exploration expenditures in almost 20% of Canada's landmass. In 2006 exploration expenditure in the NWT represented about 9.2% of the total across Canada.

Over the past five years the NWT has dropped from sixth among Canada's eleven Provinces and Territories in exploration and deposit appraisal expenditures in 2005 to seventh in 2008 and eight in 2009, ahead of only Nova Scotia and New Brunswick and way behind Nunavut. For the five years 2005 to 2009, total exploration and appraisal expenditure in the NWT was \$642 million, less than half that of Nunavut at \$1.3 Billion, and only marginally ahead of the Yukon at \$ 500 million, but the Yukon passed the NWT in 2009 with expenditures of \$ 75 million ,more than double the NWT at \$29.5 million.

For 2010, NRCAN's preliminary estimates show expected exploration expenditure in NWT at \$66.3 million, which will represent a 100% increase from 2009, but at 3.1% of the Canada total still remaining at eighth rank among the Provinces and Territories. However of the projected \$66.3 million, \$36 million is projected for diamond mine appraisal, and presumably represents the feasibility study on Gahcho Kue, so actual projected pure exploration is only again \$30 million.

Today there is a scarcity of equity and risk capital, especially for junior companies. We all must recognize that in mining we operate in a global world. Investment capital is very mobile and very transient. Capital will go where it gets best reward at the lowest risk, and risk includes not just project or price risk but environmental and social risk. Canada will have to compete for its share of the global investment capital and within Canada, the NWT needs to compete for its own share of the investment dollars. So therefore, I suggest that mineral resource development in the NWT is

affected, and will continue to be affected, by a scarcity of capital. But, is it correctly a “*scarcity*” of capital, or is it in fact “*selectivity*” of capital? Perhaps “selectivity” is a by-product of “*scarcity*”.

Regulatory Improvement

Unfortunately, the NWT is getting a reputation as a difficult place to gain land access for exploration or to get permits for mining projects, or even for basic exploration programs, or to get permits within a reasonable time. There are significant problems with resource development in the NWT today.

The Ministers Special Representative, Neil McCrank, recognized it in his May 2008 report, Road to Improvement, where he stated, “*There is a need for a restructuring of the regulatory system in the NWT to address the issues of complexity and capacity*”. This has now recently been acknowledged by the Government of Canada. In his Budget Speech on March 4, 2010, the Minister of Finance stated, “*The resource potential in Canada’s North is world class, yet potential investors in northern resource projects face complex and overlapping regulatory processes that are unpredictable, costly and time consuming*”, and in the Speech from the Throne the Government committed to “*untangle the daunting maze of regulations that needlessly complicates project approvals.*”

The Mining Industry recognizes that there have been some improvements in the regulatory process and that the various Boards are trying, within their capacities, to make some changes but my fear is that, if there are not soon more improvements in the permitting and regulatory process in the NWT, if investors fear that exploitation will not be possible within a reasonable time, investment capital will decide the

timelines are too long, the risks are too high and there is no certainty. The investment capital will go elsewhere and the mineral resources in the NWT will be left unexplored and undeveloped and nobody will reap the benefits they could bring. Eventually, as the current mines run out, the economy of the NWT would shrink and social outcomes decline.

What does all this mean for the NWT minerals industry? There can be no *certainty* that in the future the NWT mining industry will attract global investment capital. The recent decline in mineral exploration, in my view, is not a “lull”. Attracting financing for a mining project requires demonstrating not just a quality project with robust economics but a high level of certainty.

To win this battle for investment dollars and to make investment in the Northwest Territories attractive we must eliminate some barriers to entry. We can deliver some elements of *certainty*. Aboriginal communities and governments have an important and essential role to play in providing elements of that certainty, in promoting development, in ensuring certainty of permitting, certainty of consultation, certainty of timelines. I urge the Aboriginal organizations to recognize the important role that First Nation communities have to play in attracting investment capital, in ensuring that the permitting process is efficient, and in helping to provide *certainty* to ensure the future of the mineral resource industry in the NWT so that all parties, and particularly the Aboriginal communities themselves, can benefit.

It is crucially important that the Government of the Northwest Territories maintains and enhances its dedication to economic development and to resource development in particular. The Government of the NWT has a leading role to play in advocacy for Northern Development, for more open access to minerals, for infrastructure project

development, and for tax incentives to encourage increased investment. I suggest that the GNWT should take the lead and assume that advocacy role, notwithstanding that it does not currently have the regulatory role or resource sharing. The Chamber of Mines and its members appreciated the recent Statement by Minister Bob McLeod in the Legislative Assembly, on February 10, 2010, in support of the minerals industry in the NWT. The Government of NWT is needed more than ever to actively and aggressively promote and protect the minerals industry. The mining industry will play its part but Government must play the leading role.

Whither Base Metals ?

Prior to the discovery of diamonds in 1992 mining in the Northwest territories focused on lead-zinc-silver and gold. Reserves of lead and zinc in the Canada have dropped substantially over the past 25 years, to the point where Canada no longer produces enough zinc concentrate to supply the country's four zinc refineries. Zinc concentrates are now being imported and in fact Xstrata recently announced the closure of its zinc smelter in Timmins, Ontario. Currently there are no base metal mines operating in the NWT, although three are in the development stage, Canadian Zinc's Prairie Creek Project, Fortune Minerals NICO Project and Tamerlane's R190 Pine Point Project. Note that none of these are new discoveries as all were identified many years ago.

There is another major zinc deposit in the NWT, well actually on the border of the NWT and the Yukon. This is the huge Howards Pass deposit, probably one of the largest base metal deposits ever discovered in the world. If and when it gets going it will create a major mining project that could easily run for 50 years. However, most of the benefits may flow to the Yukon. Why? Because the owners say it is easier and

faster to get permit on the Yukon side and there is no infrastructure access from the NWT side and any potential access from the NWT side may be closed off by the proposed creation of Naats'ihch'oh Park. Recently Yunnan Chimong Zinc has agreed to invest \$100 million on a 50% Joint Venture to advance the development of the Howard's Pass deposit. Yunnan Zinc is controlled by China Yunnan Metallurgical Group itself controlled by Yunnan Government.

The Chinese are coming. Jinduicheng/Northwest Non-Ferrous bought 100% of the Wolverine zinc-lead Mine development project in the Yukon, investing over \$100 million and this mine is due to commence production this year. China Minmetals, a Chinese SOE (State Owned Enterprise), perhaps the largest mining company in the world, has acquired ownership of the Izok Lake and High Lake base metal projects in Nunavut. The dragon is already at the gate.

Geological evidence abounds that there should be many more zinc lead copper ore bodies, and gold deposits, in the North. The great potential for base metals in the NWT will not be realized without the financial commitment of Canada's governments at the Federal and Territorial levels. The lack of infrastructure in the North is a major stumbling block to further exploration and development of new mines.

Infrastructure Investment

Infrastructure investment is needed in roads and power. Strategic investments in infrastructure and electrical capacity would open up new regions for exploration and development. Transportation infrastructure remains the subject of endless debates and

is a black hole for the consumption of money allocated to endless studies, many of which recommend further studies.

The larger objective of providing access to the Slave geological province, for example by the much talked about the Bathurst Inlet Port and Road, a proposal which would really open this highly prospective area to make its contribution to Canada's wealth, continues to suffer from study paralysis. This is an example of a Pan-Northern infrastructure project that should be supported by all Governments and lead by the Federal Government. This proposed deep water port and all weather road would foster mineral exploration and production in the Kitikmeot region of Nunavut. Nunavut Projects that could benefit from the BIPAR include Hope Bay (gold) and Izok Lake, Hackett River and High Lake (base metals), but there are also a number of mineral projects in the NWT that could benefit from what could eventually become a north south highway. Unless of course the entire Slave province is consumed by the proposed East Arm Park!

The prevailing attitude in Government regarding infrastructure development in the NWT seems to be that, if it is worthwhile, the private sector should undertake the investment and the Government should not have to intervene. The need for government intervention in a leadership role is that the challenge is such that no single mining company, no single project, no matter how rich, is able to bear the entire cost of building the infrastructure, or undertake the permitting expense and risk, needed to derive full benefit from the North's mineral wealth.

Costs associated with infrastructure cannot easily be allocated among different projects in a fair manner. This is what economists call "co-ordination failure". If this "co-ordination failure" is to be overcome, the only entity that can perform this co-

coordinating function is the public sector. In the NWT, the delayed investment in northern power infrastructure by government has meant that each of the three currently operating diamond mines have already built their own individual power generating systems in order to construct and operate their mines. In the ongoing apparently endless debate over the proposed Taltson expansion Government says the mines need the power and should basically underwrite the necessary investment. The reality is that the current operating mines have already paid to develop power systems once. They would like to have reliable power. They would like to also have less expensive power, and greener power, if possible. This would extend the mine lives which would mean more benefits for northerners both directly through employment and indirectly.

When governments asks the mines to sign onto power purchase agreements that offer power at a higher cost than the cost at which the mines are currently providing power to themselves, the business equation is out of balance. If Governments are waiting for the current mines to sign on to advance the economic engine for the North, this engine will come to a grinding halt.

To date, without significant investment from the Federal Government, the Taltson power rates presented to the mines have not provided an economic incentive for the operating mines to subscribe. The mines are no different than other consumers in northern communities when it comes to the cost of power. They certainly don't want to fund a second power system for their mines only to also pay more for power.

The Chamber of Mines supports a vision of cheaper and greener power – for resource development and for the people of the NWT. The cost of power in the NWT is not only an issue for the current residents of the NWT, but is actually a disincentive for

skilled mine workers to relocate and retain in the NWT. It is the Chamber's view that Governments needs to lead on infrastructure development to open the North to resource development and to bring costs down for communities.

I suggest the Government of the Northwest Territories cannot afford to be shortsighted. It needs to set a vision for power infrastructure that will not only extend the lives of the current mines, but also provide power to new mines and deliver cheaper power to NWT Communities. This means plans and investment in infrastructure must be put in place before new mines are built.

To reap the mineral wealth of the NWT the responsibility for the leadership role in infrastructure development lies squarely on Government. This is a classical role of governments, worldwide, in stimulating regional economic development. The private sector did not build the infrastructure in the Provinces and should not be expected to do so in the North. When Government leads, the minerals industry can be a stronger partner, bringing the benefits of resource development to also benefit communities.

There should be no embarrassment is asking, indeed insisting, that the Federal Government provide or arrange the major capital investment in infrastructure for resource development because all of Canada will benefit. Perhaps this may be an opportunity for the NWT Chamber of Commerce to work with the Chamber of Mines to develop a vision for power and infrastructure for the NWT, so that with one voice we can persuade the Federal and Territorial Government to commit to this major initiative for Canada. Evaluating infrastructure investment in terms of short term return on investment in a business case, or in terms of dollars per capita of population will not work. Major infrastructure investment must be evaluated on a national strategic basis. I cannot think of any better way of asserting sovereignty in Canada's

North than ensuring resource development. And if the Canadian Government will not do it perhaps the Government of China will.

Conclusion

My message today is that the peoples of the Northwest Territories, including the Aboriginal communities, have a very important role, indeed a crucial role, to play in the future of mineral resource industry in the NWT. The greatest challenge is to ensure that the NWT will indeed have a mineral resource industry in the future. I suggest there is no “certainty” about the future of the mineral industry in the NWT and this is no time for complacency. Investment capital is scarce and selective. The capital will go where it gets the best return at the lowest risk. The NWT will have to compete for its share of the global investment capital.

If there is to be sustainable long term mineral resource development in the Northwest Territories in the future, it will require resource companies, local businesses, supply and service companies, Aboriginal communities and all levels of Governments to work together to demonstrate that NWT is a good place for investment in mining and mineral exploration.