

To:

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission, New Brunswick
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Service NL
Northwest Territories Office of the Superintendent of Securities
Office of the Yukon Superintendent of Securities
Nunavut Securities Office

The following comments and suggestions are made respectfully by a private person with substantial experience in, and substantial investments in, the junior exploration and senior mining markets, who wants to see the markets improve and the majority of monies raised get spent “in the ground” in order to generate more discoveries.

General:

The distribution list above is a hint of the problems related to investors'/speculators' (I/S's) protections in Canada. The overheads related to these thirteen offices are a significant hurdle to I/S protection. It is no surprise that the SEC handles and prosecutes more significant Canadian-based scams and scammers than all thirteen offices across this country.

Consider the mandate of the BCSC (taken from its website).

“The British Columbia Securities Commission aims to make BC a place where companies and investment funds (“issuers”) can flourish and people can invest with confidence. To do that, we set, monitor, and enforce requirements for issuers looking to raise money and registered individuals and firms (“registrants”) that buy and sell securities on behalf of investors. We also oversee a diverse array of organizations that play a role in the efficient operation of investment markets.”

In actual fact, that generally stated and understood mandate misguides I/S's into thinking that they are being protected when they may not be.

Why the fascination with geology? It is a tradition that has been encouraged by the regulators, to the detriment of attention to the ever-increasing number of financial scams.

Here is an excerpt from a paper written in 1989 (edited only for political correctness):

“The merit requirement for mining properties was implemented in 1984 by Rupert Bullock, then Superintendent of Brokers, who was concerned about the proliferation of new company listings that were based upon mining properties of questionable value. It required that exploration projects which are proposed for initial public financing must meet a minimum quality threshold. This is not a new concept in the mining industry; all exploration managers employ a similar review process each time a property is offered to their companies. They apply a minimum a minimum standard that is relevant to the company goals. The Securities Commission applies a minimum standard that is relevant to the goals of the Securities Commission, which is to protect the public interest and encourage the development of a reputable risk capital market in Vancouver.”

That was then; this is now. There are approximately 1800 exploration and mining companies in Canada. Each company has to pay listing fees, legal fees, audit fees, finance fees to the exchanges, securities commissions' fees, CEO and CFO salaries, and office and general overheads. The average for a company is at least \$350,000 per year – quite possibly more. Those figures mean a minimum of \$630 million is spent, or at least committed, before any exploration gets done.

All the entities listed above, not just the companies but also the regulators and quasi-regulators, are part of the problem facing the exploration industry. \$630+ million before any exploration work? The investor base that has to pay is not large enough to handle this expense. Exploration is only a minor niche of the financial markets. These excessive overheads could be compared to a “house advantage” in the gambling industry, but the gambling industry could never get away with trying to exploit such a significant advantage.

Listings can be done today with approximately the same amount of exploration spending as back in the 80's. \$100,000 in exploration? That amount should be changed to \$500,000 or \$600,000 with an inflation factor involved. Why hasn't the change been initiated already? Follow the money. The entities who are tolerating abusive listings and welcoming new listings with open arms are the exchanges, the lawyers, the auditors, the securities commissions, the promoters, and all those profiting off salaries and overheads.

The regulators seek to be the judges of merit and technical gatekeepers of all exploration projects. A variety of words could describe this policy: impossible, inefficient, inappropriate, interfering, etc. Strong words, but when one considers that there are hundreds of companies that don't meet the [already too low] minimum financial standards of Continuous Listing Requirements and all auditors, lawyers, exchanges, and Securities Commissions avoid reporting this reality to the I/S's, the concentration on geological merit seems to be only a distraction.

There is no argument that geologists and their reports need to be held to a certain standard.

The present 43-101 form is not perfect but it is good enough. The securities commissions don't have the qualified staff and don't need to review these reports for 'property merit'. That is why reports must be prepared and authorized by Qualified Persons (QPs).

What should the securities commissions do regarding geological reports?

- Firstly commissions should not need geological teams as gatekeepers. Spending expensive time involved with the details and shortcomings of each NI-43-101-compliant report submitted does not make sense. Correcting every report is just a “make-work” method of handling things.

Develop an exam that PGeos [and others] have to pass if they want to be QPs.

- How would someone become a QP? Only by writing and passing the QP qualification exam - a two-stage exam [Minimum mark of 75% first time around gives a chance at the second round. Minimum pass mark of 95% on the second round, which has the same questions as the first].

The CSA's consultation points can be used as the basis of the exam preparation.

- Reports get submitted – then what should happen? Just because someone is a PGeo does not mean they are qualified to write a NI-43-101-compliant report. They need to have passed the exam.

Check to make sure the QP is in good standing – a one minute process. For total control, maintain an in-house list instead of trying to pass it off to any professional organizations.

- Do audits of plus or minus 10% of all reports submitted to make sure that the QPs actually are doing what they are supposed to be doing. Being auditors rather than slavish Form and fact checkers cuts down the number of geological teams employed at the commissions and allows a reallocation of efforts to more relevant aspects of protection.
- If an audit reveals the Form has not been followed, make the QP take scheduled training (eg: a class every 3 months. Suggested cost \$1,800 and adjust this number upwards by the cost of living each year). While they are in QP training, they are not allowed to author other reports. Unless they have completed training and completed the two-stage exam [Minimum mark of 75% first time around gives a chance at the second round. Minimum mark of 95% on the second round, which has the same questions as the first], they are removed from the qualified QP until they pass the relevant exams. If they subsequently submit another inadequate report, remove them from the approved QP list for a defined length of time (say 3 years).

Related example: The BCSC has recently been advertising for two extra geologists. Could this be considered an extension of an inefficient traditional process that will only slow down the protocols that should be put in place, not only for project reporting but for “investor protection”?

As an alternative, hire more business-oriented people. A significantly greater contribution to “investor protection” can come from looking at relevant financial data, and becoming up-to-date and understanding the ever-evolving scams that are being used by those using the markets to enrich themselves at the expense of investors.

Responsible business reviews will be examining the roles of professionals: lawyers and CPAs and those in positions of power (management, brokers, promoters, directors, and connected others) who have the positions, knowledge and sophistication to pull off schemes such as Bridgemark Scandal, which made the Great Train Robbery look like child's play, but allowed most participants off the hook with little or no penalties.. Unfortunately, the regulators were exposed as lacking the authority to protect the integrity of the markets.

Newsletter writers provide plenty of analyses and appraisals of technical projects. While it is a legitimate way for companies to call attention to their companies, it is also a form of promotion deserving an audit of information provided.

There are familiar performers (both sophisticated and non-sophisticated) who sometimes operate close to the line with many of their promotions. The regulators need the ability to be monitoring them closely. I/S's listen to these promoters rather than reading NI-43-101-compliant reports.

A reader of Stockwatch can't help but notice that the SEC gets involved in the prosecution of many Canadian-based miscreants. Why not regulators here? “It's the budget, the rules, etc.” Thirteen different regulators with thirteen budgets that are mainly overheads have proven to be comparatively ineffective. Stockwatch news reports the SEC is responsible for most tough investigations and penalties with teeth.

The CSA is looking for specific details that might improve the Form 43-101, It seems counterproductive to get into all that detail because it is almost completely irrelevant to the mandate of the BCSC and, by extension, the other securities commissions.

Consultation questions:

A)

1) Do disclosure requirements in the Form protect investors and fully inform investment decisions?

Of course not. It would be a rare bird indeed who would actually read an NI-43-101-compliant report in full, let alone making a decision on that basis. People use many other sources to govern their decisions, as they should.

2) How about providing necessary information in a condensed format?

Possible, but the translation from long form to short version is just another confusing step, prone to errors, and an impediment to the process.

3) Should there be a greater alignment of NI-43-101 disclosure requirements with the disclosure requirements in other influential mining jurisdictions?

Sounds well-intentioned, but is actually just a leading make-work suggestion. All the expertise required is here in British Columbia, or in Canada, and has already been applied to the NI-43-101 project.

4) Why tolerate any delays?

Recognizing that delays could happen does not mean a QP should be allowed to skip the personal visit step. Could the [mis]timing be a convenient avoidance? The old saying comes to mind, "Don't start vast projects with half-vast plans".

5) a) Only a lawyer could slip in the words "investor protection function". Investors do not read Ni-43-101-compliant reports.

Physical visits should be required. The real world does not operate by remote control and there is much to be learned from actually having to go to a project.

B) to H)

Too much detail and there is no reason to count on securities commissions' geological staff having any more expertise than some random PGeo calling themselves a QP.

The suggested solution is found above in the description of the introduction and use of QP qualification exams.

I) to J)

Pardon the attempt at a geological pun but getting involved with these topics is treading on dangerous ground. There are a lot of reasons to include very little on these subjects in an NI -43-101-compliant report. Concentrate on geology.

If the dangers are not apparent to the CSA policy-makers, it is all the more reason to avoid these topics.

K) Financial projections based on economic projects. A category to be avoided.

Nobody gets this right in any industry so how are geologists supposed to get it right when they have little or no expertise in cost analysis and macro economics? The WAG theory will continue to prevail and I/S's have to be prepared with their own estimates from their own sources.

Summary:

Please consider the above comments as a general overview and criticism that significant attention is being paid to geological minutiae while comparatively little meaningful effort is dedicated to solving the real sources of the challenges facing those who are Investors/Speculators – the lifeblood of our industry.

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