



WILL RISING CLOSURE COSTS SINK PLACER DOME?

An Investors' Guide to Placer Dome

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February 14, 2003

INTRODUCTION: ABOUT PLACER DOME

Headquartered in Vancouver, British Columbia, Placer Dome Inc. is the world's 5th largest gold producer. It has interests in 14 mines around the world including operations in Australia, Canada, Chile, Papua New Guinea, South Africa and the United States.

In addition to mining gold, the company extracts silver and copper.

Placer Dome posted net earnings (losses) in 2001 and 2000 of (\$133) million and (\$92) million respectively. In 1999, it posted net earnings of \$32 million (all figures US dollars).

FINANCIAL RISKS: BACKGROUND

In recent years, shareholders of mining stocks have become aware of the drain on net earnings and increased liabilities associated with escalating mine closure and reclamation costs.

Investors also know that catastrophic events at improperly designed and operated mines can quickly turn profits into deep losses. Both of these issues are of relevance to Placer Dome shareholders.

CATASTROPHIC FAILURES: FINANCIAL IMPLICATIONS

Mining operations are inherently risky, even more so when physical structures are improperly designed and when obvious structural problems are left uncorrected.

Marcopper Mine - The *Marcopper Mine* in Marinduque, Philippines is a case in point. Placer Dome managed the mine¹ and held a 39.9 per cent interest in it. The copper mine, which also produced gold and silver, closed in 1996 when a badly sealed drainage tunnel at the bottom of a pit burst, allowing three million to four million tons of acid-generating tailings to enter the Boac River.

To date, Placer Dome has paid out more than \$70 million to cover guaranteed loans, cleanup

and repair costs. In November 2001 Placer placed \$13 million into an escrow account to cover further cleanup costs.

Significantly, only about \$10 million of the costs borne by Placer to date were covered by insurance.

The company may still have to confront further costs to fulfill promises made by then-CEO John Willson. The river remains contaminated with more than 800,000 tons of acid-generating and metal leaching material, half the originally spilled amount,² thousands of villagers down river from the spill remain uncompensated,³ and the failed tunnel that caused the disaster is reported to be leaking again, despite assurances that it had been plugged “in perpetuity.”

- *How dependable are the company’s assessments of its operational risks?*
- *How well insured against catastrophic failure are Placer Dome’s other properties?*

LURKING LIABILITIES: RECLAMATION, CLOSURE AND POST-CLOSURE

When mine reserves run out or when remaining reserves are no longer economically viable to exploit, mining companies must close their operations and reclaim lands and waters affected by their activities.

There is currently a significant shortfall between what Placer Dome estimates its reclamation,

closure and post-closure and reclamation costs to be and what it has collected to date to do such work.

For example, at the *Porgera Mine* in Papua New Guinea, the company says it has accrued \$3 million for future reclamation work at the mine. Placer Dome’s share of *Porgera’s* estimated \$34 million reclamation and post-closure costs is \$17 million.⁴

Similarly at its *Zalidvar Mine* in Chile, Placer Dome estimates its reclamation and post closure costs as \$35 million. On charges to earnings to date, the company has raised only \$12 million, leaving \$23 million to still be collected.⁵

The global shortfall is currently estimated by Placer to be approximately \$103 million.⁶ This shortfall must be raised through charges on future earnings. Placer acknowledges that ultimate closure amounts at its operations are “uncertain” and could become significantly higher based on developing regulations around environmental protection and closure in the US and other countries.⁷

In some jurisdictions where Placer operates, such as Montana and British Columbia, the company is required to post the entire estimated reclamation cost in the form of a bond, or similar financial security.

By not managing each of its global operations to minimally meet the environmental and closure standards set in the most stringent of the jurisdictions where Placer operates, such as Montana, British Columbia or Ontario, Placer is exposing investors to potentially much higher than currently predicted closure costs as regulations around the world are developed to meet higher expectations of environmental protection.

■ *What would be the estimated shortfall in accrued funds to cover the expense of Placer Dome's reclamation, closure and post-closure costs at its global operations, if Placer were to apply the environmental standards and reclamation, closure and post-closure*

BHP's reasons for halting the practice are understandable. At its Ok Tedi Mine in Papua New Guinea, BHP paid \$100 million to settle a lawsuit by affected landowners after international reports detailed massive environmental damage as a result of BHP's discharge of mine wastes into a local river system. BHP also did a \$148 million write-off of the project, and turned its interest in the mine over to the Papua New Guinea government. Legal action is ongoing in the case.

EXAMPLES OF ESCALATING RECLAMATION AND CLOSURE COSTS

Golden Sunlight - Reclamation, closure and post-closure costs at Placer Dome's *Golden Sunlight Mine* continue to be the subject of a protracted legal dispute. Depending on the outcome of that dispute, Placer Dome may have to increase its bond by up to \$58 million to comply with Montana State law and the State constitution.⁸ An estimated \$100 million may have to be posted to cover perpetual water treatment costs at the mine site for 100 years following closure.⁹ That's because the company decided, in 1994, to deepen the mine pit below the water table. The mine is known to be highly acid generating and poses serious threats to local water supplies.

Porgera - Placer Dome's post-closure costs at *Porgera* in Papua New Guinea could far exceed the \$34 million Placer has estimated to date. Mine wastes at the site are discharged directly into the 800 km-long Strickland River system, a practice that other mine companies including Western Mining Corp., BHP and Falconbridge have pledged not to use in the future.

■ *How does Placer Dome envision managing closure at the Porgera Mine when hundreds of kilometers of the Strickland River system are affected by silt and metals from the mine?¹⁰*

How does Placer Dome envision managing closure at the Porgera Mine when its massive waste dumps are designed as "erodible" piles meant to move as glaciers and continue slow and steady deposition into the river system over decades?

Campbell Mine - Finally, at Placer Dome's Campbell Mine in northern Ontario, Placer has 20,000 tons of highly toxic arsenic trioxide stored underground, as well as arsenic from tailings in the soil of Balmertown and a slow arsenic leak into groundwater from a tailings impoundment. Placer Dome has currently set aside just over CND\$10 million for closure at the mine site, but it has provided little detail on how it will deal with this toxic and costly legacy, stating that the problem is being studied.¹¹ No significant mining venture has yet

shown that it can safely or economically treat or dispose of arsenic trioxide. Estimates for dealing with 200,000 tons of stored arsenic trioxide at the Giant Mine range from CND\$69 million - CND\$400 million. Placer is currently completing a new Closure Plan for the Ontario government.

■ *How does Placer aim to deal with the problem of arsenic trioxide at the Campbell Mine and at what*

PLACER REMAINS PRONE TO RISK TAKING IN SOUTHEAST ASIA

Placer Dome may argue that it's ultimately costly venture in the Philippines, and it's lurking closure liabilities at various sites around the world are related to past practices that the company would not repeat today. Placer may argue that it is today better managing its shareholders' exposure to environmental and political risk.

Nonetheless, Placer is currently involved in an exploration project in Kalimantan, Indonesia that is not only vulnerable to recognized political and security risk associated with multinational activity in Indonesia at this time, but also to obvious long-term environmental and social risk.

The "Meratus" project is located on the land of the indigenous Dayak Meratus who are vigorously opposing the mine. Hundreds of households will need to be relocated.¹²

Additionally, the project overlaps a protected

forest reserve. The Indonesian government is under immense pressure from local and international groups to protect the country's remaining forests from resource extraction, while at the same time being pressured by the mining lobby to grant exemptions that would allow mining in protected areas.

Even if the Indonesian government relents and allows the mine to go ahead, the trend towards protecting forest reserves throughout the world, and respecting indigenous rights and claims, is clearly gaining momentum meaning this project, and Placer Dome, will likely face continued opposition and associated costs in the future.

ENDNOTES

1 Zandee, Dick. 1985. Tailing disposal at Marcopper Mining Corporation. In *Asia Mining '85*, The Institution of Mining and Metallurgy, pp. 35-45;

Philippine Mining Journal, October 1969:38.

2 Philippine Mines and Geosciences Bureau, 2001. Approximately half of these tailings in the river have now been placed in rice bags.

3 Resolution No. 2002-05, February 2, 2002. A RESOLUTION URGING MARCOPPER/PLACER DOME TO IMMEDIATELY CONTINUE THE PAYMENTS OF DAMAGE CLAIMS FOR THE REMAINING BARANGAYS AFFECTED BY THE 1996 MINE SPILL.

4 Annual Information Form for the year ended December 31, 2001 (40-F), February 14, 2002.

5 Ibid.

6 Annual Information Form for the year ended December 31, 2001 (40-F), February 14, 2002.

7 Ibid.

8 J. Jensen: Personal communication, April 19, 2002.

9 Ibid.

10 CSIRO Australia. May 2001. Tracing Mine-Derived Sediments and Assessing Their Impact Downstream of the Porgera Gold Mine. by S.C. Apte.

11 Campbell Mine Rehabilitation Plan - Final Report. April 27, 1995. Placer Dome and Klohn Crippen. p. 71-72.

12 Case Study prepared by JATAM (Jaringan Advokasi Tambang) and LAMAS (Lembaga Advokasi Masyarakat Saijaan). March 28, 2002.



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