



RESPONSIBLE MINING

MINE FINANCIAL SECURITY PROGRAM

By law, coal mining operations are responsible for reclaiming land that is disturbed by mining and the operation of related infrastructure.

The Mine Financial Security Program (MFSP) is used by the Government of Alberta and the Alberta Energy Regulator (AER) to strike a responsible balance between protecting Albertans from mine closure costs and facilitating responsible and sustainable resource development. The MFSP was designed to obtain sufficient financial security to ensure that reclamation of mines sites is funded by the mining companies and not Alberta taxpayers.

STRONG PROTECTION WITH ROOM FOR IMPROVEMENT

Albertans have clearly stated that they are concerned about the potential for unfunded reclamation costs and the potential ongoing water monitoring and treatment costs, as applicable.

Mining companies in Alberta understand these concerns and continue to support the current up-front security deposit methodology, as it provides assurance that mine reclamation is funded in advance of mining operations and adjusted over time as mine disturbance and subsequent reclamation occurs to maintain a suitable balance.

A recent review of the MFSP by the Auditor General of Alberta outlined a number of enhancements to the program, which are focused on ensuring sufficient security is collected.

In addition, mining companies in Alberta have recently recommended that costs for long-term water monitoring and long-term operation of associated water treatment facilities be considered as possible additions to the MFSP.

HOW IT WORKS:

Regulations require that mining companies must reclaim the land. The MFSP is structured as a series of financial deposits to government from mining companies so that the cost to close and reclaim these sites is pre-funded.

The MFSP applies an asset to liability methodology which considers the value of the resource in the ground and the security posted as 'assets' available to offset reclamation 'liabilities'. As resources are mined, security requirements increase to reflect greater liability exposure. The AER is responsible for managing the security deposits submitted annually by mining companies until site reclamation is complete.

HOW THE MFSP HOLDS INDUSTRY ACCOUNTABLE:

- It provides a meaningful signal for mining companies to adopt progressive reclamation practices as security deposits can increase significantly if reclamation is delayed.
- Mining companies submit an initial deposit prior to the start of mining activities, which is calculated based on the full cost of reclamation.
- Mining companies are required to provide annual updates on asset and reclamation liability information, resulting in the posting of revised financial security amounts.
- Six years prior to the end of the operation, full financial security for all outstanding remediation costs is on deposit with the AER.

COMPONENTS OF THE SECURITY DEPOSIT:

Base Security Deposit

This amount is primarily used to maintain the security and safety of the site until another operator assumes responsibility for the project or until all infrastructure is removed and the site is reclaimed.

Operating Life Deposit

This amount covers project risks that coincide with the end of a mine's operations. In the case of coal mining, a company is required to make the full deposit up front. This ensures that all outstanding abandonment, remediation, and surface reclamation costs will be fully secured by the time there are less than 6 years of reserves remaining.

Asset Safety Factor Deposit

In the event that a company's assets (net cash flow from remaining reserves) fall below an acceptable level, this amount ensures that all MFSP liabilities are fully funded. When a project's MFSP asset-to-liability ratio falls below the established threshold, the company must submit such additional amounts to restore that balance.

Outstanding Reclamation Deposit

This amount addresses the risks posed by a company that defers reclamation of its site until the end of operations (only applicable to oilsands mining as the coal industry has elected to post the full amount up-front).

The coal mining industry pays full financial security at the start of its projects, as opposed to the progressive security posting utilized in oil sands mining (AER MFSP website).

PRACTICAL IMPLICATIONS FOR MINING COMPANIES

Mining companies pay their full security deposit up-front before any mining activity begins.

Mining companies are expected to schedule reclamation activities as soon as practical to meet the intent of progressive reclamation. The proposed reclamation activities must be consistent with the regulatory-approved mine reclamation plans.

Mining companies are required to identify the amount of land reclamation proposed for each year (planned reclamation). Reclamation plans are updated every three years to always show a 10-year outlook into the future.

Mining companies are required to calculate the annual reclamation balance as the difference between the planned reclamation and the actual reclamation and adjust their security deposits accordingly.

INFORMATION LINKS:

AER Website

<https://www.aer.ca/regulating-development/project-closure/liability-management-programs-and-processes/mine-financial-security-program>

AER Guide to Mine Financial Security Program

https://static.aer.ca/prd/documents/liability/MFSP_Guide.pdf

AEP Mine Financial Security Program Standard

<https://open.alberta.ca/dataset/694f5e67-4951-408b-a4d7-aaa113cb3015/resource/bdc8d192-fb24-4ba7-be32-fc34d5e12f9e/download/aep-mine-financial-security-program-standard-2021-05.pdf>

AEP Mine Financial Security Program Review

<https://open.alberta.ca/dataset/ed3003ee-a650-494d-bdb4-137b5e9c6e07/resource/ab27e2fc-34be-41bd-9e20-c3ff9f438560/download/aep-mine-financial-security-program-review-factsheet.pdf>