

Canadian Investor Statement on Transparency in the Extractive Industries

As investment institutions with exposure to mining and oil and gas companies, we believe that transparency on payments by extractive industry to host governments is an important contributor to good governance and sustainable development in resource-rich countries, as well as being in the interests of public companies and their investors.

The undersigned institutions include assets owners managing CAN\$ 39.3 billion and investment managers managing CAN\$ 34.6 billion in assets.

Welcoming the commitment to extractive industry transparency by the G8 countries, including Canada, at the Deauville Summit in May 2011¹, we make the following recommendations:

- Canada should become an EITI implementing country;
- Requirements for disclosure of payments by Canadian extractive industry companies should be strengthened.

The value of extractive industry transparency

Extractive industries can generate large revenues to support economic development and poverty reduction – but without transparency, accountability and good governance, they may exacerbate poverty, corruption, and conflict in resource-rich countries. Extractive industry companies benefit from operating in a business environment that is characterized by stability, transparency and respect for the rule of law. These factors contribute to economic prosperity and social cohesion, which, in turn, enable the companies to prosper. By disclosing payments to governments, companies can demonstrate how their activity supports the economy of the host country. Companies that do not disclose may be accused of complicity in corruption, thereby impairing their local and global license to operate and making them vulnerable to potential local conflicts and insecurity.

The Extractive Industries Transparency Initiative (EITI) is a voluntary and internationally agreed framework for governments to disclose all material revenues from oil, gas and mining assets, with parallel disclosure by operating companies of material payments to the government such as bonuses, royalties, taxes and payments-in-kind. It is a multi-stakeholder process, and it is overseen in each country by a national committee of government, industry and civil society representatives.

Recommendations for extractive industry transparency

Canada should become an EITI implementing country

We applaud the G8 call for all countries, especially those that are resource-rich, to join the Extractive Industries Transparency Initiative (EITI)², and commend the Government of

¹ Deauville Declaration. <http://canadainternational.gc.ca/g8/summit-sommet/2011/g8deauvilledeclaration2011-05-27.aspx>

² Deauville Declaration, paragraph 62.

Canada for the efforts it has made to encourage extractives transparency in resource-rich developing countries as an EITI supporting country³.

As a resource-rich country, we urge Canada to take the further step of becoming an EITI implementing country itself. The Government of Canada has explained its rationale for not implementing EITI, arguing that it is a development initiative, and that Canadian regulation already sets a higher standard⁴. However, we believe that although the initial focus of EITI was on emerging economies, it is increasingly relevant to developed countries as extractive industry becomes more globalized. A strong precedent exists, as Norway has chosen to implement EITI and is one of the 11 countries that have been validated to date as EITI compliant. In September 2011, the U.S. became the first G8 country to commit to EITI implementation⁵. In October 2011, Australia announced it will undertake a pilot of the EITI for its resources sector⁶. We believe that implementing EITI would enhance Canada's role within the initiative, and enhance the positive impact of EITI by encouraging more resource-rich emerging economies to commit to implementation. It would also allow for a more informed public debate over the value of resource extraction in Canada. We recognize the special challenges posed by decentralized jurisdiction over resource management in Canada, and therefore call upon federal and provincial governments to work together with other stakeholders toward the goal of EITI compliance.

Requirements for disclosure of payments by Canadian extractive companies should be strengthened

We welcome the G8's commitment to set in place transparency laws and regulations, or promote voluntary standards, that require or encourage oil, gas and mining companies to disclose payments they make to governments⁷.

The TSX and TSX Venture exchanges are home to more mining and oil and gas companies than any other exchange, with more than 1500 mining issuers (58% of public mining companies)⁸, and some 400 oil and gas issuers⁹. Jurisdictions that function as financial hubs for extractive industry should take the lead in promoting transparency through disclosure requirements. Voluntary disclosure initiatives are welcome, but tend to attract participation by a restricted group of industry leaders, leaving investors unable to compare all companies across a sector.

Canadian securities regulation already requires some disclosure of extractive industry payments to host governments¹⁰, but the U.S. and European Union have proposed disclosure enhancements that would go beyond the Canadian requirements. The U.S. Dodd-Frank Act Section 1504 requires companies to disclose "any payment made ...to a foreign government ...for the purpose of the commercial development of oil, natural gas, or

³ Canadian EITI Support Fact Sheet. http://eiti.org/files/page/canada_eiti_brochure.pdf

⁴ Natural Resources Canada. *Frequently Asked Questions – Canada and the EITI*. <http://eiti.nrcan.gc.ca/faq2-eng.php>

⁵ <http://eiti.org/news-events/president-obama-us-will-implement-eiti>

⁶ http://www.foreignminister.gov.au/releases/2011/kr_mr_111027.html

⁷ Deauville Declaration, paragraph 62.

⁸ *TMX Mining Sector Profile* http://www.tmx.com/en/pdf/Mining_Sector_Sheet.pdf

⁹ *TMX Oil and Gas Sector Profile* http://www.tmx.com/en/pdf/OilGas_Sector_Profile.pdf

¹⁰ Canadian Securities Administrators National Instruments:

NI 43-101 *Standards of Disclosure for Minerals Projects* <http://www.osc.gov.on.ca/en/15019.htm>

NI 51-101 *Standards of Disclosure for Oil and Gas Activities* <http://www.osc.gov.on.ca/en/13338.htm>

NI 51-102 *Continuous Disclosure Obligations* <http://www.osc.gov.on.ca/en/13342.htm>

minerals". Proposed Securities and Exchange Commission rules for its implementation would also apply to Canadian companies listed on U.S. exchanges¹¹. Proposals in the EU would require extractive companies to publish payments in every country of operation¹².

We therefore encourage Canadian legislators and securities regulators to introduce enhanced disclosure requirements for extractive industry companies, integrating the following considerations:

- Information on payments should be provided on a country-by-country basis, as well as on a basis that allows analysis of more localized risks at the project or regional level. All relevant types of payments should be included, including royalties, taxes, dividends, bonuses, licenses and concession fees. Payments information should be provided both as an aggregated figure and broken down by type. Disclosure should be provided on a consistent basis: the decision on whether or not disclosure is required in a given year should not be based on an individual company's assessment of whether information is material.
- In order for companies to maximize the reputational and social license benefits from payments disclosure, the information needs to be presented in a form that is accessible and understandable to a wider audience of stakeholders than investors alone.

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Date : November 25, 2011

¹¹ Proposed SEC rules under section 1504 of the Dodd-Frank Act for disclosure of payments by resource extraction issuers would apply to all companies required to report to SEC, including Canadian companies listed on US exchanges. <http://sec.gov/rules/proposed/2010/34-63549.pdf>

¹² European Parliament. *An effective raw materials strategy for Europe*.
<http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2011-0364&language=EN&ring=A7-2011-0288>

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