PROSPECTORS & DEVELOPERS ASSOCIATION OF CANADA | ASSOCIATION CANADIENNE DES PROSPECTEURS ET ENTREPRENEURS

June 25th, 2024

RE: Canadian Sustainability Standards Board (CSSB) Public Consultation on first Canadian Sustainability Disclosure Standards (CSDS)

The Prospectors & Developers Association of Canada (PDAC) is the leading voice of the mineral exploration and development industry. Representing over 7,750 individual and corporate members in Canada and worldwide, PDAC's work centers on supporting a competitive, responsible, and sustainable mineral industry - which accounts for 1/3 of all companies listed on Canadian exchanges and more than half of the issuers listed on the TSX Venture exchange.

PDAC appreciates CSSB's release of the proposed CSDS 1 and CSDS 2 and holds strong to the view that the adoption must only apply to large-scale companies, such as those listed on the primary Canadian stock exchange (TSX), allowing for a voluntary and modifiable approach for all other small and medium enterprises listed in Canada. The commitment to align with ISSB's IFRS S1 and IFRS S2 is a big step in the global financial reporting ecosystem, however, it is important to ensure that adopting the standard doesn't inadvertently create undue burdens or hinder the ability of smaller entities to represent their financial positions accurately.

The various market exchanges in Canada (i.e. TSX, TSX/V, CSE, etc.) are structured to serve different market segments based on company size, stage of development, and investor base. The TSX is tailored for larger, more established companies to diversify, broaden their access to a wider shareholder base while exchanges and trading platforms like the TSXV, CSE and OTC are better suited for smaller, early-stage pre-revenue companies to advance asset development and grow operations. In appearing recently at the *World Federation of Exchanges Global Meeting on Sustainability,* ISSB representatives noted how IFRS S1 and S2, from which CSDS standards are derived, were created explicitly for large companies and were not intended to apply to small and medium-sized enterprises (SMEs). We reinforce this viewpoint and that SME's limited capital, and human resources are often more effectively directed towards reporting and disclosure that is more tailor-fit for shareholders and stakeholders.

For example, the concept of setting targets or limits under CSDS 1 could create artificial ceilings for small companies, limiting ambition, growth and inhibiting innovation. Unlike larger corporations that have greater financial and operational resources to streamline and optimize operations, small companies thrive on creativity and the ability to pivot quickly in response to R&D successes and market dynamics.

Company size can be measured via thresholds such as the number of employees, annual revenue, or value of assets. Companies that operate below certain conditions in those areas will find their exposure to sustainability-related risks and opportunities is often negligible. For example, GHG emissions from SMEs can be orders of magnitude below reporting threshold under Canada's Greenhouse Gas Reporting Program (GHGRP), be immaterial to the overall organization from a valuation or risk standpoint, and thus should not be expected to be reported under CSDS 2.

Requiring disclosure and reporting that is not directly relevant to share and stakeholders diverts company resources from core business activities, potentially hindering the ability to produce more tailored disclosure, while limiting growth and competitiveness. This misallocation of resources can also skew the playing field, favoring larger companies with greater capacity to comply with such requirements.

PDAC recommends: CSSB work with regulators to establish minimum public issuer criteria for CSDS reporting (e.g. minimum assets, revenue, employee thresholds, etc.)

For examples of relevant thresholds in Canadian legislation, CSSB can reference other Canadian reporting standards such as the *Fighting Against Forced Labour and Child Labour in Supply Chains Act* and the *Extractive Sector Transparency Measures Act*. The thresholds can be adjusted to reflect the needs of the CSSB. Examples of such thresholds are as follows:

- it has at least $20 million in assets,
- it has generated at least $40 million in revenue, and
- it employs an average of at least 250 employees.

PDAC's viewpoint is from a uniquely Canadian context, where our exchanges are home to more mining and mineral exploration companies than any other market in the world. The mineral industry in Canada benefits by having greater access to capital, a network of industry experts, political and regulatory stability, and tailored listing requirements for all sizes of companies. The mineral industry supports 719,000 people in direct and indirect employment, contributes more than $120 billion annually to Canada's GDP and accounts for 21% of Canada's total merchandise exports. As noted earlier, it is the largest group of public issuers in Canada, accounting for a third of all companies listed on Canadian exchanges and more than half of the issuers listed on the TSX Venture exchange.

Table 1: Listings within the minerals industry across select stock exchanges (April 2024)

		Total listings	Listings within the minerals industry	Proportion of mining companies
Toronto Stock Exchange	TSX and TSXV	3,438	1,111	32%
	TSXV	**1,637**	**921**	**56%**
Australian Securities Exchange ASX		1,993	805*	40%
Euronext		3,518	131*	4%
Japan Exchange Group JPX		1,649	77**	5%
London Stock Exchange LSE		1,790	203*	11%
New York Stock Exchange NYSE		2,112	40	2%

*The combined number of companies listed under the [Basic] Materials industry which will include other non-mineral subindustries such as chemicals.

** The combined number of companies listed under mining (5), Iron and Steel (22), Nonferrous metals (21), and metal products (29).

Risks and opportunities look different to mineral exploration companies; while holding immense potential for lucrative discoveries, they operate within a realm of exceptional risk, far surpassing many other industries. Out of 10,000 identified mineral prospects, only 10% (1 in 10) will progress to the drilling stage, and only 0.01% (1 in 10,000) of these prospects will lead to a new mine. This paramount risk/opportunity requires very technical reporting that is already captured by NI 43-101, which requires disclosure of all material risks to asset tenure and valuation, including ESG and climate risks. Additional CSDS 1 and CSDS 2 disclosures would most likely be redundant or immaterial to many of the junior mineral exploration companies listed in Canada.

Mineral exploration and mining companies dedicate significant time and resources towards community engagement, social acceptance, access to land, and responsible extractive practices. The industry is adept in developing regional-specific approaches to ESG factors, which may disadvantage this sector in sustainable investment rankings as their corporate and on-the-ground actions often may not reconcile with more generalized reporting criteria. Regulatory and environmental considerations heavily influence the scale and scope of an exploration or mining operation and can have material influence on the financial viability of a project. Without a tailored approach to disclosure, investors may struggle to effectively gauge or draw accurate comparisons of these risks to other sectors in assessing investments.

Industry companies typically require significant capital investment to transition an asset from hosting an identified mineral reserve to an operating mine. As a company develops an asset towards mineral production it will need to manage a rapidly evolving corporate governance and be subject to an array of new regulatory, permitting and reporting regimes.

To address the difficulties mineral industry companies have in providing comprehensive disclosure to investors on non-financial matters, the Consolidated Mining Standard Initiative (CMSI) is working on merging several responsible mining standards into one global standard accessible to any company committed to responsible mining. It is a collaboration between The Copper Mark, International Council on Metals and Mining (ICMM), the Mining Association of Canada (MAC), and the World Gold Council (WGC). PDAC was the first to create a comprehensive guide for mineral explorers to work responsibly and sustainably through our Driving Responsible Exploration guidance suite, which details principles and guidance on elements such as environmental stewardship, social responsibility, community and Indigenous engagement, diversity, inclusivity, and health and safety.

Ultimately, the choice of reporting under CSSB standards is an important consideration for SMEs, as it can strain limited resources, impact financial reporting capabilities, compliance, investor relations, and may impugn the overall perception of a company in the marketplace.

An entity choosing to adopt a modified standard prior to reaching a reasonable set of minimum thresholds should be entitled to the same transition relief as any other entity that evolves beyond the SME stage or meet minimum thresholds to be established for applying the full standards. This ensures fairness and consistency in the regulatory landscape, while incentivizing proactive sustainability reporting practices.

PDAC values the opportunity to continue contributing to dialogues with the CSSB, ISSB, and FRAS. You are welcome to contact Jeff Killeen, PDAC's Director, Policy & Programs (jkilleen@pdac.ca) if there are questions or clarifications required on the contents of this submission.