January 17, 2003

MEMORANDUM TO: Daniel M. Gillen, Chief
Fuel Cycle Facilities Branch, NMSS/FCSS

FROM: Claudia Craig, Chief **/RA/ J. C. Dehmel for**
Facilities Decommissioning Section
Decommissioning Branch, NMSS/DWM

SUBJECT: REVIEW OF HOMESTAKE MINING COMPANY REVISED 2002 FINANCIAL ASSURANCE FOR DECOMMISSIONING

By letter dated November 1, 2002, Barrick Gold Corporation (Barrick) submitted a revised parent company guarantee and supporting documentation as financial assurance for the decommissioning costs of its subsidiary, Homestake Mining Company (Homestake) of California.

The staff evaluated the financial assurance instruments for compliance with regulatory requirements and conformance to regulatory guidance. The revised parent company guarantee substantially conforms to NRC guidance and is acceptable

However, additional information is needed to demonstrate that the merger of Barrick and Homestake created a parent-subsidiary relationship that qualifies for use of the parent company guarantee method of financial assurance. Additional information is also needed to resolve several questions regarding the tangible net worth of Barrick. The staff's evaluation is discussed in the attached Request for Additional Information.

Docket No.: 04008903
License No.: SUA-1471

Attachments: Request for Additional Information

Contact: Thomas L. Fredrichs, NMSS/DWM/DCB
(301) 415-5971

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REQUEST FOR ADDITIONAL INFORMATION
HOMESTAKE MINING COMPANY

Introduction

By letter dated November 1, 2002, Barrick Gold Corporation (Barrick) submitted a revised parent company guarantee and supporting documentation as financial assurance for the decommissioning costs of its subsidiary, Homestake Mining Company (Homestake) of California. The submission guarantees decommissioning costs of $42 million for license SUA-1471 issued for the Homestake Mining Company facility in Grants, New Mexico.

The staff evaluated the financial assurance instruments for compliance with regulatory requirements of Appendix A to 10 CFR Part 40 and conformance to regulatory guidance in The *Technical Position on Financial Assurances for Reclamation, Decommissioning, and Long-term Surveillance and Control of Uranium Recovery Facilities*, (October 1988) (*Technical Position*).

The revised parent company guarantee adequately conforms to NRC guidance and is acceptable.

However, the supporting documentation needs revision to meet the recommendations of the *Technical Position*. Additional information is needed to demonstrate that the merger of Barrick and Homestake created a parent-subsidiary relationship that qualifies for use of the parent company guarantee method of financial assurance. Additional information is also needed to resolve several questions regarding the tangible net worth of Barrick. The staff's evaluation is discussed in the following section.

Specific Comments

(1) Demonstrate that a Parent-Subsidiary Relationship Exists Between the Guarantor and the Licensee (*Technical Position*, pages 12-13)

A parent-subsidiary relationship must exist between a guarantor and a licensee in order for the parent guarantee to be a valid method of financial assurance. The *Technical Position*, pages 12-13, states that the corporate parent should control at least 51% of the licensee's voting stock as a qualification for using a parent company guarantee.

However, the information submitted by the licensee does not include documentation that the corporate parent controls at least 51% of the licensee's voting stock. Barrick's financial statements say that a "wholly-owned subsidiary of Barrick merged with Homestake."[1] However, Barrick's submittal does not state the relationship formed between Barrick and Homestake as a result of the merger (i.e., whether the merger created a direct parent-subsidiary relationship, or whether Homestake was absorbed as a division within Barrick).

Therefore, the licensee must provide appropriate documentation, such as incorporation agreements (i.e., copies of submissions to the appropriate Canadian Corporation Commission), Schedule 22 from the guarantor's SEC Form 10K (or Canadian equivalent), or a certified corporate

[1] Barrick Annual Report 2001, p. 62.

resolution that the licensee and Barrick are separate and distinct corporate entities and that Barrick controls at least 51% of the voting stock of the subsidiary.

(2) Revise the Figure for Tangible Net Worth in the Financial Test *(Technical Position*, Appendix C, Page C-4)

The tangible net worth figure reported in the financial test dated October 16, 2002, is equal to the reported figure for net worth. Because tangible net worth is derived by subtracting the value of intangible assets from net worth,[2] the equality of the two reported figures implies that Barrick held no intangible assets as of December 31, 2001, or, if it did, the assets had no value. However, Barrick's financial statements for that period seem to imply that the firm may have intangible assets of substantial value:

1. Note 2P on page 67 of Barrick's 2001 Annual Report states that Financial Accounting Standards Board (FASB) Statement Number 142, "Goodwill and Other Intangible Assets," (SFAS 142) requires that intangible assets and goodwill no longer be amortized. The guarantor's Annual Report states that Barrick "has not yet determined the impact of this Statement on its financial statements," thereby suggesting that Barrick may have intangible assets (otherwise, SFAS 142 would be inapplicable).

2. Barrick's Third Quarter Report for 2002, SEC Form 6K, states that Barrick acquired $539 million of intangible assets and $1,295 million of goodwill when it acquired Homestake on December 14, 2001.[3] The consolidated balance sheet in the 2001 Financial Statements do not contain sufficient detail to determine how these intangible assets were accounted for in the financial test submitted by Barrick.

The tangible net worth figure used to meet the financial test must exclude intangible assets from all sources, as well as the intangible assets held by Homestake.

Therefore, the licensee must revise its financial test submittal to account for intangible assets, if any, or demonstrate that the net worth figure reported in the financial test dated October 16, 2002 does not include any intangible assets.

(3) Demonstrate that the Parent Company Has At Least $20 Million in Tangible Net Worth, Independent of Assets and Liabilities of the Licensee Subsidiary (*Technical Position*, pages 12 and 13)

The *Technical Position*, page 12, states that the parent company guarantor should show a tangible net worth of at least $20 million, independent of the assets and liabilities of the subsidiary for which the guarantee is being issued.

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[2] NUREG-1727, p. F114, defines tangible net worth as net worth minus goodwill, patents, trademarks, and copyrights. The *Technical Position*, p. C-8, permits the licensee to add accrued decommissioning, reclamation, and long-term control and surveillance funds to tangible net worth.

[3] SEC Form 6K, Barrick Third Quarter Report 2002, Notes to Consolidated Financial Statements, p. 13, available at http://www.sec.gov.

Barrick's 2001 Consolidated Financial Statements state that a wholly-owned subsidiary of Barrick merged with Homestake, and that the merger is reflected in the financial statements as a pooling-of-interests, "with all periods presented as if Barrick and Homestake had always been combined." (See Financial Statements, page 62). This accounting procedure implies that Barrick's tangible net worth figure as reported in the financial test dated October 16, 2002, is not independent of Homestake's assets and liabilities, as called for in the *Technical Position*.

Therefore, the licensee to must revise its financial test, dated October 16, 2002, to report and use Barrick's tangible net worth independent of the licensee's assets and liabilities.

(4) Submit Schedule Attachment to Independent Auditor's Special Report (*Technical Position*, Appendix C, Pages C-7 through C-8)

Certain figures submitted in the financial test differ from those found in the licensee's financial statements. Specifically, total Liabilities (Line 2) and Net Worth (Line 4) in the financial test do not match the corresponding amounts in the financial statements.

1. The amount shown for Total Liabilities in the financial test is $1,998 million, and the amount shown for Total Liabilities in the financial statements is $2,010 million.

2. The amount shown for Net Worth in the financial test is $3,204 million, and the amount shown for Net Worth in the financial statements is $3,192 million.

Although the Chief Financial Officer annotated the financial test to state that certain figures were adjusted, the annotations did not reconcile all the potential differences. Where differences appear between the figures reported in the financial test and the financial statements, the *Technical Position* provides a Schedule for use by the licensee's auditor to reconcile the amount and source of the differences.[4] The Schedule also reconciles the net worth figure reported in the financial test. However, the licensee's auditor did not include the reconciliation Schedule in its Auditor's Special Report.[5]

Therefore, the licensee must submit a revised Auditor's Special Report that includes a Schedule attachment reconciling the figures reported in the financial test with the figures reported in the parent company's financial statements.

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[4] Sample Schedule Reconciling Amounts Contained in Chief Financial Officer's Letter to Amounts in Financial Statements, *Technical Position*, p. C-8

[5] *Technical Position*, p. C-7