

A Review of Recent Mining Stock Scams

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Abstract

Stock scams pervade our society in so many fields, not just mining. But the perception is that mining is a field that tolerates scams – a field in which scamming is an accepted art form. Part of this perception derives from the incredibly long odds in finding a real orebody and bringing it into production. Part of it is also due to the high profile given to stock scams in mining, especially gold mining activities.

This paper is an attempt to provide information to investors, students, brokers, and professional people who may come into contact with a scam. By controlling one's emotions it is possible to survive such contact and come away a more knowledgeable person. The elements that make up mining stock scams appear to be obvious in hind-sight. The scammers who operate in this business are very clever salesmen who know how to exploit weaknesses in human nature.

The paper will describe the elements that generally make up stock scams and how to be wary of these "red flags". A detailed review of the Bre-X scandal of 1996-97 will also be given to record the elements that made up the "Scam of the Century". Mining has a mystique to it that creates curiosity and intrigue. The image of the old-time prospector and his mule crossing the wilderness in search of gold is today replaced by the slick promoter in a three-piece suit running a Boiler Room with Internet connections and immediate access to information and the ability to tap into the emotions of investors and ordinary citizens. The seeking today is often times not for gold but for pigeons to part with their money.

Introduction

In recent months and weeks, we have heard many news reports about the terrible problems in the US with the failure of Enron Corporation, Global Crossing, Pacific Gas & Electric, Finova Group and Kmart. The total wipe out of assets associated with these companies is over \$140 billion dollars. Comparing with the previous five major bankruptcies that took place over a 5-year period between 1987 and 1991, the total was about \$20 billion dollars less. Clearly the incredible pace of globalization is leading to an ever-accelerating trend in failed companies of enormous size. It is interesting to note that Fortune Magazine estimates the search for Osama bin Laden and the Sept. 11 attacks will cost the U.S. economy \$151-billion from insurance claims and increased security to protect against a repeat attack. Clearly failed companies have equal importance to a secure economy these days.

The recent scandals in Canada surrounding the Vice-President of Nortel and Michael Cowpland, founder of Corel Corporation, point to the lack of scruples and ethics among the highest echelons of our corporate elite. Insider trading and illegal auditing practices appear to be pandemic and certainly more widespread than among mining and exploration companies. In fact none of the companies yet mentioned are connected with the minerals industries.

So why is this workshop focusing on mining stock scams? Why spotlight mining? There are some people who have been critical of this workshop; who have suggested that such a focus does damage to our industry. Well, to them I say, if we have nothing to hide, if we have nothing to be ashamed of, then we should be prepared to face up to our "dark side" and address it forthright. We need to enhance the image of

our industry – one that I have had the pleasure and honor to be associated with for over 30 years. This industry has been good to me personally in so many ways but it is an industry that is sadly misunderstood by so many people in our society. A Roper Research Poll in 1994 asked North Americans to rank 25 different industries. Mining came 25 out of 25 – right behind Tobacco!

Our image is tainted for many reasons far beyond the subject of this workshop. Just ask your neighbours some day over the backyard fence what they think about the Mining industry. The reply is usually related to mining disasters, environmental pollution, exploitation of non-renewable resources, greedy people stealing resources from First Nations communities or moving to remote parts of the world and looting Third World countries of their resources, and finally stock scams – people raising capital funds by telling half-truths and lies about moose-pastures and get-rich-quick deals.

The pall of the Bre-X scandal still hangs over our industry as a heavy blanket and although there have been numerous attempts to adjust the rules and make such scams a thing of the past, still there are scams continuing to take place – many based on exactly the same premises of those of the past.

So this workshop is aimed at tackling the problem of mining scams head-on – to provide attendees and post-workshop readers with an insight into how these scams are promoted, how they perpetuate themselves, how we are trying to police them and prosecute those who seek to cheat others, and how we can all act to stop them dead in their tracks if we work together with a common purpose in mind.

P.T. Barnum's famous quotation – "a sucker born every minute!"*

In the 19th Century, the famous P.T. Barnum created a mania in New York for his famous museum of the unusual and then later, for his traveling circus. Now, although Barnum's quotation was reputed to be his modus operandi, he at least gave the people who came to his shows something of value. They usually left content to have seen "the smallest man in the world" or the "most-tattooed lady". He once even put the "Missing Link" on display. People ate it up and despite not necessarily believing what they were shown, they left the museum having been entertained.

Today's scammers use the same approach as Barnum, except they rarely provide the entertainment. Some investors in penny stocks like to say that the process of investing is where the fun is, not in whether one wins or loses. While this may have been true for the old-time prospectors who traveled the plains and mountains with their mule and pack-horses searching for gold and trying to make their fortune, but today's gold seekers at least want a fair shake at taking their chances with investing in an exploration firm. Unless they just like to lose money, there is little to be gained in the way of entertainment when the game is fixed.

Some people view the penny stock markets as total speculation plays in which the collective beliefs of all investors affect the price of shares. Get in quick and get out quick – buy low and sell high – that seems to be the motto. So timing becomes the key to investing using this strategy. Catch a stock while it is rising and sell it while it is falling – yeah that's what we all want to have happen! But who knows the right timing? Who knows when to buy and when to sell? Someone must, because while you are buying, remember that someone is selling and when you are selling, someone is buying. The so-called "collective thinking" seems to have two sides to the equation.

In fact what is often happening is that someone is selling you shares they don't yet own. They are speculating that by the time they have to produce the shares for you, the price will have declined and they can then buy some shares and transfer them to you at a profit to themselves. This is known as "Short-Selling". Insiders know when to short-sell. In many cases they also know when to go "Long". Knowing when good news is about to happen or when bad news is about to be announced provides some strategic advantages in the game of buying and selling stock.

Running a scam is a business. It involves a network of associates to work together to operate the overall swindle. Each member of the network has specific tasks to perform. Some of these tasks include:

* In point of fact, P.T. Barnum did not make this statement. It was one of his competitors who was referring to people who attended Barnum's shows.

- Running a Boiler-room operation to hype the stock to investors
- Arranging for "experts" to provide credibility (the stooges)
- Writing Press Releases and Investor Releases
- Posting on Internet Chat Rooms such as Ragingbull and Silicon Investor
- Wash-trading to create volume and price trends
- Promoting the stock to clients (the pigeons)
- Selling short
- Buying back the stock
- Distributing the funds generally through off-shore accounts in tax-haven countries

It is estimated that the cost to run a scam are over 90 percent, and often close to 98 percent of the revenue generated. To keep the business operating, the next scam must often start up to meet the necessary cash flow of the previous play. Like a pyramid scheme, each scam is bigger than the previous and the scammers are off down the road into their next play before the aftermath of the previous game is even recognized.

Emotions are key to the scam business. Scammers exploit the baser emotions of ordinary people. The first emotion is **Greed**: everyone wants to strike it rich – to get something of value for minimum expenditure of time or capital. The next one is **Fear**: gold is a haven to protect your money when times are bad, when currency is becoming lower in value. Then comes **Envy**: people always covet other people's good fortune – there is always "still time to get in on this deal – this stock is going to the moon!" Then comes **Denial**: once the pigeons are hooked, they will fight off the naysayers for you. The more Bashers the better – it brings out the very best in denial of the pigeons. Finally comes **Hope**: Keep feeding them the line that good things are coming – just be patient. Tell them the gold is right around the next ridge, just across the next valley. They will drool over your every positive statement ever hopeful that you are going to produce something of value or at least encourage other pigeons enough so they can pass on the "burning matchstick".

All of these emotions work in favor of the swindler. They can be tapped into and played like an organ. A variety of players will also use their network to generate these emotions collectively from amongst the caught and potential pigeons. The play is called "Pump and Dump" – run the price up on high volume trading and then drive it back down almost as quickly. A typical Pump and Dump runs over a period of a month or two at the most.

The key for investors is to use their emotions sensibly. Recognize when emotion is coloring your judgement. Use emotion to your advantage

- Be Greedy – hang on to your money.
- Be Fearful – if in doubt, move on.
- Look before you leap – investigate all aspects of the company; ask them to supply the information.
- Perform web searches on Edgar and Sedar – look for all financial filings and historical reports.
- Trust your inner voice – have faith in your own judgement.
- Share your knowledge with others. You will learn more than you give.
- Listen carefully for the signs of a scam. In hindsight they will all be so obvious.

Risk Analysis

Never put required funds into a high-risk investment. The odds of hitting pay dirt in a legitimate exploration firm are around 1000 to 1. The odds of a major mining company buying into a real find by a junior are at best 100 to 1. But the odds of winning in a scam are incalculable – you may as well flush your money down the toilet. You are better off buying a State or Provincial Lottery ticket.

Virtually all mining plays are high-risk investments – even the big ones. Placer-Dome was unable to make a winner out of Las Cristinas in Venezuela despite many of the right things being in place. The price of gold together with the attractiveness of other properties in their pocket led them to walk away from this investment. The Northwest coal play in British Columbia – in particular Quintette Coal – is another example. A failure to drill on a tight enough pattern led to a lack of knowledge about a major fault that had displaced a huge part of the ore reserves out of reach of economic extraction. Another example is the Ok Tedi mine which turned into a major environmental disaster despite providing significant revenue for Papua-New Guinea and benefit for the local population. And let's not forget Bre-X, many of the majors were falling over themselves to buy into this joint venture.

The return on investment in mining has averaged about 4% for the past decade with declining metal prices; with increased competition from abroad; and with the easy deposits virtually all expired. So why would anyone invest in mining? Well, obviously the attraction is the enormous potential rewards. Some examples:

- Robert Friedland's Diamondfields play at Voiseys Bay, which turned out to be the real deal despite previous failures and a poor reputation from Galactic Resources' Summitville Mine disaster;
- Chuck Fipke's Diamet find of the Ekati Mine, which has become Canada's first diamond mine and spawned a new industry sector;
- Murray Pezim's Prime Resources which became the richest goldmine in the world – Eskay Creek despite all the trading-trouble surrounding Pezim; The mine was started up by Homestake Canada with an initial grade of 8 ounces per tonne.
- Murray Pezim's International Corona and the discovery of the Hemlo deposit, perhaps one of the largest gold finds anywhere in the world and located right beside the Trans-Canada Highway;

And finally

- Western Mining's Olympic Dam deposit in Australia, which turned out to be the largest copper-uranium deposit in the world.

Many other examples of high reward ventures like these exist all over the world and Canadian mining companies have been part of many of these. Diamondfields was paid over 4 billion dollars for the Voiseys Bay deposit from Inco who have yet to develop it because of difficult political issues. Pezim is reputed to have won and lost billions over and over in his quest for the "perfect" gold find. He found two major mines but both of these companies went through conventional Pump and Dump actions early in the play. Diamet sold Ekati to BHP initially as a 20/80 joint venture but then eventually the entire company was sold largely because of Chuck Fipke's divorce settlement. UBC was a major beneficiary of the Diamet find when in 1999, Fipke's partner Stewart Blusson donated 50 million dollars to UBC for fundamental research.

Juniors versus Seniors

Junior mining companies are the highest risk area of our industry. Most are not in production – they do the preliminary exploration for the industry. They represent the prospectors of old trudging through the countryside in search of the big find. But today they do it largely from Howe Street using high-tech approaches to potential investors and hyping PRs to describe their properties.

Juniors need to raise capital to continue in business as they seek their fortunes. They basically have three ways to raise money:

- Bank Loan – this needs collateral.
- Private Placement – this needs a "fairy godmother".
- Sell Properties – this needs results.
- Sell Shares – this needs "hype" to attract investors.

A legitimate junior company will put its capital into the ground. It will explore widely usually focused on one or two major commodities such as diamonds, base metal deposits, coal, gold, etc. As the company makes a find, it will decide to continue work on the property or to sell it to another company to raise capital for other exploration activities. The following table characterizes the risks associated with each option:

Decisions on a Property	Risk	Reward
Write the property off	low	zero
Sell to a major or another junior	medium	medium
Develop yourself	high	high
Continue exploration	very-high	negative

The scamsters will put most of the money into their own pockets, most frequently to pay-off debt from past scams. They have no real interest in finding an orebody. They might as well be running a shell game at a local county fair.

Elements of a Scam

The difference between a legitimate mining or exploration company and a scam is sometimes a very fine line. The term scam is perhaps a harsh one to use in some exploration plays. Often the people involved in a junior company are "true-believers" in their idea, but a close examination of certain key items will demonstrate quickly if the situation is likely to result in success. Here are some items to watch for:

- Over hyping of positive results and exaggerated claims;
- A lack of negative results – every hole has values. Negative results indicate the extent of the mineralized zones;
- Statements that can be interpreted in more than one way;
- The use of suspect data for purposes of deposit delineation and evaluation;
- Difficulties in seeing or getting access to the "books";
- Number of outstanding shares (anything over 30 million should be viewed with skepticism);
- Number of insiders and significant shareholders (owners of > 5% of the shares);
- Difficulty in understanding who operates the company;
- Past history of continual failure;
- Sudden share price changes for little apparent reason;
- Appeals to Greed;
- Presence of "Stooges";
- New technology such as:
 - Unassayable gold;
 - Nano-sized gold particles (invisible gold);
 - Gold from tap water (water-soluble gold);
 - Volatile gold.

Now all gold can be assayed by conventional fire-assay. There is no reason for any form of gold to not be recoverable by fire assay. Sometimes the technique needs to be modified to make the slag formed in the melt less viscous, so that gold particles are not retained in the slag. Sometimes the gold is "dirty" causing it to float on the surface of the slag. But an experienced and knowledgeable gold assayer can deal with all of these types of problems and more quite readily.

"Invisible" gold is a real phenomenon. It is a name given to the form of gold found in the Carlin-type ores in Nevada. The gold particles are sub-micron and locked within a sulfide mineral such as arsenopyrite or pyrite. But some scams focus on ultra-fine slime particles of gold being unassayable because of their size. This is simply ridiculous. Often the companies will claim that the assays are "anomalous" meaning that they cannot be reproduced. They will use the term "nugget effect" to attempt to explain away the problem. But "nugget effect" refers to the difficulty in obtaining a representative sample of ores containing large particles of gold (nuggets) – particles greater than 150 microns in size. There can be no "nugget effect" with properly prepared ores containing sub-micron gold.

If a company claims to have an orebody, it needs to publish its data, both raw and analysed, providing evidence of the following items:

- The size of the reserves - now referred to as a resource;
- The content of values (levels and distribution);
- The form of the values (free; coarse; sulfide-associated; tellurides; fineness of the gold; etc.);
- The presence of refractory minerals;
- The recoverable values (process to be used and recovery expected);
- The Market (where the product will be sold - some smelters will not buy As-bearing concentrates).

The Bre-X Story

The most infamous case of stock scamming in the history of mining has to be that of Bre-X which blew the lid off its supposed pot of gold in 1997 and sent repercussions around the world. Several major mutual funds and a number of banks were heavily invested into Bre-X with upwards of 7 to 20% of their funds involved when it crashed.

Bre-X Minerals first announced it had discovered the largest gold deposit in the world at Busang on the island of Borneo in Indonesia in 1994. A lot of people showed immediate interest – geologists, mining companies, stockbrokers and investors. Initially blinded by the glitter, only later did they realize they had been taken by one of the oldest scams in mining – "salting" of samples with gold. When an independent study of the samples finally occurred, the faking hadn't even been done well – when examined under a microscope some samples contained shavings from gold jewelry. In two days, Bre-X stock dropped 85%, losing \$3 billion in market value. At the same time, two Bre-X executives moved to the Caribbean, and a key geologist apparently committed suicide.

Bre-X was founded by David Walsh in 1988, after leaving his position as a stockbroker. He operated the firm out of the basement of his home. Bre-X began trading on the Alberta Stock Exchange in July 1989 but it soon began to waste away as Walsh was unable to secure sufficient funding to explore their mineral claims. He spent most of 1992 and 1993 in personal bankruptcy, but then using his last \$10,000, he flew to Indonesia and met with John Felderhof, a graduate from Dalhousie University and one of the geologists who had discovered the giant Ok Tedi deposit in Papua-New Guinea in 1968. Felderhof talked Walsh into buying some jungle property near Busang, a rainforest and rugged mountain area on the Island of Borneo located in the East Kalimantan province of Indonesia.

Felderhof hired a geologist friend named Michael de Guzman from The Philippines and soon after, the company began drilling for gold. The first few holes showed nothing, and Walsh was ready to pull the pin when suddenly things began to pick up. Felderhof claimed the previous companies had looked in the wrong places, or drilled too shallow, or used the wrong drilling techniques. But with his knowledge of the region he would find the "mother-lode". Little did he know apparently, that it would be a "manufactured-load of..." perpetrated by de Guzman and his scamming buddies.

Busang consisted of three properties: Busang I (Central Zone), in which Bre-X had purportedly acquired an 80 percent interest; Busang II (Southeast Zone), in which Bre-X purportedly acquired a 90 percent interest; and Busang III (Northwest Zone), in which Bre-X purportedly acquired a 90 percent interest. Bre-X announced its acquisition of the Central Zone property in a press release dated July 19, 1993 which also declared commencement of a drilling program to delineate the potential productivity of Busang, "which is believed to contain an open-pit resource of 20 million tonnes at +2 gm/tonne gold (equivalent to 1,000,000 ounces of gold)" – a good starting size orebody for a junior.

Within about 18 months, Bre-X claimed to have "proven" the existence of 71 million ounces of gold, worth about \$25 billion. Felderhof in fact, began touting that there were at least 200 million ounces in the ground. Egizio Bianchini, a stockbroker for Nesbitt-Burns and reputedly at the time, one of Canada's top gold analysts, was quoted as follows "What most people are now realizing is that Bre-X has made one of the great gold discoveries of our generation." Another broker, Kerry Smith – a mining engineering graduate from Queen's University, who worked for First Marathon, also became a major advocate of the stock.

The actions of Bre-X essentially conditioned the market to believe that Busang was one of the richest goldfields ever discovered and that the profits from this discovery would be enormous. The company published ever-increasing amounts of gold in the deposit on a weekly and sometimes, daily basis. The price of Bre-X shares rapidly rose from a few pennies to a high of \$250 Canadian per share (before a 10 for 1 split). Bre-X became the star of the gold investment community and many members of the general public became convinced that the company owned a massive and uniquely profitable gold deposit – the largest one ever discovered. The company's descriptions of gold-laden drill samples were accepted as proof of the Company's claims until independent drilling and analysis revealed that a the massive deception had been committed by certain company employees. The Bre-X saga is now known as the gold fraud of the century.

The whole play began to unravel in the spring of 1997 just after the annual Prospectors and Developers Association of Canada Convention in Toronto – a meeting at which Felderhof was named Prospector of the Year and Walsh received the Developer of the Year award. Within days, Bre-X shocked the investment world by announcing that an interim report provided by its independent mining consultant concluded there was "a strong possibility" that prior estimates concerning the quantity of gold at Busang "have been overstated because of invalid samples and assaying of these samples." On the same day of this announcement, Freeport McMoRan Gold & Copper, Inc., which had recently been selected as Bre-X's major partner, reported its own due-diligence analyses of seven core samples that "indicate insignificant amounts of gold." That news came exactly one week after the death of Bre-X's chief geologist Michael de Guzman, who supposedly jumped to his death from a helicopter while traveling to Busang to meet with representatives of Freeport to discuss the assay results. A rambling suicide note was left behind.

The Indonesian government had required that Bre-X enter into a partnership with a large mining company in order to bring the mine into production and the bidding war for Busang became a fierce battle. Peter Munk, CEO of Barrick Gold flew to Jakarta and began negotiating with the government and Bre-X. Letters from ex-US President George Bush and ex-Canadian Prime Minister Brian Mulroney to Indonesian President Suharto were written in support of Barrick. John Willson, President of Placer-Dome, announced a deal which virtually gave Bre-X control of the entire assets of his company. The majors were literally stumbling over themselves to gain a share of Busang.

After much wrangling and "too-ing and fro-ing", Freeport McMoRan of New Orleans, already doing considerable business in Indonesia and operating the world's largest gold mine in the highlands at Grasberg, won the right to develop Busang. Freeport began by conducting some independent drilling, but holes drilled right beside ones by Bre-X showed no significant amount of gold.

Mining stock analysts immediately accused Freeport of trying to drive down the price of Bre-X stock and even as rumors of sample-salting began to circulate, Egizio Bianchini declared that the rumors were "so preposterous, I am not even going to address the possibility." Walsh hired an independent company, Strathcona Minerals, to examine the Bre-X samples and to drill additional holes next to those of Bre-X and Freeport. After completing this work Strathcona concluded as follows:

"the magnitude of the tampering with core samples that we believe has occurred, and the resulting falsification of assay values at Busang, is of a scale and over a period of time and with a precision that, to our knowledge, is without precedent in the history of mining anywhere in the world."

So much for "preposterous rumors"!

So who was to blame for the salting of the samples?

Walsh moved to the Bahamas and later died of a brain aneurysm. Felderhof also moved to the Caribbean – to the Cayman islands where he still resides today. The real culprit appears to have been Michael de Guzman who died by jumping 800 feet into the jungle from a helicopter – maybe! The key word is "maybe" since when the body was found 4 days later, the face had been eaten away by jungle parasites. Also missing were his internal organs, brain, and genitalia. A partial thumbprint from mushy, decayed flesh together with a couple of molars are the sole basis for identification.

De Guzman had carefully controlled all access to the mine site. He and a fellow Filipino, Cesar Puspos, controlled the samples from the time they were collected until they were turned over to a down-river laboratory for analysis. Most likely, that period was when the salting occurred.

Following the March 26 announcement, trading in Bre-X stock was halted on all markets. Upon resumption of trading the next day, the stock price plummeted 85 percent resulting in a market loss of approximately \$2 billion U.S. in one day. It is alleged that Bre-X insiders had already profited as they sold millions of dollars worth of stock with full knowledge of the fraud days and weeks prior to the announcement. The RCMP began an investigation into Bre-X and traveled to Busang to obtain evidence and attend the scene of the crime. The Mounties soon shelved their investigation. With Walsh and de Guzman dead and Bre-X officers such as Felderhof, refusing to cooperate, the RCMP ran into a dead end. No one has ever been arrested or imprisoned. In the old gold-rush days, someone would have been strung up, but today, we sue, and a lot of angry investors want their money returned. Over \$3 billion dollars was lost on Bre-X stock and a number of class action suits continue to drag on through the courts, both in Canada and in the US.

It is alleged in a 1997 Class Action lawsuit filed in Texarcana USA, that company insiders bought and sold Bre-X stock knowing full-well the false, misleading, incomplete and unreliable nature of the purported gold resources. Included in this suit are a number of brokerage firms – J.P. Morgan, Lehman Brothers, and Nesbitt-Burns as well as Kilborn Engineering whose Jakarta and Vancouver offices calculated the phony gold reserves using data supplied by Bre-X. Kilborn created an orebody model using the false assays reported on the many samples.

The salting had been done systematically. So much so, that the distribution of gold values in all the samples was just too uniform to be a natural occurrence. Samples examined in detail by Strathcona showed gold occurred in only a specific size range with no gold at all in coarser or finer sizes. The type of gold was more appropriate to a placer deposit and was certainly not in the form one would expect to find in a hard-rock volcanic. Metallurgical testwork also provided evidence – the leaching of gold from the ore was too fast to be a conventional source.

For a time, certain insiders attempted to deny the fraud, but Bre-X finally acknowledged that the numerous public statements it had made touting the tens of millions of ounces of gold at Busang were completely baseless. Strathcona's final report was released on May 3, 1997 and it soon emerged that any knowledgeable gold analyst or mining expert, performing any diligent assessment of Bre-X core samples, would have determined that the samples had been adulterated by addition of gold from other sources.

Why were so many high-ranking professionals in the mining industry duped by this scam?

According to "Jim Bob" Moffett, Freeport's Chief Executive Officer, as quoted in a Fortune magazine article dated June 9, 1997, there were numerous "yellow flags" that were obvious to Bre-X's engineers and experts (such as J. P. Morgan and Kilborn Engineering) and gold analysts (such as those employed by Nesbitt Burns and Lehman Brothers) who visited Busang and had access to core samples taken from the area. Moffett claimed these warning signs included:

1. Felderhof insisting that the entire drill core sample be crushed. Generally, half the core is saved.
2. Felderhof claiming the entire core had to be assayed to avoid the "nugget effect".
3. Felderhof claiming there was no gold found at surface because "humic acid destroyed the gold".

Igneous deposits don't contain gold nuggets and all gold deposits have some surface showings. But if Moffett is correct and the scam was so obvious, then why did his company involve themselves in the "bidding war"? Why did he follow through with a drilling program?

According to The Financial Post, on July 23, 1996, David Neuhaus, a J.P. Morgan analyst, after returning from a tour of the Busang site, stated, "I'd say 150 million ounces is a conservative guess as to what Bre-X will ultimately come up with." At the time these bullish statements were made, J.P. Morgan was trying to become Bre-X's financial advisor. During Neuhaus's visit to the Busang site, he and other analysts were given core samples from Busang and when these samples were tested, there was no trace of gold.

Kilborn Engineering who provided engineering services to Bre-X, issued reports that in essence substantiated Bre-X's claims concerning Busang. It is alleged in the Texarkana lawsuit that Kilborn withheld critical information from their reports that tests done in connection with their feasibility and prefeasibility studies, showed the gold to be completely different in shape, size and degree of weathering from that normally found in volcanic hard-rock formations. Kilborn apparently knew that Bre-X's core samples had been crushed on site in Busang, rather than being sent whole to test labs. They were aware that the samples lay open for weeks at the Bre-X office in Samarinda and in a warehouse in Loa Duri meaning that the samples were susceptible to the tampering that so obviously occurred. One can only wonder why professional engineers and geologists let these obvious discretions pass without comment or reporting.

Nesbitt Burns, one of Canada's largest brokers, was a leading underwriter of Bre-X stock and the principal syndicator of their private placements. Through their gold expert, Egizio Bianchini, the company had visited Busang and was in close communication and association with Bre-X officers. Nesbitt Burns is alleged to have known that verified core samples from Busang had never been independently collected and tested, and should have recognized that statements made by about ore reserves lacked credibility. In a report issued on December 8, 1995, Bianchini stated: "Our recent visit to Busang confirmed our view the deposit will likely grow to become one of the largest gold deposits in the world. The first observation we made was the ability of the geologists on site to visually inspect the core and be able to accurately judge high grade from low grade. This is important for future releases. We are also very impressed by the quality of the groundwork and of the assay lab in Balikpapan." Bre-X shares were trading at the time for \$53, and Bianchini set a one-year target price of \$70.

Lehman Brothers, Inc., a leading US brokerage, also had their gold analyst, Daniel McConvey, visit Busang and he also frequently talked with the Bre-X officers. So they too should have been aware that verified core samples from the Busang site had not been independently collected and tested. Lehman Brothers issued several influential and extremely positive reports on Bre-X in November 1996. Lehman Brothers commenced its coverage by declaring that Bre-X "looks to have made the gold discovery of the century...although there is a lot of drilling to prove up Busang's reserves, the size of this deposit, which currently has a resource...of almost 50 million ounces, could turn out to be in excess of 100 million ounces." They also fueled the rumor that "one or more major mining companies could make a bid for all of Bre-X," concluding that "by the end of this year, we expect Bre-X to have done a deal with a major mining company capable of putting Busang into production." A report written by McConvey, stated: BRE-X TAKEOVER MAY BE IMMINENT. BUY THIS STOCK TODAY ...Based on Bre-X's tremendous reserves, we believe...a C\$28-C\$30 share price is supportable...[W]e have reread...a recent paper by Bre-X Exploration Manager Michael de Guzman...The paper has been reviewed by Bre-X's Senior Vice President John Felderhof. When referring to an annual production rate of 2.5 million ounces, de Guzman insinuates that the mine may well have a 50-year life, which would require a deposit in excess of 100 million ounces...we believe...this property is worth C\$28 to C\$30 to an acquiring company." At the time, Bre-X shares were trading at a price of \$17 per share.

Too many "pros" were taken in by all this hype. They became the pigeons touting the virtues of the deposit. The mania developed a life of its own. The story became more important than the facts and blinded even the most conservative of people to forget their training and fail to do due diligence. Was it GREED or was it FEAR? In the case of Placer-Dome, the company believed it needed a "piece of the action" to protect its market share. As a "fellow Canadian", they thought they might have an inside track to win the prize. The upside was too irresistible and the downside required drilling some holes as Freeport had done, so the company's actual exposure was slight. While due-diligence drilling is always done prior to completing such a deal, the extent of this interest helped fuel the mania and contributed to the "taking" of so many innocent "pigeons" in the public. On Mar. 30th, 2001, the courts dismissed the cases against Lehman Brothers and SNC-Lavalin (who have taken over Kilborn Engineering). Partial cases against J.P. Morgan, Barrick Gold, Nesbitt-Burns and Kilborn's Indonesian subsidiary have been allowed to proceed and are still in litigation.

The insider trading trial of John Felderhof began in Toronto in May of 2000. Investors who hoped to extract a settlement and some knowledge of the truth from the former Bre-X vice president and chief geologist were sadly let down once again. The Ontario Securities Commission has charged Felderhof with eight violations, which if proven, could result in a massive fine and up to two years in jail. At least two

other civil suits, one in Canada and one in the U.S. still remain outstanding. In November 2000, a class action suit against Bre-X partner Bresea Resources was settled. Felderhof has so far escaped prosecution for complicity in the Bre-X fraud. He is conducting a long-distance defence from his estate in the Cayman Islands, a country that has no extradition treaty with Canada for securities fraud cases.

The detailed forensic investigation by Strathcona did not find concrete evidence that Felderhof participated in the scam, but left little doubt about its suspicions. He has consistently denied knowledge of or involvement in the scam and even has taken a lie-detector test that he paid for and passed. The class action litigants have effectively skirted the fraud issue by charging that Felderhof sold millions of dollars worth of Bre-X stock without disclosing important information about Busang to investors. Felderhof's Bre-X share sales peaked seven months before the scandal broke. In four allegations of insider trading, the OSC says Felderhof sold shares knowing that ownership of the Busang property had not yet been resolved. He is also accused of signing off on press releases that misled investors about the true value of the deposit.

In many ways the business model of Bre-X was virtually identical to that of the Internet companies – stake or make a claim and sell it at an outrageous multiple to a better-resourced company. Until the payday of production, these companies rely on selling momentum-driven shares to fund their losses. Competition for Indonesia's fabled deposit was ferocious. Bre-X had to fend off an outflanking maneuver by Barrick Gold which tried to wrest control of Busang through its connections to ex-president Suharto's family. It was only with the intervention of Indonesian kingmaker Mohammad Hasan that Bre-X retained its controlling interest. Two of Hasan's companies took a stake in Busang for this help and Louisiana-based Freeport McMoRan and the Indonesian government were also cut into the deal.

Although Michael de Guzman is blamed for the salting, a cloud of suspicion hangs over everyone involved with Bre-X, especially Felderhof. David Walsh, who died in 1997, was cleared of any wrongdoing by Strathcona's forensic investigation, although he clearly came out looking the fool. Many believe de Guzman could not have carried out the scheme without Felderhof's knowledge. Strathcona's report shows that the sample tampering was so precise and on such a large scale that it could not have been carried out without careful weighing of the "doped" gold. There is clear evidence that De Guzman had a deceitful nature. Once fired for embezzlement, the wealthy geologist was also a polygamist whose three wives, two of whom he married in the same year, had no idea they were sharing one man.

As to Felderhof's character, he had a prestigious record, but exploration experts question why he refused to allow independent assays and never saved portions of the drill cores for subsequent reassessment, a standard practice in the industry. Investors will probably never know the whole truth, but junior miners today do not have nearly as much freedom as they once had before Bre-X.

The first settlement occurred in October 2001 with a decision on Bresea, an affiliated company formed by Walsh. The Settlement Fund set aside certain amounts from Bresea's assets to pay for legal fees, costs, and disbursements incurred by U.S. and Canadian counsel in their respective litigations and for a reserve for future awarding of court costs. The remaining amounts are to be used for bankruptcy administration and to pursue lawsuits being prosecuted against Bre-X insiders such as John Felderhof. Only then will the Trustee be able to distribute on a pro rata basis any remaining balance of the Fund to Bre-X share purchasers. The Lead Counsel in the U.S. has applied for an award of costs of U.S. \$468,750, to pay for legal fees, costs, disbursements, and taxes but not for attorney fees. The agreement also provides for an additional U.S. \$1.06 million to be allocated to Canadian counsel for legal fees, disbursements, and taxes. As usual, the litigation costs, particularly in cases like this one that drag on for so long, quickly eat away at the available funds. It remains to be seen whether or not Mr. Felderhof is eventually forced to contribute to any final settlement. But even should this be ordered, Felderhof is believed to have made about \$45-70 million by selling his Bre-X shares, a far cry from the 3 billion dollars lost by investors.

Confessions of a "Stooge"

Companies who run scams are always looking for reputable people to stand up for their ideals and provide their swindle with credibility. When a new idea is being floated, the presence of an expert or two gives the impression of truth and believability.

Stooges are often approached with an appeal to their ego, with flattering comments about how they can help to promote the idea by simply being "present in the room". Once on board, their names will get attached to every PR and any comments made about the likely success of the idea will be repeated to all and sundry. Often the idea is so leading-edge that the simple promise to supply capital to help a scientist get the idea out of the lab and into the marketplace is enough to recruit very prestigious people. The company will take the position that it is an R&D firm studying how to make the idea viable. Sometimes the idea is based on solid science, but well-before its time. In other cases, the concept just doesn't hold water – perpetual motion machines, gold from tap water, a cure for AIDS, etc. If the company is legitimate, then the vast majority of funds raised will be used for R&D, but most often the money is stripped off into paying for debts from previous scams.

Some mining stock scams in Vancouver have spilled over into other activities such as Internet telephony, nanotechnology, file compression techniques, Gold Delivery Certificates and other apparently novel ideas. The author is aware of one company that has issued over 400 million dollars worth of 3-year Gold Delivery Certificates without any evidence of the gold in the ground to back up these pieces of expensive wallpaper. These documents can be converted through various offshore banks into Deposit Certificates enabling the swindlers to obtain about 5 % of the value of the certificates without ever putting up any real money. The certificates are backed by obscure agencies in Pakistan and the Seychelles Islands.

When the GDCs become due, the crooks will be long gone and the paper has rolled over so many times that no one can unravel the chain. Many of these activities relate to money-laundering schemes in which "black money" from foreign drug trafficking and other illegal contraband smuggling activities such as tobacco, arms, etc. is washed through brokerage accounts and security trades. High commissions are paid to launder the cash with the originators of the money receiving perhaps, 25% of the value of the funds and the remainder being shared among numerous agents along the "daisy-chain".

I was once a "stooge" for one of these despicable companies. Sucked into their cesspool because of personal weakness, I was used to provide their pigeons with assurances that a UBC professor was working to find the gold in their "ore" and develop a recovery technique. When the time came to report, the perpetrators became so angry about our negative results that they refused to pay for the work. I remained with the company long enough to extricate several other innocent people who were involved, then I walked away never to look back. I decided not to press for payment to protect my "tattered" reputation. Then about two years ago I became aware of a group of other "stooges" and "pigeons" of these same scammers who had decided to try to shut down these evil people once and for all. I began working to help in the effort. Until that point, my reports had been completely suppressed by the companies in question. I had them published on the Internet for all to see. We began to collect information and spread the word around the investment community and to share what we know with the regulators and investigators. As of today, the scammers have not yet been charged, but their ability to run scams has been severely jeopardized and we believe it is just a matter of time before they are put into jail.

There comes a time in one's life when you have to draw a line in the sand and take a stand against criminal behavior. Many of my friends told me I was playing a dangerous game – one I would come to regret. I state now that even should ill befall me because of my efforts over the past two years, I have no regrets for any of my actions. I live to see the day when these criminals are placed behind bars and finally made to pay for what they have wrought on society and on the reputation of our industry and country.

How Not To Be Taken

While investing is the main way that a person can become involved in a scam, there are others. Here are some of the avenues by which you can be taken in:

- By investing
- By performing work as a consultant
- By being employed by a sham company
- By being offered shares in return for your name and reputation

Most scammers do not stop at taking only investors, they are also very adept at conning consultants to write reports or perform work. Often times they do not pay the bill for this work forcing the individual to go to court to try to recover the fees. This is especially true if the work does not produce the results desired by the con-artists. What the scammers are looking for is a document that has your name on it. All they want to do is to issue a PR with the following type of statement:

"Over the years, BS Mining has had the following organizations conduct geochemical, analytical, and metallurgical studies on its orebody: Stanford University, University of British Columbia, Colorado School of Mines, Princeton University, Technion University in Israel."

"As a result of this work, BSM has had a professional geologist calculate ore reserves on the property. This calculation shows a deposit of 800 million tons containing 15 million ounces of gold. BSM is planning to build a 40,000 ton per day plant to treat this ore and recover gold as concentrate for sale in Japan and the United States."

Note the impression given by these paragraphs – that the work of the five prestigious universities supports the conclusion of the "professional geologist". In many cases, the research of such laboratories has shown no values in the ore of a content that can be economically recovered. These reports of course, are buried by the "company" never to see the light of day.

The Number One Rule for a professional consultant is **don't get involved** with a company that you suspect of being a scam. The Number Two Rule for those who do elect to get involved with a shady company – **get paid up front in full** before the work is done. Accept nothing less. The Number Three Rule is to **retain ownership of your data and results** so you can make the report public if necessary.

Scammers exploit weakness. This can manifest itself in a number of ways – need for work, difficult family situation (sickness or divorce), need to immigrate or emigrate, need for money, trouble with the law, etc., - all of these and more can lead to exploitation. The scammers will offer sympathy and take you under their wing. Remember, conmen are usually very likable people; they are always excellent salesmen.

What should you do if you are in the employ of a company that is running a scam? This is indeed a difficult problem. First of all, you should seek counsel from an attorney to discuss your options. If you have direct evidence of the scam, then report your information to the authorities (police and stock-market regulators). Rest assured that if you stay employed by the company, eventually you will not be paid – the scammers are always running short of cash to meet their payroll. Try to get away from the company as soon as possible. Sometimes this is not always possible if you are responsible for other employees for whom you need to care, but once you have done your best, walk away with your head held high.

Never accept shares in a company that you think is a scam. Insist on being paid in cash and prior to giving your "blessing" to the work being done. Avoid making statements about the "product" or work that can compromise your principles and reputation. Often the scammers will offer to buy technology you have developed – it likely represents a new idea that they wish to use to scam others. This can be a new source of energy, a new vehicle, a new technology, such as biotechnology or nanotechnology – areas that are still on the research bench and not yet ready for the real world. Take great care that you are not being exploited here either. If you are desperate to get your idea into the light, you may end up cutting corners and compromising your ethics. Avoid this at all cost. The scammers will use your idea to take others – to encourage investment that will be channeled off into other ventures. They will promise you the moon, but all you will receive is a moonstone, and a small one at that.

Mining Company Press Releases

Read all stock PRs with a jaundiced eye. The style of the PR is extremely important and often what is not stated is as important as what is said. Here is an example of a cleverly crafted PR. It was recently issued by a junior company that will remain unnamed. All of the names have been changed to protect the "innocent". Major-Domo Exploration is the name used to represent a major mining company while the stock exchange in question is the fictitious Western Canadian Venture Exchange. Read the PR through to the end before proceeding to the analysis below. This will help you to see how you might react to such a document.

Management of BS Mining is pleased to announce the acquisition of drill core from a 1997 diamond-drilling program conducted by Tucson Gold Resources Ltd ("Tucson") on the Locust Mountain property now controlled by BSM. It should be noted that BSM only recently acquired the drill core and accordingly could not verify a secure chain of custody.

Information obtained from this core will be used to formulate a new exploration program conducted by BSM to validate and expand the Locust Mountain database. A number of samples from the Tucson drill core, submitted for assay to EnviroTech Assays Ltd of Kelowna B.C., have returned highly anomalous palladium values, which indicate a coarse-grained style of palladium mineralization. All samples that reported elevated palladium values are currently being re-checked by EnviroTech, and representative samples have also been shipped to Chemtex Laboratories in Calgary, Alberta for further check assays.

Rivers and streams draining the region, including those of the Locust Mountain property, have produced over 20,000 ounces of placer palladium. Nuggets up to one ounce have been recovered from local streams, but no direct source of this coarse palladium mineralization has been previously identified.

Previous operators reported promising results, such as 9.86 g/t palladium over 3 meters from a reverse circulation hole drilled by Major-Domo Exploration in 1986. Major-Domo also delineated an 800x300 meter palladiferous chromite zone on surface, wherein five outcrops returned values from 1.6 to 2.9 g/t palladium.

The Tucson diamond drill program was conducted mainly, but not exclusively, within the Major-Domo delineated surface anomaly. Tucson drilled nine holes totaling 2,300 ft, but assayed less than 200ft of the core. BSM re-logged the entire drill core and resampled the holes. A total of 232 samples, representing the entire drilling program in five and ten-foot intervals were submitted for assay.

BSM has identified coarse-grained palladium mineralization in several of the previously unsampled Tucson drill holes. Check samples have a variation in excess of 30 grams per tonne palladium. The coarse nature of the palladium mineralization was further demonstrated through a pulp and metallic screening analysis, where most of the coarse mineralization was identified on +140 mesh screens. Due to the large size of the samples, at this time a secondary assay program using much larger batches of 300 and 500 gram re-splits will be analyzed by pulp and metallic methods to obtain better control on the true grade of the material and to resolve the coarse-grained palladium nugget effect.

For more information, visit our website at www.bs-mining.com.

The Western Canada Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this Press Release.

Analysis of the PR

Can you see any problems with this PR? Try to analyse it with careful concern and cold emotion. Here is what you might find:

Management of BS Mining is pleased to announce the acquisition of drill core from a 1997 diamond-drilling program conducted by Tucson Gold Resources Ltd ("Tucson") on the Locust Mountain property now controlled by BSM.

Now this sounds promising, doesn't it?

It should be noted that BSM only recently acquired the drill core and accordingly could not verify a secure chain of custody.

Oh oh, that raises a red flag now, doesn't it?

Information obtained from this core will be used to formulate a new exploration program conducted by BSM to validate and expand the Locust Mountain database.

Well, isn't that special? and aren't they being honest? It will be the new exploration program that will validate and "expand" the database. They don't plan to use these assays for anything else but planning purposes -- yeah, right!!

A number of samples from the Tucson drill core, submitted for assay to EnviroTech Assays Ltd of Kelowna B.C., have returned highly anomalous palladium values, which indicate a coarse-grained style of palladium mineralization.

Oops, we told a lie. Now we are using the data to report to you that the values are "highly anomalous" or is it "anomalously high". Well, not to worry. The point is, whatever the right term, this indicates a coarse-grained style of palladium mineralization, everyone knows that!!!

(The term "anomaly" describes the presence of an orebody, while the term "anomalous" can mean many things including "inconsistent" or "extreme variation" or "very high". Take your pick.)

All samples that reported elevated palladium values are currently being re-checked by EnviroTech, and representative samples have also been shipped to Chemtex Laboratories, Calgary, Alberta for further check assays.

Well, of course we must get these samples reassayed and checked. That's what any honest company would do, right?

(Wrong, an honest company would check ALL the samples not just those that are "anomalously high". Selective checking is a hallmark of the gold or platinum-group metal mine scammer.)

Rivers and streams draining the region, including those of the Locust Mountain property, have produced over 20,000 ounces of placer palladium. Nuggets up to one ounce have been recovered from local streams, but no direct source of this coarse palladium mineralization has been previously identified.

So now we want to give you a history lesson to go along with the "exploration" results - oops, I meant "planning" results. Hey, in this region, lots of placer palladium has been extracted in the past with nuggets as large as your fist. And we intend to find the "source" of this mineralization even though these samples have no Chain-of-Custody validation.

Previous operators reported promising results, such as 9.86 g/t palladium over 3 meters from a reverse circulation hole drilled by Major-Domo Exploration in 1986. Major-Domo also delineated an 800x300 meter palladiferous chromite zone on surface, wherein five outcrops returned values from 1.6 to 2.9 g/t palladium.

We know where to look. See work was done previously by one of the largest mining corporations in the world, Major-Domo, and they must have known what they were doing, eh? Look how big they are today. (I wonder why Major-Domo stopped pursuing this "find"?)

The Tucson diamond drill program was conducted mainly, but not exclusively, within the Major-Domo delineated surface anomaly. Tucson drilled nine holes totaling 2,300 ft, but assayed less than 200ft of the core. BSM re-logged the entire drill core and resampled the

holes. A total of 232 samples, representing the entire drilling program in five and ten-foot intervals were submitted for assay.

No chain-of-custody, but look where they say they drilled -- all around the Major-Domo anomaly. Oh, did we mention before there is an anomaly? Yeah, that's right and it's called the Major-Domo anomaly. Now this little junior, Tucson didn't know what they were doing. They drilled 2,300 ft. but only assayed less than 10% of the core. We've re-logged this "no chain-of-custody" core and have even resampled their drill holes!! (How??) Just wait til we get our results back from these "new" samples that we took ourselves.

Unfortunately they have simply resampled the same drill core.

BSM has identified coarse-grained palladium mineralization in several of the previously unsampled Tucson drill holes. Check samples have a variation in excess of 30 grams per tonne palladium. The coarse nature of the palladium mineralization was further demonstrated through a pulp and metallic screening analysis, where most of the coarse mineralization was identified on +140 mesh screens.

Yes-siree-Bob, we've seen the palladium in these here "unsampled" drill holes. (What unsampled drill holes are they talking about? Drilling gives you samples so why are they "unsampled"? I thought the issue was "unassayed" drill core? A little confusing, don't you think?)

Holy smokes, over 30 grams per tonne variation and very coarse – we've found the "mother-lode" with these no chain-of-custody samples.

(Note how they have used "sample variation" to give an indication of the levels of these "anomalously high" assays.)

Due to the large size of the samples, at this time a secondary assay program using much larger batches of 300 and 500 gram re-splits will be analyzed by pulp and metallic methods to obtain better control on the true grade of the material and to resolve the coarse-grained palladium nugget effect.

The samples we have are too large so we intend to do secondary sampling using even larger batches of 300-500 g re-splits (removal of material from the drill core. The core is split in half and then generally, half the core is sent for analysis, keeping the other half intact. Re-split means they intend to split the half core again into further assayable samples.) (The sentence contains double-speak -- note they start out talking about larger sample sizes and then somehow after secondary sampling they will use even larger batches -- Whaaaa???)

(Also note the use of the famous "nugget-effect" buzz-word. What they are saying is that because the palladium grains are coarse, by using a larger amount of starting material, they can eliminate the problem of grains of heavy palladium falling into one or the other split and causing the duplicate results to be all over the map. The thing is that even 300-500 grams are not large enough batches to avoid the "nugget-effect" on a 140 mesh screen == 100 microns. They need at least 1 to 2 kilo samples.)

For more information, visit our website at www.bs-mining.com.

So come on over and invest with us - Happy Days are ahead.

The Western Canada Venture Exchange has not reviewed and does not accept responsibility for the adequacy or accuracy of this Press Release.

(Now what does this mean? If the exchange hasn't reviewed the PR, then why is this company listed on their exchange? The PR is nothing but half-truths and misleading information. Distractions and red-herrings are all through the document. The WCVX should be ashamed that it allows a company to issue such rubbish. The problem of course, is they can't afford to spend the time reviewing every listed company PR. But perhaps, they should spend the time, perhaps they owe it to the investment community to use a fine tooth comb on everyone of these shady PRs. The problem then would be what is allowed and what is not. There is sometimes a fine line between the truth and a scam. The trick is to identify this line accurately. Perhaps some criteria to "standardize" these PRs could be developed, but unfortunately English is one of the richest of languages, and it has many twists and turns to use to provide the "desired message" as opposed to the truth. The advertising industry has standards for television commercials although some of the info-mercials appear to cross the line at times. Perhaps this would be a place to start to provide protection for PR and IR releases from high-risk low-cap companies - A Code of Ethics!)

A Code of Ethics for PR Writers

The major response to the Bre-X fiasco has focused on requiring professional earth scientists to be responsible for issuing information on company reserves and/or resources. This provides a self-regulating method to deal with the training and discipline of people doing these jobs. But perhaps it is time to consider the same requirements for those individuals in a company responsible for issuing Investor Reports and Press Releases. Perhaps an equally high professionalism equal is demanded.

There are some existing models on which such a Code of Ethics could be developed. Appended to this set of notes are three examples from related organizations:

1. Advertising Standards Canada – The Canadian Code of Advertising Standards - 1999
2. Public Relations Society of America – Members Code of Ethics 2000
3. The International Communications Consultancies Association Professional Charter 1991

Now I realize that it is extremely difficult to legislate ethics, but all Professional Engineering Associations across Canada require all of their members to write an examination in ethics. In fact, it is the one exam that all engineers must write regardless of whether they have taken a course in ethics during their training and education. I think a similar approach to PR and IR writing could go a long way to force adherence to higher standards in public relations, to produce people who are professionally responsible for their work as they issue these documents. This would require all companies to employ a person who is trained in the field of public relations.

Conclusions

This paper has attempted to give an overview of the stock scam industry. Scamming is a business and like regular businesses, a system is used to make it work properly. The key is to identify the elements of a scam. If any of these elements exist, walk away from the investment. Use your common-sense judgement to control your emotions. Avoid making decisions based on Greed, Fear, Envy, Denial and Hope.

Bre-X was the ultimate mother of all mining stock scams, yet when viewed in hindsight, it used many traditional methods of the historical scams and manias of the past. Salting of samples dates back to the Romans. It can be achieved in many different ways from shooting gold-laden buck-shot into the rock walls of a mine drift, to dropping gold-laden cigarette ash into an open sample bag. A hypodermic filled with gold chloride solution is also an effective way to taint the assays of a sample.

Involvement in a scam can occur in other ways besides investing. As professional engineers and geoscientist, we must pay particular attention to the ethics of our business. The goal of the scammer is to

convince "pigeons" to part with their money. The goal of legitimate exploration companies is to raise capital to perform exploration work – it is a risky business but with tenacity, patience and luck, an orebody will be found. Investors know exploration stocks are high-risk, but in the case of a scam, they have no chance of winning.

If you find yourself working or consulting for a company that appears to be acting in a shady way, you must remove yourself from the situation as quickly as possible. If your knowledge has value, then report your experiences to the proper authorities.

In writing PRs for mining and exploration companies, it is important to avoid over-hyping good news. Bad assays are just as important as good ones to provide an understanding of the extent of an orebody. Avoid exaggeration and use data for its appropriate purposes. Remember "no chain of custody" means the samples are unreliable. If you still wish to use them, they should not be reported to the public without identifying these facts. Good news is certainly the point of a PR, but more importantly, shareholders deserve to be able to see what the company is doing in a timely fashion. They need assurances that the books are not being "cooked" and that the company is working diligently for its shareholders to find something in the ground of value to their equity. Shareholders are your partners and should be treated as such. They showed faith in investing in your company – you must return that faith and communicate with them honestly and openly.

Canadian Code of Advertising Standards May 1999 Revision

Self-Regulation of Advertising in Canada

The Canadian Code of Advertising Standards (Code), which has been developed to promote the professional practice of advertising, was first published in 1963. Since that time it has been reviewed and revised periodically to keep it contemporary. The Code is administered by Advertising Standards Canada/Les normes canadiennes de la publicité (ASC) (formerly the Canadian Advertising Foundation/la Fondation canadienne de la publicité). ASC is the industry body committed to creating and maintaining community confidence in advertising.

The Code sets the criteria for acceptable advertising and forms the basis upon which advertising is evaluated in response to consumer or trade complaints. It is widely endorsed by advertisers, advertising agencies, media that exhibit advertising, and suppliers to the advertising process.

Consumer complaints to ASC about advertising that allegedly does not comply with the Code are reviewed and adjudicated by the English national and regional Consumer Response Councils and by their counterpart in Montreal, le Conseil des normes (collectively referred to as Councils and individually as a Council). These autonomous bodies of senior industry and public representatives are supported and coordinated by, but altogether independent from, ASC.

Trade complaints about advertising, based on the Code, are separately administered under ASC's Trade Dispute Procedure.

Definitions

For the purposes of the Code and this document:

"Advertising" is any message (the content of which is controlled directly or indirectly by the advertiser) expressed in any language and communicated in any medium (except those listed in Appendix "A") to Canadians with the intent to influence their choice, opinion or behaviour.

"Advertising" also includes "advocacy advertising", "political advertising", and "election advertising", as below.

"Advocacy advertising" is "advertising" which presents information or a point-of-view bearing on a publicly recognized controversial issue.

"Political advertising" is "advertising" by any part of local, provincial or federal governments, or concerning policies, practices or programs of governments, as distinct from election advertising.

"Election advertising" is "advertising" regarding a political party, a political or government policy or issue, an electoral candidate, or other matters before the electorate for a referendum, communicated to the public within a time-frame that starts the day after a vote is called and ends the day after the vote is held. A "vote" is said to be called when the applicable writ is dropped.

Application

The Code applies to "advertising" by (or for):

- advertisers promoting the use of goods and services;
- corporations, organizations or institutions seeking to improve their public image or advance a point of view; and
- governments, government departments, and crown corporations.

Exclusions

Canadians are entitled to expect that election advertising respects the standards articulated in the Code. However, it is not intended that the Code govern or restrict the free expression of public opinion or ideas through election advertising, which is excluded from the application of this Code.

Scope of the Code

The authority of the Code applies only to the content of advertisements and does not prohibit the promotion of legal products or services or their portrayal in circumstances of normal use. The context and content of the advertisement and the audience actually, or likely to be, or intended to be, reached by the advertisement, and the medium/media used to deliver the advertisement, are relevant factors in assessing its conformity with the Code. In the matter of consumer complaints, Councils will be encouraged, when in their judgment it would be helpful and appropriate to do so, to refer to the principles and standards expressed in the Gender Portrayal Guidelines (as amended from time to time) in order to identify acceptable standards respecting the representations of women and men in advertisements.

The Code

The Canadian Code of Advertising Standards is widely supported by all participating organizations, and is designed to help set and maintain standards of honesty, truth, accuracy, fairness and propriety in advertising.

No advertising shall be prepared or knowingly exhibited by the participating organizations which contravenes this Code of Standards.

The provisions of the Code should be adhered to both in letter and in spirit. Advertisers and their representatives must substantiate their advertised claims promptly when requested to do so by one or more of the Councils.

1. Accuracy and Clarity

- (a) Advertisements must not contain inaccurate or deceptive claims, statements, illustrations or representations, either direct or implied, with regard to price, availability or performance of a product or service. In assessing the truthfulness and accuracy of a message, the concern is not with the intent of the sender or precise legality of the presentation. Rather, the focus is on the message as received or perceived, that is, the general impression conveyed by the advertisement.
- (b) Advertisements must not omit relevant information such that the result is deceptive.
- (c) All pertinent details of an advertised offer must be clearly and understandably stated.
- (d) Disclaimers and asterisked or footnoted information must not contradict more prominent aspects of the message and should be located and presented in such a manner as to be clearly visible and/or audible.
- (e) Both in principle and practice, all advertising claims and representations must be supportable. If the support on which an advertised claim or representation depends is test or survey data, such data must be reasonably competent and reliable, reflecting accepted principles of research design and execution that characterize the current state of the art. At the same time, however, such research should be economically and technically feasible, with due recognition of the various costs of doing business.
- (f) The entity that is the advertiser in an advocacy advertisement must be clearly identified as the advertiser in either of the audio or video portion of the advocacy advertisement.

2. Disguised Advertising Techniques

No advertisement shall be presented in format or style which conceals its commercial intent.

3. Price Claims

- (a) No advertisement shall include deceptive price claims or discounts, unrealistic price comparisons or exaggerated claims as to worth or value. "Regular Price", "Suggested Retail Price", "Manufacturer's List Price" and "Fair Market Value" are deceptive terms when used by an advertiser to indicate a savings, unless they represent prices at which, in the market place where the advertisement appears, the advertiser actually sold a substantial volume of the advertised product or service within a reasonable period of time (such as six months) immediately before or after making the representation in the advertisement; or offered the product or service for sale in good faith for a substantial

period of time (such as six months) immediately before or after making the representation in the advertisement.

- (b) Where price discounts are offered, qualifying statements such as "up to", "XX off", etc., must be in easily readable type, in close proximity to the prices quoted and, where practical, legitimate regular prices must be included.
- (c) Prices quoted in advertisements in Canadian media, other than in Canadian funds, must be so identified.

4. Bait and Switch

Advertisements must not misrepresent the consumer's opportunity to purchase the goods and services at the terms presented. If supply of the sale item is limited, or the seller can fulfill only limited demand, this must be clearly stated in the advertisement.

5. Guarantees

No advertisement shall offer a guarantee or warranty, unless the guarantee or warranty is fully explained as to conditions and limits and the name of the guarantor or warrantor is provided, or it is indicated where such information may be obtained.

6. Comparative Advertising

Advertisements must not discredit, disparage or attack unfairly other products, services, advertisements or companies, or exaggerate the nature of competitive differences.

7. Testimonials

Testimonials, endorsements or representations of opinion or preference, must reflect the genuine, reasonably current opinion of the individual(s), group or organization making such representations, and must be based upon adequate information about or experience with the product or service being advertised, and must not otherwise be deceptive.

8. Professional or Scientific Claims

Advertisements must not distort the true meaning of statements made by professionals or scientific authorities. Advertising claims must not imply that they have a scientific basis which they do not truly possess. Any scientific, professional or authoritative claims or statements must be applicable to the Canadian context, unless otherwise clearly stated.

9. Imitation

No advertiser shall imitate the copy, slogans or illustrations of another advertiser in such a manner as to mislead the consumer.

10. Safety

Advertisements must not without reason, justifiable on educational or social grounds, display a disregard for safety or depict situations that might encourage unsafe or dangerous practices, or acts.

11. Superstition and Fears

Advertisements must not exploit superstitions or play upon fears to mislead the consumer.

12. Advertising to Children

Advertising which is directed to children must not exploit their credulity, lack of experience or their sense of loyalty, and must not present information or illustrations which might result in their physical, emotional or moral harm.

Child-directed advertising in the broadcast media is separately regulated by the Broadcast Code for Advertising to Children, also administered by ASC. Advertising to children in Quebec is prohibited by the Quebec Consumer Protection Act.

13. Advertising to Minors

Products prohibited from sale to minors must not be advertised in such a way as to appeal particularly to persons under legal age, and people featured in advertisements for such products must be, and clearly seen to be, adults under the law.

14. Unacceptable Depictions and Portrayals

It is recognized that advertisements may be distasteful without necessarily conflicting with the provisions of this clause; and the fact that a particular product or service may be offensive to some people is insufficient grounds to object to an advertisement for that product or service.

Advertisements shall not:

- (a) condone any form of personal discrimination, including that based upon race, national origin, religion, sex or age;
- (b) appear to exploit, condone or incite violence; nor directly encourage, or exhibit indifference to, unlawful or reprehensible behaviour;
- (c) demean, denigrate or disparage any identifiable person, group of persons, firm, organization, industrial or commercial activity, profession, product or service or attempt to bring it or them into public contempt or ridicule;
- (d) undermine human dignity, or appear to encourage or be indifferent to conduct or attitudes that offend standards of public decency among a significant segment of the population.

Appendix A

List of media not covered by the Code

The following, as of **May 1, 1999**, are excluded from the definition of "medium" and the application of the Code:

- i) foreign media (namely media that originate outside Canada and contain the advertising in question) unless the advertiser is a Canadian person or entity; and
- ii) packaging, wrappers and labels.

The Preclearance and Regulatory Mosaic

The Canadian Code of Advertising Standards is not intended to replace the many laws and guidelines designed to regulate advertising in Canada. Nor are the Code's provisions intended to be senior to any other aspect of Canada's preclearance and regulatory apparatus – to which some require mandatory compliance; others voluntary. As its name implies, the Code has as its primary purpose the expression of Canadian standards in advertising that when followed, should result in responsible, yet effective advertising without unreasonably blunting the underlying fundamental rights to advertise lawfully-sold products and services fairly and competitively.

ASC also provides advisory and copy clearance services, upon request, to various groups within the advertising and marketing industry. ASC provides these services through its Advertising Clearance Division in which copy review sections are staffed by analysts who are highly qualified in their area of expertise. ASC's Advertising Clearance Division operates separately and apart from ASC's Standards Division; and every copy submission approved by a copy review section includes a written inscription, prominently displayed, advising the advertiser that the copy was approved only within the context of (and for as long as the copy complies with) the provisions of the applicable (named) Act, Regulations and Guidelines (if any).

The inscription may also note that a commercial produced from an approved submission could provoke a consumer complaint under the Code, and if such complaint is upheld by Council, the advertiser will be requested to withdraw the commercial or amend it to comply with the Code.

How to Submit Consumer Complaints to ASC

The procedure for consumers wishing to complain to ASC that an "advertisement" (as defined in the Code) contravenes the Code, is as follows:

- All complaints must be in writing using either the prescribed ASC complaint form or a letter drafted by the complainant. Telephoned complaints cannot be accepted.
- Complaints may be filed by e-mail. Instructions and complaint forms are on ASC's website at www.adstandards.com. They are also available upon request from the offices listed in Appendix B to the Code.
- If using a complaint form, the complainant should answer all questions on the form as completely as possible.
- If using a complaint letter:
 - The complainant must identify himself/herself in the complaint letter, including telephone number and (if applicable) fax number and e-mail address.
 - Complaint letters must identify the product or service being advertised.
 - The complaint letter should be sent to Les normes canadiennes de la publicité in Montreal if it concerns Quebec or French-language advertising. All other complaints should be addressed to Advertising Standards Canada in Toronto.
- Complaints about a print advertisement should identify the name and date of the publication in which it appeared and include a copy of the advertisement.
- Complaints about an out-of-home advertisement, such as outdoor, transit or similar advertisement, should identify the date on and location at which the advertisement was seen. A brief, but clear, description of the advertisement is also required.
- Complaints about a broadcast advertisement should identify the station, time and date on/at which the commercial was seen/heard. A brief, but clear, description of the commercial is also required. Similar information is needed if the advertisement is on the web, in movie theatres or in similar media.
- Each complaint should clearly explain the reason or basis for the complaint and, if known to the complainant, the provision(s) of the Code that may apply.
- How Consumer Complaints are Received and Handled by ASC and Council

In keeping with their mandate within today's self-regulatory environment, ASC and Council carefully consider and respond to all written consumer complaints received by them about advertising that allegedly does not comply with the Code. If, upon review, it appears to ASC or Council that a complaint is not a disguised trade complaint, and that based on the provisions of the Code reasonable grounds for the complaint appear to exist, then the complaint will be accepted for processing. If at any time thereafter during the complaint review process, but prior to the release of Council's decision on the complaint, either ASC or Council concludes that, in reality, the complaint is a trade complaint and not a consumer complaint, the process will be discontinued and the complainant notified accordingly. In these cases, the complainant will be reminded that alternative approaches should be considered by the complainant for registering an advertising-related complaint, such as under ASC's Trade Dispute Procedure.

Complaints directed to Advertising Standards Canada in Toronto, or to Les normes canadiennes de la publicité in Montreal, will be initially evaluated by ASC staff at those locations. If a complaint raises a potential Code issue and it concerns Quebec or French-language advertising, the complaint will be evaluated and decided by le Conseil des normes in Montreal. Otherwise a complaint will be directed to the national Council in Toronto if it refers to a national advertisement or, possibly, to one of the regional council offices identified in Appendix B if the advertisement relates to local or regional advertising in the vicinity of that council office.

The critical factor in determining whether an advertisement should be reviewed by Council is not the number of complaints received. The fundamental issue is only whether an advertisement, if the subject of any number of complaints, appears to contravene the Code. And, ultimately, that question can only be answered by a Council in response to one or more bona fide complaints that originate from the public.

If, after a complaint is received, there is a preliminary determination that there may be a Code infraction by the advertisement, the advertiser will be notified in writing of the nature of the

complaint and, if informed consent is freely granted by the complainant to ASC, the identity of the complainant. The advertiser will be asked to respond, without unreasonable delay, and provide information requested by Council in order that Council may deliberate and reach a fully-informed decision about whether the Code has, in fact, been violated.

At the initial deliberation by a Council, the materials available for Council's review include, at a minimum, the complaint letter, the advertiser's written response, if any, and a copy of the advertising in question.

Council's decisions are by majority vote with the Chair having a casting or deciding vote. Any member of Council may abstain from voting on any matter.

If a Council concludes an advertisement violates the Code, the advertiser, with a copy to the complainant, will be notified of the decision in writing and requested to appropriately amend the advertising in question or withdraw it, in either case without unreasonable delay.

If, at the initial deliberation by Council, the complaint is not upheld, both the complainant and the advertiser will be notified in writing with an explanation for Council's decision.

Appealing from a Decision of Council

Both the complainant and the advertiser are entitled to appeal a decision of Council by filing a Notice of Appeal addressed to the Standards Division or, if in relation to a Quebec decision, to la Division des normes. The Notice of Appeal must be received at ASC within 5 working days after the decision is sent to the parties. The advertiser may request an appeal only if that advertiser undertakes in writing to withdraw the advertising in question within 11 working days after the Notice of Appeal is received at ASC unless, prior to that time, the Appeal Panel has decided not to uphold the complaint. Advertisers will be granted a reasonable extension of time in which to withdraw the advertising if Council is satisfied that the advertising medium used to convey the advertising is unable to facilitate the withdrawal in the designated time.

A 5-person appeal panel will be selected from among a roster of persons who did not serve at the original deliberation by a Council. The appeal panel will comprise 2 public representatives with the balance coming from the advertiser, advertising agency and media sectors. Each party will be given at least 5 working days advance written notice of the date of the appeal hearing.

At the appeal hearing both the advertiser and the complainant may appear in person to present their submissions. Alternatively, submissions may be made in writing to the appeal panel. In either case, the submissions must be brief and confined strictly to the matters under appeal.

Decisions of appeal panels will be by majority vote and will be sent to both parties within 4 working days of the appeal hearing. At the appeal hearing, the complaint will be treated as a new complaint and the matter reconsidered in its entirety.

Decisions by appeal panels will be binding and final.

Advertising Complaints Report

Each year, ASC will publish reports on consumers' complaints to ASC about advertising. The principal purpose of these reports is to inform the advertising industry, and the interested public, about advertising issues that concerned the public.

The reports will be divided into two sections. One section will provide details, including advertiser and advertisement identification, of those consumer complaints upheld under the Code. In this section, advertisers will be entitled to state their position on their advertisements about which a Council has upheld one or more complaints. The other section will summarize, without naming the advertiser, consumer complaints upheld by Councils about advertisements dealt with appropriately by the advertiser. Appropriate action by the advertiser means action undertaken by

the advertiser, without delay, to amend the advertisement to correct the alleged infraction, after being advised by ASC that a complaint had been received and before the matter was brought forward to Council for review and decision. Alternatively, the advertiser may withdraw the advertisement from any further exposure, distribution or circulation and, for retail advertising, provide a correction advertisement that appears in consumer-oriented media addressed to the same consumers to whom the misleading or offending advertising was originally directed.

Re-Opening a Case

ASC will have the discretionary right to reactivate the complaints procedure, in whole or part, including the imposition of sanctions provided in the Code, if an advertiser fails to fulfill its undertaking to withdraw or amend an advertisement; or if the matter underlying the complaint is of a continuing or repetitive nature, suggesting an avoidance of the provision(s) of the Code.

Advertiser's Failure to respond or participate

If an advertiser fails to respond to a complaint or participate in the consumer complaint procedure the complaint may be decided in the advertiser's absence based on the information already in the possession of the applicable Council and on any further pertinent information submitted by the complainant for Council's review.

Failure to Follow Procedure or Comply with Decision

The Code is a reflection of advertising standards by which industry wishes to be held accountable. Because self-regulation is more than self-restraint on the part of individual companies, the Code would be incomplete without effective sanctions to enforce compliance.

If an advertiser fails to voluntarily comply with the decision of Council, ASC through its appropriate Division:

- will advise exhibiting media of the advertiser's failure to co-operate and request media's support in no longer exhibiting the advertising in question; and
- may publicly declare, in such manner as Council deems appropriate, that the advertising in question, and the advertiser to be identified, have been found to violate the Code.
- How to Interpret and Apply the Code

Questions regarding the interpretation and application of the Code should be addressed to:

Standards Division
Advertising Standards Canada
350 Bloor Street East, Suite 402
Toronto, ON M4W 1H5

or to:

La division des normes
Les normes canadiennes de la publicité
4823 rue Sherbrooke ouest, Bureau 130
Montréal, Québec H3Z 1G7

Tel: (416) 961-6311 Fax: (416) 961-7904
Website: www.adstandards.com
e-mail: info@adstandards.com

Tel: (514) 931-8060 Fax: (514) 931-2797
Website: www.normespub.com
e-mail: info@normespub.com

Appendix B

Regional Council Offices

Alberta Consumer Response Council
P.O. Box 2400, Station M
215 - 16 Street South East
Calgary, AB T2P 0W8

British Columbia Consumer Response Council
P.O. Box 3005
Vancouver, BC V6B 3X5

Atlantic Consumer Response Council
P.O. Box 701 Central
Halifax, NS B3J 2T3

For questions or comments concerning this web site, send mail to info@adstandards.com
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Member Code of Ethics 2000

Approved by the Public Relations Society of America Assembly

October, 2000

Letter from the PRSA Board of Directors

It is with enormous professional pleasure and personal pride that we, the Public Relations Society of America Board of Directors put before you a new Public Relations Member Code of Ethics for our Society. It is the result of two years of concentrated effort led by the Board of Ethics and Professional Standards. Comments of literally hundreds and hundreds of members were considered. There were focus groups at our 1999 national meeting in Anaheim, California. We sought and received intensive advice and counsel from the Ethics Resource Center, our outside consultants on the project. Additional recommendations were received from your Board of Directors, PRSA staff, outside reviewers, as well as District and Section officers. Extensive research involving analysis of numerous codes of conduct, ethics statements, and standards and practices approaches was also carried out.

In fact, this Member Code of Ethics has been developed to serve as a foundation for discussion of an emerging global Code of Ethics and Conduct for the practice of Public Relations.

This approach is dramatically different from that which we have relied upon in the past. You'll find it different in three powerfully important ways:

1. Emphasis on enforcement of the Code has been eliminated. But, the PRSA Board of Directors retains the right to bar from membership or expel from the Society any individual who has been or is sanctioned by a government agency or convicted in a court of law of an action that is in violation of this Code.
2. The new focus is on universal values that inspire ethical behavior and performance.
3. Desired behavior is clearly illustrated by providing language, experience, and examples to help the individual practitioner better achieve important ethical and principled business objectives. This approach should help everyone better understand what the expected standards of conduct truly are.

Perhaps most important of all, the mission of the Board of Ethics and Professional Standards has been substantially altered to focus on education and training, on collaboration with similar efforts in other major professional societies, and to serve an advisory role to the Board on ethical matters of major importance.

The foundation of our value to our companies, clients and those we serve is their ability to rely on our ethical and morally acceptable behavior. Please review this new Member Code of Ethics in this context:

- Its Values are designed to inspire and motivate us every day to the highest levels of ethical practice.
- Its Code Provisions are designed to help each of us clearly understand the limits and specific performance required to be an ethical practitioner.
- Its Commitment mechanism is designed to ensure that every Society member understands fully the obligations of membership and the expectation of ethical behavior that are an integral part of membership in the PRSA.

This approach is stronger than anything we have ever had because:

- It will have a daily impact on the practice of Public Relations.
- There are far fewer gray areas and issues that require interpretation.
- It will grow stronger and be more successful than what we have had in the past through education, through training, and through analysis of behaviors.

The strength of the Code will grow because of the addition of precedent and the ethical experiences of other major professional organizations around the world.

Our new Code elevates our ethics, our values, and our commitment to the level they belong, at the very top of our daily practice of Public Relations.

A Message from the PRSA Board of Ethics and Professional Standards

Our Primary Obligation

The primary obligation of membership in the Public Relations Society of America is the ethical practice of Public Relations.

The PRSA Member Code of Ethics is the way each member of our Society can daily reaffirm a commitment to ethical professional activities and decisions.

- The Code sets forth the principles and standards that guide our decisions and actions.
- The Code solidly connects our values and our ideals to the work each of us does every day.
- The Code is about what we should do, and why we should do it.

The Code is also meant to be a living, growing body of knowledge, precedent, and experience. It should stimulate our thinking and encourage us to seek guidance and clarification when we have questions about principles, practices, and standards of conduct.

Every member's involvement in preserving and enhancing ethical standards is essential to building and maintaining the respect and credibility of our profession. Using our values, principles, standards of conduct, and commitment as a foundation, and continuing to work together on ethical issues, we ensure that the Public Relations Society of America fulfills its obligation to build and maintain the framework for public dialogue that deserves the public's trust and support.

The Members of the 2000 Board of Ethics and Professional Standards

Robert D. Frause, APR, Fellow PRSA
 Chairman BEPS
 Seattle, Washington
 Kathy R. Fitzpatrick, APR
 Gainesville, Florida
 Linda Welter Cohen, APR
 Tucson, Arizona
 James R. Frankowiak, APR
 Tampa, Florida
 James E. Lukaszewski, APR, Fellow PRSA
 White Plains, New York
 Roger D. Buehrer, APR
 Fellow PRSA
 Las Vegas, Nevada
 Jeffrey P. Julin, APR
 Denver, Colorado
 David M. Bicofsky, APR, Fellow PRSA
 Teaneck, New Jersey
 James W. Wyckoff, APR
 New York, New York

[Code of Ethics - Spanish translation](#)

The PRSA Assembly adopted this Code of Ethics in 2000. It replaces the Code of Professional Standards (previously referred to as the Code of Ethics) that was last revised in 1988. For further information on the Code, contact the chair of the Board of Ethics through PRSA headquarters.

Preamble

Public Relations Society of America Member Code of Ethics 2000

- Professional Values
- Principles of Conduct
- Commitment and Compliance

This Code applies to PRSA members. The Code is designed to be a useful guide for PRSA members as they carry out their ethical responsibilities. This document is designed to anticipate and accommodate, by precedent, ethical challenges that may arise. The scenarios outlined in the Code provision are actual examples of misconduct. More will be added as experience with the Code occurs.

The Public Relations Society of America is committed to ethical practices. The level of public trust PRSA members seek, as we serve the public, means we have taken on a special obligation to operate ethically.

The value of member reputation depends upon the ethical conduct of everyone affiliated with the Public Relations Society of America. Each of us sets an example for each other - as well as other professionals - by our pursuit of excellence with powerful standards of performance, professionalism, and ethical conduct.

Emphasis on enforcement of the Code has been eliminated. But, the PRSA Board of Directors retains the right to bar from membership or expel from the Society any individual who has been or is sanctioned by a government agency or convicted in a court of law of an action that is in violation of this Code.

Ethical practice is the most important obligation of a PRSA member. We view the Member Code of Ethics as a model for other professions, organizations, and professionals.

PRSA Member Statement of Professional Values

This statement presents the core values of PRSA members and, more broadly, of the public relations profession. These values provide the foundation for the Member Code of Ethics and set the industry standard for the professional practice of public relations. These values are the fundamental beliefs that guide our behaviors and decision-making process. We believe our professional values are vital to the integrity of the profession as a whole.

ADVOCACY

- We serve the public interest by acting as responsible advocates for those we represent.
- We provide a voice in the marketplace of ideas, facts, and viewpoints to aid informed public debate.

HONESTY

- We adhere to the highest standards of accuracy and truth in advancing the interests of those we represent and in communicating with the public.

EXPERTISE

- We acquire and responsibly use specialized knowledge and experience.
- We advance the profession through continued professional development, research, and education.
- We build mutual understanding, credibility, and relationships among a wide array of institutions and audiences.

INDEPENDENCE

- We provide objective counsel to those we represent.
- We are accountable for our actions.

LOYALTY

- We are faithful to those we represent, while honoring our obligation to serve the public interest.

FAIRNESS

- We deal fairly with clients, employers, competitors, peers, vendors, the media, and the public.
- We respect all opinions and support the right of free expression.

PRSA Code Provisions

FREE FLOW OF INFORMATION

Core Principle

Protecting and advancing the free flow of accurate and truthful information is essential to serving the public interest and contributing to informed decision making in a democratic society.

Intent

- To maintain the integrity of relationships with the media, government officials, and the public.
- To aid informed decision-making.

Guidelines

A member shall:

- Preserve the integrity of the process of communication.
- Be honest and accurate in all communications.
- Act promptly to correct erroneous communications for which the practitioner is responsible.
- Preserve the free flow of unprejudiced information when giving or receiving gifts by ensuring that gifts are nominal, legal, and infrequent.

Examples of Improper Conduct Under this Provision:

- A member representing a ski manufacturer gives a pair of expensive racing skis to a sports magazine columnist, to influence the columnist to write favorable articles about the product.
- A member entertains a government official beyond legal limits and/or in violation of government reporting requirements.

COMPETITION

Core Principle

Promoting healthy and fair competition among professionals preserves an ethical climate while fostering a robust business environment.

Intent

- To promote respect and fair competition among public relations professionals.
- To serve the public interest by providing the widest choice of practitioner options.

Guidelines

A member shall:

- Follow ethical hiring practices designed to respect free and open competition without deliberately undermining a competitor.
- Preserve intellectual property rights in the marketplace.

Examples of Improper Conduct Under This Provision:

- A member employed by a "client organization" shares helpful information with a counseling firm that is competing with others for the organization's business.
- A member spreads malicious and unfounded rumors about a competitor in order to alienate the competitor's clients and employees in a ploy to recruit people and business.

DISCLOSURE OF INFORMATION

Core Principle

Open communication fosters informed decision making in a democratic society.

Intent

- To build trust with the public by revealing all information needed for responsible decision making.

Guidelines

A member shall:

- Be honest and accurate in all communications.
- Act promptly to correct erroneous communications for which the member is responsible.
- Investigate the truthfulness and accuracy of information released on behalf of those represented.
- Reveal the sponsors for causes and interests represented.
- Disclose financial interest (such as stock ownership) in a client's organization.
- Avoid deceptive practices.

Examples of Improper Conduct Under this Provision:

- Front groups: A member implements "grass roots" campaigns or letter-writing campaigns to legislators on behalf of undisclosed interest groups.
- Lying by omission: A practitioner for a corporation knowingly fails to release financial information, giving a misleading impression of the corporation's performance.
- A member discovers inaccurate information disseminated via a Web site or media kit and does not correct the information.
- A member deceives the public by employing people to pose as volunteers to speak at public hearings and participate in "grass roots" campaigns.

SAFEGUARDING CONFIDENCES

Core Principle

Client trust requires appropriate protection of confidential and private information.

Intent

- To protect the privacy rights of clients, organizations, and individuals by safeguarding confidential information.

Guidelines

A member shall:

- Safeguard the confidences and privacy rights of present, former, and prospective clients and employees.
- Protect privileged, confidential, or insider information gained from a client or organization.
- Immediately advise an appropriate authority if a member discovers that confidential information is being divulged by an employee of a client company or organization.

Examples of Improper Conduct Under This Provision:

- A member changes jobs, takes confidential information, and uses that information in the new position to the detriment of the former employer.
- A member intentionally leaks proprietary information to the detriment of some other party.

CONFLICTS OF INTEREST

Core Principle

Avoiding real, potential or perceived conflicts of interest builds the trust of clients, employers, and the public.

Intent

- To earn trust and mutual respect with clients or employers.
- To build trust with the public by avoiding or ending situations that put one's personal or professional interests in conflict with society's interests.

Guidelines

A member shall:

- Act in the best interests of the client or employer, even subordinating the member's personal interests.
- Avoid actions and circumstances that may appear to compromise good business judgment or create a conflict between personal and professional interests.
- Disclose promptly any existing or potential conflict of interest to affected clients or organizations.
- Encourage clients and customers to determine if a conflict exists after notifying all affected parties.

Examples of Improper Conduct Under This Provision

- The member fails to disclose that he or she has a strong financial interest in a client's chief competitor.
- The member represents a "competitor company" or a "conflicting interest" without informing a prospective client.

ENHANCING THE PROFESSION

Core Principle

Public relations professionals work constantly to strengthen the public's trust in the profession.

Intent

- To build respect and credibility with the public for the profession of public relations.
- To improve, adapt and expand professional practices.

Guidelines

A member shall:

- Acknowledge that there is an obligation to protect and enhance the profession.
- Keep informed and educated about practices in the profession to ensure ethical conduct.
- Actively pursue personal professional development.
- Decline representation of clients or organizations that urge or require actions contrary to this Code.
- Accurately define what public relations activities can accomplish.
- Counsel subordinates in proper ethical decision making.
- Require that subordinates adhere to the ethical requirements of the Code.
- Report ethical violations, whether committed by PRSA members or not, to the appropriate authority.

Examples of Improper Conduct Under This Provision:

- A PRSA member declares publicly that a product the client sells is safe, without disclosing evidence to the contrary.
- A member initially assigns some questionable client work to a non-member practitioner to avoid the ethical obligation of PRSA membership.

RESOURCES

Rules and Guidelines

The following PRSA documents, available in The Blue Book provide detailed rules and guidelines to help guide your professional behavior. If, after reviewing them, you still have a question or issue, contact PRSA headquarters as noted below.

- PRSA Bylaws
- Member Code of Ethics

QUESTIONS

The PRSA is here to help. If you have a serious concern or simply need clarification, please contact [Judy Voss](#) at (212) 460-1480.

PRSA Member Code of Ethics Pledge

I pledge:

To conduct myself professionally, with truth, accuracy, fairness, and responsibility to the public; To improve my individual competence and advance the knowledge and proficiency of the profession through continuing research and education; And to adhere to the articles of the Member Code of Ethics 2000 for the practice of public relations as adopted by the governing Assembly of the Public Relations Society of America.

I understand and accept that there is a consequence for misconduct, up to and including membership revocation.

And, I understand that those who have been or are sanctioned by a government agency or convicted in a court of law of an action that is in violation of this Code may be barred from membership or expelled from the Society.

Signature

Date

**The Rome Charter of
The International Communications Consultancies Association Professional Charter
1991**

1. An Association member firm shall:

- 1.1 Have a positive duty to observe the highest standards in the practice of public relations. Furthermore a member has the responsibility at all times to deal fairly and honestly with clients, past and present, fellow members and professionals, the public relations profession, other professions, suppliers, intermediaries, the media of communication, employees and above all else the public.
- 1.2 Be expected to be aware of, understand and observe this code, any amendment to it, and any other codes which shall be incorporated into this code, and to remain up-to-date with the content and recommendation of any guidance or practice papers issued by ICCO or the national associations of public relations consultancies, and shall have a duty to conform to good practice as expressed in such guidance or practice papers.
- 1.3 Uphold this code and co-operate with fellow members in so doing by enforcing decisions on any matter arising from its publication. A member firm that knowingly causes or permits a member of its staff to act in a manner inconsistent with this code is party to such action and shall itself be deemed to be in breach of it. Any member or staff of a member firm who acts in a manner inconsistent with this code must be disciplined by the employer.

An Association member firm shall not:

- 1.4 Engage in any practice nor seem to conduct itself in any manner detrimental to the reputation of ICCO or the national association of public relations consultancies or the reputation and interests of the public relations profession.

2. Conduct towards the public, the media and other professionals:

An Association member firm shall:

- 2.1 Conduct its professional activities with proper regard to the public interest.
- 2.2 Have a positive duty at all times to respect the truth and shall not disseminate false or misleading information knowingly or recklessly, and to use proper care to avoid doing so inadvertently.
- 2.3 Have a duty to ensure that the actual interest of any organisation with which it may be professionally concerned is adequately declared.
- 2.4 When working in association with other professionals, identify and respect the codes of these professions and shall not knowingly be party to any breach of such codes.
- 2.5 Honour confidences received or given in the course of professional activity
- 2.6 Neither propose nor undertake any action which would constitute an improper influence on organs of government, or on legislation, or on the media of communication.
- 2.7 Neither offer nor give, not cause a client to offer or give, any inducement to persons holding public office or members of any statutory body or organisation who are not directors, executives or retained consultancies, with interest to further the interests of the client if such action is inconsistent with the public interest.

3. Conduct towards clients:

An Association member firm shall:

- 3.1 Safeguard the confidence of both present and former clients and shall not disclose or use these confidences to the disadvantage or prejudice of such clients or to the financial advantage of the member firm, unless the client has released such information for public use, or has given specific permission for its disclosure.
- 3.2 Inform a client of any shareholding or financial interest held by that firm or any member of that firm in any company, firm or person whose services it recommends.
- 3.3 Be free to accept fees, commissions or other valuable considerations from persons other than a client, only provided such considerations are disclosed to the client.
- 3.4 Be free to negotiate with terms that take into account factors other than hours worked and/or seniority of staff. These special factors, which are also applied by other professional advisers, shall have regard to all the circumstances of the specific situation and in particular to:
 - a. The complexity of the issue, case, problem or assignment, and difficulties with completion.
 - b. The professional or specialised skills and the seniority levels of staff engaged the time spent and the degree of responsibility involved.
 - c. The amount of documentation necessary to be perused or prepared, and its importance.
 - d. The place and circumstance where the assignment is carried out, in whole or in part.
 - e. The scope, scale and value of the task and its importance as an issue to the client.

An Association member firm shall not:

- 3.5 Misuse information regarding its client's business for financial or other gain.
- 3.6 Use inside information for gain. Not may a consultancy, its members or staff directly invest in their clients' securities without the prior written permission of the client and of the member's chief executive or chief financial officer or compliance officer.
- 3.7 Serve a client under terms or conditions that might impair independence, objectivity or integrity
- 3.8 Represent conflicting or competing interests without the consent of clients concerned.
- 3.9 Guarantee the achievement of results that are beyond the member's direct capacity to achieve or prevent
- 3.10 Invite any employee of a client advised by the member to consider alternative employment (an advertisement in the press is not considered to be an invitation to any particular person).

4. Conduct towards colleagues:

- 4.1 Adhere to the highest standards of accuracy and truth, avoiding extravagant claims or unfair comparisons and giving credit for ideas and words borrowed from others.
- 4.2 Be free to represent its capabilities and services to a potential client, either on its own or at the behest of a client, provided in so doing it does not seek to break an existing contract or detract from the reputation or capabilities or any other member already serving the client.

An Association member firm shall not:

- 4.3 Injure the professional reputation or practice of another member.

Country Associations for the constituency of ICCO and all members of ICCO Country Associations shall conform to the Rome Charter. ICCO maintains standards, generates research on public relations activities and increases awareness of the value of the industry.

Rome, 25th October, 1991