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## **Losing Luster: Why Canada's Critical Minerals Industry is becoming a Distress Storm in Waiting**

**By Divyansh (Divi) Dev\***

Critical minerals, as [defined](#) by the American Geosciences Institute, are mineral resources vital to the economy and at risk of supply disruption. The list of critical minerals evolves over time, reflecting shifts in market demand and societal needs.

For example, while table salt was considered critical in the past, [today's critical minerals include](#) nickel, magnesium, tin, chromium, aluminum, cobalt, graphite, manganese, and lithium, among others. These minerals play a [crucial role](#) in high-tech industries, electric vehicles, defense, and renewable energy.

Canada produces nearly 68% of the [31 types of minerals identified as critical](#) by the federal government. As a result, the Canadian critical mining sector is [pivotal](#) for domestic economic growth and for fulfilling increasing global need of these minerals. In 2020, the World Bank [forecasted](#) a significant increase in the worldwide demand for some of these minerals, predicting a 500% rise by 2050.

However, the critical minerals industry in Canada is currently facing [significant financial pressure](#) due to market volatility and price fluctuations. In 2023, Canada experienced a sobering [6% decline](#) in critical mineral exports causing a relative loss of \$1.2 billion in the first ten months of 2023.

### **I. Causes of market volatility and global price fluctuations in critical minerals**

The [International Monetary Fund](#) has highlighted that the critical minerals' vulnerability to price fluctuations is driven by its presence in limited geographies, coupled with a complex mix of geopolitical and supply chain challenges. [Factors such as](#) the U.S.-China trade disagreements, the pandemic, ongoing military conflicts, and export restrictions from critical resource-rich nations have significantly disrupted this market.

[For example](#), as of January 2024, lithium prices plummeted by over 80%, and nickel by more than 40%, thereby deeply affecting the industry. This instability is compounded by the lengthy, [decade-spanning timelines](#) needed to launch new critical mining projects, making rapid market adaptation a significant hurdle.

Moreover, this sector's high capital requirements and perceived [investment risks](#) are made worse by the [current scarcity](#) of traditional lending and private credit opportunities. Accordingly, the current situation warrants an amplified restructuring focus to effectively navigate the challenges of capital deficiency and market volatility plaguing the critical minerals sector.



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## II. Canada's critical minerals sector needs restructuring support

The recent insolvencies of Vital Metals Canada and Tergeo Critical Minerals highlight how Canadian critical miners are confronting sectoral financial challenges and market volatility using restructuring tools.

### *Vital Metals Canada*

The voluntary assignment into bankruptcy of [Vital Metals Canada](#) in September 2023, considered as Canada's [first rare earth producer](#), may present a significant challenge to the country's ambitions in this sector. A [strategic review](#) by Vital Metals Canada in the summer of 2023 found the project economically unsustainable due to significant cost overruns, ballooning from an estimated [\\$20 million to nearly \\$60 million](#), primarily due to the dwindling market conditions. This, along with a decline in rare earth prices, rendered the project unviable. The Canadian government, having initially provided funding of [\\$5 million](#) at 0% interest in support of the facility's working capital needs, is now pursuing "[all reasonable avenues of collection](#)" to recover the funds as an unsecured creditor. This may involve legal action or claims within the bankruptcy proceedings. While [no offers](#) for the entire asset package have emerged, partial offers and liquidation proposals are under consideration.

### *Tergeo Critical Minerals*

Québec based [Tergeo Critical Minerals](#), along with its related entities, has encountered significant financial and operational challenges, leading to a suspension of operations and subsequent legal and financial restructuring efforts. Despite substantial investments exceeding \$61 million, technological issues regarding plant operations combined with a competitive yet unstable critical minerals market rendered the operations unprofitable. The flagship project, valued at \$1.7 billion, was aimed at revaluing mining residues such as magnesium, silica, nickel, and other minerals faced a major setback when the Québec government did not approve the required energy supply, impacting the feasibility and funding of the initiative. In response to these challenges and depleting liquidity, the company's directors decided to suspend the plant's operations, lay off the majority of the workforce, and implement measures to protect and safeguard the facilities. This situation led to the resignation of most directors and the appointment of an interim receiver by the Court in September 2023 under the BIA<sup>1</sup> (as translated from documents available in French on the Interim-Receiver's [website](#)). As of February 2024, a court-appointed [Monitor](#) is now overseeing the [sale of the company's business and/or assets](#), following the [replacement](#) of the previous Interim Receiver after this company obtained CCAA<sup>2</sup> protection in November 2023.

In essence, many Canadian critical miners, facing shrinking revenues and a competitive global landscape, are scrambling to stay afloat. Their efforts to obtain external support are becoming loud

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<sup>1</sup> *Bankruptcy and Insolvency Act* (R.S.C., 1985, c. B-3)

<sup>2</sup> *Companies' Creditors Arrangement Act* (R.S.C., 1985, c. C-36)

and varied, ranging from direct funding for new projects to attracting [long-term investments from pension funds](#). The goal? To ensure that Canada capitalizes on this strategic opportunity, safeguarding the miners' businesses and profits from being eclipsed by global competitors like [China](#).

### **III. China's role in Canadian critical minerals market**

Canada's efforts to become a key player in the critical minerals industry have been impacted by China's [substantial involvement](#) in processing these essential resources. China's influential position in the sector and its strategic use of this advantage have prompted [considerations regarding security](#) in Canada. Reflecting these considerations, the Canadian government has recently required three Chinese companies to [divest their investments](#) in Canadian lithium projects under the *Investment Canada Act*<sup>3</sup>.

This move, however, could be a double-edged sword. While it addresses national security concerns, it also seems to throw a wrench into Canada's critical minerals strategy. Investment is already lagging, and [alienating potential investors](#), especially those with deep pockets like China, could further affect the progress.

Canadian miners, caught in this crossfire, are resorting to creative measures. One Québec-based company, [SRG Mining](#), is proposing to redomicile outside Canada to circumvent the government's scrutiny and secure Chinese funding. This "workaround," as some call it, exposes a potential loophole in Canada's national security policy and raises concerns about a domino effect of similar maneuvers.

To conclude, Canada's critical minerals sector finds itself at a pivotal juncture. The resilience and future prosperity of this industry depend on its ability to employ strategic restructuring methods to weather market fluctuations, geopolitical tensions, attract substantial investments, and maintain global competitiveness.

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<sup>3</sup> R.S.C., 1985, c. 28 (1st Supp.)