2014 Ranking of Countries for Mining Investment:"
"Where Not to Invest"

Since 1999, Behre Dolbear has compiled annual political risk assessments in the global mining industry. Over time, our assessment indicates a positive correlation between the growth of a nation's wealth and the prosperity of its mining industry – only when a country recognises its critical need to adapt and restructure burdensome policy – will it truly optimise this economic potential.

While our perspective is often considered provocative, it is our intent to highlight countries whose policies and business conditions promote investment growth in the mining sector. Behre Dolbear welcomes continued feedback from our clients and industry professionals alike. Both positive and negative dialogue enables us to improve our assessment.

This year's survey, as it has in the past, concentrates on specific countries, regional issues, and notable trends. Geology and mineral potential were not considered, as the fact that exploration, development, and mining activity are occurring confirms the existence of such potential. Only factors relevant to risks specific to the mining industry have been considered. We do not make an effort to include mitigating factors, such as economic returns or an investor's relevant experience in a particular country as part of our ranking.

The Behre Dolbear Group of companies is comprised of more than 175 professionals with key offices located in Denver, New York, Toronto, London, Sydney, Hong Kong, and Beijing. The views expressed herein reflect the collective responses to our annual internal survey. Our experts' opinions are valued as they have the unique opportunity to be exposed to numerous countries during the course of their normal business activities. In 2013, Behre Dolbear completed over 200 projects in over 47 countries. Our global reach, through the depth and diversity of our international involvement, continuously builds our perspective on the industry. Our ranking, by the nature of an opinion survey, is qualitative, not quantitative.

The 25 countries considered in this year's survey, as in the past, are ranked based on 7 criteria:

- the country's economic system
- the country's political system
- the degree of social issues affecting mining in the country
- delays in receiving permits due to bureaucratic and other issues
- the degree of corruption prevalent in the country
- the stability of the country's currency
- the competitiveness of the country's tax policy

Each criterion is rated on a qualitative scale from one (worst) to ten (best) that reflects conditions that promote investment growth in the mining sector. Accordingly, the maximum score attainable for a country is 70 points.

Table 1 displays 2014 survey results along with those of the previous year.

TABLE 1 2014 RANKING OF COUNTRIES				
Rank	**Country**	**2014 Rating**	**2013 Rating**	**Difference**
1	Canada	61.6	54.3	7.3
2	Australia	60.3	56.3	4.0
3	United States	54.6	41.7	12.9
4	Chile	54.1	51.0	3.1
5	Mexico	46.0	43.1	2.9
6	Brazil	42.6	45.6	-3.0
7	Peru	42.3	35.9	6.4
8	Botswana	41.6	36.8	4.8
9	Namibia	38.6	33.6	5.0
10	Ghana	38.2	36.0	2.2
11	Colombia	37.7	40.5	-2.8
12	Zambia	35.0	26.1	8.9
13	Tanzania	34.2	31.9	2.3
14	South Africa	33.9	24.4	9.5
15	Philippines	32.9	30.4	2.5
16	China	29.7	28.7	1.0
17	India	28.5	27.8	0.7
18	Indonesia	28.1	27.5	0.6
19	Kazakhstan	28.1	20.9	7.2
20	Argentina	24.8	29.0	-4.2
21	Papua New Guinea	23.1	21.0	2.1
22	Mozambique	22.9	32.0	-9.1
23	Mongolia	21.5	26.9	-5.4
24	Russia	20.1	17.1	3.0
25	D.R. Congo	18.7	17.7	1.0

Venezuela and Zimbabwe are not on the list for a seventh year, even though both contain significant mineral potential, due to their inherently low ranking. Behre Dolbear advises clients to exercise notable caution when considering investments in these countries. The political and social situation in Zimbabwe and Venezuela continues to warrant exceptional consideration in risk mitigation. Significant political reform must occur in both countries prior to the restoration of investor confidence.

1.0 THE CURRENT SITUATION

Looking beyond these countries, the minerals' markets strength is supportive of new investment. Despite the market's low activity during former recessionary cycles, there are now significant investments occurring in locations that were once deemed unviable due to the perception of high political risk. Typically, it takes six years or more until investors will see revenues from a green field mining project and as many as four years for a brown field project to see a return on investment. The long lead times, combined with the potential for adverse change in business conditions, can make the mining business one of the greatest destroyers of capital. Success is subject to navigation of many risks, hence, the rationale for this analysis.

State-owned enterprises (SOE) and sovereign wealth funds (*e.g.*, China, Korea, Russia, India, Singapore, Saudi Arabia, and elsewhere) continue to invest in mineral resource development and production since their parent countries consume increasing quantities of mineral products, which is correlated to economic growth. SOEs can also comprise a large portion of a country's stock market valuation. They account for as much as 80% of the Chinese stock market capitalisation, 60% of Russia's, and 35% of Brazil's. Government-sponsored investment, when compared to private investment, can entail vastly different time and strategic considerations and can have other investment criteria.

The commodity price boom that began in 2005/2006 began to level off in late 2011. Mineral prices are in decline because of the continued slow economic growth of the United States, Europe, and most recently, due to moderating growth, in China. Nonetheless, many countries continue to pursue non-competitive foreign investment and natural resource development and exploitation policies. As the commodity markets experience a price correction, short-term decisions made in haste during stronger markets can have long-lasting, adverse impact on foreign direct investment. Countries previously out of favor that received new interest during the upturn and have reasonable risk environments are gaining investor confidence while those with better deposits but higher risk are falling out of favor.

Resource-rich national governments continue to question foreign investment precedents at the risk of jeopardising investor confidence. Behre Dolbear believes that a sustainable minerals industry requires a substantial amount of on-going as well as new capital investment to be successful. The opportunity costs mounting in today's environment is one underscored by waning investor interest due to increased political risk uncertainty. We believe political stability is derived from freedom of choice and quality of life. Improving the standard of living for all can strengthen global political stability and the availability of affordable mineral resources is critical to the success of meeting this goal.

2.0 2013 IN RETROSPECT – WERE WE RIGHT OR WRONG?

North America's well-defined mineral endowment continues to attract significant capital investment despite regulatory hindrances due to its competitive standing relative to the quality of its resources, the capability of its existing infrastructure enabling products to access markets, and through the capacity of its human capital resources.

In Central and South America, select countries with strong mining industries have recently received ever increasing interest and benefits from rising commodity prices due to competitive international standing. However, the recent decline in mineral prices combined with increased inflation and renewed nationalism is causing concern as producer's margins are squeezed. Many countries throughout the region are increasing mineral taxes and imposing other requirements on mining operators.

As predicted, capital available to many African projects continues to increase relative to past years. Countries that have remained stable and those that address corruption and social issues have benefited from increased investment and production. More money from mineral development is going into infrastructure, social services, and better governance. In sub-Saharan and West Africa, mineral deposits continue to attract interest from a variety of large and small listed public mining companies and private capital providers, such as private equity funds as well as SOEs and sovereign wealth funds. Sub-Saharan Africa continues to be relatively stable by avoiding despotic or totalitarian regimes. Behre Dolbear predicts that investment capital will continue to be put to work in this region, as Africa is a major focus of investment by the IFC. As noted, Zimbabwe and South Africa prove challenging for foreign and domestic investors alike as an uncertain political atmosphere that carries over to mining detracts from mineral development.

Asia at large and Australia have continued to attract new investment although government participation in the mining sector has increased in part through government-backed companies. In particular, China has increased its sphere of influence on neighbours and their resources. While China's interest was initially welcomed, it is coming under increasing scrutiny resulting in foreign ownership and export restrictions. This backlash, notably from Australia, has resulted from China's neo-colonialism.

The Middle East region continues to see more mining, minerals, and metals investments as the region's nations continue to strive to diversify and expand their economies. Low-cost energy will continue to promote the development of energy intensive industries, such as fertilizer, aluminium, and steel. In turn, these sectors consume construction materials, aggregates, ferro, and specialty alloys.

Governments are taking a more strategic view on mineral resource ownership not just trying to regulate the footprint of mining development. This is putting pressure on commodity markets resulting in changing trade flows, deferrals in infrastructure development, and a less efficient transfer of wealth between producers and consumers.

3.0 RATING THE COUNTRY'S ECONOMIC SYSTEM

Behre Dolbear is a firm believer in the free-market system. In a free-market system, foreign and domestic commerce, combined with individual liberty and the rule of law, ultimately produces wealth. This increases employment and living standards. Adherence to free-market ideals is the major consideration in this criterion.

In supply-constrained markets, protectionist sentiments impede trade, acquisitions, and investment. The globalisation of the world economy relies on cross-border free exchange of goods and capital. Federal and local governments are taking a keen interest in natural resource assets. For example, China restricts rare earth mineral exports. There is also a recent dispute between Anglo American and Chile's Codelco over the sale of an interest in Exxon Minerals old La Disputada copper property. Finally, the Smoot-Hawley Tariff Act, enacted during the Great Depression of the United States, highlights the adverse impact of protectionist policies on economic growth.

In a free market economy, governments rarely impede foreign investment. However, sensitive issues can arise in transactions involving non-renewable resources. There was no change in the three highest-rated countries while nominal change in the lowest-rated countries in this survey (Papa New Guinea fell by one point). There were no improved ratings in this year's survey and the ratings for three countries (Mongolia, Argentina, and Papa New Guinea) declined.

The highest-rated countries in this criterion and their relative change since last year's survey are:

- Australia (9) unchanged
- Canada (9) unchanged
- Chile (8) down one point

The lowest-rated countries are:

- D.R. Congo (2) down one point
- Mongolia (3) down two points
- Papua New Guinea (3) down one point

4.0 THE POLITICAL SYSTEM

Democratic countries with free elections rate highest. The fact that some countries hold elections, however, does not mean they are democratic (*viz.*, Russia and Zimbabwe). An additional factor considered in this criterion is security of tenure, *i.e.*, is title to a company's mineral concession secure based on a country's mining law and its prior history of mining operation nationalisation. Sometimes complicating title to a deposit are the good intentions of interested parties, including federal and local officials, indigenous peoples, or non-governmental organisations (NGOs) advocating geographic, ancestral, cultural, environmental, etc. claims about land, water, infrastructure, or other economic resources that thwart mining projects.

The higher-ranking countries are those with well-established democratic systems that possess tested mining legislation and protect against governmental or other arbitrary takings of property. Canada, Chile, and previously the United States lead in this category.

Russia was the only country that improved, however nominally, in this category (up one-half of a point) while three countries declined. India, Mongolia, and Indonesia all fell one point remaining in the median of the political system category.

Mongolia's ranking fell by one point because of the continually changing elections and subsequently uncertainty regarding mining policies. Last year's election turmoil in Mongolia hindered further expansion of the industry.

Russia and the D.R. Congo remained the lowest-rated countries in this year's survey with the addition of Mongolia. The highest rated countries remained the same.

The highest-rated political systems are:

- Canada (10) up one point
- Australia (9) up one point
- United States (9) up one point

The lowest-rated are:

- Russia (2) unchanged
- D.R. Congo (2) down one point
- Mongolia (3) down one point

5.0 SOCIAL ISSUES

Social issues continue to be one of the highest risk factors affecting the development of mining projects all around the world. The watchwords in the mining industry have become "sustainable development," "indigenous rights," and "social license," which, while sound in principle, have often been used by opponents to delay or completely halt mining development, not to mention adversely impacting established operations.

Common sets of guidelines for sustainability have been developed by the financial industry (the Equator Principles led by the World Bank) and by the mining industry and manufacturers (the Cyanide Initiative) to help govern the development of mineral projects. Despite these achievements, many disparate special interest groups oppose mining projects throughout the world. Oppositional agendas are, in many cases, detrimental to the livelihoods of local stakeholders.

A persistent issue, especially in developed economies, is the "NIMBY" (Not In My Backyard) syndrome, where personal prosperity outweighs public's necessity for minerals. Other factors considered in this criterion are the level of poverty, incidence of terrorism or guerilla activity, and disease, *e.g.*, malaria. These issues affect the well-being and health of a country and affect mining economics in a country.

In these categories, none of the country ratings fell while several improved. The reasons for improvement stems from continued efforts of goodwill to neighbours as well as the governmental recognition of positive economic and social development. Mining development improves many social issues, which in turn fosters community support for mining.

The countries most effective at managing social issues are:

- Australia (9) up one point
- Canada (9) up four points
- Chile (8) up one point

Those countries least effective are:

- D.R. Congo (2) down one point
- Papua New Guinea (3) up two points
- Russia (3) unchanged

6.0 PERMITTING DELAYS

Most countries have environmental regulations equal, at a minimum, to the standards established by the World Bank. The issue addressed here is not the strength of the regulations but the timeframe involved in obtaining permits. Contributing to delays is the intervention by NGOs opposed to mining development; groups with legitimate concerns about the effect a project will have on a community or lifestyle; and, often, corruption on the part of bureaucrats in poorer countries.

Permitting delays are a global issue. As communication is facilitated by the Internet, issues at operations in one country become the concerns and examples used against a completely unrelated mining project elsewhere. As this situation continues to evolve, the business environment will likely favor firms that aggressively take a proactive stance concerning societal and environmental issues. This will not guarantee success though, as corruption and other factors could still scuttle otherwise viable projects.

Permitting delays are the most significant risk to mining projects in the United States. A few mining friendly states (Nevada, Utah, Kentucky, West Virginia, and Arizona) are an exception to this rule but are negatively impacted by federal rules that they are bound to enforce resulting in a seven to ten year waiting period before mine development can begin.

Mongolia's rating fell by one point driven by its government restriction of new exploration and exploitation license issuance.

Those countries having the fewest permitting delays are:

- Canada (9) up four points
- Australia (8) unchanged
- Chile (8) up two points

Those countries with the most numerous permitting delays are:

- Russia (2) down one point
- Mongolia (3) down one point
- China (4) down one point

7.0 CORRUPTION

Corruption, typically, is endemic in the poorer nations and those with socialistic or controlled economies or totalitarian regimes. Corruption frequently extends through all strata of a society from the highest levels in government to the lower-level government officials, as well as pervading business practices.

Facilitation fees are often endemic to local business practices in many countries, being more prevalent in Africa, Asia, and Latin America. Investors must be mindful of and monitor corruption from the early stages of exploration and throughout project development and operation. While booming exports of minerals from these and other mineral-rich emerging market nations continue to boost local economies and the local standards of living, concerted due diligence is required to control and minimise corruption. Australia and Canada rate at nine, the highest in our survey in this criterion.

Those countries with the least corruption are:

- Canada (9) down one point
- Australia (9) down one point
- United States (8) down one point

Those with the greatest incidence of corruption are:

- D.R. Congo (2) unchanged
- Russia (3) up two points
- Papua New Guinea (3) up one point

8.0 CURRENCY STABILITY

History has shown that countries with depreciating or devalued currencies inhibit new investment in their country. Depreciating currencies generate inflation, poverty, and corruption. As investment, money has focused on mineral-rich emerging countries. This trend has led to higher inflation within these countries.

High levels of inflation have historically created political turmoil and civil unrest. Although central banks may attempt to intervene and governments may alter policies, strong global demand for commodities and rising prices can overwhelm such efforts.

Despite increasing government spending, the United States Dollar retained its safe haven status for those seeking refuge from an on-going concern surrounding the sustainability of EU economic growth. The Canadian and Australian dollars remained close to parity with the United States Dollar with both countries ratings of nine. Moderating commodity prices lessened inflation concern in Australia.

China's intervention to slow the appreciation of the Yuan is a policy that continues to be a worry of its trading partners. While its value has been allowed to appreciate, the market view is that it remains materially undervalued. In the short-term, a stronger Yuan reduces the competitiveness of its export sector and puts downward pressure on job growth – a key factor impacting stability. Greater transparency in China's economy is long overdue and could be facilitated, in part, by a reduction of its currency controls. Currency controls can adversely impact direct foreign investment.

The highest-rated countries for currency stability are:

- Canada (9) unchanged
- Australia (9) unchanged
- United States (9) up two points

The lowest-rated countries are:

- Papua New Guinea (2) down two points
- Mozambique (2) down three points
- D.R. Congo (2) up one point

9.0 TAX REGIME

The total taxes applicable to a mining project – duties and imports, income taxes, royalties, and severance and excise taxes – are considered in this section. Behre Dolbear's experience is that once the total "government take" from combined taxes reaches 50%, a mining project's economic viability, during periods of normal commodity pricing, is threatened. Stable and predictable tax policies are essential in evaluating a mining project's perceived risks and viability.

The impact of increasing government debt, combined with relatively recent rising commodity prices, has inspired officials in almost every minerals-producing nation to consider raising mining-related taxes and fees. Revenue derived from mineral production has generally declined since late 2011 in spite of increased production due to lower mineral prices. This has negatively impacted the amount of taxes raised while the corresponding non-renewable mineral resources are being depleted. The tax raising conversations have intensified in efforts for governments to create value through the further monetisation of mineral production.

The inspiration for these efforts may have been bolstered by Australia's actions over the past year to increase taxes, both directly and indirectly on mining operations. Such discussions can result in uncertainty, delays, and limitations on investment. Past delays at the Oyu Tolgoi copper project in Mongolia present a clear example of how such uncertainty can delay mining development.

In spite of the current climate, Behre Dolbear did not reduce the ratings of any of the countries in this year's survey, as last year's survey incorporated much of the current sentiment. Changing markets, highlighted by lower minerals prices, have taken a toll on recent, higher tax policy pursuits of many governments including Mongolia.

The highest-rated countries for tax regime are:

- Canada (8) up one point
- Australia (8) up three points
- Chile (8) up four points

The lowest-rated countries are:

- Russia (2) down three points
- Mongolia (3) unchanged
- Argentina (3) down one point

10.0 THE RANKINGS

The five highest-scoring countries are:

- Canada (62) up seven points
- Australia (60) up four points
- United States (55) up thirteen points
- Chile (54) up three points
- Mexico (46) up three points

The five lowest-scoring countries are:

- D.R. Congo (19) down one point
- Russia (20) down three points
- Mongolia (22) down five points

- Mozambique (23) down nine points
- Papua New Guinea (23) down two points

While there was little movement at the ends of the survey, there was substantial change in the middle. The most notable change was seen in Mozambique, which dropped a total of nine points since 2013.

Other countries, which fell in this survey, were D.R. Congo, Russia, Mongolia, and Papua New Guinea. Canada, Australia, and the United States all saw an increase in ranking.

11.0 CONCLUDING REMARKS

Moderating mineral consumption on the back of declining government stimulus, in many major economies, led to downward trading ranges for most minerals. Producers re-evaluated capital project pipelines and re-valued assets under lengthened development timeframes, increased capital budgets, and lower market price expectations. Non-traditional investors stepped up to play a larger role in financing mineral development and production and exploration activity slowed considerably. Governments, multi-lateral and export credit agencies, sovereign wealth funds, private equity, trading companies, and off-takers supported new investment. The supply and demand fundamentals for key minerals remain strong, in particular, due to various supply constraints highlighted by declining resource quality and falling rates of new productive capacity. Increasing competition for mineral resources favors investment in countries perceived to have the lowest political risk. Investment returns are heavily influenced by political risk and a lower risk profile invariably attracts preferential investment that is key to sustaining operations in this capital-intensive sector.

Long-term minerals market fundamentals remain strong and as economies rebound, we will re-visit the ramp-up of commodity prices.