

**2011 RANKING OF COUNTRIES FOR MINING INVESTMENT
WHERE “NOT TO INVEST”**

Since 1999, the Behre Dolbear Group Inc. (Behre Dolbear) has compiled a political risk assessment of countries we deem of importance to the mining industry. Behre Dolbear feels that the mining industry is vital to the creation of wealth and prosperity in any country. Countries that stifle it with detrimental political, economic, financial, and regulatory policies should be challenged to make changes that are more accommodative to its success.

Behre Dolbear continues to be very pleased about the responses we have received from our clients and others in the industry. We encourage feedback from readers, either positive or negative. We recognize that many might consider what we have said to be provocative, which is our intent. Such feedback enables Behre Dolbear to continue to improve this survey and hopefully make it a valuable tool for our industry and its investors.

This year’s survey, as it has in the past, concentrates on specific countries, regional issues, and notable trends. Only factors relevant to “political risk” have been considered. Geology and mineral potential were not considered, as the fact that exploration, development, and mining activity are occurring confirms the existence of such potential. We recognize that if a major mineral deposit exists in a high-risk country, a mining company may judge that the financial returns offset other risks, *e.g.*, in Afghanistan, the Metallurgical Corporation of China’s efforts at the Anyak property; Barrick’s Reko Diq project in Pakistan; and those investing in the eastern part of the Democratic Republic of the Congo (D.R.C.).

The Behre Dolbear Group of companies comprises many professionals based out of 12 offices, and the views expressed herein do not necessarily reflect those of everyone within Behre Dolbear. The rankings in this annual survey are based on opinions gathered from our professionals and research from various public and confidential sources. We believe they reflect the collective experiences gained by our company and its professionals. Our professionals have the unique opportunity to travel widely and experience in doing business and evaluating investments within many different countries and cultures. We, accordingly, believe the opinions expressed in our annual ranking are strengthened by these experiences.

The ranking is qualitative, not quantitative. Input to the rankings is based on Behre Dolbear’s actual experience in the more than 60 countries in which it worked in 2010, input from our professionals, many confidential corporate sources, and public databases. Behre Dolbear has also referred to the *Index of Economic Freedom* (a Wall Street Journal/Heritage Foundation publication), the World Economic Forum’s *Global Competitiveness Report*, and publications from Transparency International.

The 25 countries considered in this year’s survey are ranked on seven 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 delays
- the degree of corruption prevalent in the country
- the stability of the country’s currency
- the country’s tax regime

Each criterion is rated from 1 to 10, with 10 being the highest. Accordingly, the maximum score attainable for a country is 70 points.

Following, listed alphabetically, are the 25 countries that were considered in this year's survey.

- Argentina
- Australia
- Bolivia
- Botswana
- Brazil
- Canada
- Chile
- China
- Colombia
- Democratic Republic of the Congo (D.R.C.)
- Ghana
- India
- Indonesia
- Kazakhstan
- Mexico
- Mongolia
- Namibia
- Papua New Guinea
- Peru
- Philippines
- Russia
- South Africa
- Tanzania
- United States
- Zambia

There have been no changes to the list of countries in this year's survey. Venezuela and Zimbabwe are not on the list for a fourth year even though both contain significant mineral wealth. Given recent history, Behre Dolbear continues to tell its clients to avoid investments in either country. The political and social situation in Zimbabwe may appear to have stabilized, but the investment climate is very difficult. In Venezuela, the dictator, Hugo Chavez, continues to make it a very unfriendly and unstable environment for foreign investors. Significant fundamental changes need to occur in both countries prior to significant investment in their mineral resources.

Looking beyond these countries, the metals markets are strong, attracting investment in places that during the lows of past economic cycles were not judged viable. Typically, more than 6 years may elapse before investors in a new mining project can expect to see a return on their investment. For the inexperienced, the mining business can be one of the greatest capital destructors, as success is rare and subject to many risks, including those covered in this analysis.

Important factors underlying the increased investment in mining are state-owned enterprises (SOE) and sovereign wealth funds that are assertively acquiring mineral resources around the world. These include SOEs from China, Korea, Russia, India, Singapore, Saudi Arabia, and elsewhere. These funds, when

compared to private investment, can have substantially different time horizons and investment criteria for investing in a project.

As a result, few regions of the world are escaping the attention of investors seeking to participate and profit from the metals boom, including Latin America, Africa, the Middle East, and Central Asia. Each region has specific risks, which should be considered prior to investment. Furthermore, the increased flow of funds into mining is occurring at a time when many mineral-rich nations are reevaluating tax, economic, and other policies affecting the development of mining projects. The ultimate impact of these policies is resulting in significant delays and cancellations of projects throughout the mining industry.

THE CURRENT SITUATION

The commodity boom that began in 2005/2006 continued in 2010. Supply demand fundamentals are compelling for most hard commodities, and demand exceeds mined supply of some key metals, including copper. Prices for most are at or near record levels in nominal terms, and debasement of the US dollar and other global currencies has increased price pressure.

While economics of Europe and the United States continue to stagnate, the growth of the emerging market countries is driving the demand for metals. The BRIC countries (Brazil, Russia, India, and China) are now the BIIC countries, with Russia being replaced by Indonesia as a new center for demand. The European currency is threatened by the possible default of Greek debt, with concern that defaults in Ireland, Italy, Portugal, and Spain might follow. The mining industry, however, has prospered, and resource producing countries have seen renewed strength in their economies and currencies. A brief snapshot of some areas is warranted.

- In Central and South America, Argentina, Brazil, Chile, Colombia, and Peru are experiencing a period of economic growth and improved governance, and are making efforts to broaden the benefits of resource development to their citizens; although the divergence of wealth and poverty continually remains a challenge.

Argentina's economy continues to exceed expectations, with the benefits of strong commodity prices boosting its GDP; however, rampant inflation is a concern, as are shifting political winds for President Cristina Fernandez de Kirchner. The unexpected death in October of her husband, ex-President Nestor Kirchner raises doubts about who may win the federal election in October 2011. The uncertainty and pervasive inflation problems are a red flag despite annual GDP growth averaging above 8%.

Elsewhere in South America, elections in Brazil, Chile, Colombia, and Peru have led to pragmatic mineral development policies and stewardship. As a result, their economies and standards of living are improving. Credit is given to their leaders, who are working to broaden the economic benefits to more of their people. Four countries not in Behre Dolbear's survey, however, Guatemala, Costa Rica, Honduras, and El Salvador have policies more akin to those of Bolivia and Venezuela.

- Countries in Africa are notorious for their corruption, tribal rivalries, and lack of governance regarding mineral development. Nevertheless, major investments are being made in gold, iron ore, bauxite, and fertilizer mineral projects. Exploration activity in Africa continues at a healthy pace, where an abundance of potentially rich deposits is a lure that miners find hard to ignore, with significant activity in Botswana, Ghana, Namibia, Tanzania, Zambia, and Mozambique. Although positive developments are

occurring individually, these are small countries and economies, which during times of robust commodity prices are attracting more investment capital. Botswana and Namibia have made significant progress. Ghana has corruption and governance issues involving permits and concessions.

South Africa is an enigma. While it is stable in some respects and shone as host of the World Cup, the direction of President Zuma's government is unclear. Investors and operators worry about its ability to deal with the daunting social problems in the country while promoting investment that would provide the money to meet those needs. Fears continue of land seizures, nationalization of businesses, and that the country risks following the path of Zimbabwe. From an investor's perspective, power supply is a problem in South Africa and mining companies in the country are reluctant to reinvest capital to maintain productivity. Outsiders looking in, ask themselves, "What is next?"

- While no country in the Middle East is included in the survey, there is increased activity and interest in aluminum, fertilizer minerals, uranium, gold, directly reduced iron, and steel making. Projects are progressing in Egypt, Jordan, and Saudi Arabia, with much of the activity undertaken by state-owned firms. The desire to expand their economies beyond oil and provide employment has been a powerful driver to open the minerals sector to foreign investment.
- Central Asia continues to experience political instability. Endemic to the region are corruption, weak democracies, and limited political freedoms a leftover from its CIS days and the continued meddling by Russia and others in the internal affairs of various nations (Georgia, Kyrgyzstan, and Azerbaijan). Also negatively affecting investment returns are the Russian-American-Chinese rivalry for influence in the region, permitting delays, lack of infrastructure, and sporadic violent events. Kazakhstan is the only ranked country in the region, with significant interest and development of phosphate, gold, uranium, and copper.

2010 IN RETROSPECT – WERE WE RIGHT OR WRONG?

In prior year surveys, Behre Dolbear predicted that China and its state-owned enterprises (SOE) or state-controlled entities would benefit from the collapse of commodity prices in late 2008 and early 2009. This has unfolded on a grand scale. China's strong balance sheet, state control, sponsorship, and access to capital at effectively negative interest rates, have enabled Chinese firms to acquire material interests in metals and minerals deposits and operations in almost every jurisdiction in the world.

While its pocketbook is hard to resist, China has faced heavy opposition for its lack of transparency, its corruption, and its heavy-handed investment strategies. China's policy continues to be "What's ours is ours, and what's yours is ours."

As Behre Dolbear predicted, Mexico continues to see strong investment interest, but narco violence and crime is very troubling. While Mexico is open and welcomes the mining industry, the narcotics-related violence largely remains unchecked, with kidnappings now becoming another problem for investors. Corrupt police and local government officials and unabated demand for drugs from the United States add to the challenge the federal government faces in eliminating the risks posed to investors. Most gold operations are now flying their dore out of the mining camps rather than risk trucking by armored car.

In last year's survey, we believed correctly that Bolivia would remain a hazardous place to invest. Evo Morales continues to try to centralize power in La Paz. While he does face some opposition, Behre Dolbear believes he is firmly entrenched and through taxation or other policies, its president will likely continue moving toward nationalizing Bolivia's mining industry.

Russia, as predicted, continues to deteriorate. Vladimir Putin has effectively consolidated his power with his successor, President Medvedev, and crushed his opposition. Russia has effectively nationalized its strategic industries while retaining a patina of western-style shareholder participation and purported reforms to enable companies to gain access to western capital via listings on stock exchanges. It is reasserting control over many of its former Soviet republics while attempting to capitalize on its rich mineral resources in its eastern lands. Serious democratic reforms, including respect of the rule of law, corporate governance, and eliminating corruption, are essential to overcome the well-earned skepticism of foreign investors.

Behre Dolbear predicted gold would rise significantly due to worries of inflation, as investors sought a safe haven to preserve wealth. We predicted a modest rebound of commodities prices, and the rebound was significant. The prices of copper, silver, zinc, seaborne iron ore, and coal are currently trading at very robust pricing levels.

RATING THE COUNTRIES

THE ECONOMIC SYSTEM

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

In these supply constrained markets, protectionist sentiments impeding trade, acquisitions, and investment warrant continual monitoring. The globalization of the world economy has not removed the importance of cross-border free exchange of goods and capital. One only needs to look to a number of prominent and less publicized thwarted cross-border M&A transactions and foreign direct investments in the past year (*e.g.*, Canada's block of BHP-Billiton's bid for PotashCorp) as federal and local governments are taking a keen interest in natural resource assets. One only needs to recall the impact of the Smoot Hawley Tariff Act during the great depression in the United States to understand the impact protectionist policies may have. Ideally, in a free market economy, governments rarely stand in the way of foreign acquirers; however, there always are sensitive issues that arise in such transactions.

Canada and Australia both fell by 1 point to 9 for obstructing foreign ownership of resources and for a number of policies affecting mining. China's rating fell by 2 points to 6; while it is buying the world's resources, it continues to limit foreign ownership of minerals inside China. Chile's 9 points, equal to Canada and Australia, reflects its continuing policies advocating mining investment.

Argentina rose 2 points to 5 because of its debt restructuring, and, with the death of Nestor Kirchner there is hope its profligate fiscal policies may end. However, doubts remain about transparency. Indonesia also rose 2 points to 5, reflecting economic and fiscal policies contributing to recent robust economic growth.

Kazakhstan fell 1 point to 3, as its economy continues to feel the grip of its leader. There are instances where the government has acquired assets after the owners were accused of environmental violations, tax violations, etc. Tied with Kazakhstan's rating of 3 are Papua New Guinea, South Africa, and the D.R.C.

While selectively investments are being made in the D.R.C. and its government, at times appears to make progress, the risk of conflict is real. Its rating remains unchanged at 3. Only Bolivia, with a rating of 2, and Russia, which fell by 1 point to 1, are lower than the D.R.C. and remain at the bottom of this category as a result of the continual threat of expropriation or nationalization of companies and projects. The Russian economy continues to function under the dominance of state-owned enterprise system and or friends under the influence of Ex-President Putin.

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

- Australia (9) down 1 point
- Canada (9) down 1 point
- Chile (9) unchanged
- Mexico (8) unchanged
- United States (8) unchanged

The lowest-rated countries are:

- Russia (1) down 1 point
- Bolivia (2) unchanged
- D.R.C. (3) unchanged
- Kazakhstan (3) down 1 point
- South Africa (3) unchanged

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 nationalization of mining operations. Sometimes complicating title to a deposit are the 'good' intentions of interested parties, including federal and local officials, indigenous peoples, or non-governmental organizations (NGOs) advocating geographic, ancestral, cultural, environmental, etc. claims about land, water, infrastructure, or other economic resources that thwart, delay, or kill mining projects.

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

Canada fell 1 point to 9 as provincial legislation and legal decisions in particular involving First Nations peoples are delaying and at times interfering with mining development and investment. These actions at times are punitive and extend the regulatory review process, further complicating investments.

Chile rose by 1 point to 9, equal to Canada, as its people voted in conservative President Piñera. The country is enhancing its economic competitiveness. The United States' rank of 9, equal to Canada's and Chile's, remains unchanged. Australia fell 1 point to 8. This reflects the election of the new Labor minority coalition government led by President Julia Gillard and the likelihood of less economic reforms.

Brazil's rank rose by 1 point to 8, equal to Australia and Mexico. Behre Dolbear is cautiously optimistic about the transition of power from President Lula du Silva to President Rousseff. During the past 8 years, Lula instituted a pragmatic policy framework for strong growth. President Rousseff has promised to continue this policy framework and to expand Brazil's economy, though her socialist past is a concern.

Mexico's rank of 8 is unchanged, although it is noted that land tenure issues affecting exploration and development projects in the south of Mexico have been subject to bureaucratic delays.

Colombia's rated a 7 as it successfully transitioned to its new president Juan Manuel Santos, an ex defense minister who is managing challenges by guerilla and drug wars as he advances a reform agenda. However, the worst rainfalls in memory are causing hardship and ruin to its coffee crop and infrastructure. Advancing trade ties and managing its relations with Venezuela and Ecuador are important to Colombia's improving status.

Peru also rose by 1 point to 6, equal to Mongolia, India, and Indonesia. Mongolia, India, and Indonesia were unchanged since last year's survey. Peru is having an election in 2011, and the outcome of that race will be a critical factor. Peru's democratically elected government, led by President Garcia, whose term ends this year, has been a pleasant surprise. It is balancing development with social needs while attracting significant mining investments. In 2010, Peru's GDP rose by about 8%. It hopes about \$35 billion may be invested in new mining projects in the next 10 years. Peru does not allow an incumbent president to succeed himself; however, a former president may run again in the July elections. A successor is a concern; and the election needs to be monitored closely by investors.

Argentina's rating fell by 1 point to 3. There are concerns about its governance policies and control of the press, and representations about its inflation rate are questionable. President Cristina Fernandez de Kirchner is facing an election in the face of rampant, understated inflation.

Kazakhstan also fell by 1 point to 3 as free elections recently evaporated when its parliament unanimously approved a referendum securing the dominance of its authoritarian President Nazarbayev until 2020.

China was lowered by 1 point this year due to its continued single-party, monolithic rule, where little or no political dissent is tolerated. China essentially does not allow foreign interests to participate in its mining industry in a secure legal framework. China's mining law continues to define a paradigm of restricting foreign ownership; however, we note Rio Tinto and Chinalco's December announcement of a Memorandum of Understanding (MOU) about an exploration joint venture in China. While China's political and legal reforms move at a glacial pace, its economic growth is more than warm, it has been hot.

The political systems of Russia, Bolivia, and China each have a rating of 1, the lowest, in the 2011 survey. Russia and Bolivia's ratings are unchanged since last year, for the reasons noted earlier.

The highest-rated countries in this criterion are:

- Canada (9) down 1 point
- Chile (9) up 1 point
- United States (9) unchanged
- Australia (8) down 1 point
- Brazil (8) up 1 point
- Mexico (8) unchanged

The lowest-rated countries are:

- Bolivia (1) unchanged
- China (1) down 1 point
- Russia (1) unchanged

SOCIAL ISSUES

Social issues continue to be a high-risk (if not the highest risk) factor affecting the development of mining projects and exploration work 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 projects.

Common sets of guidelines for sustainability issues have been developed by the financial industry (the Equator Principles), by the mining industry and manufacturers (the Cyanide Initiative), and by The World Bank Group to govern the development of mineral projects. Despite these achievements, opposition to mining projects by many disparate interests is occurring all around the world. The agendas of the opposition are often suspect and in many cases are detrimental to the livelihoods of the local peoples.

A persistent issue, especially in developed economies, is the “not in my backyard (NIMBY)” syndrome, where prosperity outweighs the knowledge of the public’s need for minerals. Other factors considered in this criterion are the level of poverty, incidence of terrorism or guerilla activity, and disease, *e.g.*, AIDS. These issues affect the well-being and health of a country and affect mining economics in a country.

The leading countries in this criterion are unchanged from last year’s survey. Australia rates the highest, with an 8, and Chile is second, with a 7. Colombia’s rating is 6, the third highest in this criterion.

The Philippines’s rating rose by 2 points to a 3 as a result of its government’s efforts to quell violence and unrest on Mindanao, and promotion of investments in mining and infrastructure appears to be working.

Peru rose 1 point to 4 as its strong economy is helping to alleviate poverty and raise standards of living. A top priority of the new government will be to curb the emerging violence by mining and resource opponents and the number of gangs involved in the cocoa trade.

Zambia is benefiting from strong demand and investment in copper. Its 5% annual growth rate in the past 6 years and its policies favoring investment have helped to raise its standard of living. Its rating rose by 1 point to 3. South Africa’s rank also rose by 1 point to 2. Reforms have improved standards of living, but the government’s increased control of the mining sector is a major concern to investors.

As was noted previously, Canada is facing increased jurisdictional challenges by its First Nations that led to its rating falling by 1 point to a 4.

Argentina fell by 2 points to 4 as rampant inflation is troubling its people and may be a significant issue in the upcoming 2011 election.

The United States’ rating remained at 3. Mining projects in the United States (especially those proposed on public lands) continue to be fiercely opposed. The 2010 midterm congressional elections refuted the Democrat Party’s singular control of the government, which may give the mining industry breathing room from the onslaught of unchecked regulatory initiatives that have reduced its cost competitiveness. Unable to achieve its goals through legislation, the Obama administration has turned to regulation through the

Environmental Protection Agency “EPA” and other agencies. The EPA is engaged in a broad-scale battle with the metals and coal mining industries.

Mexico faces potential social unrest with a *de facto* war raging between the narco-cartels and the government. This issue is critical and will continue to impact investment. Its rating of 2 is unchanged.

India is near the bottom of this criterion with a rank of 2 due to regional issues, Maoists’ terrorism, and in places, strong local opposition to mining projects. While the government struggles to modernize the nation’s ways, forming a consensus is hard and ridding itself of bureaucracy and corruption is a challenge that must be overcome.

In the eastern D.R.C., violent, unchecked armed gangs and conflict is a reality and the resolution of this situation by the government is not apparent. Elsewhere in the D.R.C., relative peace and stability exist. The dangers are such that, optimistically, its rating remains a 3. Ghana’s rating remains a 2. Its societal issues have not improved; inter-tribal issues and government intransience still cast their shadow.

The countries rating the highest in this criterion of social issues are:

- Australia (8) unchanged
- Chile (7) unchanged
- Colombia (6) unchanged

Those countries with the lowest rating are:

- Bolivia (1) unchanged
- Papua New Guinea (1) unchanged
- Ghana (2) unchanged
- India (2) unchanged
- Mexico (2) unchanged
- South Africa (2) up 1 point

PERMITTING DELAYS

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

Permitting delays are now a global issue. With the internet everywhere, issues at operations in one country become the concerns and examples to be 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.

Peru rose by 1 point as its permitting process has become subject to fewer delays. It may approve up to 16 Environmental Impact Statements (EIS) for mining projects in the first half of 2011. Peru is making efforts to support and ease the process for investors in its mining industry.

Canada's rating was lowered by 1 point as a combination of NGOs' and First Nation's actions have led to more delays. The views and approvals of indigenous peoples on mining projects carry great weight in the decision-making processes in Canada.

Permitting delays in the United States are the most significant risk to mining projects. 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. The United States is ranked lowest, at a 1 due to the average 7- to 10-year period required before mine development can begin.

Ghana's rating held steady at 6. Although Ghana instituted a Minerals Commission to independently oversee and minimize delays, its management of its oil concessions and history of corruption are major concerns to investors. Papua New Guinea's rating remained at 2, due to corruption in its permitting process.

Those countries viewed as having the least permitting delays are:

- Australia (8) unchanged
- Mexico (7) unchanged
- Tanzania (7) unchanged

Those countries with the longest permitting delays are:

- United States (1) unchanged
- Papua New Guinea (2) unchanged

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, particularly 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 minimize corruption.

Australia, Canada, and the United States continue to rate at 10, the highest in our survey in this criterion. While arguably the financial influence of lobbyists and other purported public-interest groups on the legislative process in the United States is a blatant form of corruption, it is legal and thus does not affect the country's rating.

For the second year in a row, Colombia rated a 5, due to improving business conditions and advancing reforms by its new president.

Indonesia's rating rose by 1 point to 2 as it is improving transparency and addressing corrupt practices. Ghana's rating fell by 1 point to 3 due to recent corruption involving mining and oil concessions.

Mongolia was lowered by 1 point to 2, reflecting intense political pressures, some uncertainty, and infighting of various local and foreign interests over the development and tenure of its rich resource deposits.

China's rated a 3 as corruption is rampant, and the government's efforts to make progress in fighting systemic corruption has not yet gained traction. Even by President Hu's recent admission, corruption in its system is a 'grave' situation. Progress will likely be slow.

India's rating of 3 is unchanged, although there were a series of major corruption scandals in 2010. Known for corruption in its political, regulatory, and legal systems, India needs to take this issue head-on by instituting new controls, as soon as possible, as corruption continues to damage its markets.

Zambia's rating remained unchanged at 2, as local issues continue to impact projects. It is a challenging environment, as mining investment by Chinese interests was in excess of \$1 billion in 2010. With estimates of another \$5 billion in investment in the next 5 years, the potential for corruption is likely to increase.

Those countries with the least corruption are:

- Australia (10) unchanged
- Canada (10) unchanged
- United States (10) unchanged
- Chile (8) unchanged

Those with the greatest incidence of corruption are:

- Kazakhstan (1) unchanged
- Russia (1) unchanged

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. Argentina, Brazil, China, Colombia, India, Mexico, Peru, and Zambia are reporting higher inflation, with some regions at record levels.

The US dollar in 2010 partially returned to its safe haven status for those seeking refuge from a Euro debacle. Mr. Bernanke, chairman of the Federal Reserve, is quoted as being more concerned about deflation, as recent United States inflation is less than targeted. As effective interest rates are negative, President Hu of China questioned the legitimacy of the US dollar's place as a reserve currency.

As commodity prices and the finances of the mineral exporting nations rose, the Canadian and Australian dollars strengthened in 2010 in relation to the Euro and to parity with the US dollar. Canada and Australia's currencies remain at 9.

Brazil's currency rating rose by 2 points to 9, reflecting the benefits of strong commodity prices and its improving fiscal policies and economic outlook. Similarly, Chile's currency stability rating rose by 1 point to 8, reflecting the strength of its copper export earnings.

Mexico's rating rose by 1 point to 6, as the Peso has been relatively stable, varying between \$10.00/US\$1.00 and \$13.00/US\$1.00 for the past 10 years. Mexico's oil and mineral wealth have boosted its currency.

China's Yuan policy is a subject of constant debate. While its value has crept up, it is less than what many experts suggest is appropriate. In the short term, a stronger Yuan cuts into inflation and raises purchasing power for Chinese consumers. However, China's banking and other sectors remain less than transparent. Its Central Bank is boosting interest rates, in part to stem record high consumer inflation. Because of its currency strength, China's rating of 8 is unchanged from last year's survey.

Bolivia's uncertain political and economic regimes led to its currency rating falling from 4 to 3.

Russia may have stabilized the Ruble, but its banks and much of its economy is fragile. Its foreign currency reserves and rising oil prices buttress its currency and financial system, but its failure to gain investor's confidence led to its rating dropping 1 point to a 2. This is the same as Zambia's where inflation at the consumer level is a major concern and may be as high as 8% this year.

The highest-rated countries for currency stability are:

- Canada (9) unchanged
- Australia (9) unchanged
- Brazil (9) up 2 points
- Chile (8) up 1 point
- China (8) unchanged

The lowest-rated countries are:

- D.R.C. (1) unchanged
- Russia (2) down 1 point
- Zambia (2) unchanged

TAX REGIME

Considered under the tax regime are the total taxes applicable to a mining project – duties and imposts, income taxes, royalties, and severance and excise taxes. 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.

Rising commodity prices have spurred officials in almost every minerals-producing nation to talk about or raise mining-related taxes and fees. Many mining projects are being affected by "requests to renegotiate" agreements, licenses, and fees. Such calls paused when commodities prices slumped amidst the credit melt down in the final quarter of 2008; however, as demand from emerging markets reappeared in the first half of 2009, prices have steadily recovered, and many countries are considering how to extract more from the mining industry.

Australia's debate about a Mining Resources Rent Tax and passage of a Super Profits Tax for mid-2012 raised uncertainty about its tax policies and led to our lowering Australia's tax rating by 2 points to a 5.

The impact Australia's actions may have on other nations' tax policies and the actions of managers, bankers, and financiers of mining projects is a worrisome development. In the current supply-constrained markets, such discussions can result in uncertainty, delays, and limitations on investment. The past delays at the Oyu Tolgoi copper project in Mongolia present a clear example of how such uncertainty delays mining developments.

Chile's mining industry, which initially criticized a tax plan, has indicated it will agree to pay higher taxes to fund reconstruction expenses related to the devastating earthquake of last year. Brazil and Mexico are considering raising mining royalties that are only one aspect of governmental fees associated with the development of mineral resources. Other countries' governments seeking to raise revenues from mineral resources include Peru, Ghana, and Bolivia. Peru may not have the political will to achieve the hike.

While Mexico has a low corporate tax rate and at the federal level, it does not impose a royalty tax, it realizes revenues using duties and taxes, including income taxes. When considering the total effective tax rate in comparison with other mining nations, it is competitive, but its rating fell 1 point to 7.

The United States corporate tax rate is 35%+, which, when combined with state levies, effectively makes it the highest corporate tax rate in the world. The average tax rate in the OECD is 26%. This provides a significant disincentive for future investments in the United States. Current fiscal policies in Washington almost insure higher tax rates or surcharges plus permitting delays and the changing regulatory landscape. Behre Dolbear lowered the United States' tax rating by 1 point.

The highest-rated countries for tax regime are:

- Mexico (7) down 1 point
- Canada (7) unchanged

The lowest-rated countries are:

- South Africa (2) unchanged
- Bolivia (3) unchanged
- Zambia (3) unchanged

THE RANKINGS

The table below, "2011 Ranking of Countries," shows Behre Dolbear's composite ranking of political risk.

The five highest-scoring countries are:

- Australia (57) down 4 points
- Canada (52) down 4 points
- Chile (51) up 2 points
- Brazil (45) up 3 points
- Mexico (44) down 1 point

The five lowest-scoring countries are:

- Russia (16) down by 1 point
- Bolivia (17) down by 1 point
- D.R.C. (19) unchanged
- Kazakhstan (22) down by 2 points
- Papua New Guinea (22) unchanged

The highest score of 57 points out of a possible 70 points was achieved by Australia. This was 4 points less than its result last year. The decline was attributable to the uncertainties caused by its proposing a higher tax regime and change in political leadership. Canada ranked second highest with 52 points, 4 points lower than last year. Chile rose by 2 points to 51, putting it in third place in the survey.

The three countries that ranked the lowest, Russia, Bolivia, and the D.R.C. are the same as last year. The three countries have significant mineral wealth but are considered very problematic jurisdictions for mining investment. Extreme investment caution is urged.

Indonesia's composite score rose the most, by 6 points from 21 to 27, reflecting improved economic, mining, and tax policies, management of corruption and the rupiah gaining strength. Its overall rank rose from 18th to 22nd. The next largest gains were by Peru, up by 4 points and Zambia up by 3 points. Peru's rank rose from 12th to 8th, tied with Botswana. Zambia was unchanged at 19th, tied with South Africa.

The worst performers in this year's survey were last year's two leaders, Australia and Canada. Both fell by 5 points reflecting a combination of government economic and tax policies. When all is considered though, these two nations still rank the highest as they provide secure, stable jurisdictions for mining investments. China for similar reasons, but different circumstances, fell by 4 points, reflecting limited access to its markets, land tenure issues, and societal concerns with higher prices for food and corruption. China's overall rank this year consequently fell from 11th to 13th, tied with Namibia.

Brazil's composite score of 45 edged out the United States and Mexico. Brazil's economy continues to improve and it is becoming a regional leader. Mexico's rank fell by 1 point in this year's survey to 44 ranking 5th in this year's survey. The United States fell by 1 point to 41, reflecting its onerous tax regime placing it 6th in this year's survey.

The composite scores of Ghana and Mongolia each dropped by 2 points. Security of tenure and corruption affected their composite score, despite both having rich resource wealth and government policies that continue to attract foreign investment in mining industry.

BEHRE DOLBEAR'S 2011 RANKING OF COUNTRIES

2011 Rank	Country	Economic System	Political System	Social Issues	Permitting Delays	Corruption	Currency Stability	Tax Regime	2011 Total Points	2011 Change versus 2010
1	Australia	9	8	8	8	10	9	5	57	-4
2	Canada	9	9	4	4	10	9	7	52	-4
3	Chile	9	9	7	6	8	8	4	51	+2
4	Brazil	7	8	5	5	5	9	6	45	+3
5	Mexico	8	8	2	7	6	6	7	44	-1
6	United States	8	9	3	1	10	7	3	41	-1
7	Colombia	6	7	6	6	5	5	4	39	0
8 TIE	Botswana	6	5	5	5	5	5	6	37	+1
8 TIE	Peru	6	6	4	4	5	7	5	37	+4
10 TIE	Ghana	6	5	2	6	3	6	6	34	-2
10 TIE	Mongolia	6	6	5	5	2	6	4	34	-2
12	Tanzania	5	5	3	7	3	4	5	32	0
13 TIE	China	6	1	3	5	3	8	5	31	-4
13 TIE	Namibia	4	5	3	5	3	5	6	31	0
15 TIE	Argentina	5	3	4	6	4	4	4	30	-1
15 TIE	India	6	6	2	3	3	6	4	30	+1
17	Philippines	5	5	3	5	2	4	4	28	+2
18	Indonesia	5	6	4	3	2	3	4	27	+6
19 TIE	Zambia	5	4	3	5	2	2	3	24	+1
19 TIE	South Africa	3	4	2	5	2	6	2	24	+1
21 TIE	Kazakhstan	3	3	4	3	1	4	4	22	-2
21 TIE	Papua New Guinea	4	4	1	2	2	4	5	22	0
23	D.R. Congo	3	3	3	3	2	1	4	19	0
24	Bolivia	2	1	1	4	3	3	3	17	-1
25	Russia	1	1	3	3	1	2	5	16	-3

Kazakhstan's composite score fell by 2 points and overall rank fell by 3 places to 21, tied with Papua New Guinea due to weakening democratic non-transparent economic policies. Papua New Guinea's rank and composite rank at 21 was unchanged from last year's survey. The overall composite ranks of Argentina and Bolivia each fell by 1 point, largely due to unfavorable government policies relating to the economy and taxation. Russia was last in this year's survey with a composite score of 16 down 3 points from last year's survey.

LOOKING AHEAD

Worldwide, Canada, Australia, Brazil, and Chile will likely remain the best jurisdictions in which to invest in and develop mining projects. Each of these nations will likely continue to see economic growth and mining investment.

North America

- The United States will remain a difficult country in which to develop new projects and could deteriorate further, depending on new regulations and taxes.
- Canada will continue to be a favorite destination for mineral investment and will likely remain a mining-friendly jurisdiction, although policies related to First Nations, environmental, and other regulations could change this.
- Mexico will continue to see significant exploration and mining investment. The level and rate of investment will be impacted by its success against organized drug cartels and related crime and corruption.

Central and South America

- Chile, Brazil, Peru, and Colombia will likely outperform others in the region in attracting and utilizing mineral investment to develop new mines and creating wealth.
- Argentina's economy and mineral investment while recently strong are likely to pause as the country's leadership shifts from the Kirchners.
- Bolivia and Venezuela are not expected to see much more than marginal improvement. We continue to advise against investing in either jurisdiction.

Africa

- There will continue to be a growing interest and volume of investment capital into many African projects and assets.
- In sub-Saharan and West Africa, mineral deposits continue to attract interest from a variety of large and smaller listed public mining companies and private investors, such as private equity funds, as well as foreign SOEs and sovereign wealth funds. Sub-Saharan Africa will continue to be relatively stable. This is predicated on their respective governments avoiding the traditional trap of evolving into despotic or totalitarian regimes. Behre Dolbear predicts that investments will continue to pour into this region, and incremental regional improvement will continue. Zimbabwe and South Africa will continue to challenge investors as their mineral wealth is well defined but their politics are subject to change.

Asia

- China will remain an aggressive acquirer of minerals assets. Behre Dolbear predicts that the Chinese government will not reduce its infrastructure spending or economic stimulus, as it fears social unrest more than asset bubbles or inflation. This in turn will continue to place a greater demand on mineral resources and their prices.
- China's sphere of influence on its neighbors and their resources, while initially welcomed, is likely to be seen as neo-colonialism, resulting in some backlash against Chinese investment.
- India will act as a relative counterweight to China. The United States and India will continue to draw together as their democratic traditions provide a common ground to expand their economic relationship.

Middle East

- The Middle East region will see more mining, minerals, and metals investments in the coming years. The region's nations will continue to seek to diversify and expand their economies. Low-cost energy will continue to encourage development of energy intensive industries, such as fertilizer, aluminum smelters, and steel mills, all of which will consume construction materials, aggregates, ferro, and specialty alloys.

Russia

- Russia will continue to chart its own course. It remains a high-risk investment environment, it is plagued with corruption, and its bureaucracy is an enigma to most; the exception being those within its inner circle, *i.e.*, Putin's orbit. It is expected to continue to use and leverage its natural resource wealth to exert pressure on its neighbors, Western Europe, and elsewhere.

Australia

- The government of Australia has introduced a lot of uncertainty this past year given its proposed change in tax policy and political leadership. The rebuilding of its coal mining infrastructure, following the extensive flooding, will take at least 6 months. The effect of the new taxes on investment remains to be seen.

NGOs

- NGOs will likely continue their anti-mining actions, using proxies and almost any method to stop mining and other development. These actions include influencing regulatory and law-making processes in developed democratic countries and co-opting labor and religious leaders in developing countries.

A FINAL WORD

Summarily, in 2011, prices and resurging demand, with producers cautiously expanding capacity, are set within a backdrop of a global economy stimulated by the injections of trillions of dollars and other currencies, all of which is potentially sowing the seeds of large-scale inflation. In such an environment, gold and other precious metal prices are likely to remain high or go higher with sporadic interruptions due to speculative trading activities. Industrial metals and minerals will also be in greater demand and

will result in companies taking greater risks by investing in projects and countries that under other circumstances would be deemed too risky for investment.

Asian countries will continue their global grab for resource projects, many of questionable merit. Sovereign investment funds and private equity groups, unfamiliar with the resource industry, will climb aboard the mineral ownership train.

The old dog of a project called Fido re-emerges under a new company with a new name – Phydeaux – still a dog, but a higher class dog, due to higher commodity prices. When prices return to long-term levels, these projects will fail, with billions of dollars wasted.