

BEHRE DOLBEAR & COMPANY, INC.

2006 RANKING OF COUNTRIES FOR MINING INVESTMENT

WHERE “NOT TO INVEST”

Since 1999, Behre Dolbear & Company, Inc. has compiled a political risk assessment of countries of import to the mining industry. We have been very pleased about the responses we have received from our clients and others in the industry. As a result of the wider than anticipated circulation of this annual compilation, during 2004, Behre Dolbear was asked to testify in the United States Congress about our comments on delays experienced in the permitting process for mining operations in the U.S. We have also received “hate mail” from those who disagree with our opinion. We recognize that many might consider what we have said to be provocative, which is our intent. The mining industry is vital to the creation of wealth and prosperity in any country and those countries which stifle it with detrimental political, economic and financial policies should be challenged to make changes more accommodative to its success.

The Behre Dolbear group of companies, however, comprises many professionals and the views expressed herein do not necessarily reflect those of everyone within the group. While the rankings in this annual survey are based on opinions gathered from our professionals and we believe they reflect the collective experiences gained by of our company and its professionals since its founding in 1911, this summary is written by Behre Dolbear’s chief executive officer and is his responsibility. Our professionals have had the unique opportunity to travel widely and experience many different cultures. We accordingly believe that the opinions in our annual ranking have been strengthened by these experiences.

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. It is recognized that if a major mineral deposit exists in a high-risk country, a mining company might well decide that the financial incentive exceeds the political risk, such as companies investing in the Democratic Republic of Congo.

The ranking is qualitative, not quantitative. Input to the rankings is based on Behre Dolbear’s actual experience in the countries. Behre Dolbear typically has projects in more than 40 countries each year, which, along with the collective experience of the professionals in our ten offices, has provided valuable input to the rankings. Behre Dolbear has also referred to the Index of Economic Freedom (a Wall Street Journal/Heritage Foundation publication) and publications from Transparency International when considering the economic and political systems and the degree of corruption present in the respective countries.

Twenty-five countries which are host to major exploration or mineral development efforts and/or mining operations have been 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; and
- the country's tax regime.

Each category under consideration is rated from 1 to 10 with the highest ranking being 10. Accordingly, the maximum score attainable is 70 points

The countries considered in the survey are (listed alphabetically):

- Argentina;
- Australia;
- Bolivia;
- Brazil;
- Canada;
- Chile;
- China;
- Democratic Republic of the Congo;
- Ghana;
- Greece;
- India;
- Indonesia;
- Kazakhstan;
- Mexico;
- Mongolia;
- Namibia;
- Papua New Guinea;
- Peru;
- Russia;
- South Africa;
- Tanzania;
- United States;
- Venezuela;
- Zambia; and
- Zimbabwe.

2005 IN RETROSPECT – WERE WE RIGHT OR WRONG?

Our major concerns expressed in our 2005 rankings were the potential for (re)nationalization of mining properties in Bolivia, Peru and Venezuela. Except for Peru, our concerns proved well founded as Bolivia and Venezuela have indeed began the expropriation of mining concessions and properties.

Behre Dolbear also expressed concern about South Africa continuing to expand its investment-discouraging policies. These also proved well founded and it now appears that most companies resident in South Africa are seeking to diversify their assets outside the country – even by investing in Papua New Guinea.

The confidence we expressed in China also appears to be correct. Our experience is that investment in China is being limited by the generally mediocre quality of the country's deposits of precious and base metals, not by domestic policies.

We were wrong in predicting the deterioration in the strength of the U. S. dollar. Rather than lose value, it gained value. We did predict the dollars strength against the euro.

THE ECONOMIC SYSTEM

Behre Dolbear is a firm believer in the free-market system. It works! The commerce within and between countries that results from a free-market system ultimately produces democratic reforms. These in turn generate wealth which increases employment and living standards. The adherence to free market ideals is the major consideration in the rankings.

It is interesting to note the effect of the unofficial free market economy in China which has increased that country's ranking in the category from the 6 points in 2004 to the present 8 points in 2006. The remaining highly ranked countries are those with a long history of free market policies.

The lowest scoring countries are those with repressed economic systems.

The highest ranking countries and their relative scores are:

- Canada (10);
- United States (10);
- Australia (9); and
- Chile (9).

The lowest ranking countries are:

- Congo (1);
- Venezuela (1); and
- Zimbabwe (1).

THE POLITICAL SYSTEM

Democratic countries with free elections rank highest. The fact that some countries hold elections however, does not mean they are democratic (viz. Zimbabwe). Additional factors considered are the security of tenure - i.e. is title to a company's mineral concession secure? - the country's mining law, and the country's prior history of nationalization of mining operations.

The higher ranking countries are those with well established democratic systems which provide protection against governmental or other arbitrary takings of property and possess well established and tested mining legislation. It is not surprising to see Australia, Canada and the United States lead in this category.

The lowest ranking countries are led by Venezuela which is continuing to rapidly distance itself from the democratic system and has “repossessed” some mining concessions. Behre Dolbear is also quite concerned about the political systems in Bolivia and Peru and would caution against new investment in those countries as it is possible in our opinion that mining operations could be (re)nationalized under the populist policies of those aspiring to the presidency in the two countries. In fact, Behre Dolbear has been engaged to support a Latin American mining company whose mineral property was expropriated by Bolivia without compensation.

The situation in Peru has shown slight improvement over the past year; however, in our opinion, the imposition of populist political programs is still a threat. Of real concern is the influence anti-mining non-governmental organizations (NGO)s have gained in Peru

Moving to the African continent, we continue to express concern about the trends in South Africa where “creeping expropriation” is continuing its advance. The requirement imposed on the diamond producers to “sell” part of their production to local cutters is an example of such creeping expropriation and poses a real disincentive to investment in the country.

Zimbabwe, in our opinion, is a hopeless cause unless the current regime is replaced.

On a positive note, generally free elections have resulted in improved rankings for Kazakhstan, Namibia, Tanzania, and Zambia.

The highest ranked countries are:

- Canada (10);
- Australia (9); and
- United States (9).

The poorest ranking countries are:

- Bolivia (1);
- Venezuela (1);
- Zimbabwe: (1);
- China (2); and
- D.R, Congo (2).

SOCIAL ISSUES

Social issues are now the highest risk facing the development of mineral projects in every country. The watchword for the industry is “sustainable development” which while sound in principle, has often been used by opponents of mining 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 The World Bank Group to govern the development of mineral projects. Despite these achievements, opposition to mining projects has been fomented by NGOs whose agendas are often suspect, and in many cases detrimental to the well being of the affected peoples. The NGOs have been uncannily effective in corrupting - i.e. paying off -local religious leaders in several countries (Guatemala, Honduras, Mexico, Peru, Philippines) and having them lead their anti-mining crusade.

A major issue, particularly in developed countries, is the “not in my backyard (NIMBY)” syndrome where prosperity outweighs the knowledge of the public’s need for minerals. Mineral projects in the United States and Canada have been halted due to public opposition, primarily through special-interest groups.

Other factors considered as part of the social issue category include the level of poverty in the country, the incidence of terrorism or guerilla activity, and diseases such as AIDS. All of these economically impact a mining company’s operations in a country.

The lowest ranking countries are those where poverty reigns, where the governments are bowing to populist causes, and where intertribal, ethnic or religious conflicts are prevalent. South Africa continues to have the lowest possible rating due to the incidence of AIDS in the population and the government’s hapless response to the problem, and the government’s warming to the policies prevalent in neighboring Zimbabwe. We would note that Namibia is now “toying with” imposing policies similar to those in South Africa and Zimbabwe.

The countries ranking highest in the area of social issues are:

- Australia (8); and
- Chile (7).

Those countries with the lowest ranking are:

- Bolivia (1);
- D.R. Congo (1);
- Indonesia (1);
- Papua New Guinea (1);
- Peru (1);
- South Africa (1);
- Venezuela (1); and
- Zimbabwe (1).

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.

Most often the delay is due to the “green tape” involved in working with the bureaucracy; however, in some cases, particularly in the U. S., it is due to an entrenched group in the bureaucracy (EPA, Department of Agriculture and Department of Interior) dedicated to delaying to the maximum extent possible, any mineral or other natural resource development. The current administration in the U.S. has publicly recognized this fact and is trying to replace those responsible with those more open to responsible natural resource development; however, it is still widely perceived in the global mining industry that a new mining project cannot get permitted in the U. S.

Contributing to global delays are intervention by NGOs opposed to mining development, groups with legitimate concerns about the effect the project will have on their community or lifestyle and, often, corruption on the part of bureaucrats in poorer countries.

What has become obvious in 2006 is that delays in permitting are now a global issue for the mining industry. Some clients have told us that they are increasing their spending on exploration in the United States with the attitude that it might take 10 years to get their permits, but at least their tenure should be secure.

Australia and Mexico lead the ranking in this category. The U. S. is ranked next to lowest due to the average 5-year to 7-year period required before mine development can commence. Lowest ranked is Papua New Guinea due to corruption in the process.

Those countries viewed as the best with the least permitting delays are:

- Australia (8);
- Mexico (8);
- Chile (7);
- Ghana (7); and
- Tanzania (7).

Those countries with the longest delays in permitting are:

- Papua New Guinea (2);
- D.R. Congo (3);
- Greece (3);
- India (3);
- Indonesia (3);
- Kazakhstan (3);
- Russia (3);
- United States (3); and
- Zimbabwe (3).

CORRUPTION

Corruption is endemic in the poorer countries and in those countries recovering from or under socialistic or controlled economies or totalitarian regimes. The corruption frequently extends through all strata of society from the highest levels in government to the lower level government

officials. Facilitation fees are a common part of a company's business in many countries, particularly in Africa and Asia.

Australia, Canada and the U. S. lead the rankings, followed by Chile. We have also seen improving ratings in Mexico and Zambia.

Countries which have declined in ratings include Argentina, China, Ghana, Papua New Guinea, and South Africa. The lowest ranking countries are those with corrupt judicial systems (e.g. Indonesia and Venezuela), corrupt governments in general, and extreme poverty.

Those countries with the least corruption are:

- Australia (10);
- Canada (10); and
- United States (10).

Those with the greatest incidence of corruption are:

- D.R. Congo (1);
- Indonesia (1);
- Kazakhstan (1);
- Russia (1);
- Venezuela (1); and
- Zimbabwe (1).

CURRENCY STABILITY

History has shown that those countries with depreciating or devalued currencies inhibit new investment in the country. Depreciating currencies generate inflation, poverty, and corruption.

We had projected the U. S. dollar to decline in 2005; however, the U. S. Federal Reserve's increases in the discount rate reversed the dollar's downward trend, especially against the euro. The gap between U. S. and European Union interest rates will continue to affect the euro in 2006 as will the stifled and ill-advised economic policies of France and Germany.

While China's yuan is considered by many to be artificially undervalued, it has been stable against the U.S. dollar which is rated at 8 points. The dollar is projected to ultimately continue its debasement due to balance of payment issues; however, it is now considered by many to be the safe haven against political uncertainty, higher oil prices, and terrorism.

The poorest countries are not surprisingly those with high inflation and corrupt governments.

The highest ranking countries are:

- Canada (9);
- China (9);
- Greece (9);
- Australia (8);
- South Africa (8); and
- United States (8).

The lowest ranked countries are:

- D.R. Congo (1);
- Indonesia (1);
- Zimbabwe (1);
- Venezuela (2); and
- Zambia (2).

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 percent, a mining project’s economic viability in a period of normal commodity pricing is threatened, unless the project is extremely high grade. Essentially, we are saying that playing Robin Hood makes everyone poor and that establishing a firm tax stability program with a government is essential for a mining company developing a project in a less developed country.

Although total taxes in Mexico can, on paper, exceed 50 percent, Behre Dolbear has not encountered any project in that country where the total tax take exceeds 40 to 45 percent. Accordingly, Mexico continues to rank highest in our 2006 ranking for this category. While ranked in the upper tier, the United States has enacted corporate governance legislation affecting publicly-trade companies which has placed an ever-increasing financial burden on the companies; i.e. another form of taxation due to the improper implementation of a correct principle.

During 2005, Ghana, Greece, Kazakhstan, Russia, Zambia, and Zimbabwe lowered corporate taxes. Chile, India, and Peru raised corporate taxes or imposed new royalties on mining companies. South Africa continued to impose high taxes in the form of requiring conversion of crude products, imposition of a royalty, and the “sale” of increased interests in mining properties to Black Empowerment groups. Generally, low ranking countries are those with controlled and/or corrupt economies.

The highest ranking countries for tax regime are:

- Mexico (8);
- Australia (7);
- Canada (7); and
- United States (7).

The lowest ranking countries are:

- South Africa (2);
- Zimbabwe (2);
- India (3); and
- Indonesia (3).

THE RANKINGS

The table below presents the results of the political risk rankings. The high score of 59 points out of a possible 70 points was achieved by Australia, closely followed by Canada. Both the United States and Mexico improved their scores on a year-to-year basis. Chile, while tied with Mexico, lost ground primarily due to its increase in mining royalties.

The low score of 10 points was achieved by Zimbabwe.

The five highest scoring countries are:

- Australia (59);
- Canada (57);
- United States (51);
- Chile (50); tied with
- Mexico (50).

The lowest ranking countries are:

- Zimbabwe (10);
- D.R Congo (13);
- Venezuela (14);
- Indonesia (17);
- Papua New Guinea (22); tied with
- Russia (22);.and
- Zambia (22).

The greatest negative changes occurred in Argentina which slipped three points from 2005 as its economic and political system declined. Bolivia, China, and Peru each lost two points on an overall basis. China' decline was due to social issues and corruption; Bolivia and Peru both are affected by significant social issues as well as potential political issues. Peru has also enacted royalties which has decreased its rating in the category of Tax Regime

The most positive changes were shown by Kazakhstan (+4) and Zambia (+3). Kazakhstan has shown improvement in its Economic System, Political System, Social Issues, and Tax regime. Zambia displayed improvement in its Political System, anti-corruption policies, and its Tax Regime.

2006 RANKING OF COUNTRIES

RANK	COUNTRY	ECONOMIC SYSTEM	POLITICAL SYSTEM	SOCIAL ISSUES	PERMITTING DELAYS	CORRUPTION	CURRENCY STABILITY	TAX REGIME	TOTAL POINTS	CHANGE VS 2005
1	AUSTRALIA	9	9	8	8	10	8	7	59	0
2	CANADA	10	10	6	5	10	9	7	57	+1
3	USA	10	9	4	3	10	8	7	51	0
4 TIE	CHILE	9	8	7	7	8	7	4	50	-1
4 TIE	MEXICO	8	8	5	8	7	6	8	50	-2
6	GREECE	8	8	3	3	5	8	6	42	+3
7	BRAZIL	6	7	6	5	4	6	6	40	0
8	GHANA	6	5	5	7	4	5	6	38	0
9	MONGOLIA	6	4	6	6	3	6	5	36	0
10 TIE	ARGENTINA	6	6	6	6	4	5	5	35	-3
10 TIE	CHINA	8	2	4	5	2	9	5	35	-2
12	NAMIBIA	5	6	3	5	4	5	6	34	-1
13	TANZANIA	5	5	3	7	3	4	5	32	0
14	PERU	6	3	1	3	4	7	5	29	-2
15	INDIA	6	6	2	3	3	5	3	28	-1
16 TIE	BOLIVIA	5	1	1	5	3	4	6	25	-2
16 TIE	SOUTH AFRICA	3	4	1	5	2	8	2	25	-1
18	KAZAKHSTAN	4	3	4	3	1	4	4	23	+4
19 TIE	PAPUA NEW GUINEA	4	4	1	2	2	4	5	22	-1
19 TIE	RUSSIA	2	3	3	3	1	4	6	22	0
19 TIE	ZAMBIA	3	3	2	5	3	2	4	22	+3
22	INDONESIA	3	5	1	3	1	1	3	17	-1
23	VENEZUELA	1	1	1	4	1	2	4	14	0
24	D.R. CONGO	1	2	1	3	1	1	4	13	0
25	ZIMBABWE	1	1	1	3	1	1	2	10	+1

WHAT LIES AHEAD

Behre Dolbear continues to be concerned about what the future holds for the mining industry in South America. The continent is experiencing an upsurge in populism, which in an environment of buoyant commodity prices could readily lead to expropriation of mining interests in some countries (Bolivia, Peru, and Venezuela) because of the high profits the industry will be reporting from operations. The current environment is eerily similar to that in Chile during the Allende regime.

We anticipate that activity in both China and India will continue to increase and that there will be positive changes in the regulations affecting the mining industry in those countries. Indonesia is still in a “wait and see” mode with most investment halted by concerns over terrorism, social issues and government policies which seem to have the intent of discouraging any new mining investment.

We also believe that the atmosphere for mining will continue to deteriorate in South Africa as the government continues its “Zimbabwe-like reforms” under the principle of social justice.

Russia’s continued move away from democratic principles and the rule of law is a concern. Mr. Putin appears to be headed for a showdown with those favoring more liberalized policies which could lead to a period of uncertainty for investors and possibly violence within the country. Despite its mineral wealth, Russia still is a dangerous place to invest from a political risk standpoint.

The NGO’s will continue their anti-mining actions using proxies such as political and religious leaders whose loyalty is bought by their seemingly inexhaustible supply of funding from elitist do-gooders. The industry’s best hope for overcoming the falsehoods spread by the NGO’s is that the shortage of all commodities will bring the realization that development of mines is essential to the world.

The greatest long-term concern we hold, however, is that of potential armed conflict between resource-dependent countries (viz. the United States and China) over their respective needs for foreign supplies of minerals to support their economies. Such a situation led to war with Japan in the 1940s after the United States and other countries embargoed Japan’s oil supply in Asia. Accordingly, while our industry is experiencing the “perfect storm” from a commodity pricing and supply and demand basis, unless our politicians use appropriate caution, the end result might well be a disaster for the global community. Paraphrasing Santyana, “those who fail to heed the lessons of history are doomed to repeat them”.

Our advice therefore, is that prior to investing in a country which has a clouded history, do not believe those who say “this time it is different”. Inevitably, it will not be different.