

Country Risk

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Gold miners, because the number of discoveries was falling and existing deposits were being quickly depleted, have had to diversify away from the traditional geographically safe gold producing countries, ie Canada and the US. The move out of these "safe haven" countries has exposed investors to a lot of additional risk.

One only has to compare a share price chart to news release dates to see the effect Mongolia's ridiculous windfall profit tax and other political games have in the past had on certain company's share prices. Uzbekistan claimed Newmont owed the government taxes so they stole cash and bullion and when that wasn't enough to pay off the supposedly owed taxes they expropriated a gold mine. The government in Uzbekistan also annulled Oxus Gold's license to develop the Khandiza polymetallic deposit.

In many parts of the world capitalist hating Marxist governments are becoming greedy, here's an example of a news release an investor doesn't want to read - "The Venezuelan government plans to nationalize the Las Cristinas gold mine, which is estimated to have the largest gold deposits in the country and is currently conceded to the Canadian company Crystallex." Minister of Basic Industries and Mining (MIBAM), Rodolfo Sanz.

The military government in Fiji seized the Vatukoula mine belonging to Australia's DRDGold and Russia got into the act with their environmental agency revoking two mining licenses owned by Peter Hambro, the London-listed gold producer.

Many countries might come to mind as places where shareholders could, without warning, receive news that their operations have been taken over by the government and/or its friends, or that permits are suddenly suffering delays or have been cancelled outright.

One of the most serious and unpredictable risks facing mining operations and investor interests is "country risk" - where the political and economic stability of the host country is questionable and abrupt changes in the business environment could adversely affect profits or the value of the company's assets.

We've seen far too many instances of companies losing assets that were lawfully theirs. If the management side of the companies we invest in is so important then maybe we should start regarding the management of the country they operate in as at least as important? There is nothing quite so heartbreaking to an investor as having his company's flagship project taken over, nationalized, by the "El Presidente for life" of the country they're working in.

The Fraser Institute, in conjunction with the Prospectors and Developers Association of Canada (PDAC), has just released their excellent must read annual "Survey of Mining Companies 2008/2008."

http://www.fraserinstitute.org/Commerce.Web/product_files/MiningSurvey20082009_Cdn.pdf

"Since 1997, The Fraser Institute has conducted an annual survey of metal mining and exploration companies to assess how mineral endowments and public policy factors such as taxation and regulation affect exploration investment. Survey results represent the opinions of executives and exploration managers in mining and mining consulting companies operating around the world. The survey now includes data on 71 jurisdictions around the world....The companies participating in the survey reported exploration spending of US\$3.4 billion in 2008 and of US\$3.02 billion in 2007. Thus, survey respondents represent 24 percent of total global nonferrous exploration of US\$14.4 billion in 2008 and 30 percent of US\$9.99 billion in 2007."

Social Turmoil

If a country's economic fundamentals weaken, then social problems cannot be avoided. Economic slowdown and rising unemployment cause massive social turmoil. The current worldwide economic meltdown has already caused many tens of millions to become unemployed and worldwide hundreds of millions, potentially billions of people, could be facing starvation.

Socio-economic turmoil - lawlessness, poverty, lack of adequate medical facilities and attention, low to no employment, low wages, disease, no clean drinking water or water for irrigation and shortages of food or unaffordable food are all causing socio-economic pressure to build in many countries that were once stable environments for investment.

The riots that erupted in Mexico early in 2007 in response to rising corn prices were but a harbinger of what's to come. Given the "dust bowl" droughts (and other conditions in third world and developing economies), now gripping countries that make up almost two thirds of the worlds breadbasket - the US, many countries in South America, Australia, China and parts of Canada, the price of food staples - wheat, rice, corn etc, will again rise to riot causing levels in the coming months.

UCL DEPARTMENT OF SPACE AND CLIMATE PHYSICS
Global Drought Monitor

<http://drought.mssl.ucl.ac.uk/drough...2Fdrought.html>

And this is happening just when tens of millions of people are being laid off and billions of people in the developing world are sure to see their already well below poverty-level incomes drop further or cease to exist altogether due to the worldwide ongoing economic collapse and lack of investment in developing countries. "The whole global picture is flagging up signals that we're moving out of a period of abundant food supply into a period in which food is going to be in much shorter supply." Henry Fell, chairman of Britain's Commercial Farmers Group.

Developing economies stand to lose most. These countries rely on imports to sustain themselves, and on average their citizens spend a much larger percentage of their wages on food than do their counterparts in developed nations. Some published estimates are as high as 50 to 60 percent of income going towards food, Britain was recently surveyed and 13% was the norm.

When you combine no economic growth with rising food prices you have a perfect recipe for unrelenting massive social turmoil. Food prices will soar and in countries with food deficits millions will be facing starvation. Food riots and social unrest seen

in 2008 are going to seem like a walk in the park compared to what might be in store for 2009 and beyond if these epic droughts and worsening economic conditions continue.

Crops allocated for biofuels, epic caliber widespread droughts, the high price of fertilizer, the high price of fuels and a growing global population are all conditions that have pushed up the cost of food. And if we get hit by a particularly bad harvest or if a severe El Nino strikes, food supplies could get totally out of control in many countries. If this happens then almost any city, and almost any countryside could be aflame with strikes, riots and civil disobedience.

From the Headlines

In January 2007, three months of price rises for corn in Mexico culminated in riots. The cost of imports of corn from once cheap American supplies was up some 400 percent, rendering a staple Mexican food item unaffordable.

In Indonesia, government officials and police have been forced to clear the streets in an emergency action after food riots broke out Indonesia over rising soybean prices.

Increasing demand in China, reduced US capacity as more farmers plant corn for ethanol, and poor harvests in Brazil and Argentina fueled the protests, the largest since Mexican protests and riots over rising tortilla prices last year.

Deadly clashes over higher costs for staple foods have broken out in Egypt, Haiti and several African states.

Bangkok, Thailand - - Rice farmers here are staying awake in shifts at night to guard their fields from thieves.

In Peru, shortages of wheat flour are prompting the military to make bread with potato flour, a native crop.

In Italy, merchants from Milan began clamoring about the cost of pasta.

The FAO has reported popular unrest over rising food prices in Burkina Faso, Cameroon, Indonesia, Ivory Coast, Mauritania, Mozambique, Bolivia and Uzbekistan, among other countries.

The Philippines, the world's biggest rice importer, moved to head off protests after global prices doubled in a year.

Temporary Respite

It's my opinion the relief we're currently seeing from this food driven social unrest is very temporary. Worsening economic conditions, a shortage of fresh clean water for irrigation and drinking and extremely expensive or non existant food supplies for emerging and developing nations are going to be the coming norm. The citizens of many of these countries have been given a taste of the good life. They have seen what we have and they want it for their families. The increase in living standards they've recently tasted has been reduced or completely taken away.

Regime change could be a reality for many countries, and social unrest could breed an upswing in regional militancy and insurgency. There's a storm brewing on the horizon. Keep a weather eye on developments in the countries you've invested in.

If you're interested in the junior resource market and would like to learn more please come and visit us at <http://www.aheadoftheherd.com/>

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