

Frontier's Strategy Note: 02/06/2015



“Survey of Investment climate in mining industry by international organizations and position of Mongolia in them”

At the same time as Mongolia is trying to attract the foreign investors to the country, we thought it would be worth reviewing the most recent international survey and researches on investment climate of the countries, with highlights of Mongolia's position. There is a preliminary statistics by Invest Mongolia Government Agency, that total FDI to Mongolia in 2014 was about 580 million USD, almost 50% lower than the previous year and 72.5% of total FDI to Mongolia is done in exploration and mining industry. Therefore, we tried to focus our review on the surveys of investment climate in mining industry.

We reviewed the studies by Behre Dolbear and Fraser institute, and the link to the full report can be found at the end of this article.

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Behre Dolbear. Ranking of Countries for Mining Investment: “Where Not to Invest”



**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 recognizes its critical need to adapt and restructure burdensome policy – will it truly optimize 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.

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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

First of all, we would like to emphasize that this survey is based on the opinions of the experts of Behre Dolbear Company, and therefore the evaluation result could be subjective.

In 2014, Australia lost the first place to Canada after leading the ranking for last few years. Canada, Australia, United States, Chile, Mexico and Brazil have been in the first 6 places for last few years without much change, however in 2014 United States ranked at 3 from last year's 6th place. Behre Dolbear sees these countries as politically stable with stable regulatory environments, which help create viable resource bases that can provide competitive returns for investors relative to other asset classes.

The five lowest-scoring countries were D.R.Congo, Russia, Mongolia, Mozambique and Papua New Guinea. Behre Dolbear also concluded that mineral-rich nations with less stable or changing political environments, such as Argentine, Mongolia, Peru, Ghana and South Africa, can add uncertainty to the development of mining projects, ultimately resulting in downward pressure on returns due to project delays or in extreme cases, project cancellation.



The main feature for ranking in 2014 was that the differences in points for each countries were much larger (from maximum of 12.9 to minimum of -9.1) than the previous years (from maximum of 2.3 to minimum of 5.0). However this has not been referenced or concluded in the report, which would have been worth some explanation.

Although, Indonesia and India had considerable changes in the mining industries, for last 2 years, the points for these 2 countries almost hadn't been changed. Generally, the points and limited explanation of the 3 top and 3 lowest rated countries had been provided; therefore, we cannot refer to the specific category for the countries ranked in the middle.

Position of Mongolia in the ranking. Mongolia ranked at 22 out of 25 countries in 2014, 4 places behind from previous year and 10 places behind its ranking in 2012.

Since the point system is not explained and based on the expert's opinion, we were not able to explain the details.

Points for economic system of Mongolia were down 2 points, which might be depending weak macroeconomic fundamentals. Mongolia also lost 1 point for the political system due to the election turmoil. This one was questionable, because Mongolia lost 1 point in 2013 for the exact same reason.

Mongolia has been losing one point each year due to the restriction of new exploration and exploitation license issuance. The question is, even there was no change for the restriction condition in 2012 and 2013, Mongolia kept losing points, which should have needed more clear explanation.

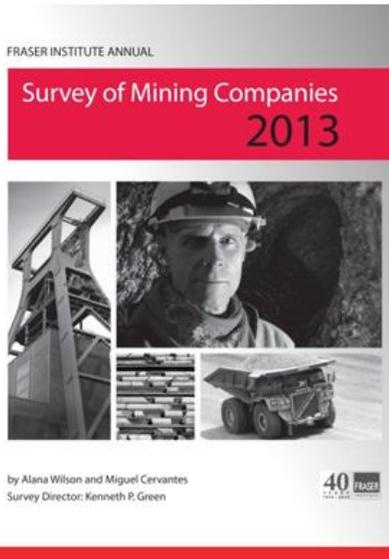
Conclusion

Overall, as we mentioned before, this ranking is based on the Behre Dolbear's experts' opinion and pointing, therefore, evaluation of each countries could be subjective. However, the report is being referenced by some international institutions and government agencies, therefore, the results cannot be ignored.

It can be concluded easily from the changes of the Mongolian position in the ranking, that investment climate in the mining industry in Mongolia is deteriorating very fast. Venezuela and Zimbabwe are not on the list for a sixth year even though both contain significant mineral wealth due to their low ranking reflecting unfavorable policies and investment climate. Behre Dolbear advises its clients to exercise notable caution when considering investments in these countries. So staying in the ranking could mean some importance, that investors are still interested in those countries. If Mongolia keeps the current pace, it will no longer be in the ranking.



Fraser Institute: Survey of mining companies 2013.



Since 1997, the Fraser Institute has conducted an annual survey of mining and exploration companies to assess how mineral endowments and public policy factors such as taxation and regulation affect exploration investment. The Fraser Institute is the top think tank in Canada and this year ranked among the top 20 think tanks worldwide.

Survey of mining companies 2013, published in March 2014, conducted from September 17, 2013, to December 1, 2013, represents responses from 690 mining and exploration companies. The companies participating in the survey reported exploration spending of US\$4.6 billion in 2012 and US\$3.4 billion in 2013.

The 112 countries/jurisdictions are ranked based on the several indexes that are explained below.

- Jurisdictions with the highest scores for good policy are: Sweden, Finland, Alberta, Ireland, Wyoming, Western Australia, New Brunswick, Nevada, Newfoundland and Labrador, and Norway.
 - Jurisdictions with the lowest policy scores are: Kyrgyzstan, Venezuela, Philippines, Mendoza and La Rioja in Argentina, Angola, Zimbabwe, Ivory Coast, Indonesia, and Madagascar.
 - Jurisdictions with the highest scores for the Investment Attractiveness Index (which takes both mineral and policy perception into consideration) are Western Australia, Nevada, Newfoundland & Labrador, Finland, Alaska, Sweden, Saskatchewan, Yukon, Greenland, Alberta, Wyoming, and Chile.
 - Jurisdictions with the lowest scores for the Investment Attractiveness Index are Uruguay, Niger, Honduras, Venezuela, and the Argentinian provinces of La Rioja, Rio Negro, and Neuquen.
- This year's survey included a new question on public opposition to mining and its effect on permitting and project approval.

It should be emphasized that the ranking and scoring is based on the companies who are operates in those selected countries or so informed that they have knowledge about those country. Therefore, the evaluation and the scoring could be also subjective.

Position of Mongolia in the ranking.

The Policy Perception Index (PPI), is a composite index, measuring the over all policy attractiveness of the 112 jurisdictions in the survey. The index is composed of survey responses to policy factors that affect investment decisions.

Policy factors examined include uncertainty concerning the administration of current regulations, environmental regulations, regulatory duplication, the legal system and taxation regime and other issues including disputed land acclaims and infrastructure. The maximum score is 100.

In the latest survey, Mongolia ranked at 100 out of 112 jurisdictions with only 16.9 points out of 100, far behind than 54th place that it ranked in 2010/2011 survey. Mongolia's ranking actually kept falling since 2010 survey.



The Best Practices Mineral Potential Index is a rating a region’s geological attractiveness. At this category Mongolia also fall from 1st place in 2012/2013 to 51th place in 2013.

An overall Investment Attractiveness Index is constructed by combining the Best Practices Mineral Potential index, which rates regions based on their geologic attractiveness, and the Policy Perception Index, a composite index that measures the effects of government policy on attitudes toward exploration investment. The maximum score possible on this index is 100.

Mongolian Investment attractiveness index was 42.1 out of 100 and ranked at 81 out of 112 jurisdictions. Mongolia ranked at 37 last year.

Besides above scoring, companies were also asked to evaluate certain policies and conditions to 3 levels: mild deferent to investment, strong deferent to investment and would not pursue investment due to the factor.

Mongolia received mostly ‘strong deferent to investment’ and ‘would not pursue investment’ responses due to the factors of uncertainty concerning existing regulations and legal system. There were also other factors, including tax regime, infrastructure and regulations on labor, which Mongolia has received mixed feedback.

Conclusion

Although the result of the Mining survey of Fraser Institute could be subjective, this is actual feedback of the operating companies or investors to the Government policy in mining industry or a ‘report card’ to the governments, as the Fraser Institute describes.

As for Mongolia, its position kept lowering at the ranking since 2011 and ended up among the countries with least attractive environment to the investors in mining industries. The fall is happening very fast, from the moderate 54th position to the 100th position out of 112 jurisdictions in 3 years. The general trend for Mongolia seems similar to that of Behre Dolbear ranking.

Summary

Mongolian Government is trying hard to earn back the trust and sentiment from the foreign investors, but the current situation of the economy and the recent tax dispute over tax claim of South Gobi sands are not particularly helping.

As the above study shows, Mongolia’s attractiveness of the foreign investment started fallen from back in 2012 for a consecutive 3 years. Statistics of FDI to Mongolia also confirms this trend. For coming back to the 2011 stage, Mongolia will have to work hard and prove its commitment, probably for longer period than 3 years. Even if Mongolian current government succeeds in solving the mega mining projects, such as Tavan Tolgoi and Oyu Tolgoi, this could be only the first step of winning the trust of the investors, not all.

As the tax dispute of South Gobi Sands comes to the attention of the international investors, it also reveals that Mongolia have to work on improving its tax and fiscal regime at the international level.



For the full reports or some other survey about the investment climate, you can visit following web-sites:

Behre Dolbear. Ranking of Countries for Mining Investment: “Where Not to Invest”:

http://www.dolbear.com/literature_209687/2014_Ranking_of_Countries_for_Mining_Investment

Fraser Institute, Survey of mining companies 2013

<http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/mining-survey-2013.pdf>

Fraser Institute, Economic Freedom of the World:

<http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/economic-freedom-of-the-world-2013.pdf>

UNCTAD, Investment Policy review of Mongolia, UNCTAD:

<http://investmongolia.gov.mn/wp-content/uploads/2014/05/Investment-Policy-Review-of-Mongolia.pdf>

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