

# **Assessing and Managing Political Risk in Mining: A Practitioners Perspective**

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# Introduction

We work directly with the senior executives of our clients to design, develop, and implement effective strategies to overcome political and regulatory risks of critical importance to the continued commercial, financial and economic viability of a company in the global mining, metals and energy sectors.

We draw extensively upon our deep knowledge of privatisation, energy market reform, private infrastructure financing, telecommunications, financial services, and international trade and investment negotiations.

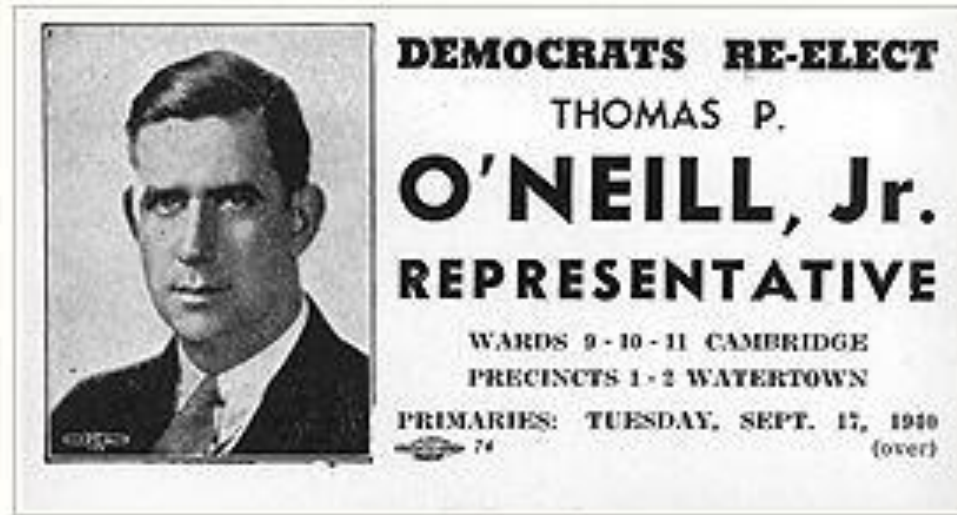
We have over 20 years of experience working in law, politics, government, business, policy development, public affairs, and academe in North America, across Europe, Africa, and the Caucasus.

We immerse ourselves into the challenges facing our clients. We are committed to a solution that achieves the client's objectives. And we are relentless in the pursuit of this goal.

# Defining Political Risk in Mining

*The risk that a **government** will pursue - or has already undertaken - a **specific course of action** to secure an **economic, political or financial benefit** from a **company or sector** that it could only achieve by **unlawful, arbitrary, restrictive or discriminatory means**.*

# First Rule of Politics



"Let me tell you something that I learned years ago. *All politics is local.*"  
Thomas O'Neill, Sr. to Thomas (Tip) O'Neill, Jr. after Tip's election to Massachusetts House of Representations in 1937.

# Pre-Supercycle

Meet the locals in Pilbara...



And the locals in Sudbury...



# Post-Supercycle

Now, meet the locals in Greece...



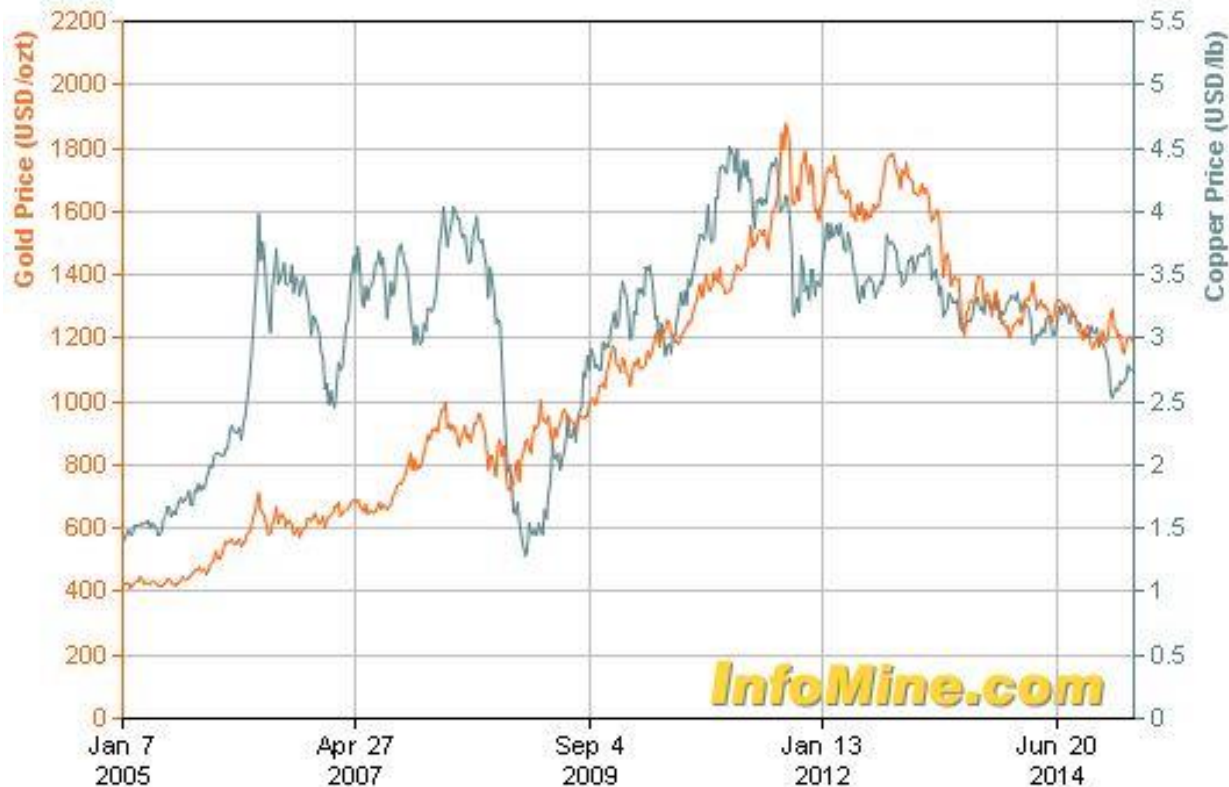
And the locals in Peru....





# Price: The Key Driver of Political Risk in Mining

**GOLD PRICE - COPPER PRICE**  
Jan 7, 2005 - Apr 24, 2015



# New Financial Reporting Rules

OSC Staff Notice 51-722 *Report on a Review of Mining Issuers' Management's Discussion and Analysis and Guidance* February 6, 2014

*Old*

***Example 19 – boilerplate example***

The Company's operations are located in Foreign Country X. The company is subject to the political risks and economic considerations of operating in Foreign Country X.

*New*

***Example 20 – entity-specific example***

The Company's principal property is located in Region Y of Foreign Country X. Consequently, the Company is subject to certain risks associated with foreign ownership, including currency, inflation, political and property title risk. On January 13, 2013, a coup was initiated by members of the Region Y army, creating uncertainty within the area where the company operates. Currently, operations are continuing but travel and access to the property may be curtailed due to political instability or risks to personnel which may result in project delays. The Company is closely monitoring the situation and management will continue to provide updates.



# Increasing Financial Scrutiny and Costs

*Rating Action: Moody's downgrades FQM's CFR to B1 and rating on its notes to B2; negative outlook*

Global Credit Research - 10 Mar 2015

- Approximately \$3,480 million equivalent of rated debt affected

“Another material negative development is the application in Zambia from January 2015 of a new royalty-based tax regime, which will directly affect EBITDA, as higher royalties are classified among cost of sales. *Moody's expects that management will not sufficiently mitigate such adverse developments...*”

# Sharper NGO Attacks

## ANTICIPATING SURPRISE — ASSESSING RISK

INVESTORS GUIDE TO THE ELDORADO GOLD CERTEJ MINE PROPOSAL IN ROMANIA (TSX:ELD)



April 29, 2015, Mining Watch Romania, and 22 other Romanian and international NGOs, issued the report on “*a compendium of risks* associated with the Certej gold project.”

Under the Report’s “Political Risks” heading, Klaus Iohannis, Romania’s Newly Elected President, is quoted as saying ‘During the election campaign, I committed *to reject extraction projects* that endanger people and the environment.’

On November 27, 2014, President Iohannis further stated ‘Thousands of Romanians wrote to me asking to help *clarify the legal prerequisites* for the mining project in Certeju de Sus (Hunedoara County). Today, my staff contacted the City Hall in order to verify the documents.’

January 19, 2015, Mining Watch Romania claims that the Romania National Construction Authority *demanded the annulment* of Eldorado Gold’s permit for Certej.

# Mining Specific Political Risk Assessment

1. Country
2. Commodity
3. Company
4. Community
5. Status
6. Opposition

# Strive for the Best - Prepare for the Worst

1. CSR is just the start
2. Understand politics but avoid playing it
3. Open consultations to all stakeholders
4. Make coalition building a priority
5. Communicate beyond NI 43-101
6. Follow the law, follow the law, follow the law

# When Bad Things Happen...

1. Understand the fight you are truly in
2. Preserve shareholder capital
3. Mobilise local support
4. Undertake a Business Diplomacy campaign
5. Define your opponents before they define you
6. First get leverage, then talk
7. Pursue all domestic and multilateral legal remedies

# Questions & Comments

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