

# Taxation trends in the mining industry

## *Which stocks are most exposed to less attractive and most risky regimes*

### Resource taxation review highlights countries with most and least attractive, and most risky taxation regimes

Today we have published a major study of resource taxation trends in the mining industry, *Taxation trends in the mining industry: One size doesn't fit all; governments need to work with industry for a better balance*. Our study focuses on the issues affecting resource taxation from a quantitative standpoint and seeks to highlight which taxation regimes are most and least attractive to industry as well as being most at risk of change. We also, by virtue of a quantitative analysis, look to highlight the impact of different taxation methods and suggest which are the most viable methods for the long term. We conclude that in an environment of more volatile commodity price behaviour, governments need to adopt more progressive taxation mechanisms (larger percentage of taxes below the profit line) to avoid endangering the competitiveness of their mining industries.

### Screening mining jurisdictions and applying that to companies

As part of our study, we have screened 55 mining jurisdictions globally and ranked them according to the attractiveness and balance of their fiscal regimes, as well as on risks associated with the regimes, including risk of change. We have applied that ranking to our company coverage universe in this note and assess companies in four key segments, African iron ore, copper, African gold and Americas gold.

**African iron ore:** Within a very small dataset, London Mining benefits from its development projects in Greenland and Saudi Arabia, while Bellzone suffers from being fully exposed to one of our least preferred countries, Guinea.

**Global copper:** Chile ranks within the top three of our total ranking, so companies highly leveraged to Chile dominate our ranking. The producer Antofagasta is one of our top-ranked copper stocks. Stocks with leverage to South Africa and the DRC rank relatively low, which means Tiger Resources and Ivanplats prop up our list.

**African gold:** Interestingly, even the top-ranked stock in our African ranking would be off the bottom of our Americas ranking, highlighting the onerous taxation regimes and uncertainty extant in Africa. Burkina Faso-leveraged stocks dominate the top of our ranking while Semafo is impacted by poor taxation regimes and uncertainty in Niger and Guinea.

**Americas gold:** Stocks with North American operations dominate the top of our list, with St Andrews Goldfields and Osisko ranking highly. At the bottom, B2Gold suffers from its Philippines and Namibia exposure while IAMGold's exposure to Africa and Suriname and Yamana Gold's exposure to Argentina all weigh heavily.

### Companies at risk from changing taxation regimes

We note a number of countries where we expect taxation regimes to change within the next 12-18 months and we highlight companies that are likely to be exposed to these changes. Yamana Gold (pertaining to Argentina, Brazil, Mexico) and Goldcorp (Argentina, Guatemala, Mexico and Nevada) are the stocks with most mentions on our list.

We also highlight companies exposed to countries which we believe are leaving more on the table than they need to be. Countries we have identified include Chile, Ukraine, Sweden and Sierra Leone. Stocks such as Antofagasta, Black Iron, Northland Resources, African Minerals, London Mining and Amara Mining would be exposed to any changes in the fiscal regimes of these countries.

*This is a companion to our full length report **Taxation trends in the mining industry: One size doesn't fit all; governments need to work with industry for a better balance**, also dated today.*

## RANKING REGIONAL TAXATION REGIMES

As part of our detailed study on global resource taxation trends, we ranked 55 producing and developing mining jurisdictions according to the following parameters:

- **Royalty regime:** Whether it is well structured (5 points) or could be considered onerous to companies (1 point).
- **Free carry interest:** Whether the free carry requirements, be they state or local ownership, are likely to be acceptable to investors in a general mining context (5 points) or are likely to detract from investment (1 point).
- **Other taxation impacts:** Whether additional taxes (including windfall taxes, corporate taxes, export taxes, etc.) when combined are of an acceptable level (5 points) or onerous (1 point).
- **Combined taxation impact:** Whether, when all taxation is taken together, the combined effect is likely to have a reasonable impact on profitability (5 points) or so much of an impact as to deter investment (1 point).
- **Risk of tax change:** The stability of the fiscal regime (5 points) down to whether it is likely to change in the near future (1 point).
- **Ease of Doing Business:** Per the World Bank index, 5 points for a country that is ranked in the top quintile of the index through to 1 point for a country in the bottom quintile.
- **Policy Potential:** Per the Fraser Institute index, 5 points for a country that is ranked in the top quintile of the index through to 1 point for a country in the bottom quintile.
- **Political instability:** Per the Economist Intelligence Unit ranking, 5 points for a country that is ranked in the bottom quintile of the table through to 1 point for a country in the top.

Countries with high scores in our ranking are thus countries with attractive fiscal regimes and limited political risk, and countries at the bottom are less attractive to investors.

We highlight in the tables overleaf our top- and bottom-ranked countries in terms of their current taxation regime.

- **Finland, Sweden, Chile and Botswana** rank highest in our ranking, suggesting that they have some of the most attractive fiscal regimes globally. We also note Canadian province **Ontario** and U.S. state **Nevada**, which rank highly. We note that Botswana outperforms many developed country jurisdictions, surely an example to all African countries.
- Our lowest scoring country is **Mongolia** (14/40), whose royalty regime, free carry and windfall tax regimes are most onerous. **Papua New Guinea** and **Guinea** are also low scorers, impacted by their free carry regimes and additional taxation levels, while **Cote d'Ivoire, Liberia** and **Mali** are impacted by their political and legal systems, and uncertainty.



**Ranking of taxation regimes for different mining jurisdictions (part 1)**

Country/state	Current taxation regime					Risk factors					Total
	Royalty	Free carry	Other tax	Combined impact	Sub-total	Risk of tax chg	EODB	Policy Potential	Political instability	Sub-total	
5	Good	Low	Good	Acceptable		Low	Good	High	Low		
1	Onerous	High	Onerous	Onerous		High	Bad	Low	High		
1 Sweden	5	5	4	5	19	4	5	5	5	19	38
2 Finland	5	5	4	5	19	3	5	5	5	18	37
3 Chile	4	5	5	5	19	3	5	5	4	17	36
4 Botswana	5	4	5	5	19	4	4	5	4	17	36
5 Canada - Ontario	3	5	4	4	16	3	5	5	5	18	34
6 US - Nevada	4	5	3	4	16	2	5	5	4	16	32
7 Canada - Alberta	4	5	2	3	14	3	5	5	5	18	32
8 Canada - Quebec	3	5	2	3	13	4	5	5	5	19	32
9 Turkey	4	5	5	5	19	2	4	4	2	12	31
10 Aus - SA	5	5	2	2	14	2	5	5	5	17	31
11 Canada - BC	4	5	2	3	14	3	5	4	5	17	31
12 US - Utah	3	5	2	3	13	3	5	5	4	17	30
13 Aus - WA	3	5	2	2	12	3	5	5	5	18	30
14 Canada - Sask'wan	2	5	2	3	12	3	5	5	5	18	30
15 Spain	4	5	4	4	17	2	4	4	3	13	30
16 Aus - Victoria	4	5	2	2	13	3	5	5	5	18	31
17 China	4	5	4	4	17	3	3	2	4	12	29
18 Aus - NSW	3	5	2	2	12	3	5	4	5	17	29
19 Aus - Tasmania	3	5	2	2	12	3	5	4	5	17	29
20 US - Arizona	4	5	2	2	13	3	5	4	4	16	29
21 Mexico	3	5	4	4	16	2	4	4	3	13	29
22 Aus - Queensland	2	5	2	2	11	3	5	4	5	17	28
23 US - Alaska	3	5	1	2	11	3	5	5	4	17	28
24 US - Minnesota	3	5	2	2	12	3	5	4	4	16	28
25 Ukraine	4	5	5	5	19	3	2	3	1	9	28
26 Peru	4	5	2	4	15	4	4	3	2	13	28
27 Colombia	2	5	4	3	14	4	4	3	2	13	27
28 Aus - NT	1	5	2	2	10	2	5	4	5	16	26
29 Poland	1	5	5	3	14	3	4	3	4	14	28

Source: GMP estimates

## Ranking of taxation regimes for different mining jurisdictions (part 2)

Country/state	Current taxation regime					Risk factors					Total
	Royalty	Free carry	Other tax	Combined impact	Sub-total	Risk of tax chg	EODB	Policy Potential	Political instability	Sub-total	
	Good Onerous	Low High	Good Onerous	Acceptable Onerous		Low High	Good Bad	High Low	Low High		
30 Brazil	3	5	2	3	13	4	2	3	3	12	25
31 Russia	2	5	5	4	16	3	2	2	2	9	25
32 Burkina Faso	4	3	5	4	16	2	1	4	2	9	25
33 Egypt	4	2	4	3	13	2	3	3	4	12	25
34 Mozambique	2	5	3	4	14	2	2	3	3	10	24
35 Mauritania	3	3	4	3	13	4	1	4	2	11	24
36 Ghana	2	3	2	3	10	3	4	4	3	14	24
37 Sierra Leone	3	5	3	4	15	2	2	3	1	8	23
38 India	2	5	3	3	13	2	2	2	4	10	23
39 Indonesia	2	5	4	4	15	2	2	1	2	7	22
40 Senegal	4	3	4	4	15	3	1	2	1	7	22
41 Cameroon	4	3	3	3	13	3	1	3	2	9	22
42 Kazakhstan	2	3	2	3	10	2	4	2	4	12	22
43 Congo (Republic of)	4	3	3	3	13	2	1	3	3	9	22
44 South Africa	3	2	4	3	12	1	4	3	2	10	22
45 Tanzania	3	3	3	3	12	2	2	2	3	9	21
46 Zambia	2	5	3	3	13	1	3	3	1	8	21
47 DRC	4	4	3	4	15	2	1	1	1	5	20
48 Philippines	2	5	4	3	14	1	2	1	2	6	20
49 Argentina	3	3	3	3	12	1	2	4	1	8	20
50 Liberia	3	2	4	3	12	2	1	3	1	7	19
51 Mali	4	3	2	3	12	2	1	2	2	7	19
52 Cote d'Ivoire	4	3	4	4	15	1	1	1	1	4	19
53 Papua New Guinea	4	1	1	2	8	2	3	2	2	9	17
54 Guinea	3	1	2	2	8	4	1	2	1	8	16
55 Mongolia	2	1	1	1	5	1	3	2	3	9	14

Source: GMP estimates

## RANKING STOCKS BY RESOURCE TAXATION REGIME AND RISK FACTORS

We have ranked our stocks under coverage according to the countries they operate in to establish an understanding of which stocks are most exposed to jurisdictions with poor fiscal regimes and high fiscal/political risk. We have split the companies into four key categories (global copper, African iron ore, African gold, Americas gold) and used the following methodology:

- We have established in which jurisdictions the key mines, development and exploration projects are for each company.
- We have weighted operations higher than development, in turn higher than exploration.
- We link the jurisdiction score with each mine/project and take a weighted average company score. For those jurisdictions not included in our table we have either made an assessment based on the methodology or we have left it blank.

## Global copper developer/producer rankings

We currently cover 17 global copper stocks which vary from mature producers to early-stage exploration and development stocks. We have ranked the stocks in our coverage universe in the table below and have split the stocks into quartiles.

Stocks with leverage to Chile dominate our rankings, with Antofagasta in the top quartile, while HudBay benefits from the strong showings of Manitoba and Peru. We are restricted on Hot Chili.

African stocks dominate the bottom of our ranking, with DRC, Zambia and South Africa all being less attractive regions although mostly related to political risk as opposed to the actual regime.

## Global copper developer/producer resource taxation and risk rankings

Company	Disc.	Key regions	Ranking
Hot Chili Ltd	1,7	Chile	36.0
Antofagasta PLC		Chile, Minnesota	35.0
HudBay Minerals Inc.	1,7	Manitoba, Peru	32.8
Nevada Copper Corp.	1,7	Nevada	32.0
Capstone Mining Corp.	7	Canada, Mexico, Chile	31.8
Imperial Metals Corporation	7	British Columbia, Nevada	31.3
Taseko Mines Ltd		British Columbia	31.0
OZ Minerals Ltd	7	South Australia	31.0
Copper Mountain Mining Corp.		US, Mexico	31.0
Rex Minerals Ltd		South Australia	31.0
Lundin Mining Corporation	2	Iberia, Sweden, DRC, US	30.0
Sandfire Resources NL	7	Western Australia	29.0
Mercator Minerals Ltd	7	US, Mexico	29.0
PanAust Ltd		Laos, Chile	28.5
Blackthorn Resources Ltd	7	Burkina Faso, Zambia	24.0
Ivanplats Ltd	7	DRC, South Africa	20.7
Tiger Resources Ltd	7	DRC	20.0

Source: GMP

## African iron ore rankings

We currently cover seven African iron ore stocks, ranging from early-stage exploration, through development into production. Since this is a much smaller dataset than the others, we have not split it into quartiles.

We note that Guinea is the country with one of the least attractive fiscal regimes in the world, which reflects poorly on the rankings of stocks like Bellzone Mining and Sable Mining Africa.

London Mining is buoyed by its development projects in Guinea and Saudi Arabia, which both have attractive fiscal regimes, but Sierra Leone also ranks highly, making the two Sierra Leone-leveraged stocks our most highly ranked stocks.

### African iron ore resource taxation and risk rankings

Company	Disc.	Key jurisdictions	Ranking
<b>London Mining PLC</b>	<b>7</b>	<b>Sierra Leone, G'land</b>	<b>31.8</b>
African Minerals Ltd	7	Sierra Leone	23.0
Afferro Mining Inc.	7	Cameroon	22.0
Sundance Resources Ltd		Cameroon, ROC	22.0
Equatorial Resources Ltd		Republic of Congo	22.0
Sable Mining Africa Ltd	1,7,8	Guinea, Liberia	17.5
<b>Bellzone Mining PLC</b>		<b>Guinea</b>	<b>16.0</b>

Source: GMP

### African gold rankings

We currently cover 19 African gold stocks, again covering the full gamut between explorers, developers and producers. We have ranked the stocks in our coverage universe in the table below and have split the stocks into quartiles.

Interestingly, average rankings for African gold jurisdictions are significantly lower than for the Americas and for our global copper universe, with highest ranked African stocks recording a rating of 25.0, which would be bottom quartile for both of the other rankings. This suggests that African fiscal regimes as well as political risk are somewhat less attractive than in other regions.

### African gold taxation and risk rankings

Company	Disc.	Key regions	Ranking
<b>Ampella Mining Ltd</b>		<b>Burkina Faso</b>	<b>25.0</b>
<b>Gryphon Minerals Ltd</b>	<b>2,7</b>	<b>Burkina Faso</b>	<b>25.0</b>
<b>Roxgold Inc.</b>	<b>1,7</b>	<b>Burkina Faso</b>	<b>25.0</b>
Volta Resources Inc.	7	Burkina Faso, Ghana	24.7
PMI Gold Corp.	1,7	Ghana	24.0
Amara Mining PLC	7	Burkina Faso, Sierra Leone	23.6
Avocet Mining PLC	7	Burkina Faso, Guinea	23.5
Perseus Mining Ltd		Ghana, Cote d'Ivoire	22.8
Resolute Mining Ltd		Mali, Tanzania, Australia	22.7
Endeavour Mining Corp.		Burkina Faso, Ghana, Mali	22.2
Teranga Gold Corp.	2	Senegal	22.0
Centamin PLC	7	Egypt	22.0
African Barrick Gold PLC	7	Tanzania	21.0
Banro Corporation	1,7	DRC	20.0
Loncor Resources Inc.	1,7	DRC	20.0
Randgold Resources Ltd	7	Mali, DRC, Cote d'Ivoire	19.3
<b>Aureus Mining Inc.</b>	<b>1,7</b>	<b>Liberia</b>	<b>19.0</b>
<b>Papillon Resources Ltd</b>		<b>Mali</b>	<b>19.0</b>
<b>Semafo Inc.</b>	<b>7</b>	<b>Burkina Faso, Niger, Guinea</b>	<b>18.7</b>

Source: GMP

Those stocks which rank highest in our table are those centred on Burkina Faso, with Ampella Mining and Gryphon Minerals all ranking highly. We are restricted on Roxgold.

Semafo props up the bottom of our ranking, with its exposure to Guinea and Niger contributing to its particularly low ranking, while Papillon is impacted by its 100% exposure to Mali. Interestingly, even our top quartile African gold stocks would rank below the bottom of our existing range for the Americas.

## Americas gold rankings

Because of the large dataset we have only ranked stocks with producing operations in the Americas region. This dataset includes 19 stocks. We have ranked the stocks in our coverage universe in the table below and have split the stocks into quartiles. We have not ranked royalty stocks or silver companies in this analysis.

This data set is particularly interesting from the point of view that it includes the large diversified tier 1 gold producers such as Barrick Gold, Goldcorp, Kinross Gold and Newmont Mining. Interestingly, all four are grouped in a tight range in the second and top of the third quartiles, suggesting that there is some defence in geographical diversification.

Once again the top positions in our ranking are dominated by stocks which have operations in the U.S. and Canada, with Allied Nevada, St Andrew Goldfields and Osisko Mining ranking most highly. Agnico Eagle is the top-ranked stock which has operations outside the Americas.

Stocks propping up the bottom of our ranking include IAMGold (impacted by its African and Suriname operations) and B2Gold (impacted by its Namibian and Philippino projects).

## Americas gold taxation and risk rankings

Company	Disc.	Key jurisdictions	Ranking
<b>St Andrew Goldfields Ltd</b>	7	Ontario	<b>34.0</b>
<b>Osisko Mining Corporation</b>	7	Quebec, Ontario	<b>32.8</b>
<b>Agnico Eagle Mines Ltd</b>	7	Canada, Mexico, Finland	<b>32.4</b>
Allied Nevada Gold Corp	7	Nevada	32.0
<b>AuRico Gold Inc.</b>	7	Canada, Mexico	<b>31.5</b>
New Gold Inc.	7	Multiple	30.1
Barrick Gold Corp.	7	Multiple	29.8
Argonaut Gold Inc.		Mexico, Canada	29.6
Goldcorp Inc.	7	Multiple	29.5
Kinross Gold Corp.	7	Multiple	29.3
<b>Newmont Mining Corp.</b>	7	Multiple	<b>29.1</b>
Primero Mining Corp.	7	Mexico	29.0
<b>Eldorado Gold Corp. Ltd</b>	7	Multiple	<b>28.3</b>
Rio Alto Mining Ltd	7,8	Peru	28.0
<b>Gran Colombia Gold Corp.</b>	1,7	Colombia	<b>27.0</b>
Yamana Gold Inc.	7	Various Latin America	26.3
Beadell Resources Ltd		Brazil	26.3
<b>IAMGold Corp.</b>	7	Canada, Africa, Suriname	<b>26.1</b>
<b>B2 Gold Corp.</b>	7	Nicaragua, Philippines	<b>25.2</b>

Source: GMP

## COMPANIES AT RISK FROM CHANGING TAXATION REGIMES

We have identified a number of countries and jurisdictions which are planning to or are in the process of changing their taxation regimes. We include those countries, and companies leveraged to those countries in the table below.

### Jurisdictions contemplating a change to mining taxation and companies leveraged to them

Country	Notes	Coverage stocks potentially impacted
Argentina	Changes at provincial levels include new province free carry	Yamana Gold, Silver Standard Resources, Goldcorp, Barrick Gold
Brazil	New mining law passing through parliament; except to be passed by end-13; royalty increases	Beadell Resources, Yamana Gold, Eldorado Gold, Kinross Gold
Cote d'Ivoire	In discussions over new mining windfall tax	Perseus Mining, Amara Mining, Endeavour Mining, Randgold Resources
DRC	Proposed overhaul of current mining code to introduce higher free carry and windfall profits tax	Tiger Resources, Banro, Loncore, Ivanplats, Lundin Mining, Randgold Resources
Gabon	Review of Mining Code to include a windfall profits tax, abolish certain fiscal incentives and demand new environmental guarantees	NA
Ghana	Considering windfall profits tax	PMI Gold, Endeavour Mining, Perseus Mining, Volta Resources
Greenland	New government seeking to overhaul mining taxation	London Mining
Guatemala	Moratorium on permitting while it considers changes to mining legislation	Tahoe Resources, Goldcorp
India	Considering increasing iron ore royalty	NA
Kenya	Plans to have "21st Century Mining Law" in place by end-June 2014; may repeal 35% local ownership law	NA <sup>^</sup>
Mexico	Plans to introduce 5% royalty gong through parliament	Argonaut Gold, Goldcorp, Primero Mining, Agnico-Eagle, AuRico, Capstone Mining, Mercator Minerals, Newgold, Newmont Mining, Yamana Gold
Namibia	Proposed increase in corporate tax rate and introduction of export taxes	B2Gold
New Zealand	New mining framework with royalty and tax regime	Newmont Mining
Philippines	New mining law planned to streamline and increase royalty levels and add windfall profits tax	Yamana Gold
Sierra Leone	Updating mining legislation and taxation regime post last year's election	African Minerals, London Mining, Amara Mining
South Africa	Continuing noise on potential changes to mining taxation/legislation	Coal of Africa, Petmin
US - Nevada	Potential removal of the existing 5% cap on the net proceeds tax on minerals	Imperial Metals, Nevada Copper, Allied Nevada, Barrick Gold, Newmont Mining, Kinross Gold, Goldcorp
Zambia	Possibility of increasing royalties or windfall tax	Blackthorn Resources, Barrick Gold

Source: GMP. <sup>^</sup>Base Resources protected by mining agreement.

Yamana Gold and Goldcorp are the stocks with the most mentions in the table (4), suggesting that they are most exposed to forthcoming changes in fiscal regimes. Other stocks highly exposed include Barrick Gold and Newmont Mining (each with 3 mentions).



## COUNTRIES WHICH COULD CHANGE THEIR TAX REGIMES

As part of our full-length report, we highlight key countries which currently seem to be leaving too much on the table in terms of their mining taxation schemes. Some of these countries include:

- **Chile:** The world's largest copper producer has only a 20% corporate tax rate and a mining royalty based on operating profit (5-14% based on a sliding scale). With government take being only 28% of gross profit (for our modelled scenario) we highlight this as a jurisdiction where the government may look to increase its take.
- **Ukraine:** A number of countries seem to have very attractive fiscal regimes in the iron ore universe, and Ukraine's is most agreeable; with a very low production-based mining royalty and a corporate tax rate of 19%, Ukraine's annual government take as a percentage of gross profit would be only 20%, in our scenario. This extremely positive fiscal regime is somewhat offset by ease of doing business and political stability issues where Ukraine ranks poorly.
- **Sweden:** Sweden, a producer of base metals and iron ore, also has a very attractive fiscal regime as it seeks to promote its mining industry. While Sweden is regularly ranked as a good place to do business and highly placed in the Fraser Institute's surveys, we do wonder if the Swedish government intends to leave so much on the table. For our model iron ore project, annual government take is only 22% of gross profit.
- **Sierra Leone:** With a flat iron ore revenue royalty of 3%, no government free carry and a corporate tax rate of 25-30%, Sierra Leone is clearly set on encouraging investment in its mining industry. Yet with government take only 29% of gross profit for our model iron ore project we believe that it is leaving more on the table than it needs to, particularly when compared with some of its African peers such as Guinea, Liberia and Mauritania.
- Interestingly, we see precious few countries in the gold sector that are leaving much on the table in terms of fiscal regimes, possibly a result of the fact that gold companies have misrepresented themselves as extremely profitable by highlighting cash costs instead of all-in costs in recent years. **Mexico** is the producing country with the most supportive regime, but with that country overhauling its fiscal regime and proposing a 5% royalty, it will shortly lose that mantle, in our view.

We highlight the following companies which could be exposed to changes in the above tax regimes:

**Chile:** Antofagasta, PanAust, Capstone Mining

**Ukraine:** Black Iron

**Sweden:** Northland Resources

**Sierra Leone:** African Minerals, London Mining, Amara Mining



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