

Special

Mining standards

Companies and investors see rising value in above-board practices, due diligence in foreign countries

Canadian mining companies and their investors banking on deals in foreign markets are placing a rising premium on two factors increasingly considered key to success: ethics, and due diligence to mitigate political risk.

As a global investor in mining, Canada has few rivals. According to Natural Resources Canada, more than 1,000 Canadian mining companies own assets in 100 countries, valued at more than \$129 billion.

The importance of principled behaviour in foreign jurisdictions is gaining significance in the wake of a global initiative to stamp out bribery and the corruption of foreign government officials.

Riyaz Dattu, a partner with the Toronto law firm Osler, Hoskin & Harcourt, notes that Canada signed the Organisation for Economic Co-operation and Development (OECD) convention to combat bribery in 1998. Yet it's only in the past three or four years that the government has stepped up its enforcement



Despite operating in jurisdictions where their foreign competitors are often not subject to the same anticorruption laws, Canadian mining companies have long earned high marks for ethical and sustainable practices. Today, stronger enforcement of multilateral legislative measures aimed at curbing corruption is helping to level the playing field and spur further investor preference for companies that operate prudently overseas. ISTOCKPHOTO.COM

of anti-corruption activities overseas among Canadian companies.

The change was prompted by criticism from the OECD for not enforcing the convention.

In 2008, the RCMP created two teams to investigate allegations of corruption in foreign countries by Canadian companies.

"We're now seeing the results

of that effort, most recently with Griffiths Energy being convicted and fined \$10.3 million, and the newspapers are full of headlines of other companies that are be-

ing investigated," says Mr. Dattu, who advises multinational and domestic businesses on international trade policy and investment matters.

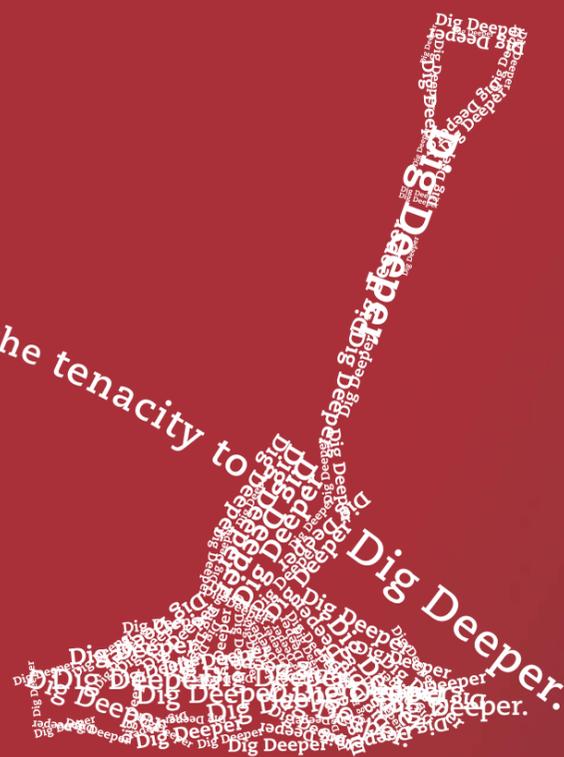
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He points out that earlier this year, the government announced far-reaching amendments to the Corruption of Foreign Officials Act, aimed at increasing penalties for individuals as well as introducing measures to improve scrutiny by Canadian boards of directors of their operations overseas.

Mining companies have long argued that it's difficult to do business in jurisdictions where corruption is rife, especially as some of their competitors are not subject to the same anti-corruption laws, Mr. Dattu notes, although that is changing.

"That's been the consistent argument by businesses over the years, but it's becoming weaker, because of the multilateral efforts," he says. Not only is the U.S. quite aggressive in pursuing anti-corruption, the U.K. also has a broad set of provisions under the Bribery Act, which is now seen as the most progressive legislation on bribery.

There are currently investigations or prosecutions underway in several European countries, as well as in Korea, Japan, Australia and even China, adds Mr. Dattu.

David Carment, a professor of international affairs in the Norman Paterson School of International Affairs at Carleton University in Ottawa and a fellow of the Canadian Defence and Foreign Affairs Institute in Calgary, says the global trend toward imposing severe penalties for engaging in corrupt practices is a strong deterrent, particularly for companies that also do busi-

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ness in the U.S.

The U.S. is further ahead with its anti-corruption legislation than any other country, and companies expecting to enter that market need to be aware that they could face penalties if they are engaged in corruption elsewhere in the world, he says.

Beyond navigating through anti-corruption laws, Canadian mining companies operating overseas often face significant political risks, as well as risks to personal safety, but these can be mitigated, Dr. Carment says.

Due diligence is often the best protection against the political risk of investing abroad, he notes. Even before going into a country, a company should conduct a risk analysis to understand social, political and environmental factors. The more extreme and unstable the situation, the more thorough that analysis needs to be.

Dr. Carment's research, which can be found online at www.carleton.ca/cifp, focuses on measuring the reverse flow of risk for mining companies in conflict zones.

"It is often the case these companies end up making things worse, because they lack awareness of the unintended consequences of their actions," he explains.

Dr. Carment adds that Export Development Canada (EDC) is a valuable source of information on the political and economic climate in countries where Canadian companies

RULES

The OECD Anti-Bribery Convention

40

Number of states that are parties to the convention

90%

Share of global outward flows of foreign direct investment accounted for by the 40 signatory states

300

Number of companies and individuals that have been sanctioned in 14 signatory countries for foreign bribery and related offences (as of December 2011)

EUR1.24 bn

Value of financial sanctions imposed by courts in three different jurisdictions on a single company for breaking anti-bribery laws

66

Number of people who have been sent to prison after being convicted of foreign bribery and related offences

Source: Organisation of Economic Co-operation and Development

invest, and is worth consulting on risk issues. EDC provides extensive guidance on how to avoid contravening Canada's anti-corruption laws and how to identify potential corruption while operating overseas.

For example, EDC says companies need to ensure that their strategy for dealing with a request for a bribe – with a firm "no" – is determined well in advance.

"Have you clearly said 'no'? Failure to say 'no' can lead to the misunderstanding that your company might consider loans, rewards or benefits of other kinds for a foreign official," advises EDC.

It suggests that companies clearly inform all agents and employees, especially those working outside of Canada, of the company's "unwavering anti-corruption policy." Troublesome situations should be referred to head office for direction.

EDC also recommends that companies operating in potentially unstable countries take out political risk insurance. This can cover up to 90 per cent of losses resulting from situations such as breach of contract by a foreign government, creeping or outright expropriation, political violence that may force a shutdown of operations for an extended period of time, currency conversion or transfer imposed by a foreign government, prevention of repossession and non-payment by a foreign government.

A to Z

Canada's mining sector offers a wealth of investment options – from world-class majors to promising junior exploration companies. Here are two upstarts worth considering:

ALPHA MINERALS INC.

Saskatchewan uranium discovery indicates high-grade mineralization

Former Hathor Exploration execs aim to repeat success

Fresh off the sale of their junior company to one of the world's largest miners, a team of geologists is back in the same uranium-rich basin in northern Saskatchewan to pursue another discovery.

Alpha Minerals Inc., known until recently as ESO Uranium Corp., is advancing its exploration program in the Athabasca Basin after reporting positive drill results at its Patterson Lake South property in early November.

Vancouver-based Alpha is betting on the recovery of global uranium prices, which have been depressed since the March 2011 earthquake and subsequent tsunami triggered a nuclear disaster in Japan. The uranium industry is counting on a near-term price recovery as Japan slowly restarts some of its nuclear plants and China continues its aggressive nuclear power plant build-out to serve its growing population.

The Athabasca Basin accounts for about 20 per cent of global uranium supply, and Alpha believes the district will be important to address a persistent global supply-demand imbalance for the commodity, underscored by recent merger and acquisition activity, including Russia's ARMZ recent acquisition of Toronto-based Uranium One Inc., and the current offer by Denison Mines Corp. for Fission Energy Corp.

ABOUT ALPHA

Alpha Minerals is a junior exploration company with about 240,000 acres of prospective uranium and gold claims across B.C., Saskatchewan and Ontario.

Its properties include:

- Athabasca Basin: Patterson Lake South, Cluff, Hook and Cree, totalling more than 225,000 acres.
- Mikwam Gold Property in northeastern Ontario, totalling about 2,400 acres within the western extension of the Casa Berardi Deformation Zone.
- Donna Gold Property in B.C., totalling about 5,370 acres. The property is located in the Monashee Mountains in the headwaters of the famous Kettle River Gold Placer Camp.

"Alpha believes in these fundamentals and will continue to focus on advancing and evaluating what has become a compelling and potentially significant uranium discovery," said Alpha chairman Dr. Michael Gunning, the former CEO of Hathor Exploration Ltd., which was sold to Rio Tinto plc for \$624 million (US) in a 2011 bidding war with uranium giant Cameco Corp.

Alpha's shares have skyrocketed since the junior, along with its joint-venture partner Fission Energy, announced "high grade mineralization" at Patterson Lake South in November.

Alpha shares hit \$3.80 in mid-February, following another set of positive drill results from its Patterson Lake South property. The stock price is up significantly from its 52-week low of 20 cents in early November. That low was right after the company completed a 10-for-one stock consolidation (and changed its name to Alpha).

"The nature of the discovery, the stature of the district and the small company float make for a unique story, a unique potential," said Dr. Gunning, who was appointed chairman in January.

In 2008, Hathor became the first junior to make a major discovery in the Athabasca Basin since exploration began in the late 1960s. For the past 50 years, majors such as Cameco and AREVA, and for a period big oil, have dominated the district. Alpha is once again bucking the trend for juniors in the area.

Ben Ainsworth, the former vice-president at Hathor and board member until the company's sale to Rio, was named president and CEO of Alpha shortly before Dr. Gunning's arrival. The connections run even deeper at Alpha, with Mr. Ainsworth's son, Garrett Ainsworth, serving as Alpha's vice-president of exploration. The son is also credited for discovering the potential of Patterson Lake South in June 2011.

"Even during the uranium boom, nobody really took note of that area," Ben Ainsworth said. "Everything you are looking for in a uranium discovery is here."

Alpha will continue to focus on advancing and evaluating the Patterson Lake South property, and has enough money in the bank to pay for an "aggressive" winter and summer drill program this year. The company raised \$4 million in a private placement in December 2012, during one of the tightest financing markets for junior miners in recent history.



Right: At its Thunder Bay, Ontario, property, Zenyatta Ventures has discovered a "vein-type" graphite deposit indicating ultra high purity results of 99.96 per cent carbon. Buoyed by the find, the company is now targeting the \$13-billion global market for synthetic graphite. In the meantime, further exploration at the promising site is continuing. SUPPLIED

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Aubrey Eveleigh is president and CEO of Zenyatta

ZENYATTA VENTURES LTD.

Ultra-pure graphite discovery trumps hunt for nickel and copper

Quality and size makes Ontario project unique in the world



What began as a hunt for nickel and copper deposits in northern Ontario has turned into a "one of a kind" graphite deposit for junior exploration company Zenyatta Ventures Ltd.

Having recently achieved ultra-high purity results of 99.96 per cent carbon at the newly discovered "vein-type" graphite deposit called Albany, the Thunder Bay, Ont., company is now targeting the \$13-billion global market for synthetic graphite.

Ultra-high purity carbon used in synthetic graphite is critical in modern industrial applications such as electrodes and batteries used in everything from smart phones, iPads and electric vehicles.

Only one other deposit of this type exists in the world and is located in Sri Lanka, but it is very small compared to Zenyatta's discovery, according to Aubrey Eveleigh, president and CEO of Zenyatta.

The discovery and recent purity results have led to increased investor interest in Zenyatta, at a time when most junior miners are struggling due to poor market conditions.

Zenyatta's stock surpassed \$2.19 on the TSX Venture Exchange in mid-February, a new 52-week high and up significantly from its 52-week low of 14 cents a year earlier.

"We've had success in a terrible junior market," said Mr. Eveleigh. "It goes to show you that if you have something special, even in a bad market, you are going to shine."

Zenyatta's other advantage is that it doesn't need to tap the tight financing market to advance its drill program. The company is still drawing funds from the \$9.9 million it raised during its initial public offering in December 2010 and receiving additional capital as a result of warrant exercise.

Its next step is to drill 40 to 50 more holes over the next six months, with a goal of achieving a 43-101 mineral deposit classification. Zenyatta plans to start a project pre-feasibility study in the second half of 2013. Mr. Eveleigh said production could possibly begin as early as 2015, if fast-tracked.

Mr. Eveleigh was a geological consultant with more than 25 years of experience when he approached Cliffs Natural Resources in 2010 to explore for nickel and copper in an area of the James

WHAT IS GRAPHITE?

Graphite is a natural form of carbon with the chemical formula C, which it shares with diamond and coal. It is now considered one of the more strategic elements by many leading industrial nations, particularly for its growing importance in high technology manufacturing and in the emerging "green" industries.

The application for graphitic material is constantly evolving due to its unique chemical, electrical and thermal properties. It maintains its stability and strength under temperatures in excess of 3,500°C and is very resistant to chemical corrosion. It is also one of the lightest of all reinforcing elements and has high natural lubricating abilities.

Bay Lowlands, known as the "Arc of Fire." An airborne EM survey of the area turned up several high-priority geophysical conductors. Subsequent drilling on one of these targets discovered the unique Albany graphite deposit.

"This large 'vein-type' graphite deposit appears to be 'one of a kind' globally in both size and quality," said Mr. Eveleigh, who created Zenyatta with his partners.

Zenyatta was named after The Police album from 1980 called Zenyatta Mondatta. A famous champion racehorse called Zenyatta was also named after the album.

The company trades under the TSX symbol "ZEN" and was also recently named the top performing mining company on the TSX Venture Exchange's 2013 TSX Venture 50. Companies are chosen based on an equal weighting of market capitalization growth, share price appreciation, trading volume and analyst coverage. In fact, the company achieved this honour without any analyst coverage.

Cliffs made a strategic investment in Zenyatta and currently holds a 12.7 per cent interest in the company.

Mr. Eveleigh said the entire Zenyatta team is to thank for the company's success to date.

"We have a great group of employees, management, directors and advisers. I can't imagine having done this without all of these people."

Left: Alpha Minerals vice-president of exploration Garrett Ainsworth points to the strong presence of uranium that has helped to jolt the company's stock from a 52-week low of just 20 cents last November to \$3.80 in mid-February. Anticipating on the global uranium industry's continuing price recovery, Alpha will continue to focus on advancing and evaluating its Patterson Lake South property, pictured below. SUPPLIED

