

Goldletter INTERNATIONAL

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MONGOLIA – benefiting from China's vast appetite for minerals

Mongolia was 70 years dominated by the former Soviet Union from 1921 – 1991. Having achieved independence in 1991, the country has been fledging democracy since that time and a President elected every four years.

The MPRP Party (formerly Communist Party) holds a slim majority in the Great Khural, the country's main legislative body and highest authority, on a coalition basis with the Liberal Party.

An agreement was signed to share power until the parliamentary election of 2012.

The current Prime Minister, Sanj Bayer, was elected in December 2007, after winning chairmanship in his party, the MPRP. After the Parliamentary election held in June this year, as his party won the majority, he was re-elected as the PM and now leads a Coalition government.

Economic activity in Mongolia has traditionally been based on herding and agriculture, but the country also has some of Asia's richest deposits of minerals and the Chinese demand for minerals fuels its current mining boom. The country lies within a major intracontinental mobile belt that separates the Siberian and Chinese cratons. This belt hosts the Kazakhstan and Mongolian metallurgical belt.



Prior to 1991, Mongolia had been dependent on the Russian government for financial and technical assistance to develop its resources. However, foreign aid was cut off almost over-night with the collapse of the Soviet Union. Although there was widespread opposition to extensive privatization of the formerly state-run economy, the government passed a number of economic reforms that encouraged foreign investments, especially in the mining sector.

The investment climate improved radically with the passage of the Minerals Law in 1997.

Amendments to the Minerals Law in 2006, however, have created concern among the international mining community because it allows the government to invest in strategic properties discovered in the private sector.

The current law gives the State either a 34% stake or a controlling interest of up to 50% in a deposit if the deposit has been defined by exploration activities funded by the State budget,

An investment agreement with Ivanhoe Mines and Rio Tinto for the world-class Oyu Tolgoi copper-gold project, still under negotiation, would be the first deal.

In a presentation earlier this year, Dr. Graeme Hancock, senior mining specialist of the World Bank's Oil, Gas and Mining Policy Division, said that the Mongolian mining sector has the potential to significantly contribute to the nation's economic growth, but its development will depend on the government's ability to establish and maintain the following:

- A clear mining policy
- A competitive stable and predictable fiscal regime for mining, and a stable and transparent legal and regulatory framework to manage mining development, protect the environment and ensure good corporation governance
- Policies and procedures to attract and retain world class investors who have the resources, management and technology to locate and exploit mineral deposits in a sustainable way
- Efficient mining sector institutions and strong administrative capacity for oversight
- Appropriate policy responses to and transparent management of expected increases in mineral revenues and ensure lasting benefits.

On September 17, 2008, the Mongolian Parliament approved the structure of its new coalition government with 15 ministries and 11 ministers, including the new created Ministry of Mining and Energy. Prime Minister Sanj Bayer said the country is recognizing the vast potential wealth available to Mongolia through development of the mining industry, which is estimated by the World Bank to account for about 20% of real GDP, 56% of gross industrial output, 69% of exports, and 37% of revenue for Mongolia in 2007.

The government also plans to distribute mining revenue made from strategic deposits with a minimum of Mongolian Tugrik 1.5 million (US\$ 1,034) awarded to each eligible citizen in the country.

While government ownership questions and debate over new mining laws have stalled the development of new projects, optimism exists that the new coalition government will work.

If so, this would have a dramatic positive impact on the valuation of mining companies active in Mongolia, having been severely under pressure as a result of a notice of August 14, 2007, given by the Cadastral centre of the Mineral Resource and Petroleum Authority of Mongolia (MRPAM) to 18 international and national companies about invalidation of their exploration licences.

The notice was given following the recommendations of the State Audit Board, which discovered that the area covered by the 34 licences out or more than six thousand currently effective licences, had been explored by State budget in the past and according to law, passed by parliament on July 8, 2006, the exploration licences had to be revoked because they were covering deposits ready for mining development.

However, in a statement by the Chairman of the MRPAM on September 10, 2007, it was said that so far not a single licence out of the 34 had been invalidated, assuming that the MRPAM is fully committed to strictly following the Mineral Law, which protects interests of both foreign and domestic investors.

The Mongolian Parliament has established a new, all-party working group of members of parliament that is to report on proposed changes to the country's Minerals Law by November 15, 2008.

On October 1, 2008, President Nambaryn Enkhbayar in his opening speech to the Mongolian Parliament said that it is the reality that Mongolia cannot invest in its deposits independently, introduce advanced technology and provide qualified experts and therefore there is no other way than attracting major investors aspiring to recover their investment and make profits.

The President continued to say that there is no other way than for all parties concerned to accept market principles of allowing investors to own more than 51% of their deposits.

Overview of exploration and development companies active in Mongolia

October 31, 2008	Trade Symbol		Share price in Cdn\$	12 months prices		Total shares issued in million	Market cap. in Cdn\$ million	
<i>Gold / Copper</i>				H	L		current	ultimo2007
Ivanhoe Mines	IVN	TSX	3.15	15.50	2.06	377.8	1190.1	4051.0
Entrée Gold	ETG	TSX	0.94	3.31	0.50	94.1	88.5	235.0
Fortress Minerals 1)	FST	TSX.V	0.18	1.85	0.12	84.9	15.3	112.0
<i>Molybdenum</i>								
Erdene Resource	ERD	TSX	0.23	1.48	0.15	89.2	50.0	77.0
<i>Uranium</i>								
Khan Resources	KRI	TSX	0.24	3.14	0.18	54.1	13.0	84.0
Red Hill Energy 2)	RH	TSX.V	0.25	1.22	0.23	47.5	11.9	43.0
East Asia Minerals 3)	EAS	TSX.V	0.20	1.93	0.17	55.0	11.0	89.0
Western Prospector 4)	WNP	TSX.V	0.16	2.24	0.12	54.3	8.7	54.0
Bluerock Resources	BRD	TSX.V	0.04	0.90	0.02	46.9	1.9	25.0

1) majors assets in Russia

2) major assets coal; uranium assets optioned to Mega Uranium

3) major assets in Indonesia

4) On July 15, 2008, Tinpo Holdings made take-over offer at Cdn\$ 1.34 per share (80% premium),
withdrawn on September 30, 2008

- **Mongolia Holdings Corp.** (indirect subsidiary of **Kerry Holdings**) made a take-over bid on **QGX**, valued at Cdn\$ 259 million (Cdn\$ 5.00 per share), at a premium of 52%. QGX ceased trading on the TSX on October 20, 2008