

Investors' interest increased for "Discover Mongolia"

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There is a question for you as one of the investors in the mining sector. What do you expect from the Discover Mongolia summit (September 6th/7th)?

The Summit is the annual exploration and mining sector showcase in Mongolia for key private sector companies and government ministries/agencies where domestic and international investors and stakeholders can gain valuable insights to current and expected activities and developments.

However, this year in addition to an increased number of showcasing companies, there are a couple of new and unique aspects building on just the conference aspect itself.

For one, there is a series of pre-summit workshops, which for the first time provide a proactive consultation forum for the private sector and the Government of Mongolia covering various important topics such as investment (including tax and legislation), communities and water use. These workshops are designed so to try to improve and promote Mongolia's profile as an investment destination to international markets with the various findings of the workshops to be presented and discussed at the conference.

Secondly, there are various project specific site visits proposed by the sponsoring companies either side of the conference.

These are another draw card for international investors to assist fully appreciate the unique geological potential of a number of Mongolia's under explored mineral belts.

With the input from the Government, particularly the Ministry of Mining, the Business Counsel and Mining Association, plus the various private sectors sponsors getting behind the summit, we are already seeing a significant increase in investor interest and expect those who attend to gain unique insight and understanding of the current natural resource sector in Mongolia.

The mining sector is the cornerstone of the Mongolian economy, what are the specific key challenges in legal environment of the industry?

To answer this question properly, firstly it must be stated that for some time it has been a challenging environment for the global natural resource sector, impacted by the cyclical nature of the industry. To illustrate this, the leading junior natural resource market, the TSX Venture in Canada, has contracted over 25% since highs in January this year, and over 70% since the previous commodity cycle peak in early 2011.

Within this landscape it is very competitive for capital, projects compete on a global basis. It is difficult to win back investors who required exciting projects, where they expect they can make money investing in, plus an attractive legislative environment, which is stable and transparent, with mechanisms in place to protect investors' rights and interests.

Projects in Mongolia, from early stage exploration to the largest construction project currently in the global mining industry, have faced a number of specific challenges and hurdles, including the

steps backwards regarding a globally competitive legislative environment, political instability, coupled with various high profile disputes.

The recommencement of Oyu Tolgoi Stage 2, including the largest project finance in industry history, and the IMF lead US\$5.5 billion financing package, has put Mongolia again back on investors' radars with increased confidence. This is also illustrated by a handful of the listed juniors left with prospective projects in Mongolia having raised over C\$150m since the Dubai agreement for OT.

While many years of exploration projects have been implemented in Mongolia over the years, large-scale developments in the world's mining industry are faced with numerous challenges and challenges, such as political instability and various high-level disputes over a competitive legal environment.

There is a huge opportunity new discovery in South Gobi

"Location, Team, Targets" is the topic of Kincora's presentation for Discover Mongolia. The major deposits in Mongolia can be named as Oyu Tolgoi, Erdenet, Tsagaan Suvarga with Kharmagtai looking to be added to this list.

What is the prospect of discovering other copper deposits when the exploration activities intensify?

Copper exploration is difficult and is it risky.

The global industry's low hanging fruit has been picked with increasing focus on new jurisdictions and/or concealed discoveries (the latter, meaning orebodies under cover). More generally, the ratio of copper, base metals, gold mines to exploration prospects may be as low as 1:1000 with one large-scale development and 3-4 medium size mines.

According to a recent report from S&P Global Market Intelligence there hasn't been a new significant copper discovery anywhere in the world since 2014 (the last was the new Ivanhoe Mines discovery in the DRC). The same report illustrates that despite limited relative exploration expenditure and level of activities, the Southern Gobi has still made a significant contribution to new global copper discoveries – 5 discoveries since 1997 representing 9% of contained metal discovered globally over that decade before the Windfall Profits Tax.

Since Kincora again consolidated the Bronze Fox project, and secured the dominant position in the Oyu Tolgoi-Tsagaan Suvarga copper belt from the merger with IBEX, we have rebuilt a industry leading technical team, very strong board and attracted a number of large institutional investors, who also believe there is strong potential for new discoveries.

Is it possible to find a new discovery of copper from the South Gobi?

We have commenced the first modern systematic and district scale exploration program in this belt. If you were to compare the scale of this belt in terms of landmass to Northern Chile, there are now over 15 producing mines, which have enjoyed over 100 years since first production, relative to only 5 years since the first copper mine in the Southern Gobi.

Given porphyries occur in clusters on structures within established belts we see excellent potential for new discoveries in the belt. Xanadu is illustrating this with their recent results at Kharmagtai.

Kincora Copper is one of the few listed exploration companies in Mongolia. How's the project progressing?

During the commodity cycle downturn, Kincora expanded and grew in Mongolia, looking to be well positioned for when the cycle turned and Oyu Tolgoi would again be a key (positive) attraction for those looking for global copper exposure.

We have done this, with exploration activities again looking to ramp up post a period of corporate related transitions that recently concluded. For Oyu Tolgoi, by mid 2020's it is scheduled to be the third largest copper mine in the world.

Specifically, we hope our exploration plans for Bronze Fox could shortly lead it to being the first new major discovery in the global industry since 2014 (according the S&P report already discussed), with four large conceptual targets also proposed to be drill tested at our East Tsagaan Suvarga project, which is in the same mineralized intrusive complex at the Tsagaan Suvarga mine.

We are also advancing our earlier stage exploration pipeline up value curve, and exploring further countercyclical corporate and expansion opportunities.

If it is not confidential, can you tell us how much capital has been injected in Mongolia?

Kincora has a track record for raising capital: over C\$30 million, predominately from the international capital markets to support our exploration activities with sole assets in Mongolia. IBEX, which as mentioned, we merged with in 2016 and raised over US\$25 million.

This is risk capital, exploration is difficult, as are the markets right now, but the discovery of a gold rich copper porphyry is the ultimate prize in the exploration sector, and exploration success by Kincora is expected to generate investors a significant multiple return on investment, not just percentage.

The discovery and delineation of Oyu Tolgoi underpinned a 100 times increase in valuation from when Ivanhoe did the original earn-in deal with BHP, to when Rio Tinto secured its first interest in Ivanhoe.

A more current day example is the significant re-rating of SolGold, exploring in Ecuador, where its discovery of a copper porphyry saw it quickly grow from a 2.3p/sh to over 40p.

Would you be so kind to share your thoughts on opportunities and condition of exploration projects in Mongolia?

While few doubt the very prospective nature for further major discoveries across a number of Mongolia's under explored minerals provinces, not just the Southern Gobi copper belt, the current exploration sector in Mongolia is in crisis – best not beat around the bush – but that is a huge opportunity if it can be turned around with some political will and good legislation.

There are only a few remaining groups undertaking significant exploration and there is a lack of advanced projects in the pipeline, with a number of the advance projects facing significant and unique domestic challenges. What is opinion on this?

The legislative environment also has not been supportive, for example, the current CIT law and proposed competitive tender only process that were both a result of the 2018 state budget, which haven't raised anywhere near the revenue proposed at the time.

There has not been significant new exploration ground made available since 2015, with 90% of historic exploration expenditure on current exploration licenses to be lost within 3 years.

Just have a handful of flagship mining projects and champion mining companies does not support a mining industry that provides an optimal framework for infrastructure development, taxes, royalty payments, attracting significant foreign direct investment, support education and a positive transfer of skills to Mongolia as well as sustainable development and employment to the rural areas.

Over reliance on just a few projects places pressure and risks on a few counterparties, commodities and concentrated selected few rural development, as illustrated by the various delays to Oyu Tolgoi, cyclicalities to coal pricing and the regional development around Erdenet. However, again, there is a great opportunity to turn this around and get things right, which would benefit all stakeholders, see more income to the State budget and grow the size of the pie for all to share.

In your view, what are the first actions Government of Mongolia and the Parliament have to make in order to regain investors' confidence and investment?

Investors into the minerals sector (the supply chain, exploration and mining projects alike), make longer-term commitments, with the successful development of a nation's mineral resources requiring the industry and government to work in partnership.

The best guide for new investors to gain confidence and as part of their due diligence before investing is seeing how existing projects and investors are being treated, then understanding what new steps are proposed with legislation changes. . . actions speak louder than words.

In my personal view, the first actions needed is ensuring proper attention is paid to issues impacting current investor confidence, whether it be project specific, legislative or dispute related, and ensuring a transparent process and rule of law/contract is upheld.

As previously discussed in an earlier question, the impact of seeing Oyu Tolgoi Stage 2 recommence and the dispute which stopped underground construction being resolved, had a significant positive impact to investor confidence, underpinned the IMF package and is a large factor for the current economic turn around.