

Tiny Khan big deal to Chinese, Russians

Competition for Canadian venture in Mongolia

BY PETER KOVEN

It isn't every day that China and Russia compete against each other for assets. And when the two superpowers do go head to head, tiny Canadian mining companies are not the typical prize.

But that is the situation that **Khan Resources Inc.** finds itself in after it unveiled a friendly deal yesterday to be bought by **China National Nuclear Corp.** (CNNC) for \$51.8-million in cash, or 96¢ a share. The offer from the state-owned Chinese giant trumps a hostile bid from a state-owned Russian rival, JSC Atomredmetzoloto (ARMZ), worth 65¢ a share.

And the battle may not be over. The Russian firm extended its bid yesterday, suggesting that it wants more time to evaluate the Chinese offer and determine whether to make a higher one.

"It's an interesting situation for a little company like Khan, that's for sure," chief executive Martin Quick said in an interview.

"I don't know if they'll be fighting over us. But it has the makings of one trying to out-bid the other."

Toronto-based Khan is one of several Canadian miners working in Mongolia, an emerging mining jurisdiction. The country is poised to be a major global player after its government struck a landmark deal with Ivanhoe Mines Ltd. last year to develop the Oyu Tolgoi copper-gold project.

Earlier this month, Khan reached an agreement with the government to develop its Dornod uranium deposit, a deal that handed a 51% stake in the project over to the state.

That agreement was overshadowed by the hostile bid from ARMZ. Khan felt it was far too low, but could not get ARMZ to engage in friendly talks. Mr. Quick said that ARMZ tried to get political support in Mongolia for its offer rather than take the "open Western bidding route."

Khan eventually turned its attention to China instead, and struck the friendly deal with CNNC last weekend.

"It was a very open and down-to-earth negotiation for this bid," Mr. Quick said.

While CNNC is not a household name in Canada, it is a very important player in China, where it is the biggest owner of nuclear power plants and is responsible for procuring uranium from foreign sources.

Mongolia is one of the regions CNNC has targeted for growth. Last year, it acquired Western Prospector Group Ltd., another Canadian company with a uranium deposit in Mongolia.

In recent months, Mongolian Prime Minister Sukhbaatar Batbold has talked about building more business ties with the West and not relying as much on China and Russia, the country's two giant neighbours.

Financial Post

pkoven@nationalpost.com

KHAN RESOURCES INC.

Ticker **KRI/TSX**

Close **\$1.00, up 14¢**

Volume **5,714,410**

Avg. 6-month vol. **359,493**