

# Khan lands uranium mine play in Mongolia

By PETER KOVEN

As Mongolia builds more ties with the West, another Canadian miner is poised to benefit.

Land-locked Mongolia has historically been dominated by its powerful neighbours Russia and China. But new prime minister Sukhbaatar Bathold is trying to cultivate more business with “third neighbour” countries like the United States and Canada. His predecessor Sanj Bayar signed the most significant deal, a multibillion-dollar pact with Robert Friedland’s Ivanhoe Mines Ltd. to develop the Oyu Tolgoi copper-gold project.

Yesterday, it was junior miner **Khan Resources Inc.** that said it signed an agreement with the Mongolian government, one that pushed a Russian state-owned company out of the picture.

Toronto-based Khan cut a deal with MonAtom LLC, Mongolia’s new state-owned uranium mining company. The agreement paves the way for Khan to develop its long-dormant Dornod uranium project. However, it passes a 51% interest in the project over to MonAtom, in accordance with new Mongolian laws.

The loser in the deal appears to be Russia’s JSC Atomredmetzoloto, which made a hostile all-cash takeover bid for Khan worth 65¢ a share (about \$35-million). Khan shares closed at 81¢ yesterday following the announcement of the government deal, meaning the Russian firm would likely have to raise its bid if it wants Khan.

“Our large shareholders are quite thrilled with the prospect of dealing with MonAtom and getting some longevity and stability into the project,”

said Khan chief executive Martin Quick.

Last summer, the Mongolian government passed legislation that gives it a 51% stake in many uranium projects, which it views as strategic. While Khan considered going to international arbitration to protect its interest in Dornod, it ultimately decided that the best course was following the law.

The situation was complicated by the hostile Russian bid. Khan’s board felt that the offer of 65¢ a share undervalued the company, but it needed to determine what Dornod would be worth under a revised ownership deal with the government. Working with its financial advisors, Khan came up with a net asset value estimate of \$2.52 a share for itself, which it believes is closer to its actual value than 65¢ a share.

The Dornod project is expected to cost about US\$330-million. To help finance the development, Mr. Quick said the government is looking at forward selling some of the uranium from the deposit. He said that talks have begun with some large Japanese companies who are interested in buying it.

Mongolia hopes the deals with Ivanhoe and Khan are just the start. Dashdorj Zorigt, Mongolia’s minister of minerals and energy, recently held meetings in Ottawa and Toronto to try and encourage more Canadian investment in the country.

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**KHAN RESOURCES INC.**

Ticker **KRI/TSX**

Close **78¢, up 10¢**

Volume **987,220**

Avg. 6-month vol. **300,334**