



CSE : KRI

Annual General Meeting
March 28, 2014



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Market Capitalization

(in C\$mm)

	FEB	FEB	FEB
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Shares Outstanding	54.5	68.1	75.9
Market Capitalization	9.0	11.7	25.8

Composed of:

Cash	4.7	3.3	0.8
Investments (YEL)	2.5	2.3	1.7
Int'l Arb. Contingent asset (residual value)	1.8	6.1	23.3



History

- C.A.U.C in Mongolia over 17 years
- Definitive Feasibility Study on Dornod completed March 2009 (IRR of 30% & NPV_{10%} of US\$256mm)
- Over US\$50mm of expenditures to advance Dornod
- In 2009, NEL promulgated and then Dornod licenses not renewed by Mongolian government
- In 2010, Mongolian court ruled in Khan's favour on Mongolia's decision not to renew licenses



Commencement of Arbitration

- Notice of Arbitration served on Mongolia and MonAtom on January 10, 2011
- Claim - Mongolia's illegal expropriation of the licenses is contrary to:
 - Founding Agreement
 - Energy Charter Treaty
 - Foreign Investment Law of Mongolia
- Seeks damages now in excess of US\$350 million



The Process

- Hearing on procedural matters held in September 2011
- Hearing on jurisdictional matters held in May 2012
- Hearing on merits and damages held in November 2013



Issues for the Jurisdictional Phase

Mongolia Claimed that:

- Under the Founding Agreement
 - Mongolia was not a party to the Agreement
 - Khan hadn't made a proper Claim
- Under the Energy Charter Treaty
 - Khan failed to comply with Mongolian law
 - Khan had already made its claim in the Mongolian court and had lost
 - Khan BV was a shell and should be denied benefits of the treaty
- Under Mongolian Foreign Investment Law
 - Arbitration was not the correct forum



Tribunal's Ruling on Jurisdiction

Mongolia Claimed that:

- ❖ Under the Founding Agreement
 - ❖ Mongolia was not a party to the Agreement
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Merits and Damages Phase

- December 2012 through August 2013: Submission of evidence
- November 2013: Evidentiary hearing held in Paris
- February 5, 2014: Submission of first post-hearing brief (30 pages)



Merits – Claimant's Case

- Main Breach:
 - Expropriation without compensation
- Related Claims:
 - Violation of due process
 - Discrimination in favour of local and foreign investors
 - Breach of fiduciary duty



Merits – Respondent's Defense

MONGOLIA THE GOOD

- Nuclear Energy Law complies with all Mongolian and International laws
- Mongolia has complied with all Mongolian and International laws
- Mongolia properly made and informed Khan of its decision not to re-register the licenses

KHAN THE BAD

- Khan broke Mongolian law and the agreements with its partners and therefore the licenses were properly invalidated



Merits

“Expropriation without Compensation”

is it acceptable?

- No – against the Founding Agreement (which covers the Main Property)
- No – against the Energy Charter Treaty (which covers the Additional Property)
- No – against Mongolian Law



Merits

Were Mongolian Laws breached by the Claimants?

- Reserve registration – No
- Core storage – No
- Overlap of license area – No
- Raising of funds on the TSX – No
- SSIA inspections - No

Were Mongolian Laws breached by the Defendants?

- Nuclear Energy Agency decision process – Yes
- Discrimination - Yes



Reserve Re-registration

Multiple attempts by Khan were ignored by Government

9/29/2006: Request for Minerals Council to confirm registration of Dornod reserves based on Order No. 0881

8/23/2007: Khan to MRPAM: can't convert 9282X until reserves registration confirmed.

9/17/2007: Khan to MRPAM: delay in converting 9282X; reserves still not confirmed.

10/18/2007: MRPAM confirms: Dornod reserves registered under Order No. 0881 in State Database (Using Russian standards)

11/27/2007: MRPAM can't review Khan's request to convert 9282X; not clear that Dornod reserves were approved

5/15/2008: Khan to MRPAM: Dornod recalculation using Cdn standards near complete. Please appoint a team of experts to review.

8/29/2008: Khan submits reserves re-estimation to MRPAM for entry in State Database.

10/24/2008: CAUC to MRPAM: lengthy delays in reserves registration process – please assist



Reserve Re-registration

Multiple attempts by Khan were ignored by Government

1/13/2009: Khan informs MRE of delays in registration; requests that a decision be made.

1/22/2009: Khan to MRPAM: re-register reserves pending since August 2008.

1/22/2009: MRPAM to Khan: submission pending; reserves re-estimation used in presentation

1/28/2009: Khan urges MRPAM to immediately review reserves re-estimation submission.

1/30/2009: MRPAM to Khan: State policy unclear; Minerals Council can't review submission yet

7/29/2009: CAUC asks MRE to appoint Team of Experts to review reserves submission.

8/31/2009: Mr. Enkhbat publicly affirms validity of previous Russian calculations of reserves.

9/2/2009: CAUC to NEA: "strategic" designation delayed project; appoint Team of Experts.

10/7/2009: MRE appoints Team of Experts to review Khan's reserves re-estimation submission.

12/22/2009: Team of Experts recommends registering Dornod re-estimation; make minor edits to submission

1/19/2010: Khan submits revised reserves submission to MRPAM.

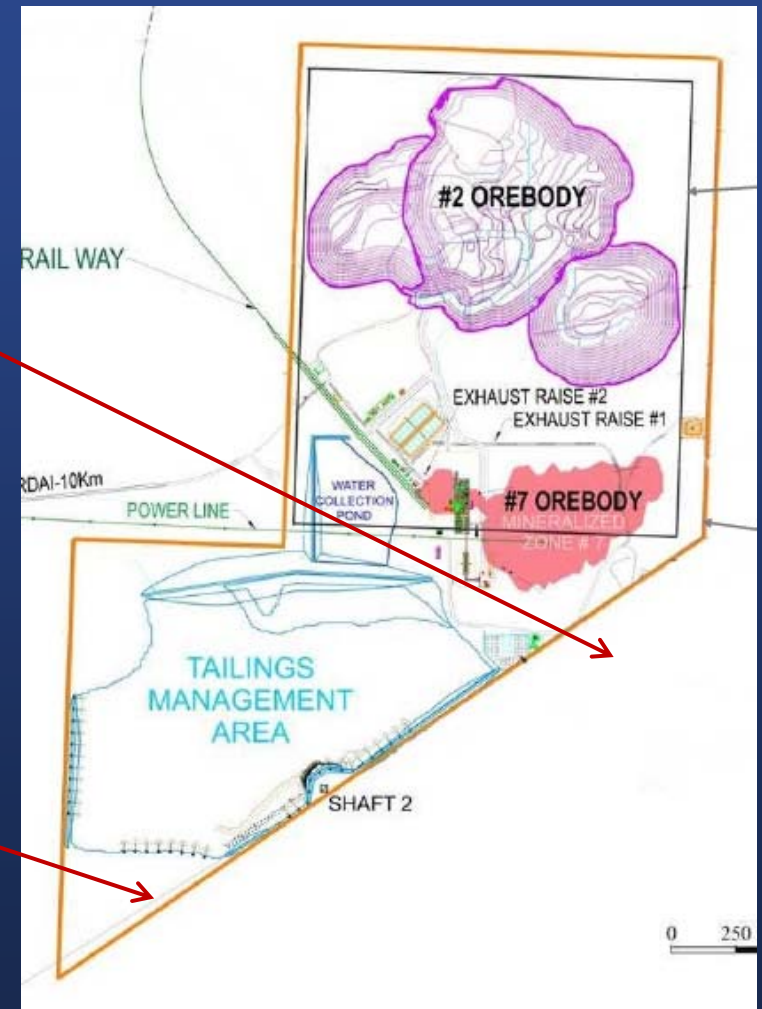
1/28/2010: Minerals Council meeting to review Team of Experts Conclusions canceled without explanation.



Merits

Core Storage was in pre-existing building adjacent to the property – formal approval was obtained from the NEA

There was potentially a small overlap of license area and adjacent reserved area – government sets or approves the co-ordinates for both the license area and the reserve area





Merits

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2010 Court Decision – CAUC vs NEA

Defendant = NEA

Furthermore, all activities of Defendant to refuse to re-register Mining License 237A and invalidated, do not comply with Rules enforcement of the Nuclear Energy Act and resolved based on the agreed situation that the above activities are definitely invalid



2010 Court Decision – Khan Mongolia vs NEA

Claimant = Khan Mongolia

Thus, this Court consider the respective clauses of the resolution No. 141 of the Head of Nuclear Energy Authority on “Cancelling/Invalidating and re-register exploration license” from October 9, 2009, notice No. 447 of the same authority from October 8, 2010, and cancellation/invalidation of exploration license 9282X by the resolution No. 8/361 from April 9, 2010, as clearly invalid, and satisfy entirely the claim of the claimant.



DECISION ≠ Official Legal Letter

Decision = Newspaper ad

DECLARATION

Year 2010 Month November Day 11th

The "Han Resources" HHK and the "Central Asian Uranium" HHK have lately been sending out erroneous information through print and other media to the public regarding the special permit they held for utilizing radioactive mineral resources and legal decisions related to these, as well the government organizations' works that are being implemented within its legal rights.

The Nuclear Energy Center has liquidated the special permit for radioactive mineral resources No. 237A held by the "Central Asian Uranium" and No. 9282H held by the "Han Resources" and has not renewed it following the law on Nuclear energy Law implementation regulation – due to the fact that they have repeatedly broken the laws on Mongolian Mineral Resources, the Underground Land usage, the Land of Especially Protected Areas, the Special Permit on Company Operations, and have not corrected these infractions within the time frame allotted by the law.

This issue concerning the special permits held by these companies has not been decided by the courts, and regarding the Nuclear Energy Center's dispute

relating to the radioactive mineral resources usage permit No. 237A held by the "Central Asian Uranium" HHK. The Appellate level of the Administrative Cases division of the High Court of the country on October 13, 2010 with its decree No. 374 has made a change to the decision of the Lower Court indicating that the Nuclear Energy Center's Director's decision No. 141 of year 2009 is to remain valid.

However, we feel regretful that "Han Resources" HHK and the "Central Asian Uranium" HHK have reported the court's decision erroneously to the public, gave an impression that the government organization was at fault, covered up their infractions, deceived the public and its shareholders, acted in extremely irresponsible ways, did not work to meet the conditions and requirements of the law, and did not respect the government regulations. Therefore, we officially would like to make a declaration that the renewal of special permits by these companies is not a possibility.

NUCLEAR ENERGY CENTER



Merits

Was there bad faith by the Claimants?

- Because of the lack of progress – No
- Because the Additional Property was bought by Khan – No

Was there bad faith by the Respondents?

- Because of the negotiation of a separate joint venture for Dornod with Russia (ROSATOM / ARMZ) – Yes
- Was there defamation of Khan – Yes



What's cooking partner(s) ?

Dornod – spring 2008

Rosatom Chairman Kirienko

Mongolian PM Bayer





Defamation?

Statements Made by the Chairman of the NEA

“Although they know that they are lying, they keep lying.”

“It could be inappropriate to say a bad word such as a swindler. Generally they are very much cheaters.”

“The company is making fraud ... If [we] conduct inspection of the activities of Khan Resources, violations will be revealed again.”

“The management of Khan Resources is probably the li[a]rs

“We shall ask whether a company that is registered on the world stock exchange can make this kind of dirty deal.”

“Khan Resources is brainwashing [the] public with such statements

“These small Canadian companies intending to take activities in Mongolia have done cheating. ... we shall confiscate their licenses straight away.”



Damages

As Assessed by Claimants:

Raymond James	<u>US\$MM</u>
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Comparable Companies	
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P/NAV	232
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TEV/Total Resources	206
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Comparable Transactions	
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P/NAV	224
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TEV/Total Resources	318
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Berkeley Research Group	
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NAV	265
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Amount Claimed as at July 2009	251
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Plus Interest (to March 2014)	<u>103</u>
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Total	<u><u>354</u></u>
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Damages

As Assessed by Respondents:

1. Amount Due – Nil, as Mongolia did nothing wrong
OR
2. If Mongolia is at fault, then Khan should only be awarded its actual expenditures in Mongolia (less than US\$20 million)
OR
3. If fair value is the criteria, then Khan's share price in 2009 is the best indicator



Remaining Steps

- April 11, 2014: Submission of second post-hearing brief (15 pages)
(scheduled)
- 2nd half 2014: Decision and award
(expected)
- Thereafter: Collection