



CNSX : KRI

Annual General Meeting
February 14, 2013



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Market Capitalization

(in C\$mm)

	FEB	FEB	FEB
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Market Capitalization	29.4	9.0	11.7

Composed of:

Cash	9.0	4.7	3.3
Macusani Yellowcake	16.4	2.5	2.3
Dornod (residual value)	4.0	1.8	6.1



History

- ❖ 17 years in Mongolia
- ❖ Over \$50mm of expenditures on the Dornod Project
- ❖ Definitive Feasibility Study completed March 2009
- ❖ NPV_{10%} of US\$256 mm
- ❖ Mine was scheduled to start in 2012
- ❖ Licenses not renewed by Mongolian government



Commencement of Arbitration

- ❖ Notice of Arbitration served on Mongolia and MonAtom on January 10, 2011
- ❖ Claim - Mongolia's actions contrary to:
 - ❖ Founding Agreement
 - ❖ Energy Charter Treaty
 - ❖ Foreign Investment Law of Mongolia
- ❖ Seeks damages in excess of US\$326 million



The Process

- ❖ Hearing on procedural matters held in September 2011
- ❖ Hearing on jurisdictional matters held in May 2012
- ❖ Hearing on Merits and Damages scheduled for 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:

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 - ❖ Mongolia was not a party to the Agreement
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 - ❖ Arbitration was not the correct forum

ALL DISMISSED



Schedule for the Merits and Damages Phase

- December 7, 2012: Khan's Opening Memorial
- April 5, 2013: Mongolia's Counter Memorial
- June 28, 2013: Khan's Reply Memorial
- October 4, 2013: Mongolia's Reply Memorial
- Nov. 11-15, 2013: Evidentiary Hearing in Paris
- First Half 2014 (expected): Decision and Award



Merits and Damages

- Memorial on Merits and Damages was 177 pages long
- Supported by presentation and discussion of 247 exhibits
- Supported by written testimony of 3 fact witnesses and 3 expert witnesses, plus their related attachments



Merits Memorial

- Main Breach:
 - Expropriation without compensation – ECT Art. 13, FIL Art. 8, Founding Agreement, Art. 3.6, Mongolian Law
- Related and Subsidiary Claims:
 - Violation of due Process under Mongolian law
 - Discrimination in favour of local and foreign investors
 - Breach of fiduciary duties



Damages Memorial

- January 2011 Filing
 - US\$200 million plus interest plus costs

- December 2012 Filing
 - US\$326 million plus costs

- Damages Assessed by:
 - Raymond James Inc.
 - Berkeley Research Group



Damages Memorial

	<u>US\$MM</u>
Raymond James	
Comparable Companies	
P/NAV	232
TEV/Total Resources	206
Comparable Transactions	
P/NAV	224
TEV/Total Resources	318
 Berkeley Research Group	
NAV	265
 Claim Amount	251
Plus Interest	<u>75</u>
	<u><u>326</u></u>



ARMZ Litigation

- ❖ August, 2010
 - \$300 million claim initiated against ARMZ
- ❖ February, 2011
 - Russia refuses to serve ARMZ
 - Khan asks Court to validate service
- ❖ October, 2011
 - Ontario Superior Court of Justice validates service on ARMZ
 - ARMZ appeals ruling
- ❖ March, 2012
 - Ontario Superior court of Justice rules in favour of ARMZ
 - Khan appeals ruling
- ❖ September, 2012
 - Hearing held
 - Decision remains pending



Conclusion

- ❖ The damages suffered by shareholders from the illegal expropriation of the Dornod asset are very significant
- ❖ Khan's case for recovery of damages is strong
- ❖ Khan will continue to aggressively pursue its international arbitration and litigation on this matter to recover shareholder value



Mongolia Update

❖ Economic growth is slowing

- 18% in 2011, 12% in 2012
- 14% inflation
- Deficit and debt are rising
- Tavan Tolgoi and SouthGobi coal shipments suspended

❖ Resource nationalism is rising

- Presidential elections in June – resource nationalism is a popular platform
- Oyu Tolgoi still under pressure for increased Mongolian control
- Draft mining law increases effective tax rate for “strategic” deposits to 50%