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## Mongolia re-emerges for the right reasons

Mongolia is back on the mining map as some standout discoveries, higher commodity prices and a host of mainly positive political developments have brought the Asian nation to the fore.

**Daniel Gleeson, Mining Journal - February 7, 2018**

Exploration / Development > Resource-definition



*Mongolia's improving political backdrop bodes well for companies exploring there – Photo: Kincora Copper*

Copper and gold are the two commodities gaining interest this time around for a country that has the biggest consumer of both metals on its doorstep.

Politics is usually the first port of call for any investor looking to Mongolia and the country has had its fair share of comings and goings in the past few years.

First up, it has a new president.

Khaltmaa Battulga, a former judo champion, has not made a huge impact since coming into office in July, but his entrepreneur origins have given investors comfort he will be in the pro-business camp.

The country, just before Battulga arrived, agreed a US\$5.5 billion lifeline from the International Monetary Fund. This not only helped it escape a sovereign debt default, but restored confidence in the economy.

The budget deficit has subsequently been cut, bond payments have been rolled over, the national currency has started to appreciate and the IMF has billed strong GDP growth for the country over the next two years.

Commodity price rises have had a positive impact on the latter.

Copper is now above the magic US\$3 per pound (US\$6,615 per tonne), gold has recently made moves to US\$1,350 per ounce and coking coal, which Mongolia is a key supplier of to China, is changing hands for more than US\$200/t.

Mineral exports are important to the Mongolian economy, accounting for more than 30% of its GDP.

And, the biggest project in the mining industry at the moment, the US\$5.3 billion Oyu Tolgoi (OT) underground expansion, is moving forward to first production in 2020.

An impasse between the government and Rio Tinto was eventually ended in 2016, with an agreement struck to expand the copper-gold behemoth's life and production.

### Coming out of the bear market

There are a few companies that hung in during the gloom in Mongolia and are now set to profit from an improved environment.

Erdene Resource Development, Kinross Copper and Xanadu Mines could be considered the poster boys for the mining sector, with Rio Tinto being the country sponsor.

The three all offer something different but, as with the country's flagship mine, scale is the big draw.

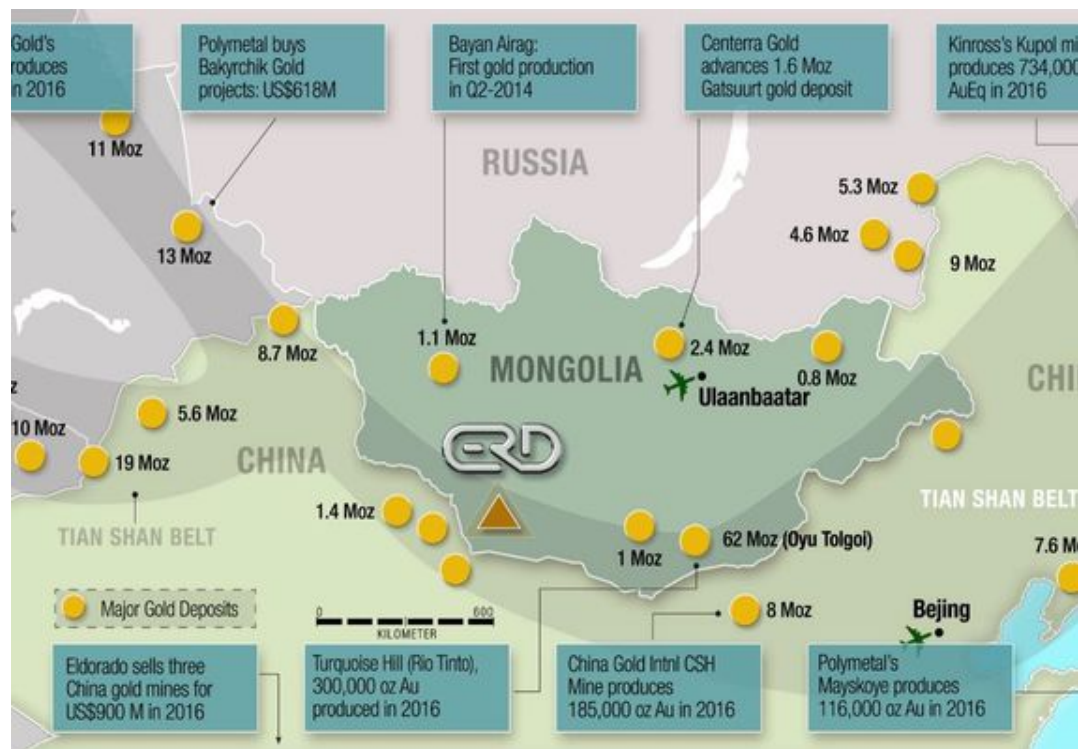
Erdene, a TSX-listed company, made a discovery on the Altan Nar epithermal poly-metallic project in late 2011, but the reveal of an intersection of 55m at 1.02g/t Au and 12g/t Ag from just 20m depth came at the wrong time in the cycle.

Investors let the discovery go by without a passing mention as the stock, like all exploration stocks at the time, went on a downward run.

Bayan Khundii, discovered in 2015, is now the flagship.

Situated in the same south-western part of the country, it is a 1.7km-long gold system hosted within a zone of intensely silicified and sericitised devonian volcanic units overlain in part by younger cretaceous and quaternary units.

Bayan Khundii is on the same Tian Shan Belt that has yielded the prolific Kumtor gold mine in Kyrgyzstan, the 13 million ounce Kyzyl project being advanced by Polymetal in Kazakhstan and, of course, the huge OT copper-gold porphyry.



The Tian Shan Belt has yielded some very large deposit

It is on its way to a maiden resource after capturing investor attention with shallow drill hits such as 116m grading 2g/t Au, 131.5m averaging 3.86g/t and 108m at 2.8g/t.

These intervals show continuous mineralisation suitable for bulk mining, but CEO Peter Ackerley is keen to emphasise the high-grade potential that could provide a high-margin kicker at the front end of its mine life.

Back in October, he said about 20% of the holes have had hits higher than an ounce (28g/t), with a target in excess of 500,000oz of 4g/t material already sitting at surface.

The exciting thing about Bayan Khundii - and many of the projects getting airtime in Mongolia - is the fact it is a brand new discovery that is still growing.

The maiden resource, at last check in October, was set to come out around 1.4-1.5 million ounces at a grade cutoff of 0.3g/t, according to Paradigm Capital analyst Don MacLean.

Yet, recent geological mapping and drilling has shown up several interesting prospects close to the four main zones that could come into the fold after the resource debut.

On top of that, the discovery it made at Altan Nar over six years ago is still in the portfolio with 249,000 ounces of gold equivalent at an average grade of 2.1-2.5g/t. This is also growing through drilling.

### **Tier-one potential**

C\$14 million (US\$11 million)-capitalised Kincora Copper is the earliest stage of all three Mongolian poster boys, but CEO Sam Spring would argue his firm has the most potential upside.

Having stuck it out during the bear market, Kincora now has over 1,500sq.km of land in the South Gobi covering both carboniferous finger-type porphyries and some devonian targets already drawing analogues with OT.

The company's Bronze Fox asset is the most advanced in the portfolio and is in the carboniferous category.

Kincora was recently handed an exploration target by consultancy Mining Associates of 416-428 million tonnes grading 0.26-0.3% Cu for up to 2.4 billion pounds of copper and 840,000oz of gold at Bronze Fox. This was compiled from 76 holes, or 24,139m, of drilling.

This exceeded Spring and Kincora's expectations, ranking as one of the largest potential in-situ copper-gold systems in Mongolia.

As the company turns this exploration target into a 43-101 resource, it will inevitably go back to the West Kasulu prospect, which, before a licensing issue blocked access to it back in late 2013, had seen a drill hit of 37m at 1.11% copper equivalent from 573m. This was part of a bigger plus-800m interval grading more than 0.40% CuEq.

However, the bulk of the C\$5.92 million raised at the back end of last was slated to go towards the company's earlier-stage opportunities.

Kincora, through an all-share deal with IBEX sealed in 2016, gained access to several targets just down the road from OT and the under-construction Tsagaan Suvarga (TS) copper mine.

The age of these rocks has Spring and the company thinking they could have tier-one credentials.



*Kincora is gradually working up the targets on its plus-1,500sq.km of land in the Gobi*

"The geological theory goes: if you're going to find tier-one assets it is most likely to be in those devonian rocks that host the two existing large-scale economic projects in the belt," Spring told *Mining Journal*.

That would be OT and TS.

While OT's 550,000t per annum peak copper production is well-known, TS' construction has gone under the radar.

The \$1.1 billion development, being carried out by a local company, is slated to produce 316,000tpa of copper concentrate and 4,000tpa of molybdenum concentrate at full capacity. It has resources of 256Mt at 0.55% Cu and 0.02% Mo.

These are two pretty good analogues for a junior explorer to draw on.

Kincora's first two "tier one" targets - Bayan Tal and East Tsagaan Suvarga - are coming along nicely.

**Quote: "The geological theory goes: if you're going to find tier-one assets it is most likely to be in those devonian rocks that host the two existing large-scale economic projects in the belt"**

First phase drilling has started at Bayan Tal, one of its "Oyu Tolgoi style" targets, for some 2,850m across six holes. Past intercepts include 18m grading 0.66% CuEq and 18m at 0.75% CuEq.

It has also carried out some 3,145m of drilling over 13 holes at East Tsagaan Suvarga, which it refers to as its "brownfield TS style target". Six of these 13 holes intersected the interpreted devonian quartz monzodiorite of the regionally-important Tsagaan Suvarga Intrusive Complex.

All of this bodes well for the company increasing its modest market capitalisation.

"If we can get Bronze Fox into that more advanced drilling peer group - and try to support our valuation on that - and then you have the rest of the district that has the best chance of a tier-one asset that sits in the portfolio as well, then that is hopefully an attractive scenario for investors," Spring said.

## Blind discoveries

Australia-listed Xanadu Mines shows up in the Kincora corporate presentation several times and for good reason.

Its flagship Kharmagtai copper-gold project in the South Gobi is what the Toronto-listed firm hopes its Bronze Fox asset could one day turn into.

Xanadu, taking its lead from Ivanhoe Mines' 2001-2006 work on the asset, has generated a 1.53 billion pound copper and 2.18Moz gold resource grading 0.55% CuEq from three deposits at Kharmagtai. Mineralisation starts from just below surface and has been shown to go down beyond 1,000m vertical depth.

Kharmagtai accounts for the majority of Xanadu's circa-A\$150 million (US\$118 million) market capitalisation, but it also has the Oyut Ulaan project, 260km east of Kharmagtai, to its name. This has some interesting porphyry and epithermal gold targets highlighted by intersections such as 184m grading 1.06% CuEq from surface and 3m at 13.28g/t Au.



*Xanadu has been working on expanding its 2015 resource at Kharmagtai*

The majority of focus in 2018 will be on Kharmagtai.

The company has uncovered significant mineralisation during stepout and depth drilling since the maiden resource was published in 2015 and is continuing to up the ante through the addition of a fourth drill rig.

Part of the company's success can be put down to its use of advanced geochemistry and geophysics. This has helped identify targets under cover in the South Gobi.

It has ended up giving Xanadu many potential targets to work on, but this year it will continue to maintain its dual drill strategy of expanding known mineralisation through exploration of tourmaline breccia-hosted mineralisation below and along strike from the current resource base and test all shallow high-priority porphyry copper-gold and gold targets under cover.

The discovery of a new blind porphyry would have the "greatest impact on the project economics", according to managing director Andrew Stewart.

## **Smelling the sentiment**

The South Gobi offers the geological bounty and geographical location to make these projects work.

Investors are slowly realising this, with Erdene, Kincora and Xanadu raising equity close to US\$29 million in equity, combined, for exploration last year.

Those not clued into the country still struggle to get their heads around a developing nation quick to intent on profiting from its nascent industry but, as has often been the case, sentiment is still summed up by Rio Tinto's actions.

On that note, the most recent indications have been positive.

Despite its well-publicised Mongolia tax squabbles, it has recently set up shop in Ulaanbaatar. Its office is unlikely to be used as just a handy stopover for its executive team on their way through Asia, with Rio saying it will act as a working exploration hub.

Such an investment, along with the \$5.3 billion being spent underground at OT, requires confidence in the country's ability to put in place a workable long-term investment framework.

If that wasn't enough, Codelco has reportedly made plans to invest in Mongolia after exhausting options in Chile and realising there are few jurisdictions, globally, offering the same rich copper mineralisation.

It may have taken its decision after analysing Rio's in-country exploration work. Just last year, Rio's Turquoise Hill subsidiary started drilling a licence outside of OT, near to Kincora's Red Well licence. It also has plans to drill other targets this year.

Spring said: "When you've got the largest expansion project already in the industry that has 100-year mine life (Oyu Tolgoi openpit and underground), what are you looking for at grassroots exploration that could move the needle?"

"Perhaps there is at least another Oyu Tolgoi out there - the distribution of orebodies in more established porphyry districts would suggest so."