

## “We want to grow together with Mongolia”

*John Lee, chairman and CEO of Prophecy Resource Corp., speaks of his company's plans and says its fortunes and Mongolia's are inextricably linked.*



### **How will you increase your coal output in this time of increasing demand?**

Prophecy Resource was the second Canadian company to obtain a mining permit in Mongolia and we began mining at Ulaan Ovoo on November 24. Our current production is small and there are several obstacles to increasing output. We have 70 employees at the mine site, and have to hire more people to increase output, as well as more equipment. We commissioned the mine just few months ago, and shall need a bit more time to adopt a proper mine plan. We have to be careful of environmental safety as we increase output.

### **How would you get higher prices for your coal?**

We are fortunate that the Ulaan Ovoo deposit coal has less than one per cent sulphur content, which is very low and which also means it does not need to be processed to become high quality thermal coal. A higher than one per cent sulphur content produces acid rain which is not good for the environment. With our coal this clean, we don't need to wash our coal. This is lucky for us.

### **How much reserve do you have?**

Prophecy being a Canadian company, we estimate reserves in the 43-101 Compliant manner, which is very similar to the JORC. We have two deposits, Ulaan Ovoo and Chandgana. The first has 200 million tons, and the second 1.2 billion tons. Both assets were originally owned by Redhill Energy. They spent USD10 million on studies and exploration since 2005, and we have spent a further USD5 million in the last five years since we have owned them. Most of it was needed for drilling and many tests. Last year alone, we spent over USD3.5 million. Preparing one report costs between USD200,000 and USD600,000. They are so expensive as they have to be prepared by independent geologists and independent qualified persons.

### **How will you transport your coal?**

Infrastructure improvement takes time and cannot come overnight. Our Ulaan Ovoo deposit is connected to the railway by road, so last year we upgraded this road, and now it takes the coal one hour to travel from the mine to Sukhbaatar

railway station, instead of the earlier 3.5 hours. There we are just one station away from the Russian border, and have managed to get the Russian Railway to transport our coal. The Mongolian railway system is overloaded but we are very fortunate because we do not need to use it much. Our plans for the Chandgana coal is not sell it but to use it in the power plant we expect to build at the mine site. We shall need to build transmission lines but not roads.

#### **Hoe do you find the business environment in Mongolia?**

Prophecy Resource has four projects in Canada, in copper, nickel, and platinum. I also have personal investments in South American mining projects. I think every country has its own risks and rewards and Mongolia is no exception. Investors do not mind risks that are understandable, measurable and predictable, and in all this I think the legal framework in Mongolia is quite sound when compared to that in some South American countries. But you need some improvement in issues relating to investment agreement, and some of the steps leading to commissioning are not so clearly defined. Based on my experience in the nine months I have spent in Mongolia, the country is going in the right direction, attracting investment, and has a skilled workforce. Risks will always be there but Prophecy is not too worried about them. We only hope that the government continues to welcome investors.

#### **What do your feasibility studies say about the mine life of these two deposits?**

Ulaan Ovoo has 200 million tons, and can be mined for 30 to 50 years, while Chandgana has 1.2 billion tons and should keep going until my grandchildren's days. The most important thing for us is to establish and maintain the highest human and environmental safety standards and to grow along with the country.

#### **How do you find working with the Government here?**

Foreign companies extracting mineral resources always have some uncertainty about what the Government response would be. The government wants to be sure of the intentions behind our investment. We've made it very clear to the Mongolian Government that we want to be its partner in growth and are committed to working for a successful Mongolia. We are subsidising some local production to shift to Erdenet and the power to be produced at Chandgana will first be given to Mongolian before being exported to China. I think the initial hesitation and uncertainty have now passed, and we are developing a professional rapport with people in the ministry. We are confident the understanding will grow stronger, and the relationship go forward. We have found that the Government listens to our concerns and plans. We already have a mining licence at Ulaan Ovoo, and things are progressing nicely with that for Chandgana.

#### **Who will buy your coal?**

We commissioned the mine in November and have so far been fine tuning our operations. We are in advanced talks with Russian power plants to buy our coal, but by the end of this year, we hope to sell to customers in Japan, Korea or elsewhere through Russian ports.

#### **Is the demand for thermal coal increasing?**

Thermal coal is always in very high demand. We have dozens of enquiries from people who want our coal to ship it to India, Korea and Taiwan. Now, after the disaster in Japan, people have become afraid of nuclear power, so thermal coal-based power plants are definitely here to stay. Finding a market for our coal is not an issue at all for Prophecy.

#### **How will Mongolians benefit from your work here?**

I was born in Taiwan, went to school in the UK, and to university in the US, and now I work for a Canadian company in Mongolia. I always try to look upon myself as a good guest, and I would like leave the country better than it was when I came. We stress local employment, and over 90 per cent of our staff are Mongolian, including our chief geologist and all our engineers.

Apart from creating employment opportunities, we try to improve the infrastructure, as I have already mentioned. We have allocated over USD300,000 for community programs. We support hospitals and schools in Selenge province, grant scholarships to university students, and hire interns from universities. And we shall be paying 25 per cent tax on our profits as we go into full steam.

#### **Will you explore for further deposits?**

Well, we have several very promising lands surrounding Ulaan Ovoo, which we do plan to drill later this year. Chandgana also may be found to have more in reserve. But right now, for the next three to six months, our focus will be on optimising our mine plan for Ulaan Ovoo, and only when we have everything in place for our production at the mine and for supplies to and through Russia, shall we start looking for additional resources. What we already have is enough for my lifetime, so any more resource will be welcome but unlikely to be put into production until several decades later.

Let me say that our success is linked with Mongolia's. We really care for Mongolia and think of Mongolians first, simply because we know we cannot prosper if Mongolia itself does not prosper. We have to grow together with this country.

And our business model is also quite different, you must have noticed. Everyone is thinking of selling to China but we have different plans. Mongolia is the fastest growing country in Asia, and your stock market doing well. We plan to be listed on the MSE as quickly as possible, and offer shares at a discount to Mongolians.

We really do intend to grow along with you.