THE POWER OF SENTIMENT

7 November 2013

Aspire Mining Limited note to Stakeholders – Mongolia is open for business

After a period of political uncertainty surrounding foreign investment laws in Mongolia, the Government of Mongolia (GOM) has recently signalled that it is taking the necessary steps to return Mongolia to a foreign investment friendly jurisdiction.

In a clear message of reform, the GOM recently adopted the new Mongolian Investment Legislation.

From November 1, 2013, foreign investors will not be distinguished from Mongolian nationals, which in its simplest form, means the removal of previous rigorous requirements for foreign investors to seek government or parliamentary approval for their investment.

Not only does the new Investment Law remove the requirement for investment approvals, it also proactively provides additional investment incentives. Most importantly, the Investment Law appears to provide the political and legal stability, and the clarity that foreign investors have been looking for. We believe that this will improve sentiment towards Mongolian related investment stories.

History

In May 2012, Mongolia implemented a Strategic Entity Foreign Investment Legislation (SEFIL). Not unlike other countries endowed with significant resource wealth, including Australia and Canada, its intent was to protect Mongolia's strategic sectors encompassing minerals, rail infrastructure, telecommunications, media and defence. SEFIL outlined a set of procedures for foreign investment in these strategic sectors to follow by setting a number of approval thresholds depending on the level of foreign investment and whether or not the investor was a foreign State Owned Enterprise (SOE).

However, the move by the GOM to implement SEFIL was not followed up with regulations until 11 months after its passing so the law could not be implemented and no investments were approved during this time.

Foreign direct investment dropped by 17%[1] during 2012, and fell a further 47% during January - August 2013, a clear indication that sentiment toward Mongolia had quickly deteriorated given the increased political and legal uncertainty felt within the wider investor community.

In December 2012, President Ts Elbegdorj publically confirmed that the implementation of SEFIL "made Mongolia's investment environment unfavourable" and that the country "should not turn [its] back to foreign investors"[2].

During a special Parliamentary meeting held recently, the Mongolian Parliament approved the full repeal of SEFIL and the enactment of the new Investment Law on 4th October 2013. The new Investment Law received full bipartisan support by both the opposition and GOM.

The New Investment Law - Approval Process

Provided an investor is not 50% or more owned by a foreign government, there are no restrictions on the level of investment. An investor who is owned 50% or more by a foreign government is considered a SOE. An SOE investor into strategic industries cannot purchase above 33% of an entity. As it pertains to SOE investments, the approval process will be managed by an "Investment Administrative Body", a body appointed and directed by Cabinet. The Investment Administrative Body will consider the application based on the reason for investment,

[1] Reuters "Mongolia investment slump pushes govt to move on new rules" dated 27 March 2013

[2] UB Post article "President of Mongolia TS Elbegdorj emphasises need to improve the current investment climate in Mongolia" dated 27 December 2012

the affect it may have on restricting competition, the affect on Mongolia's budget and policies, and whether the investment may potentially conflict with national security.

The New Investment Law – Investor Incentives

The new Investment Law now contains provisions to ensure that any future changes to the law must have 66% or more votes in favour by Parliament and has the support of both the major political parties.

The new Investment Law also provides:

- Tax stabilisation through a Stabilisation Certificate granted to eligible investors upon application which cannot be changed by future legislation unless those changes benefit the investor,
- Protection of investor interests with the formation of a specially appointed Council of non-salaried members appointed for this specific purpose,
- Relaxation of the percentage of foreign workforce employed,
- No restriction on the movements of assets in or out of the country,
- Provisions protecting against nationalisation of investors' assets.

Investment Type		SEFIL		new Investment Law
		May 2012	April 2013	November 2013
Private	< 33%	Register with relevant authority	Register with relevant authority	No restriction
	33 – 49 %	Mongolian Government Approval	Mongolian Government Approval	No restriction
	100bn MNT (~ US$75m)	Mongolian Parliamentary Approval	n/a	No restriction
SOE	< 33%	Mongolian Parliamentary Approval	Mongolian Parliamentary Approval	No restriction
	≥ 33%	Mongolian Parliamentary Approval	Mongolian Parliamentary Approval	Approval required by Investment Administrative Body

Table 1: The steps Mongolian Government has taken to incentivise investment and ease procedural regulations pertaining to foreign direct investment

What this means for Aspire and other Companies

The introduction of a tax Stabilisation Certificate means that investors which meet the criteria will have the current set of rates applied to corporate income tax, customs duties, VAT, and royalty frozen over a period. Within the "stabilisation period", these rates cannot be amended by the implementation of future laws unless the amendment benefits the investor.

Criteria must be met upon application for a tax Stabilisation Certificate, one of which is the investment amount to new, and existing projects. Projects that commenced within 5 years of enactment of the new Investment Law, and meet the requirements, will be eligible for tax stabilisation benefits.

Alternatively, an investor who proposes investment of 500 billion MNT (~US$300 million) or greater, has the option of entering into an Investment Agreement with the GOM which not only stabilises taxes but also stabilises the operational environment. The period of the Investment Agreement is similar to that of the Stabilisation Certificate.

For development of rail and mine infrastructure, Aspire would likely meet the criteria applicable for a tax Stabilisation Certificate or Investment Agreement covering a period of greater than 20 years, based on its investment in Mongolia since 2010 and future expected investment to develop the Ovoot Coking Coal Project and Northern Rail Line.

The Impact of Sentiment

This latest move by the Mongolian Government to liberalise the investment rules and provide incentives is now slowly filtering into the greater investment community. Recent media coverage of the new Investment Law have seen a shift from negative to positive headlines[3]. Mongolian Fund Manager, Khan Investment Management reported that the recent developments (including the new Investment Law and new Fund Law), are "clear signs that we [Mongolia] are on the cusp of a significant and sustained recovery"[4].

Within the last month alone, since the approval of the new Investment Law, investment activity seems to be recommencing. China has resolved customs issues at the Mongolian border to release Oyu Tolgoi copper concentrate to Chinese customers, and China has reaffirmed its growing relationship with Mongolia, recently signing a number of documents to invest in major road and rail infrastructure projects to create a major trading corridor between Russia-Mongolia-China for coal, oil and gas and other trades.

Concluding remarks

Amidst the investment uncertainty in Mongolia over the previous 18 months, Mongolian companies listed on the Australian, Toronto, and Hong Kong stock exchanges have continued to quietly progress the development of their individual projects with support from the Government.

Companies including Aspire Mining, Mongolian Mining Corp, Modun Resources, Centerra Gold, Prophecy Coal, FeOre Ltd, SouthGobi Resources and Wolf Petroleum have each received various approvals from the Government within this time.

These approvals have included the grant of mining licences, land use rights agreements, approval of pre-feasibility studies and pre-mining agreements to name a few.

With the introduction of the new Investment Law, companies operating in Mongolia now have increased certainty in the legislative environment to progress their projects from development into construction and production phases.

Aspire expects that overtime, the market will recognise that Mongolia is once again an attractive investment destination.

[3] "China, Mongolia to up cooperation", "Mongolia deepens investment ties with China", and "Mongolian Prime Minister welcomes foreign investors as boom slows".

[4] Khan Investment Management Update dated 15 October 2013