



DeFacto **ARTICLE**

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DRUGS & BLUE PASSPORT

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DeFacto **INTERVIEW**

*Gordon Reid
Chief Operating Officer and Vice
President of Centerra Gold Inc.*

“GOLD HAS STRENGTHENED
OVER THE LAST FEW
YEARS. WE DON'T SEE THAT
SLOWING DOWN”

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WEEKLY

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DRUGS & BLUE PASSPORT

Seventy kilograms of heroin was found from a Mongolian diplomatic vehicle in Dresden, Germany, on 3 May 2019. Two people were detained – B. Battushig, Mongolia's Deputy Consul General in Istanbul, Turkey, and his driver S. Erdenebayar. The vehicle was stopped after coming in from the Czech Republic.

DRUGS

Drugs, which are often referred to by Mongolians as 'black tobacco' (literal translation), are substances that affect bodily functions either physically or psychologically. There are many different types, including herbal-based cannabinoid, marijuana, and hashish, while it can also be chemically made. All these drugs contain a compound called THC (tetrahydrocannabinol), which directly affects brain functions, raises adrenaline, and significantly increases dopamine, which can be addictive. As a result, people may lower inhibitions and get different feelings and emotions that could include sudden boost in mood, increased sexual desire, sudden fall in mood, anger, and desire to harm oneself or even commit suicide.

Using drugs more frequently fuel addiction, which also means greater impact on health and body. This can change brain hormones, kill brain cells, affect memory, compromise the ability to store information,

It was only one of many recent cases of carrying, using, trafficking, and smuggling drugs. These cases have been hitting the news one after another, sending a shockwave in our society. There are only three million of us, and we need to urgently discuss why these cases are occurring, what consequences there are, and how we can stop it to better protect the future generations.

impact thinking, and result in a mental illness. Also, the use of drugs can affect sight, smell, and hearing, and cause hallucinations and ringing in ears. It could also lead to deteriorations in the digestive system and reduced appetite, which limits nutrition intake and causes loss of weight, loss of hair, and faster aging.

Taking drugs increases the number of heart beats per minute by 20-50 for 20-180 minutes. The symptoms may include shaking and feeling of anger. When the drug effects go away, the body can experience light-headedness, loss of eyesight focus, fatigue, insomnia, and depression. When the blood is contaminated that way, people become increasingly willing to do anything to find another hit.

It is said that only 20 per cent of the people are able to refrain from re-using after trying drugs for the first time, and the rest end up wanting to do it again.

WHITE PLAGUE

Mongolia established a database on drug cases in 2016. To date, a total of 1,500 individuals have been registered in the database. The number of drug users has consistently been growing since 2015, when Mongolia has essentially become a country where drugs and psychedelic substances have become a problem. In 2014, there were 61 drug cases involving 153 individuals, and the numbers grew to 199 cases and 412 individuals in 2018. Out of those 412 individuals, there were 337 males, 75 females, and 6 teenagers.

- ▶ Besides taking drugs, there is a growing greed in the society that drug trafficking can make fast cash. There have been cases of smuggling drugs into the country from abroad by carrying on person or via parcels.

The General Intelligence Agency reports that some Mongolian citizens have joined a crime group called the Golden Triangle, which spans over Thailand, Laos, and Myanmar. It is an international illegal drug trafficking network. It is said that Mongolian students and prostitutes in Southeast Asian countries are acting as drug carriers. Mongolians are increasingly getting involved in drug cases for various reasons including that we don't need a visa to travel to the majority of Southeast Asian countries. Also, the generally poor livelihood and the lack of awareness of drugs have contributed to the increasing rates. Most of the drug cases Mongolians are involved in take place in China and in the border town of Erlian /Erenhot.

It is reported that 20 per cent of drugs that are smuggled stay in the country that it is passing through. Due to their curiosity, lack of education, and peer pressure, Mongolian youth are increasingly using psychedelic substances and ending up committing a crime. The Mongolian Society to Protect People from Drugs has reported that, when a survey asked 1,000 youth in 2018, 25 per cent said that they use drugs. There was even a response that said a whole class

of students used drugs together. Also, the National Center for Mental Health reports that the majority of people admitted for in-hospital treatment are 18-20-year-olds, and the total number of patients increased threefold in 2018.

Another reason why drug crimes keep growing is that criminal punishments aren't executed in Mongolia. For example, a former MP's son was caught using drugs in July 2015. When the court declared sentences in January 2017, the son was pardoned for the drug crime and only sentenced for the corruption charge. He appealed the sentence, and the case went away soon afterwards. Then he was caught using drugs again together with his lawyer.

Also, an individual named G. Sarangerel was detained while trying to smuggle drugs from China. It was her third case – she used drugs in the first case, traded it afterwards, and then was smuggling.

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Mongolia is failing to implement its laws and ensure sentences are fully carried out, which is allowing offenders to commit another crime. Article 192 of the criminal law states that Illegal preparation, acquisition, transportation, delivery and distribution of narcotic and psychotropic drugs, products or substances shall be punishable by up to 15 years. However, no one has ever carried out their sentence in full.
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BLUE PASSPORT

Mongolian diplomatic passport has the colour of blue. These blue passports continue its infamy in Europe as Mongolian diplomats become more and more notorious for smuggling illegal goods, including tobacco and drugs, across borders. As a result of this reputation, the whole nationality is suffering from them.

Since 2000, an illegal network named 'Black Morgan' started smuggling drugs across Europe using blue passports. D.Shatarbal, former advisor to the Mongolian Ambassador to Bulgaria, is said to be the godfather of this smuggling network and was caught by the Bulgarian law enforcement on 23 March 2005. He was caught carrying 120 kilograms of drugs worth 23 million USD in a vehicle with a diplomatic registration plate. He was sentenced in Mongolia but was freed with the President's pardon. International [news sites](#) have been reporting extensively how many drug smugglers with blue passports came from Mongolian ambassadors, advisors, consuls, and attachés.

It has become a common sight to see someone tarnish Mongolia's reputation abroad, carry out sentences, and get sent back, only to be appointed to senior positions in the government and act as if nothing happened. It is time for the Ministry of Foreign Affairs and the General Intelligence Agency to sort out the drug smugglers with blue passports.

In order to effectively fight drug crimes, Mongolia needs to reform its border control, build capability of law enforcement officers, and upgrade the equipment at the customs. We also need to remove the cannabis plants growing in Mongolia and start an extensive campaign to raise awareness on consequences of using drugs. Unless we get on with these actions at speed, drugs will continue growing its reach and enter every household. And, before we know it, Mongolia might suddenly wake up suffering from the 'white plague'.

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**GORDON REID**

Chief Operating Officer and
Vice President of Centerra
Gold Inc.

GOLD HAS STRENGTHENED OVER THE LAST FEW YEARS. WE DON'T SEE THAT SLOWING DOWN

Gordon Reid is Vice President and Chief Operating Officer at Centerra Gold Inc. Mr. Reid has over 30 years of mining industry experience with International and North American mining companies.

Defacto: Let's begin by talking about your company, Centerra Gold. What is the company, its valuation, employees, etc?

Gordon Reid: Centerra Gold came into existence in 2004; we were a spinoff of Cameco Gold. At that time, Cameco felt that they weren't getting the value of the gold assets in their share price, so they spun off Centerra Gold with all the gold assets.

Defacto: Cameco was in Mongolia.

GR: That's right. They were the predecessor company for Centerra Gold. They took it public in June 2004 with the gold assets, which included the Kumtor gold mine in Kyrgyzstan and the Boroo gold mine in Mongolia.

Defacto: So at the time of their IPO, they held two major deposits in Asia. But these days, you have more projects. Tell us about them.

GR: Yes, we do. Since then, we have grown into a \$2 billion company. We have two major operating mines: one in British Columbia, Canada, called the Mount Milligan Mine, which produces roughly 60 million pounds (27 million kg) of copper and 200,000 ounces (5,670 kg) of gold annually. That will change over time, but that's the rough production numbers for the next couple years. The second is the Kumtor Mine, which produces in the 500,000 ounces (14,175 kg) of gold range, year over year.

We also have four development projects, including the Öksüt project in Turkey, which is a 1.1 million-ounce (31,185 kg) deposit that our board has just given us approval to construct. So we would expect to be producing gold there by the first quarter of 2020, at about 110,000 ounces (3,118 kg) of gold per year, on average, for eight years. We also have the Kemess project in northern British Columbia, which is a copper/gold deposit. It's an underground block cave project that we haven't made a construction decision on yet, but we would hope to see that progress rapidly over the next year or two—as well as the Gatsuurt project in Mongolia and the Greenstone project in northern Ontario.

Defacto: You are involved along the whole value chain of gold—from exploration to development to production, as well as purchasing other deposits around the world. In terms of your operation, how big is the company?

GR: We're probably classified as a medium-sized company. We have approximately 3,500 employees, the bulk of which are in Kyrgyzstan working in our Kumtor mine, but also in Canada, Turkey, and at other exploration projects around the world.

Defacto: How many shareholders?

GR: I don't know the exact number, but there

would be thousands of shareholders.

Defacto: When we talk about shareholders of a publicly-traded company, it's hard to say how many because they keep changing everyday. What kinds of investors are they? Pension funds?

GR: More than 50% of our shares are held long-term. The Kyrgyz government holds 27% of our shares. The other major shareholders are major investment funds, gold funds, and other funds that buy and hold the shares. So our free-trading stock is less than 50% of our total shares.

Defato: How do you see the future prospect of gold and gold-related businesses?

GR: Well, gold has strengthened over the last few years. We don't see that slowing down. There's more upward pressure than downward pressure. But no one can predict the gold price.

Defacto: What is the current price level of gold?

GR: It's about \$1300.

Defacto: What was the highest price you've seen?

GR: I think in the high \$1800s is the highest that I've seen. But I've also seen it as low as \$250.

Defacto: When was that?

GR: That was around 2005 or 2006.

Defacto: With the inherent unpredictability of the gold market in mind, how do you see the future of your mining projects in Mongolia?

GR: We have strong feelings for Mongolia; we've been there 20 years. Our Boroo gold mine was very successful. We produced approximately 60 tons of gold. We were the #1 taxpayer in Mongolia for several years. We had 600 people working for us at any one time. We trained many of the professional miners, geologists, engineers, health and safety professionals in Mongolia—they came through Boroo and received a lot of their training there. We

consider ourselves part of the Mongolia industry. The next step for us is to build the Gatsuurt project, which is an extension of the Boroo project.

Defacto: Before we explore Gatsuurt, let's talk a bit more about Boroo, which was the first hard-rock gold mine in Mongolia. Before Oyu Tolgoi, you were the number one foreign investor in the country. How long was the project?

GR: The first gold pour was 2004. We shut the mill down in 2012 and then the heap bleach down in 2015.

Defacto: What happened between 2012 and 2015?

GR: In 2012, we started out with a mill process, it's a carbon-in-pulp process to recover the gold. It's a higher cost, but you get better recovery. Later in the mine life, we had low-grade material we thought we could also get value from, so we put in a heap bleach processing facility. That facility ran for, let's say, six years. It has a lower cost, but a lower recovery. Its function is to get value out of lower-grade ore.

Defacto: When the mines are finished, you redevelop the land. In some cases, you redevelop alternative land, per the request of local authorities.

GR: We reclaim the land we disturb, as long as we're finished with the land. Waste dumps have been reclaimed and reseeded. A lot of the area around the mine has been reseeded, re-grassed—very usable land. Some areas cannot be reseeded, for example the open pits. So we go out to other parts of the country, and, working with the government we identify an area that we would reclaim as an alternative to reclaiming where the pits are, for example.

Defacto: I understand that project is going on now. It's an interesting approach because if you

cannot reseed or recover completely the land then you do it elsewhere.

GR: And it's not one acre to one acre. We usually reclaim more than what we disturb.

Defacto: You have four large projects around the world. How is the process working with communities?

GR: I think the future of mining is to work with local communities. We're guests. We're there working closely with the communities. They are our neighbors. For us to be successful, we have to have good relationships. And by "good relationships", I don't mean we just write them a check. I mean that we work with them, identify what their needs are—be it training, education, jobs—and try to fulfill those needs. At the same time, we try to do our jobs, which is to mine.

Defacto: For example, your company built a new maternity hospital with new standards and new services, and I think the community sees the benefit of that cooperation.

GR: I was at the grand opening, and it was very gratifying to be able to do that for the community. To see this brand new hospital that so many children will be born in for the betterment of the city and the country.

Defacto: Let's now talk about Gatsuurt, which I understand it is involved in a lawsuit. From your perspective, what is the cause of the delay?

GR: Referring to the lawsuit, it's an administrative suit. A group has come forward and said that the name change was done incorrectly when Cameco Gold IPOed their gold assets into Centerra Gold. But the suit is not against us; it's against MRAM. It contends that since the name was done incorrectly, the license should be annulled. We are involved as a third party. We think it was done correctly. But, even if it wasn't done correctly, it shouldn't impact

the license—it's just a name change.

Defacto: There were also issues of the site being close to certain historical locations.

GR: Noyon Mountain and the Hunnu grave sites are not near the mine. They are several kilometers away. We respect the local cultures, and we've made sure any historical sites are well-protected from our mine site.

Defacto: And since you are a publicly-traded company, if you did do anything, your shareholders would punish you.

GR: Absolutely. We wouldn't be allowed to work anywhere if we did the things they're suggesting.

Defacto: How long has this project been delayed?

GR: Oh, it's been delayed for ten years. We were blocked by several law changes. Back in 2006, we were starting to develop Gatsuurt, there was the Windfall Profits Law that took most of the value of the project away, so we stopped developing at that point. Then in 2009, that law was rescinded, and we resumed work. We actually built a road to the Gatsuurt site. We cleared some land and built an administrative building, warehouse, and maintenance shop. But around that same time, the "Long Name Law" was passed, which prohibited mining within watershed and forested areas. The Gatsuurt licenses are captured in that law because there is a river which flows through the project. We would have to divert the river around the pit in order to mine it. So again that shut us down. However, in 2015, we were designated a "strategic deposit", which would exempt us from the Long Name Law.

*This interview originally aired in March, 2018.
It has been edited here for space and clarity.*

*You can watch the full 30-minute interview at
www.jargaldefacto.com*



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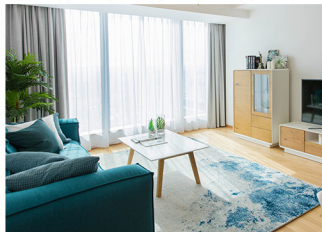
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