

MONGOLIAN LAWS AND REGULATIONS RELATING TO EXPLORATION FOR MINERALS AND MINING

Between July 1997 and August 25, 2006, Mongolian minerals policies and practices were governed by the 1997 Minerals Law. On July 8, 2006, the Mongolian Parliament enacted a new law (the “2006 Minerals Law”), superseding and replacing the 1997 Minerals Law. The 2006 Minerals Law became effective as of August 26, 2006.

The Mongolian Parliament also enacted supplementary implementation and procedural legislation (the “2006 Implementation Law”) to address various technical issues, including the relevance of the new 2006 Minerals Law to exploration and mining licences granted under the 1997 Minerals Law.

Under the 1997 Minerals Law, exploration licences were granted by the DGMC, a subordinate agency of MRAM, which at the time was a subordinate agency of the former cabinet level Ministry of Industry and Trade. In 2006, the Petroleum Authority of Mongolia was merged with and into MRAM — creating the Minerals Resources and Petroleum Authority of Mongolia — and the name of the DGMC was changed to the Cadastral Registration Centre. To remain effective, all exploration licences granted by the DGMC pursuant to the 1997 Minerals Law were required to be re-registered with the Cadastral Registration Center under the 2006 Minerals Law within five months following the effective date of the 2006 Minerals Law.

In July 2008, the Mongolian Government again modified its minerals-related organisational structure. MRAM and the Petroleum Authority of Mongolia became separate subordinate agencies of the MMRE, and the name of the Cadastral Registration Center was changed back to the DGMC.

Registration with the DGMC is the definitive record of the holders of minerals licence rights under the 2006 Minerals Law. Pledges and transfers of exploration licences must be registered with the DGMC to be effective. Pledges, transfers and certain other transactions are recorded on endorsement sheets that are separate from, but considered to be an integral part of, each exploration licence certificate. The DGMC does not maintain records of other liens or encumbrances to which a licence may be subject.

Effective as of August 16, 2009 — the effective date of Mongolia’s new Nuclear Energy Law — the definition of minerals under the 2006 Minerals Law no longer includes radioactive minerals, i.e. minerals that contain radioactive isotopes of the uranium or thorium families. All subsequent references to minerals, and to licences to explore for or to mine minerals, will be limited to minerals other than radioactive minerals as so defined.

Note that references to “mineral reserves” and “mineral resources” in this section entitled “Mongolian Laws and Regulations Relating to Exploration for Minerals and Mining” are not references to mineral reserves and mineral resources determined in accordance with CIM Standards and NI 43-101.

Mongolian Exploration Licences

The holder of an exploration licence has rights to access the licence area through public or private property (subject to the need for negotiated approvals by owners, possessors and users of such property), to conduct exploration and construct temporary structures within the licence area and, if a mineral resource is defined by exploration activities, to apply for a mining licence for any part of the exploration licence area. Pursuant to the 2006 Minerals Law, exploration licences granted on or after August 26, 2006 have an initial term of three years. The holder of such an exploration licences may apply for an extension of the licence for two successive additional periods of three years each. Thus, the maximum period that an exploration licence may be held by one or more holders is nine years from the date of issue. Exploration licences granted prior to August 26, 2006 also have an initial term of three years, but the available extensions were for two successive periods of two years each, for a maximum overall period of seven years.

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Holders of such exploration licences that became eligible for extensions following August 26, 2006 have, in many instances, been given the benefit of the longer extension terms under the 2006 Minerals Law, but the policies and practices of the DGMC in this regard have been neither uniform nor consistent.

Each exploration licence is subject to cancellation if applicable licence fees are not paid on time or if the holder fails to comply with certain other requirements of the 2006 Minerals Law or other relevant laws. Only Mongolian legal entities are entitled to hold exploration licences.

Annual fees are payable per hectare of exploration licence area as follows:

<u>Year</u>	<u>Annual fee per hectare</u>
Initial term — Year 1	US\$0.10
Initial term — Year 2	US\$0.20
Initial term — Year 3	US\$0.30
First extension (3 years)	US\$1.00 each year
Second extension (3 years)	US\$2.00 each year

Exploration licence holders must spend the following minimum amounts annually on exploration activities per hectare within the licence area:

<u>Year</u>	<u>Annual amount per hectare</u>
Initial term — Year 1	No expenditure required
Initial term — Year 2	US\$0.50
Initial term — Year 3	US\$0.50
First extension (3 years)	US\$1.00 each year
Second extension (3 years)	US\$1.50 each year

The tables above show the required annual fees and expenditure amounts for each of the first three years, as well as for the succeeding three years (i.e., the “first extension”) and the last three years (i.e., the “second extension”). There are no applicable fees or amounts due after the second extension, since the exploration licence will have expired.

Exploration licence holders are also subject to various environmental protection obligations. Within 30 days of receiving an exploration licence, the holder must prepare, and submit to the relevant authorities, an environmental protection and reclamation plan. Once the plan has been approved by the relevant authorities, the holder of the exploration licence must deposit funds equal to 50% of its environmental protection budget for that particular year in a bank account established by the governing authority of the soum (district) in which the exploration licence area is located. Holders of exploration licences must also submit to relevant authorities an exploration plan and annual reports of exploration activities.

Reserves

In Mongolia, the tonnage and grade of a mineral reserve that has been defined by exploration activities must be recorded in official archives. Under the 2006 Minerals Law, a mining licence holder must extract all of the mineral reserves that are within the licence area. The purpose of this provision is to prevent “high-grading,” but the net effect is to mandate mining practices that are not consistent with practices in countries where free market principles prevail and the concept of mining mineral reserves on an economically viable basis is recognised and understood. It is unclear what consequences, if any, may follow from non-compliance with this provision.

Mining Licences

If a commercially viable mineral resource is defined within the licence area of an exploration licence, the holder of the exploration licence is entitled to apply for a mining licence covering the relevant portion of the licence

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area of the MEL defined by specified longitude and latitude coordinates. A mining licence holder has the right to conduct mining activities throughout the licence area and to construct structures within the licence area that are related to its mining activities. All such activities must be conducted in compliance with the 2006 Minerals and relevant Mongolian laws pertaining to health and safety, protection of the environment and reclamation. Mining licences are granted by MRAM for an initial term of thirty years and are renewable for two successive twenty-year periods, for a maximum period of seventy years. Upon the expiration of a mining licence, the licence and the rights under such licence revert to Mongolia. Only Mongolian legal entities are entitled to hold mining licences. In the case of all minerals other than coal and common construction minerals (e.g., sand and gravel), annual licence fees of US\$15.00 are payable per hectare of the relevant mining licence area. In the case of coal and construction minerals, the per hectare fee is US\$5.00. A mining licence is subject to cancellation if applicable licence fees are not paid on time or other requirements of the 2006 Minerals Law or other relevant laws are not complied with.

To receive a mining licence, an exploration licence holder must submit an application to MRAM together with, among other documents, an environmental impact assessment and a resource report. Holders of mining licences must also prepare environmental protection and reclamation plans and comply with various reporting and security deposit requirements.

Pre-Mining Agreements

After a mineral reserve has been defined and recorded, an exploration licence holder may apply to MRAM for a pre-mining agreement. During the term of this agreement, which may not exceed three years, Mongolian-law compliant final feasibility studies (which may not constitute a feasibility study for the purposes of NI 43-101) must be completed, mine facilities must be developed, and the mine must be brought into production.

Local Government Approval of Exploration Licences and Mining Licences

Pursuant to the Mongolian Licencing Law, the granting of each exploration licence and mining licence by MRAM must be approved by the governor of the aimag (province) in which the relevant licence area is located. The 2006 Minerals Law also provides that the holder of an exploration licence has an exclusive right to obtain a mining licence covering all or any relevant portion of the exploration licence area. As a result of the above-noted Mongolian Licencing Law provisions, this right must be considered to be subject to the approval of the aimag governor.

If the aimag governor wishes to deny the grant of an exploration licence, he must submit his reasons to MRAM within thirty days following receipt of notice of the licence application from MRAM. The 2006 Minerals Law provides that the reasons for the denial must be based on the laws of Mongolia. However, there is no clear guidance as to what legal grounds will suffice to warrant denial of a licence application. If the aimag governor does not timely submit his reasons for denial of the granting of the licence, it will be deemed that he has approved the grant.

Note that the thirty-day notice and response requirements of the 2006 Minerals Law do not apply to the grant of a mining licence, but that the Mongolian Licencing Law requirements clearly apply to both exploration licences and mining licences. It is not clear how these issues will be resolved in the case of mining licences.

Approval to Commence Mining Operations

Pursuant to the 2006 Minerals Law, before a mining licence holder can bring a mine into production, the MMRE appoints a commission (the "Commission") to review and audit pre-mining requirements compliance by the mining licence holder that proposes to put a mine into operation. The Commission consists of the following

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members: (i) the head of the Geological and Mining Department of the MMRE; (ii) the head of the Technology and Environmental Division of MRAM; (iii) representatives from the inspection agencies of the relevant aimag in which the mine is located; and (iv) any other experts appointed by the MMRE. In particular, the Commission reviews the licence holder's compliance with all pre-mining requirements provided for in the 2006 Minerals Law and reviews the following key documents (among others) to determine whether they have been prepared in compliance with applicable laws and regulations to which they relate:

- a certified copy of the mining licence;
- a Mongolian-law compliant feasibility study (which may not constitute a feasibility study for the purposes of NI 43-101) and mining plan reviewed by the relevant authority;
- the environmental impact assessment;
- the environmental protection plan;
- any minerals sales agreement and any lease agreement relating to the mining assets;
- records on establishing and marking the boundary of the mining area; and
- any agreement on land and water usage.

In addition, the Commission makes an inspection of the mine site and mining-related support facilities, for example electrical power generators, mining equipment, water supply facilities, maintenance shops, and health and safety equipment.

Upon completion of its review of all relevant documentation and its on-site inspection, if all requirements have been satisfied, the Commission will issue a document (signed by all of its members) approving the commencement of mining operations by the mining licence holder.

Deposits of Strategic Importance

Either the Mongolian Government or Parliament may initiate proposals to declare a mineral resource as a Mineral Deposit of Strategic Importance, but Parliament must approve any such proposal. In the event that a deposit is designated as a Mineral Deposit of Strategic Importance, the State is empowered to participate on an equity basis with the licence holder in the exploitation of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Mongolian Government and such licence holder. The 2006 Minerals Law defines a Mineral Deposit of Strategic Importance as a mineral resource that may have the potential to impact national security, or the economic and social development of the country at the national and regional levels, or that is generating or has the potential to generate more than 5% of Mongolia's Gross Domestic Product in any given year.

Pursuant to Parliament Resolution Number 27 dated February 6, 2007, the Mongolian Parliament has published the Strategic Deposits List, which identifies fifteen deposits as Mineral Deposits of Strategic Importance (the "Strategic Deposits List"). Resolution Number 27 also identifies a further thirty-nine deposits in the Tier 2 Deposits List (the "Tier 2 Deposits List") and instructs the Mongolian Government to further evaluate such deposits and determine if one or more of such deposits should be recommended by the Mongolian Government to Parliament for designation as a Mineral Deposit of Strategic Importance. In addition to deposits on the Strategic Deposits List and the Tier 2 Deposits List, Parliament may at any time designate other deposits not yet currently on either list to be Mineral Deposits of Strategic Importance. There is no obligation on the Mongolian Government to complete negotiations and finalise the status of those 54 deposits currently identified before it designates further Mineral Deposits of Strategic Importance.

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The fifteen Mineral Deposits of Strategic Importance specified by Parliament in the Strategic Deposits List have no defined “edges”. They each consist of concentrations of mineralisation in a general area that is identified only by a name — not by a set of defined coordinates. Licence areas, on the other hand, are precisely defined by coordinates. Thus, it is not feasible to definitively determine whether or not any given licence area is within — or overlaps — a Mineral Deposit of Strategic Importance.

Subject to the qualifications noted in the preceding paragraph, to the Company’s knowledge none of the deposits covered by the Company’s Ovoot Tolgoi Mining Licence and exploration licences have been designated as Mineral Deposits of Strategic Importance. However, there can be no assurance that one or more of these deposits will not be so designated in the future.

Funded from the State Budget

During the 1970s and 1980s, teams of geologists from the Union of Soviet Socialist Republics and other Soviet-Bloc countries, working in conjunction with Mongolian geologists, conducted extensive exploration work throughout Mongolia. Following the collapse of the USSR in 1991, Russia attributed the costs of this exploration work to be part of the overall debt owed to Russia by Mongolia. Mongolia negotiated a settlement of this debt and costs attributable to this work are thus deemed to have been funded from the Mongolian State Budget (the “State Budget”). Mineral resources that have been defined (in whole or part) by such activities are also considered to be deposits that have been funded from the State Budget. In addition, expenses incurred by the Government of Mongolia in connection with subsequent survey and exploration activities are also deemed to be expenses funded from the State Budget and, to the extent that such expenditures are deemed to have been a factor in defining a specified deposit, they may be regarded as debts owing to the State Budget by the relevant licence holder.

Under the 1997 Minerals Law, payment of these costs by the licence holder removed the encumbrance on the licence holder’s tenure. Under the 2006 Minerals Law, however, in the case of Mineral Deposits of Strategic Importance, the encumbrance cannot be removed by payment of the stated costs. Instead, if the mineral resource is deemed to have been defined by activities funded from the State Budget, this becomes a critical factor in determining the extent of the right of the State to participate in the development and exploitation of the mineral resource.

Both the designation of mineral resources as Mineral Deposits of Strategic Importance, and the claims that such mineral resources have been defined — at least to some extent — by funding from the State Budget, are essentially political decisions.

State Participation in Mineral Deposits of Strategic Importance

The 2006 Minerals Law provides that the State is entitled to participate to an extent of up to a 50% equity interest or up to a 34% equity interest, respectively, depending on whether the quantity and grade of a Mineral Deposit of Strategic Importance have or have not been defined by exploration deemed to have been funded from the State Budget. The terms and conditions of such participation are subject to negotiation between the Mongolian Government and the licence holder and may not necessarily adhere to the 50% or 34% limitations. The 2006 Minerals Law does not provide any guidelines as to the form such negotiations should take.

The 2006 Minerals Law further provides that any company which holds a Mineral Deposit of Strategic Importance is required to list at least 10% of its shares on the Mongolian Stock Exchange. This provision has not yet been enforced with respect to any of those companies with deposits on the Strategic Deposits List and it is not clear how it would work in practice.

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Investment Agreements

A mining licence holder that undertakes to invest more than certain threshold amounts over the first five years of a mining project may apply to the State to enter into an Investment Agreement concerning the stability of tax rates, the right to sell products at international market prices, a guarantee that the licence holder may receive and dispose of income from such sales at its own discretion, and provisions with respect to the amount and term of the licence holder's investment.

The term of each Investment Agreement will depend on the monetary amount of the five year commitment as follows:

<u>Minimum investment (US\$)</u>	<u>Agreement term</u>
50 million	10 years
100 million	15 years
300 million	30 years

Royalties

A royalty at the rate of 5% is payable in respect of the sales value of all products extracted pursuant to a mining licence (other than domestically sold coal and construction minerals) that are sold, shipped for sale, or otherwise used. A portion of this 5% royalty rate goes to the central treasury, while the remaining portion goes to local authorities. The royalty rate for domestically sold coal and construction minerals is 2.5%, whereas the rate for international exports of these materials is 5%.

Sales and Transfers of Exploration Licences and Mining Licences

In accordance with the 2006 Minerals Law, the holder of an exploration licence may not sell the licence itself. The holder may, however, sell the underlying "original materials and reports on prospecting and exploration work" (the "licence area data") in respect of the licence. Upon completion of the sale of the licence area data, and payment of applicable taxes (evidenced by a document showing payment of such tax), the holder may transfer the licence, but for no consideration.

In accordance with the 2006 Minerals Law, the holder of a mining licence may not sell the licence itself. The holder may, however, sell "the mine, together with its machinery, equipment and documents" that is located within the relevant licence area. Upon completion of the sale of the mine, and payment of applicable taxes (evidenced by a document showing payment of such tax), the holder may transfer the licence, but for no consideration.

MONGOLIAN LAWS RELATING TO ADDITIONAL PERMITS

Various aspects of mine construction and operation require permits from relevant central and regional governmental authorities. For example, permits must be obtained before proceeding with a general mine development plan and at various stages during the construction of mining facilities and mine start-up. A permit is similarly required for the use of water and for the use of explosives for blasting. In addition, work undertaken pursuant to permits is subject to ongoing review and verification by relevant authorities.

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Under the Environmental Protection Law of Mongolia (the “EPL”), originally enacted in 1995 with certain relevant amendments in 2005, business entities and organisations have the following duties with respect to environmental protection:

- to comply with the EPL and the decisions of the government, local self-governing organisations, local governors and Mongolian state inspectors;
- to comply with environmental standards, limits, legislation and procedures and to supervise their implementation within their organisation;
- to keep records on toxic substances, adverse impacts, and waste discharged into the environment; and
- to report on measures taken to reduce or eliminate toxic chemicals, adverse impacts, and waste.

The EPL is enforced at both state and local levels. Both national and local government can require a business entity to desist from, and to eliminate the effects of, certain actions. The Mongolian Government has the power to require a business entity to limit or refrain for a defined period of time the use, importation or exploration of natural resources and, in accordance with the recommendation of the local governor and the Ministry of the Environment, to prohibit citizens, business entities, and organisations from conducting production or other activities which would have an adverse effect on human health or the environment, regardless of the form of ownership.

Mongolian state inspectors are provided with a range of powers pursuant to the EPL, including the supervision and implementation of environmental legislation, obtaining information and data required for supervision of such legislation from the relevant individuals, business entities, or organisations, and requiring individuals, business entities, and organisations to eliminate adverse environmental impacts and to suspend their activities for a defined period of time in the event of an adverse environmental impact in breach of the EPL, accepted standards, and permissible levels.

Local government is also responsible for administering the implementation of the EPL and supervising the activities of business entities within their jurisdiction. Local government also has the power to take measures to eliminate any breach of the EPL by business entities and, if necessary, to require the suspension of activities of business entities which have an adverse environmental impact.

The 2006 Minerals Law provides three chapters of guidance relating to further environmental protection obligations imposed on mineral licence holders. Under the 2006 Minerals Law, mineral rights are divided into exploration and mining rights, each with separate licencing and attendant environmental protection requirements.

In addition to those duties imposed on them by the EPL, mining licence holders are required to prepare an initial environmental impact assessment analysis before the mine comes into production. The mining licence holder must also annually develop and implement an environmental protection plan (including reclamation measures) in cooperation with the Ministry of the Environment, which should take into account the results of the environmental impact assessment. The licence holder is also required to record all instances of adverse environmental impact resulting from its mining activities and prepare and send an annual report to the Ministry of the Environment. In order to ensure compliance with environmental protection obligations, the licence holder must deposit 50% of its environmental protection budget for a given year in a bank account established by the Ministry of the Environment. This amount is refundable at the end of each year pursuant to the licence holder having complied with its obligations under the environmental protection plan. The 2006 Minerals Law further provides that, in the event a licence holder fails to fully implement any of the measures outlined in the environmental protection plan, the relevant authority

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shall use the funds deposited with it as part of the environmental protection budget to implement those measures and the licence holder shall provide any additional funds required.

The 2006 Minerals Law also provides for the following administrative sanctions that may be levied against licence holders found in violation of environmental protection obligations:

- MNT 500,000 — 1,000,000 fine for failure to comply with legitimate requirements imposed by an authorised Mongolian state inspector regarding the elimination of deficiencies discovered in the course of an inspection;
- in the event a licence holder continues to be in violation of the EPL or the 2006 Minerals Law, the exploration and mining activities of the licence holder shall be suspended for up to two months, and if the deficiencies are not eliminated within this period, the relevant minerals licence may be revoked; and
- if a mining licence holder causes serious damage to the environment, fauna, or human health by failing to implement safety rules or a technological regime while using toxic substances for its operations, its licence shall be revoked and no licence shall be issued to such holder for twenty years.

On July 16, 2009, Parliament enacted a new law (the “Mining Prohibition in Specified Areas Law”) that prohibits minerals exploration and mining in the following described areas:

- headwaters of rivers and lakes;
- forest areas as defined in the Forest Law of Mongolia; and
- land areas adjacent to rivers and lakes as defined in the Water Law of Mongolia.

The Mongolian Government has been directed to determine the boundary lines of the prohibited areas by mid-October 2009. New exploration licences and mining licences overlapping the defined prohibited areas will not be granted — and previously granted licences that overlap the defined prohibited areas will be terminated within 5 months following the adoption of the law. It is not clear whether such termination will only apply to the overlap areas. The Mining Prohibition in Specified Areas Law provides that affected licence holders shall be compensated, but there are no specifics as to the way such compensation will be determined.

MONGOLIAN LAWS AND REGULATIONS RELATING TO HEALTH AND SAFETY

The Mongolian Labour Law (1999) (“Labour Law”) and the Labour Safety and Sanitary Law (2008) (“Labour Safety Law”) contain provisions of general application in relation to health and safety. An employer is responsible for maintaining a safe working environment that meets applicable safety and sanitation requirements. Furthermore, if the nature of an employee’s work so requires, the employer must provide special work garments and arrange for such employees to receive regular, preventative health examinations related to their work. Mining companies must create a special department, or appoint an officer, dedicated to overseeing matters of safety and sanitation. The Ministry of Social Welfare and Labour is responsible for adopting regulations governing labour safety and sanitation.

The Labour Law and the Labour Safety Law provide that in the event of an industrial accident the employer, at its own expense, must immediately transport injured employees to a hospital and take steps to eliminate any causes of harm created by the accident. Employers are obligated to investigate and report all industrial accidents. Regardless of whether an employee was covered by insurance for injuries sustained during an industrial accident, the employer must reimburse the employee in an amount determined as a percentage of the economic loss suffered by the employee attributable to the loss of his or her ability to work. If the employee died as a result of the accident,

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the employer must reimburse the employee's family in an amount equal to not less than the deceased employee's average compensation for 36 months. Reimbursement under these provisions of the Labour Law and Labour Safety Law do not affect the employee's entitlement to pensions or other benefits under social insurance or other laws.

If a company's activities are proven to have an adverse impact on the health and safety of its employees, the State Professional Inspection Agency of Mongolia or other authorised official may take steps to force the company to remedy the breaches. If the company fails to remedy such breaches, it may be ordered to wholly or partially suspend business activities until the labour safety and sanitation requirements are satisfied. Additionally, failing to comply with labour safety and sanitation regulations, causing or concealing an industrial accident, or failing to pay requisite compensation for an industrial accident, may result in the imposition of administrative fines. In extreme cases, criminal sanctions may be imposed for violating the applicable Labour Law provisions.

The 2006 Minerals Law provides that local administrative and self-governing bodies are responsible for monitoring compliance with respect to health and safety regulations for workers and local residents. A mining licence holder must carry out activities that ensure i) safety for the citizens of the relevant soum or district and ii) labour safety and proper sanitary conditions for its employees. The licence holder must also submit an annual report on safety to the State Professional Inspection Agency and MRAM.

If a licence holder is found to have continually violated mining operation safety regulations, its licence(s) may be suspended by a State inspector for up to two months, and if the deficiencies are not eliminated within this period, the licence(s) may be revoked. If a mining licence holder causes serious damage to human health through failure to implement safety rules and appropriate technical standards while using toxic chemicals and substances, its licence may be revoked and no new licence issued for a period of up to twenty years. Criminal sanctions may also be imposed for violating the health and safety provisions of the 2006 Minerals Law, in extreme cases.

Under the Subsoil Law of Mongolia (1988), a special mining rescue unit has been established by the Mongolian Government, and mine operators are required to pay fees to support and maintain the services of this unit. Also under this law, the Ministry of Environment and Tourism of Mongolia and the Ministry of Minerals Resources and Energy are responsible for ensuring compliance with applicable safety rules and standards while conducting subsoil-related activities. If a mine operator is not in compliance with these safety rules and standards, it may be ordered to suspend its activities.

The Mongolian Fire Safety Law (1999) requires companies to observe fire prevention and extinguishing regulations, norms and standards and to train employees in fire fighting skills.

Specific provisions of the regulations implemented by the Mongolian Government's Ministry of Social Welfare and Labour pursuant to the Labour Law, newly amended and supplemented by the Labour Safety and Sanitary Law (2008), effective from June 16, 2008, as the same may amended and supplemented from time to time (the "Regulations on Health and Safety in Mining") govern:

- the air quality structure and permitted levels of poisonous gas in the atmosphere;
- fire prevention measures;
- permitted levels of dust in the atmosphere;
- provision of amenity rooms for mine operating personnel, medical and first-aid care, and a clean water supply;

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- establishment of ancillary facilities for the health and welfare of mine operating personnel; and
- compliance with radiation safety norms and permitted levels of radioactive exposure.

Mine operators, as well as all employees working at a mine site, are responsible for complying with these regulations. A breach of the regulations, regardless of whether or not it results in an industrial accident, may result in disciplinary, administrative or criminal liability depending on the severity of the breach.

MONGOLIAN LAWS AND REGULATIONS RELATING TO TAXATION

Mongolian tax law is rudimentary, providing a general structure of taxation which is similar to that found in developed countries, but which in many circumstances fails to provide clear or detailed guidance as to how the general provisions contained in the law are to be applied to specific transactions. This lack of detailed guidance leads to inconsistent implementation of the law by the tax authorities.

The basic Mongolian tax law is the General Law on Taxation which provides the overall structure of the tax regime and the general rights and obligations of taxpayers and the taxation authorities. This law has been substantially amended, effective as of July 1, 2008. Specific laws, such as the Economic Entity Income Tax Law, the Personal Income Tax Law and the Value-Added Tax Law, address discrete areas of the tax law regime. These three tax laws were substantially amended, effective as of January 1, 2007. Notwithstanding such amendment, these laws remain rudimentary.

A summary of the principal tax legislation that may affect the operations of the Company in Mongolia is as follows:

- The general income tax rate applicable to business entities with Mongolian source income is 10% on the first MNT 3 billion of taxable income and 25% on amounts in excess thereof. These rates are applicable to operating and certain other types of income (e.g., capital gains on the sale of shares and equipment). Other types of income (e.g., capital gains on the sale of real property, interest, royalty and dividend income) are subject to other, varying rates of income tax.
- Taxable operating income of a Mongolian business entity is determined by taking into account operating income received less permitted deductions. Mongolian tax law does not always permit all items of expense incurred in the furtherance of the business purpose of the enterprise (as such concept would be understood in more developed jurisdictions) to be fully deducted when determining taxable operating income.
- Effective from January 1, 2010, the Economic Entity Income Tax Law has been amended to allow for operating losses accumulated by mining companies to be carried forward and deducted from taxable income for a period of from four to eight years following the year in which the loss was incurred, the determination of the carry-forward period applicable to any particular mining company to be determined by the Mongolian Government after taking into consideration the investment made by such company in its mining operations. In the case of mining companies, the loss carry-forward deduction can be applied to 100% of the taxable income calculated in the relevant tax year.
- In the absence of a tax treaty, dividends, interest and royalties received by a non-resident legal entity from a Mongolian source are subject to Mongolian income tax rate of 20%. The Mongolian legal entity making such payments is obligated to withhold the Mongolian income tax from such payments. Mongolia has entered into double tax treaties with a number of countries, including Singapore. Such treaties provide for lower rates of taxation in certain circumstances.

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- Pursuant to the Agreement between the Government of the Republic of Singapore and the Mongolian Government for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, if a recipient of dividends paid by a Mongolian company is the beneficial owner of such dividends, and is a resident of Singapore and holds at least 25% of the capital of the Mongolian company, the Mongolian income tax payable on such dividends will be 5%. In respect of interest, if a recipient (other than a bank or similar financial institution) of interest paid by a Mongolian company is the beneficial owner of such interest and is a resident of Singapore, the Mongolian income tax payable on such interest will be 10%.
- A value-added tax at a rate of 10% is payable in respect of all goods sold, work performed and services provided within Mongolia. Value-added tax is also payable in respect of goods imported into Mongolia and in respect of certain service fee payments made by Mongolian taxpayers to non-resident service providers. If a legal entity is registered as a value-added taxpayer, it can obtain credits for such tax paid to its suppliers of goods and services and can use such credits to offset value-added, or other, taxes owed in Mongolia. However, the Value-Added Tax Law provides certain conditions which can limit the ability of a legal entity to register as a value-added taxpayer. Additionally, the Value-Added Tax Law was recently amended to exempt all sales of mineral products with the exception of exported “finished mineral products.” Under the aforementioned amendments to the Value-Added Tax Law, the Mongolian Government is to determine the types “finished mineral products”, however no such classification is available as of this date. Effective as of July 16, 2009, any VAT paid by the producer of mineral products cannot be claimed back — i.e. the producer is deemed to be the end-user and must bear the burden of VAT paid to produce such product. Finished products that are exported are, however, zero-rated and VAT paid to produce such products may be claimed back.
- Equipment and other goods imported into Mongolia are also subject to an import duty, generally at the rate of 5%. An additional excise tax is payable on the importation of petroleum products and some motor vehicles.
- Mongolian employers are required to withhold income tax and social insurance fees owed by their employees from salaries payable to such employees, and to make an additional employer payment to the Mongolian social insurance fund. The relevant laws have been substantially revised, and effective from June 16, 2008 participation by foreign citizens in the pension, unemployment, workers compensation and social benefits plans is now mandatory. Participation in the health insurance plan remains optional for foreign citizens. Participation by Mongolian citizens in each of the plans remains mandatory, and pursuant to the recent amendment to the law, participation by independent contractors has also been made mandatory. Payments to the social insurance fund are to be made in respect of all salary, bonus and benefit payments (e.g., housing and transportation allowances) received by the individual. Employees must pay 10% of such total compensation package (to be withheld by the employer), but such percentage will be applied to a maximum compensation amount which is adjusted annually but which is currently set at MNT 1,080,000 per month (i.e., income in excess of this amount is not subject to the 10% assessment). The employer must pay an additional 11-13% (13% in respect of employees engaged in dangerous occupations, such as mining) and such percentage is applied to all compensation paid to the employee with no maximum amount limitation (will be reduced to 9-11% for foreign citizens not participating in a health insurance plan).
- Subsidiaries of the Company operating in Mongolia will be obligated to make other regular payments which do not fall under the above-noted tax laws of Mongolia. For example, fees will be payable in

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respect of foreign citizens employed in Mongolia, for the use of water, for lease payments in respect of land surface rights, for environmental bonding obligations (addressed in more detail above), for annual mineral licence fees and other licence renewal fees, for mineral royalties (addressed in more detail above), and for annual vehicle taxes.

This section does not purport to be a comprehensive description of all tax considerations that may be relevant. Any person wishing to have a detailed summary of the laws and regulations relating to tax in Mongolia, or advice on matters relating to tax in Mongolia, is recommended to seek independent tax advice from a tax consultant.

MONGOLIAN LAWS RELATING TO COAL EXPORT REQUIREMENTS

A Mongolian mining company, holding a valid mining licence, that extracts and processes coal has the right to export and sell the coal on the international market. There is no additional export licence required. There are, however, certain requirements that must be complied with and procedures that must be followed in order to lawfully export coal.

First, a coal mining company must pay the appropriate royalty (addressed in more detail above) and obtain a document evidencing such payment from the relevant tax office. The royalty rate is based on the sales value, which is in turn dependent on a deemed sales price. In order to provide a uniform standard in this regard, the Ministry of Finance and the MMRE have issued a joint order to the effect that the prices to be used in calculating the royalty are those published in *China Coal Weekly*, a publication that is widely accepted as a definitive source of reliable information concerning the coal market in China. Coal is not subject to Mongolian export tax.

Second, the coal producer/exporter must obtain a certificate of origin from the Mongolian Chamber of Commerce and Industry in respect of each shipment of coal. This certificate of origin certifies that the source of the coal is from within Mongolia.

Finally, the producer/exporter must obtain a certificate from the Mongolian National Centre of Standardisation and Measurement certifying that the coal to be shipped is properly classified. A representative from the Centre examines each shipment of coal and attests that it corresponds to a specified class of coal, for example thermal coal or metallurgic coal.

In order to complete the coal export process, the coal producer/exporter must present the three aforementioned documents, along with the following additional documents, to the customs authority at the border crossing:

- a copy of the producer's mining licence (to establish that the coal has been extracted and processed by a duly authorised Mongolian entity);
- a copy of the coal sales contract;
- a copy of the shipping contract; and
- other standard commercial shipping documentation.

MONGOLIAN LAWS AND REGULATIONS RELATING TO LAND TENURE

Land Tenure

Land tenure in Mongolia is divided into: (i) ownership rights; (ii) possession rights; and (iii) use rights. Only Mongolian citizens can own land. Mongolian citizens, organisations and legal entities that are not deemed to be a business entity with foreign investment ("BEFI") are entitled to possess land, which entitles them to pledge their

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interest and to transfer and/or lease it, all subject to approval by relevant authorities. BEFIs may only acquire use rights over land, which may not be transferred, pledged or leased.

Land possession and land use rights are evidenced by certificates issued by the local government authority in the city, aimag (province) or soum (district) in which the relevant property is located. Such certificates are issued in conjunction with a document that provides for the term of the land possession or land use rights and the requirements for maintaining such rights in good standing, most notably the payment of recurring fees to the local government (together a “Land Use Certificate”).

To engage in mining activities the licence holder, if it is a BEFI, must acquire land use rights to the relevant land area. Under the Land Law of Mongolia enacted on June 7, 2002, and effective from January 1, 2003, as the same may be amended and supplemented from time to time (the “Land Law”), land use rights can be granted for a period of up to sixty (60) years, although in practice Land Use Certificates are typically issued for shorter terms. The Land Law provides that renewals may be made once or more than once, but that the maximum term of any renewal may not exceed a period of forty (40) years. The Foreign Investment Law of Mongolia enacted on May 10, 1993, effective from July 1, 1993, and amended August 8, 2008, as the same may be amended and supplemented from time to time (“Mongolia’s Foreign Investment Law”) further provides, in respect of BEFIs, that such renewals may not be made more than once.

Land Use Certificates are issued for a specific number of years and for a specific purpose stated in the relevant land use agreement, and are usually renewable if the holder has complied with relevant requirements. Land possession and land use rights are subject to revocation by the issuing authority if the holder fails to comply with i) applicable provisions of the Land Law, ii) the terms of the relevant Land Use Certificate (most notably failure to make timely payment of recurring land use fees), or iii) applicable environmental protection obligations.

While the law provides for a public registry where parties should be able to confirm the current status of a Land Use Certificate, in practice this registry is not used. It is, however, sometimes possible to obtain written confirmation from the relevant regional issuing authorities as to the current status of a specific Land Use Certificate.

A mining licence is not a real property interest and does not convey either land possession or land use rights to the holder. A mining licence holder must enter into either a land possession or land use agreement with relevant land owners, possessors, or the governing authorities of soums and districts and obtain the Land Use Certificate.

An exploration licence is also not a real property interest and does not convey either land possession or land use rights to the holder. But it is not clear whether an exploration licence holder must obtain a Land Use Certificate before conducting minerals exploration activities. The 2006 Minerals Law does not specifically provide that such holders must obtain such Land Use Certificates — but there has been at least one instance where the State Inspector sought to impose penalties on an exploration licence holder that had not entered into land use and water use agreements prior to conducting exploration activities.

All minerals in the ground are owned by the Mongolian State — i.e. the people of Mongolia. We are the holder of two mining licences to extract and sell the minerals located within the land area covered by the licences, and are entitled to hold them for up to a maximum of 70 years so long as we comply with all applicable legal requirements. We may sell minerals extracted from the relevant licence area, subject to the payment of applicable royalties and income taxes.

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Land Use for Special Needs

The Land Law provides that land can be taken for special needs by the relevant local government body for the purpose of turning the land into: (i) specially protected areas; (ii) lands allocated for ensuring national defence and security; (iii) land granted to foreign diplomatic and consular offices and representative offices of international organisations; (iv) sites reserved for conducting scientific and technological tests and experiments; (v) permanent environment and weather prediction and observation sites; (vi) pastures and hayfields; (vii) areas designated for oil exploration pursuant to production sharing agreements and (viii) free trade zones.

Pursuant to the 2006 Minerals Law, the DGMC may revoke a licence on the grounds that the exploration or a mining area has been designated as special needs territory and the licence holder has been fully compensated.

Mongolia's Foreign Investment Law provides that the property of a foreign investor may be expropriated exclusively for public purposes or interests and only in accordance with due process of law on a non-discriminatory basis and with payment of full compensation.

The 2006 Minerals Law further provides that a government agency which has issued a decision to take the land for special needs shall be obligated to compensate the licence holder. If the parties fail to reach agreement, the amount of compensation shall be determined based on an adequate compensation amount determined by an authorised independent body. The 2006 Minerals Law provides that disputes relating to compensation shall be decided by a court.

MONGOLIAN LAWS RELATING TO FOREIGN INVESTMENT

Where twenty-five percent (25%) or more of the paid-in-capital of a Mongolian company is contributed from foreign sources, such company is deemed to be a BEFI and the company must register with the Foreign Investment Department (the "FID"), a department within the Ministry of Foreign Affairs and Trade, and obtain a document certifying the company's status as a BEFI.

Mongolia's Foreign Investment Law defines the BEFI concept and provides for the duties and powers of the FID. In August 2008, Mongolia's Foreign Investment Law was amended to increase the minimum paid-in capital requirement for BEFIs from the equivalent of US\$10,000 to the equivalent of US\$100,000. In addition, the amendments expand the regulatory authority of the FID, giving it greater bureaucratic discretion in registering and supervising the operations of BEFIs. The FID may now terminate the BEFI status of, or order the cessation of activities by, any BEFI that the FID determines has not met various specified requirements or is deemed by the FID to have violated Mongolian laws.

MONGOLIAN LAWS RELATING TO PAYMENTS FOR GOODS AND SERVICES IN LOCAL CURRENCY

The newly enacted Law of Mongolia on Implementing Payments in National Banknotes provides that (i) all posted tariffs and contracts between two parties within the territory of Mongolia must be stated in MNT; (ii) all payments made between two parties within the territory of Mongolia must be made in MNT; and (iii) parties within the territory of Mongolia are prohibited from including an adjustment mechanism in the terms of a contract that adjusts the agreed MNT price based on changes in foreign exchange rates. The Law of Mongolia on Implementing Payments in National Banknotes does not prohibit an offshore party and a Mongolian party from transacting in the currency of their choice, nor does the law prohibit a Mongolian party from paying into an offshore account or being paid in an offshore account in foreign currency.

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Penalties for non-compliance with the Law of Mongolia on Implementing Payments in National Banknotes include confiscation of the proceeds of an illegal payment by the State, other administrative fines and revocation of a non-complying business's operating licence.

MONGOLIAN LEGAL MATTERS

Lynch & Mahoney, the Company's legal counsel on Mongolian law, has issued a letter of advice confirming that it has reviewed the summaries of Mongolian laws and regulations relating to the industry as contained in this prospectus and that, in its opinion, they are correct summaries of relevant Mongolian laws and regulations. This letter is available for inspection as referred to in "Appendix VIII — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Available for Inspection" in this prospectus. Any person wishing to have a detailed summary of Mongolian law or advice in relation to Mongolian laws and regulations relevant to the mining industry, or advice on the differences between it and the laws of any other jurisdiction is recommended to seek independent legal advice.