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 Parliament of Mongolia enacted the 2006 Minerals Law, superseding and replacing the 1997 Minerals Law. The 2006 Minerals Law became effective as of August 26, 2006.

The Parliament of Mongolia 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 licenses granted under the 1997 Minerals Law.

Under the 1997 Minerals Law, exploration licenses 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 Center. To remain effective, all exploration licenses 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 December 2008, the Government of Mongolia again modified its minerals-related organizational 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 license rights under the 2006 Minerals Law. Pledges and transfers of exploration licenses 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 license certificate. The DGMC does not maintain records of other liens or encumbrances to which a license 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 licenses 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 the JORC Code.

Mongolian Exploration Licenses

The holder of an exploration license has rights to access the license 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 license area and, if a mineral resource is defined by exploration activities, to apply for a mining license for any part of the exploration license area. Pursuant to the 2006 Minerals Law, exploration licenses granted on or after August 26, 2006 have an initial term of three years. The holder of such an exploration licenses may apply for an extension of the license for two successive additional periods of three years each. Thus, the maximum period that an exploration license may be held by one or more holders is nine years from the date of issue. Exploration licenses 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. Holders of such exploration licenses 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 license is subject to cancellation if applicable license 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 licenses.

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

Year	Annual fee per hectare
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$1.50 each year

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

Year	Annual amount per hectare
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 license will have expired.

Exploration license holders are also subject to various environmental protection obligations. Within 30 days of receiving an exploration license, 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 license 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 license area is located. Holders of exploration licenses 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 license holder must extract all of the mineral reserves that are within the license 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 recognized and understood. It is unclear what consequences, if any, may follow from non-compliance with this provision.

Mining Licenses

If a commercially viable mineral resource is defined within the license area of an exploration license, the holder of the exploration license is entitled to apply for a mining license covering the relevant portion of the license area of the mineral exploration license defined by specified longitude and latitude coordinates. A mining license holder has the right to conduct mining activities throughout the license area and to construct structures within the license area that are related to its mining activities. All such activities must be conducted in compliance with the 2006 Minerals Law and relevant Mongolian laws pertaining to health and safety, protection of the environment and reclamation. Mining licenses 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 license, the license and the rights under such license revert to the Government of Mongolia. Only Mongolian legal entities are entitled to hold mining licenses. In the case of all minerals other than coal and common construction minerals (e.g., sand and gravel), annual license fees of US$15.00 are payable per hectare of the relevant mining license area. In the case of coal and construction minerals, the per hectare fee is US$5.00. A mining license is subject to cancellation if applicable license 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 license, an exploration license holder must submit an application to MRAM together with, among other documents, an environmental impact assessment and a resource report. Holders of mining licenses 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 license 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 must be completed, mine facilities must be developed, and the mine must be brought into production.

Local Government Approval of Exploration Licenses and Mining Licenses

Pursuant to the Mongolian Licensing Law, the granting of each exploration license and mining license by MRAM must be approved by the governor of the aimag (province) in which the relevant license area is located. The 2006 Minerals Law also provides that the holder of an exploration license has an exclusive right to obtain a mining license covering all or any relevant portion of the exploration license area. As a result of the above-noted Mongolian Licensing 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 license, he must submit his reasons to MRAM within thirty days following receipt of notice of the license 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 license application. If the aimag governor does not timely submit his reasons for denial of the granting of the license, 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 license, but that the Mongolian Licensing Law requirements clearly apply to both exploration licenses and mining licenses. It is not clear how these issues will be resolved in the case of mining licenses.

Approval to Commence Mining Operations

Pursuant to the 2006 Minerals Law, before a mining license 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 license holder that proposes to put a mine into operation. The Commission consists of the following 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 license 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 license;

- a Mongolian-law compliant feasibility study 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 license holder.

Deposits of Strategic Importance

Either the Government of Mongolia 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 Government of Mongolia is empowered to participate on an equity basis with the license holder in the exploitation of each Mineral Deposit of Strategic Importance on terms to be negotiated between the Government of Mongolia and such license 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 GDP in any given year.

Pursuant to Parliament Resolution Number 27 dated February 6, 2007, the Parliament has published the Strategic Deposits List, which identifies 15 deposits as Mineral Deposits of Strategic Importance (the "Strategic Deposits List"). Resolution Number 27 also identifies a further 39 deposits in the Tier 2 Deposits List (the "Tier 2 Deposits List") and instructs the Government of Mongolia to further evaluate such deposits and determine if one or more of such deposits should be recommended by the Government of Mongolia 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 Government of Mongolia to complete negotiations and finalize the status of those 54 deposits currently identified before it designates further Mineral Deposits of Strategic Importance.

The 15 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. License areas, on the other hand, are precisely defined by coordinates. Thus, it is not feasible to definitively determine whether or not any given license area is within -or overlaps – a Mineral Deposit of Strategic Importance.

Funded from the State Budget

During the 1970s and 1980s, teams of geologists from the former Union of Soviet Socialist Republics ("USSR") 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 license holder.

Under the 2006 Minerals Law, the encumbrance issue may be claimed to have been addressed by the payment of these costs by the license holder.

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 decisions that are rather arbitrary.

Primarily during the 1970s and 1980s, state funds were used by Russian-Mongolian scientific teams to conduct some of the exploration activities of our deposit. On September 12, 2008, we entered into an agreement with the MRAM. This agreement which required us to repay US$1.2 million, the amount used in connection with the exploration activities of our deposit, within five years of the date of the agreement. In the year ended December 31, 2008, we repaid US$0.3 million and in the six months ended June 30, 2010, we repaid the remaining of US$0.9 million to the MRAM.

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 Government of

Mongolia and the license 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

Investment Agreements

A mining license 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 license 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 license holder's investment. On April 27, 2010, we applied for an Investment Agreement with the Government of Mongolia. Under Article 30.3 of the 2006 Mining Law, the State will draft the agreement and required documents and review issues. The timing of the draft and review are at the State's own discretion. As of the Latest Practicable Date, we were waiting for a response from the Government of Mongolia relating to our application for an investment agreement. We anticipate that the major terms of the investment agreement will include the following matters: stability of tax rates, the right to sell products at international market prices, a guarantee that we may receive and dispose of income from such sales at our own discretion, and provisions with respect to the amount and term of our investment. While we voluntarily applied for an investment agreement, we do not believe an investment agreement is essential for our future development and prospects as these agreements are normally entered into by mine developers that are at a very early stage. The key concerns of a company in the early stages of development, which are generally covered by investment agreements, are no longer our significant concerns. As our operations have developed without such an investment agreement in place, an investment agreement at this stage would be beneficial but not necessary for our future development and prospects. Without signing the Investment Agreement, we are still free to sell our products at market prices and receive and dispose our income from such sales.

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

Minimum investment (US$)	Agreement term
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 price of all products extracted pursuant to a mining license (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 Licenses and Mining Licenses

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

In accordance with the 2006 Minerals Law, the holder of a mining license may not sell the license itself. The holder may, however, sell "the mine, together with its machinery, equipment and documents" that is located within the relevant license 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 license, but for no consideration.

Law on Subsoil was adopted on November 29, 1988. In addition to the 2006 Mining Law the Law regulates certain relation regarding use and protection of subsoil. As in the constitution the Law provides that the subsoil is in the ownership of the Government or the whole nation (Article 3).

The Law on Subsoil has typical provisions and powers of the State Great Hural, the Government, the Ministries in charge of geology, nature and environmental issues, powers of the local governments. In addition to mining and geological exploration, the subsoil may be used for building facilities underground including burying of oil, gas, other poisonous substances and industrial waste or waste water drainage system. Local governments shall provide license to use the subsoil depending on the nature of the project. As in the 2006 Mining Law the subsoil shall be allocated for use for duration of 30 years extendable for another 20 years (Article 19).

Chapter 3 provides requirements and procedures regarding development of design and building facilities underground and plants that would be used for mining minerals. Even though Article 10.2 states that the relations regarding exploration and mining of minerals from the subsoil shall be regulated by the 2006 Mining Law, Chapter 4 provides clauses regarding the procedures of using the subsoil for purposes of mining minerals and it deals with the equipment, procedures for the entity to mine the subsoil, and requirements to the legal entity during the mining operations that will include such requirements as the effective and full use of the deposit and imposing obligations not to selectively mine (Article 32.1 and 32.2), not to damage the deposits laying in the neighborhood of the mine site (Article 32.5) and general requirements for rehabilitation, ensuring safety of the employees and the population in the area (Article 32.8).

Chapter 5 deals with the use of subsoil for purposes other than the mining or for minerals. Chapter 6 deals with the safety aspects of the subsoil use and Chapter 7 deals with the protection of the subsoil. Chapters 8 and 9 deal with the maintaining minerals reserve and registration of deposits and monitoring the use of subsoil, protection and geological studies conducted in the subsoil. Chapter 10 deals with the dispute resolution.

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.

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 Government of Mongolia 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 license holders. Under the 2006 Minerals Law, mineral rights are divided into exploration and mining rights, each with separate licensing and attendant environmental protection requirements.

In addition to those duties imposed on them by the EPL, mining license holders are required to prepare an initial environmental impact assessment analysis before the mine comes into production. The mining license 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 license 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 license 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 license holder having complied with its obligations under the environmental protection plan. The 2006 Minerals Law further provides that, in the event a license holder fails to fully implement any of the measures outlined in the environmental protection plan, the relevant authority shall use the funds deposited with it as part of the environmental protection budget to implement those measures and the license holder shall provide any additional funds required.

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

- MNT500,000 – 1,000,000 fine for failure to comply with legitimate requirements imposed by an authorized Mongolian state inspector regarding the elimination of deficiencies discovered in the course of an inspection. Current information on exchange rate between Mongolian national currency togrog and major international currencies may be found on following link: http://www.mongolbank.mn/web/guest/statistics/exchange-rates;

- in the event a license holder continues to be in violation of the EPL or the 2006 Minerals Law, the exploration and mining activities of the license holder shall be suspended for up to two months, and if the deficiencies are not eliminated within this period, the relevant minerals license may be revoked; and

- if a mining license 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 license shall be revoked and no license shall be issued to such holder for 20 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 Government of Mongolia has been directed to determine the boundary lines of the prohibited areas by mid- October 2009. New exploration licenses and mining licenses overlapping the defined prohibited areas will not be granted and previously granted licenses that overlap the defined prohibited areas will be terminated within five 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 license holders shall be compensated, but there are no specifics as to the way such compensation will be determined. The implementation of this law is not expected to affect the operations at our UHG mine. As of March 1, 2010, the MRAM, the government body in charge of identifying the exploration and mining licenses affected by the Mining Prohibition in Specified Areas Law, had identified 214 mining licenses and 901 exploration licenses to be terminated pursuant to the aforementioned law. However, our mining license was not included on this list.

The Law on Special Permit for Business Activities (hereinafter the license in Law) was adopted on February 1, 2001. The Law provides for governing relations regarding granting, suspending and revoking special permits for certain business activities that may have impact on the public interest, human health, environment and national safety or that may require certain conditions and qualification. However in the Article 2.3 of the Law it states that licenses to be granted under the Laws on the Land, on Subsoil on Specially protected territories and natural plants, on Games and hunting, on Flora and forest, on Water, on Endangered species, trading with the species or with items originating from them, on Minerals, on Nuclear energy and on Modified live organisms shall be governed by those Laws.

According to Article 6.1 the licenses usually are granted not less than three years unless otherwise stated by the Law and the licenses are extendable for the same terms as initially are granted. According to the Article 6.3 of the Law unless otherwise stated by Law and conditions specified in the Article 13.1 of the Law are not discovered the term of the license shall be extended within 3 working days upon application of the license holder. Article 7 of the Law provides procedures for granting the licenses and according to the Article 7.1 the licenses are usually granted by the central administrative body unless otherwise specified by Law. Central administrative bodies usually mean ministries. However according to Article 7.3 detailed procedures for governing special licenses shall be regulated under the relevant industry Laws. Article 12 provides procedures for granting license for the first time and unless otherwise specified by Law the licensing authority shall grant the license within 21 working days upon receiving the application. If the licenses refused the reasons for the refusal shall be explained in writing. The license authority also has the power to have a relevant organizations to verify

the documents submitted to the granting the licensing authority. In case if the term, conditions and requirements of the licenses are violated then the initially granting authority may suspend the license up to 3 months term based on the expert opinion of the professional inspection of the authority. Under/on the Article 14 of the Law on following occasions a license may be revoked:

14.1.1 The license holder requested so.

14.1.2 The legal entity has been liquidated.

14.1.3 It was determined the documents were falsified when applying for the license.

14.1.4 The conditions and the requirements of the license were violated repeatedly or seriously violated.

14.1.5 The demand to remedy the violations were not remedied during the suspension period of the license.

Article 15 of the Law lists the type of business activities that require special permits or license that include:

15.6.2 Protection of poisonous or dangerous chemical substance other than explosive material.

15.6.3 Importing exporting transporting over the border use trading and liquidation of poisonous chemical or dangerous substances.

15.6.5 Discharging polluting substances acceptable amount of which is not determined under the standards.

15.6.6 Conducting detailed environmental impact assessment, importing, trading and servicing poisonous chemical or dangerous substance that may negatively impact the environment.

15.8.2 Construction of electricity power source or a transmission line a production of electricity transmission dispatching coordination distribution and supply and sales of electricity. Assembly and maintenance of boilers pressure tanks and park lines.

15.10.4 Production of explosive substance and explosive equipment for explosions and conducting explosions.

15.15 Minerals exploration.

15.16 Minerals mining.

15.10.1 Activities related to oil.

15.10.3 Production and wholesale and trade of oil products.

15.14.6 Designing construction and facilities, conducting construction activities production of construction material and production assembly and maintenance of lifting equipment and its spare parts.

15.15.1 Construction and use of railway base structure.

15.15.2 Conducting civil aviation operation.

15.15.3 Conducting railway transportation activities.

15.15.4 Construction and maintenance of after road and road facilities.

15.15.6 International and intercity public transportation postal and tourist transportation and international cargo transportation.

15.15.11 Production assembly and maintenance of railway base structure and rolling stock.

15.16.1 Using radio wave and setting up communication service network and its use and provision of services.

The Law on Environmental Impact Assessment was adopted on February 22, 1998. The purpose of this law is to govern relations regarding the environment protection prevention of ecological imbalance coordinating use of mineral resource, assessing environmental impact projects and making a decision to whether implement the projects.

The general environmental impact assessment shall be made for projects that include construction of new plants, service, building facility or expansion of existing such premises or other projects that would use natural resources and preliminary impact that the projects would cause to the environment shall be assessed during such assessment. For mineral resources mining projects obtaining land, possession or use rights or implementing a project the environmental impact assessment shall be obtained beforehand. The local environmental monitoring inspector, the citizen's representative's hural's and the presidiums of aimag, capital city, soum and district shall monitor whether the environmental impact assessment has been conducted for any projects that are being implemented by the citizen's legal entities and organizations.

The Ministry of Nature and Environment shall approve the methodological instructions for conducting environmental impact assessment for a project. The (Article 4.5) impact assessment shall be conducted by an expert within 12 working days and shall include conclusions on following matters:

4.6.1 Whether it's possible to implement the project without conducting detailed environmental impact assessment.

4.6.2 Whether it's possible to implement the project with certain conditions and terms.

4.6.3 Whether it's necessary to conduct environmental impact assessment.

4.6.4 To return projects that do not comply with the Laws and regulations or equipment and technology to be used deter mental to the environment or the project is not included in the general land organization plan.

Once its considered that detailed impact assessment is necessary then legal entity that this license according to Article 9 shall conduct the assessment. And Article 5 of the Law provides the components of the environmental impact assessment report. Under the Article 6.3 of the Law any organization that is implementing a project but (no including mining project) shall deposit not less that 50% of the funds to be used a given year for environmental rehabilitation activities. Once a detailed environmental impact assessment report is complete the report shall be submitted to the Government authority that has conducted the general impact assessment and an expert of the authority shall review the assessment within 18 working days (Article 7.2). The central administrative authority in charge of environmental matters shall resolve whether to allow the project implementation based on the expert opinion of the environmental impact assessment and also the comments of the citizen's of a place where the project is to be implemented (Article 7.3).

The Railway Transportation Law was on adopted on June 5, 2007 and the purpose of the Law is to define the principles of the railway transportation operation and to govern relations regarding ensuring safety of the railway traffic. According to the Article 4 of the Law this Laws shall govern all types of railway transportation operation irrespective of the type and form of ownership.

Article 5 lists the principles that shall apply to the railway transportation operation which are:

5.1.1 There should be unified coordination of a schedule

5.1.2 There should be permanent monitoring

5.1.3 Access quality and safety of the services should be ensured

5.1.4 The operation shall be uninterruptible

5.1.5 Market competition condition shall be created

5.1.6 Operations with other transportation industry shall be coordinated

Article 6.2 states that a railway base structure may be created with a condition that the railway is owned by a legal entity of state property or prevailing state property or to be transferred to the ownership of such an entity after a certain period of usage and this railway base structure shall have significant importance for the economy and the society of the nation and alignment of such a railway base structure and railway shall be determined by the Government. Article 7.1 states that the railway transportation services, fees and tariffs of the railway entity related to natural monopoly and market dominating works and services shall be set according to this Law and Law on prohibiting unfair competition.

Article 7.2 of the Railway Transportation Law states that international transportation tariff shall be set according to international agreement to which Mongolia is a party. And according 7.3 any changes in tariffs shall be published to the general public not less than 10 days before such change become effective.

According to Article 9.1.2 the Government shall grant and revoke the license to build railway base structure whereas the Government's administrative authority in charge of railway transportation matters shall grant extend the term suspend or revoke licenses for use of base structure railway transportation operation and production assembly maintenance of railway base structure and rolling stock (Article 12.4.4).

According to the Article 13 of the Railway Transportation Law there shall be railway transportation Monitoring Department who shall implement the administrative monitoring of the safety of railway, transportation quality of such services, labor protection and safety.

Under Article 13.5.3 of the Law the Monitoring Department has the power to limit or suspend use of railway object in case of potential conditions for accident and defaults. The Department also has the power to propose to relevant authorized body to suspend or revoke the license and related certificate (Article 13.5.5). A cording to Article 15 of the Law the Railway Authority shall approve the package of general procedures.

Article 16 of the Law describes the types of railway licenses and also provides procedures for issuing such licenses especially in Article 16.4 (verification of an application by the Government administrative body), 16.5 (verification and opinion of the central Government administrative body regarding certain issues), 16.6 (allowing the applicant an opportunity to extend the term of the application review due to need to comply with additional requirements), 16.7 (the Government administrative body making a decision of either granting the license or refusing to grant the license), 16.8 (the Government administrative body (the RAM) review the application within 14 days and shall submit its opinion to the central Government administrative body (the Ministry)), the relevant authority shall review and make a decision on grating the licenses within 21 days (except the railway base structure construction license which requires 45 days) and if necessary may extend the term another 14 days. In Article 16.10

it is stated that the license holder shall apply 21 days before expiry of the license term to the authorized body, and that body shall resolve the extension of the license term within 14 days. Any response in respect to granting or refusing to grant a license shall be provided in writing within the timeline provided by this Law (16.11).

The Law on Water was adopted on April 22, 2004 and the purpose of the Law as stated in the Article 1 is to govern relations regarding proper use of water and water bed area protection and rehabilitation. Article 19 of the Law provides Water Bed Area Council, which according to Article 19.1 shall be set up for purposes of involving local population in management of the local water in order to protect, restore properly and use the water resources. Article 23 titled 'Water user' states in the paragraph 23.1 that any citizen, legal entity or organization shall obtain the right to use the water with entering an agreement and obtaining the permission. According to Article 23.2 the agreement to use water shall be entered for the term of 20 years and as long as the user complied with its obligations then the agreement can be extended for another 5 years. The Articles 24-28 deals with the requirements for the water user and procedures for entering into water use agreement and granting the permission to use water. Chapter 4 deals with the protection of water resources its quality and rehabilitation of environment. Chapter 5 deals with the requirements to be imposed on water use facilities such as approval of the design construction and use of the facilities.

Law on Energy was adopted on February 1, 2001. The purpose of the Law is to govern the relations regarding production, transmission, distribution, dispatching coordination and services using energy reserves and construction of energy infrastructure and use of energy. Chapter 2 deals typically with the Government powers including the State Great Hural, the Cabinet, the Ministries and local Governments regarding the policy determination and enforcement of the Law on energy. Chapter 3 deals with the special permits or licenses to be granted under this Law:

12.1.1 Production of energy

12.1.2 Production of heat

12.1.3 Transmission of electricity

12.1.4 Transmission of heat

12.1.5 Providing dispatching coordination

12.1.6 Distribution of electricity

12.1.7 Distribution of heat

12.1.8 Regulated supply of energy

12.1.9 Unregulated supply of energy

12.1.10 Importing and exporting electricity

12.1.11 Construction of energy related buildings and facilities

Chapter 4 deals with the setting of price and tariffs. Chapter 5 deals with the relations between the supplier and consumers and Chapter 6 deals with the monitoring and imposing liabilities under the Law.

The Law on Construction was adopted on February 15, 2008. The purpose of the Law is to govern the relations regarding development of design for buildings and facilities, production of construction material, use of construction works and rendering technical supervision over construction works. Under Article 3.1.4 (Definitions) it is stated that the "building and facilities" shall mean accommodation, buildings for public and industrial use, facilities for energy communication, roads, bridges, water channel, dams and shields and other engineering networks built by a licensed legal entity based on design and drawing accredited and developed according to construction norms and rules.

Chapter 2 deals with the powers of the Government institutions including the State Great Hural, the Government, the Ministry and local Governments. Chapter 3 provides clauses regarding requirements to be imposed on design, construction material, product and construction agreements for building facilities and accrediting construction design. Chapter 4 provides for rights and obligations of investor, client, contractor, and designer and construction material producer. Chapter 5 provides requirements to be imposed on use of buildings and facilities and also norms and normative documents, registration and information regarding buildings and facilities.

The Law on Protection of Nature and Environment was adopted on March 30, 1995. The purpose of the Law is to govern the relations regarding ensuring the right of a human being to live in healthy and safe environment, to coordinate social and economic development along with the environmental balance, to protect the nature and environment for the interests of the current and future generations, to properly use natural wealth, and restoring the possible natural wealth. Article 7.2 of the Law states that any citizen, legal entity or organization that is willing to use natural wealth for industrial purposes shall have the environmental assessment conducted for its own costs or if such assessment has been already done then shall pay for the related costs. Chapter 3 of the Law deals with the powers with the Government organizations including the State Great Hural, the Government, The Ministry and local Governments. Chapter 4 describes actions for protecting nature and environment, using natural wealth and rehabilitation works.

Chapter 5 deals with the environmental inspection and monitoring including the powers and the obligations of the environmental inspectors. In the Article 27.1.10 it is stated that the environmental inspector shall have the right to purpose and authorized body to revoke or suspend licenses, permissions and other rights of legal entity and organizations who has caused damages to the nature and environment due to violations of Laws, regulations and the technology. In the Article 27.1.3 the inspector also has the right to suspend operations of

citizens, legal entities and organizations who have negatively impacted nature and environment due to violations of the Laws, regulations, standards and acceptable levels. Chapter 6 deals with the obligations of legal entities and organizations with respect to protection of nature and environment and the natural wealth. Chapter 7 deals with the form of the information regarding nature and environment.

Law on Monitoring Explosive Substances and Turnover of Explosion Equipment was adopted on May 6, 2004. The Law deals with the detailed procedure insuring safe operation dealing with explosive substances and explosion equipment. Chapter 3 of the Law deals with the data pool regarding explosive substance and explosion equipment. Chapter 4 deals with the supervision of the substances and equipment.

The Law on Poisonous Chemicals and Dangerous Substances was adopted on May 25, 2006. This Law has the same importance as the Law on Explosive substances and Explosion Equipment.

The Law on Arbitration was adopted May 9, 2003. According Article 3 (Scope of the Law) it is stated that the decisions of foreign arbitration shall be acceptable in Mongolia and enforcement actions shall be regulated according to the New York Convention of 1958 on acceptance and enforcement of decision of the foreign arbitration and Chapter 8 of the Law (Article 3.2).

List of Other Applicable Mongolian Laws

Law on Auto Road was adopted on January 2, 1998.

The Law on Renewable Energy was adopted on January 11, 2007.

The Law on Auto Transportation was adopted on June 4, 1999.

The Law on Civil Aviation was adopted on January 21, 1999.

The Law on using Air Space for Aviation was adopted on May 30, 2003.

The Law on Water Way Transportation was adopted on November 20, 2008.

The Law on Foreign Investment was adopted on May 10, 1993.

The Law on Free Economic Zone was adopted on June 28, 2004.

The Law on Legal Status on Zamyn-Uud Free Economic Zone was adopted on June 20, 2003.

Mongolian Laws and Regulations Relating to Labor, 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 labor, health and safety.

Labor legislation in Mongolia includes the Law on Setting up Minimum Labor Wage (1998) according to which the Government (Cabinet) shall set the minimum labor wage based on comments provided by the national organization that would represent the interest of the employers and all the workers. The minimum labor wage shall be renewed at least once a year.

Law on Labour provides general provisions and detailed provisions regarding collective bargaining and contract, detailed clauses regarding independent contract and provisions regarding the grounds for terminating employment agreement, provisions governing wage and allocation of wages including the overtime, holiday and afterhours wages or day-off time, provisions regarding the labor condition, safety and health standards, the labor of women, juveniles, disabled and senior citizen's and foreign citizens in Mongolian entities. The Law also deals with the collective and individual dispute resolution.

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 Labor is responsible for adopting regulations governing labor 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 average salary of the employee. If the employee died as a result of the accident, 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 authorized 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 labor safety and sanitation requirements are satisfied. Additionally, failing to comply with labor 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 license holder must carry out activities that ensure i)

safety for the citizens of the relevant soum or district and ii) labor safety and proper sanitary conditions for its employees. The license holder must also submit an annual report on safety to the State Professional Inspection Agency and MRAM.

If a license holder is found to have continually violated mining operation safety regulations, its license(s) may be suspended by a State inspector for up to two months, and if the deficiencies are not eliminated within this period, the license(s) may be revoked. If a mining license holder causes serious damage to human health through failure to implement safety rules and appropriate technical standards while using toxic chemicals and substances, its license may be revoked and no new license 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 Government of Mongolia, 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 Government of Mongolia'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;
- 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.

Law on Sending Work Force Abroad and Accepting Work Force and Specialists From Abroad was adopted on April 12th 2001. As the Article 1 states the purpose of the Law is to govern the relations regarding sending Mongolian citizens abroad and accepting foreign citizens to Mongolia for the purposes of employment and for protecting their right and interests.

Chapter 2 and the especially Article 7 deals with the general conditions of a contract under which the work force and specialists are received in Mongolia and according to the Article 9, business entity, organization or individual citizens shall pay a fee equal to two times of the minimum monthly wage for a accepting a foreign citizen to employment in Mongolia and that fee is per month per each foreign citizen. Article 9.3 of the Law states that if a mining license holder employs foreign citizens in numbers more than stated in Article 43.1of the Mining Law than the fees stated in the Article 43.2 of the same Law shall be paid each month. (Article 43.1 of the Mining Law states that the license holder is obliged to employ the citizens of Mongolia and up to 10 percent of the employees may be foreign citizens. Article 43.2 provides that if the number of foreign citizens employed exceeds the percentage set forth in Article 43.1 the license holder shall pay 10 times the minimum the monthly salary for each foreign citizen every month.)

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 MNT3 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 Government of Mongolia 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% that is withheld by the payer. 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. Such treaties provide for lower rates of taxation in certain circumstances.

- Pursuant to the Agreement between the Government of the Republic of Singapore and the Government of Mongolia 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," which are zero-rated. Under the aforementioned amendments to the Value-Added Tax Law, the Government of Mongolia is to determine the types "finished mineral products," however no such classification is available as of this date. Effective as of July 21, 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. It should be noted that value-added tax is also imposed on them.

- 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 May 8, 2008 participation by foreign citizens in the pension, unemployment, workers compensation and social benefits plans is now mandatory. Participation in the health insurance plan is mandatory 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 US$770 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.

- Company and Company's subsidiaries 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 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 license fees and other license 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 license, that extracts and processes coal has the right to export and sell the coal on the international market. There is no additional export license 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 in turn is 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 coking 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 license (to establish that the coal has been extracted and processed by a duly authorized Mongolian entity);
- a copy of the coal sales contract;
- a copy of the shipping contract; and
- other standard commercial shipping documentation.

In compliance with these requirements, since the commencement of our coal exports, we have obtained and submitted all the necessary documentation for each of our 14 customers.

Mongolian Laws Relating to Borrowing and Lending Activities

The Civil Code of Mongolia allows citizens, legal bodies and organizations to borrow money or other property in two ways: from other citizens, legal bodies or organizations or from banks or financial institutions. Article 281.1 of the Civil Code regulates the regular loan relationship between legal bodies while Article 451.1 of Civil Code regulates loan relation between legal bodies and banks or financial institutions. There is no restriction in the laws and legislation of Mongolia on borrowing from any individual, who might be considered a connected persons of the borrower.

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, organizations 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 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 license 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 May 29, 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 license is not a real property interest and does not convey either land possession or land use rights to the holder.

A mining license 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 license 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 license 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. All minerals in the ground are owned by the Mongolian State – i.e. the people of Mongolia. The holder of a mining licenses is entitled to extract and sell the minerals located within the land area covered by the license, and is eligible to hold them for up to a maximum of 70 years so long as it complies with all applicable legal requirements. We may sell minerals extracted from the relevant license area, subject to the payment of applicable royalties and income taxes. The mining license will be issued at first for 30 years and is extendible two times for 20 years each.

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 license on the grounds that the exploration or a mining area has been designated as special needs territory and the license 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 license holder. If the parties fail to reach agreement, the amount of compensation shall be determined based on an adequate compensation amount determined by an authorized 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 and Foreign Trade Agency ("FIFTA"), a department under the umbrella of 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.

After the Reorganization, we will be deemed a BEFI and will therefore be required to register with FIFTA as a BEFI. We intend to complete our FIFTA registration by the end of 2010.

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.

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 license.

Mongolia-China Bilateral Treaties

There were several bilateral agreements between Mongolia and China.

Mongolia-China Border Railroad Agreement: The agreement has been entered between the Ministry of Infrastructure Development of Mongolia and ministry of railroad of the People's Republic of China on October 17, 1955 in Ulaanbaatar, Mongolia. The agreement is

only has a few provisions such as traffic conditions of trains, procedure on arrangement of the cargo and transportation plans, telegraphic and telephone communication between the 2 parties the adherence to the time schedule, terms and procedures to use the opposites of the boarder stations, and constructions of roads and stations, staying of railroad employees in the other parties territory, procedure for serving trains interchange operations, traffic interruption, maintenance of rolling stock and railway, procedures during accident and breakdown issues regarding passenger transportation cargo transportation, responsibilities of the parties for any damages the transportation of spare parts material communication issues.

The agreement also has a number of rules and procedures mainly for coordinating train traffic Zamyn-Uud and Yerlian boarder stations. And procedure on maintaining a log book on both sides procedures on mutual warning on traffic and other necessary events procedures on passing for employees from both sides and their staying on the other territory of the other side. The agreement also has numerous forms for notification and log maintenance.

The Agreement on Friendly Relations and Cooperation between Mongolia and China was ratified by the State Great Hural on July 4, 1994 (the agreement was signed on April 29, 1994).

The InterGovernmental Agreement between Mongolian Government and the Government of the People's Republic of China on Protection and Use of Border Area Water which was signed on April 29, 1994 was ratified by the State Great Hural on January 3, 1995.

Finally on June 9, 2006 the State Great Hural ratified InterGovernmental Agreement between the Government of Mongolia and the Government of the People's Republic of China signed on November 28, 2005 titled 'General Loan Agreement' regarding usage of export soft loan for the amount of US$300 million.

Mongolian Legal Matters

Economic & Legal Consultancy LLC, our legal advisors as to 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". 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.

Our beliefs on matters stated in this section are based on the legal opinion of our Mongolian legal advisors.