

STABILITY AGREEMENT

Pursuant to Articles 20 and 21 of the Minerals Law of Mongolia and to guarantee a long term stable activity environment, this Agreement is entered into by and between the Government of Mongolia, represented by Minister of Finance of Mongolia (the Minister) and Boroo Gold Company Limited (the Company) which has been established under the laws of Mongolia, has certificate of registration No 21/498 and the holder of the mining license No A-32, under the requirements of Mongolian legislation.

Article 1. Subject Matter

- 1.1 This Agreement regulates relations with respect to legal guarantees to provide a stable tax regime, free sale and export of products at international market prices and free use of hard currency derived from such sales from the entire period of mining the "Boroo" gold deposit located in Bayangol sum of Selenge aimag of Mongolia by the Company.

Article 2. General Provisions.

- 2.1 The amount of the initial capital to be invested by the Company, holder of a mining license, during the first five (5) years of the particular project on the territory of Mongolia shall be no less than fifteen (15) million US dollars.
- 2.2 The Company will be exempted from the income tax for the first three (3) years from the commencing date of its production and be entitled to fifty (50) percent tax relief for the following three (3) years period. For the following years, the Company will pay fifteen (15) percent tax for the annual taxable income of up to 100,000,000 tugriks, plus forty (40) percent for the amount which exceeds 100,000,000 tugriks. The custom duties for imported goods shall be set at zero (0) percent and the VAT (or similar) tax on imported and domestically sold goods shall be set at ten (10) percent which are the rates established by the legislation effective at the date of this Agreement.
- 2.3 If the Company exports its goods, the export taxes shall be set at zero (0) percent and VAT taxes for export shall be set at zero (0) percent. If the Company extracts gold and sells it to Mongolbank or any other commercial bank on the territory of Mongolia, it shall pay VAT (or similar) tax of ten (10) percent.
- 2.4 The royalty to be paid by the Company shall be set at the rate specified in the Law regulating the minerals relations effective at the date of this Agreement.

- 2.5 In exporting its products, selling them at international market prices and using the hard currency income derived from such sales, the Company shall be granted the same rights and conditions as enjoyed by Mongolian citizens and legal persons.
- 2.6 This Agreement will be terminated, if the Company fails to complete performance of its obligations on investment as specified hereunder in paragraphs 4.2, 4.3 within the period exceeding six (6) months.

Article 3. Term

- 3.1 The term of this Agreement is from July 6, 1998 until July 7, 2008 for ten (10) years.

Article 4. Duties and Rights of Company (Individual)

- 4.1 The Company shall fully perform its obligations under this Agreement and comply with the legislation of Mongolia.
- 4.2 The Company shall invest in Mongolia no less than fifteen (15) million US Dollars during five (5) years following the signing of this Agreement.

The investment may take the forms of cash, technology, equipment, raw materials or goods.

- 4.3 The investment shall be made according to the following schedule:

No	Date Month/Year	Amount of Money (thousand USD)	In Monetary Form	In Other Forms
1	July 1999	1,000	500	500
2	July 2000	14,000	4,000	10,000
3				
4				
5				
	Total Amount	15,000	4,500	10,500

If the Company invests more than it has planned to invest for a particular year, the excess amount shall be included into the next year's investment.

- 4.4 Within a month following the anniversary of this Agreement, the Company shall prepare an annual investment report for the intervening year based on the form to be provided by the Ministry of Finance and, following its review by the Natural Resources Authority, deliver the report to the Minister of Finance.

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- 4.5 The Company shall initially deposit its profits derived from the sale of its products in an account opened at a commercial bank operating on the territory of Mongolia.
- 4.6 If, as a result of the Minister's failure to perform his obligation under this Agreement, or the guarantees provided for in the Stability Agreement were not honored, the Company shall be entitled to the restoration of guarantees and to sue for damages in accordance with the procedures specified by law.
- 4.7 This present Agreement does not prejudice the Company's right to negotiate and conclude separate operating agreements specific to the Boroo project with relevant agencies of the Government of Mongolia.

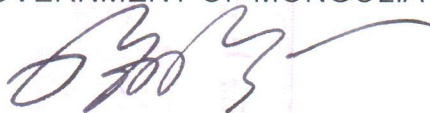
Article 5. Duties and Rights of the Minister

- 5.1 The Minister shall be responsible for providing the Company with the guarantees and conditions specified in this Agreement and aimed at securing a long term stable investment environment for the Company.
- 5.2 Upon signing the Stability Agreement, the Minister shall notify Mongolbank and other relevant organizations of the provisions of this Agreement.
- 5.3 If the Company fails to perform its obligations under this Agreement or it is proved that it has seriously breached the laws of Mongolia, the Minister shall notify the Company accordingly and unilaterally terminate this agreement.


Article 6. Other Provisions

- 6.1 The parties shall amicably settle any disputes arising over the implementation of this Agreement. In case of unsettled disputes, the relevant Mongolian laws and international treaties shall be applied.
- 6.2 This Agreement is made in Ulaanbaatar on 6 July 1998, two (2) copies each in Mongolian and English language, and the parties shall preserve a copy of each.

ON BEHALF OF THE
GOVERNMENT OF MONGOLIA



MINISTER OF FINANCE
B. BATBAYAR



ON BEHALF OF
BOROO GOLD
COMPANY LIMITED

XXK
Улс ноёд
DIRECTOR GENERAL
M.NARANBAT

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