

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.

- 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
J. NAIBAYAR

ON BEHALF OF
BOROO GOLD
COMPANY LIMITED

DIRECTOR GENERAL
M. NARANBAT

AGREEMENT TO AMEND STABILITY AGREEMENT

This Agreement to Amend Stability Agreement is entered into, by and between the Government of Mongolia represented by the Minister of Finance of Mongolia (**Minister**) and Boor Gold Company Ltd (**Company**) established under the laws of Mongolia (certificate of registration No 21/498).

RECITALS

- A. Pursuant to Articles 20 and 21 of the Minerals Law of Mongolia and to guarantee a long term stable environment for the development of the Boroo hard rock gold deposit (**Project**), the Minister and the Company have entered into a Stability Agreement dated 6 July 1988 (**Stability Agreement**).
- B. Since the signing of the Stability Agreement, the Company has invested US\$4.5 million on infill drilling, assessment and the preparation of a bankable feasibility study, and made progress in the development of the Project.
- C. Following the review of the feasibility study, the Company has decided to increase its investment during the first five years of the Project from US\$15 million to US\$25 million and to increase its total investment into the Project from US\$20 million to US\$40 million.

IT IS AGREED

Now, therefore, to reflect the increase in the projected investment in the Stability Agreement and to clarify certain provisions of the Stability Agreement, the Company and the Minister have agreed to make the following amendments to the Stability Agreement:

1. The words "... fifteen (15) million US dollars" in Article 2.1 and 4.2 of the Stability Agreement shall be changed to "twenty-five (25) million US dollars".
2. The words "... until July 7, 2008 for ten (10) years" in Article 3.1 of the Stability Agreement shall be changed to "... until July 7, 2013 for fifteen (15) years".
3. Replace the investment schedule in Article 4.3 of the Stability Agreement with the following

No	Date Month/Year	Amount of Money (thousand USD)	In Monetary Form	In Other Forms
1	July 1999	1,000	300	500
2	July 2000	5,000	2,000	3,000
3	July 2001	15,000	5,000	10,000
4	July 2002	2,000	1,000	1,000
5	July 2003	2,000	1,000	1,000
	Total Amount	25,000	9,500	15,500

4. Make the following editing changes in the second sentence of Article 2.2 of the Stability Agreement in the Mongolian text and no changes in the English text to eliminate any ambiguity of its operation in this Article

(Signature of the Minister)

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5. Add the following at the end of Article 2.2 of the Stability Agreement:

"The Minister confirms that the Company may offset any VAT payable against any other taxes as provided for in Article 11 of the Value Added Tax Law of Mongolia".

6. Add the following at the end of Article 2.3:

"The Minister confirms that the Company will be entitled to freely export gold for the duration of the Project."

7. Add the following phrase at the end of Article 2.4:

", being 2.5% of the sales value of minerals."

8. Add a new Article 2.7 which reads as follows:

"No property, licenses, titles or interest of the Company or its contractors used on or in relation to the Project shall be subject to nationalisation, compulsory acquisition or illegal confiscation by the Government of Mongolia."

9. Add a new Article 2.8 which reads as follows:

"2.8 The Minister confirms that the Company shall be liable only for the taxes of general application in force at the date of this Agreement (at the rates specified in this Agreement, or where not specified, as applicable at the date of this Agreement), and will be subject to the terms of the legislative regime which applied in Mongolia at the date of this Agreement. If any law or regulation is passed in Mongolia subsequent to the date of this Agreement, which establishes a more beneficial regime for the Company, the Company may apply to have the benefit of that law by submitting a written application to the Minister."

10. Add the following at the end of Article 4.5:

"It shall satisfy the purposes of this Article if the Company deposits into such an account on a monthly basis the funds sufficient to cover the Company's projected fiscal obligations to the Government of Mongolia for the particular month, including payment of royalty and all forms of taxes in accordance with the relevant provisions of this Agreement. For the avoidance of doubt, the Company may retain all other proceeds in an offshore bank and may freely dispose of those proceeds".

11. Add the following at the end of Article 5.3:

"However, the Minister shall notify the Company in writing of such a non-performance or breach, and the Company shall have 120 days from receipt of the notification to remedy such a non-performance or breach. The Minister shall not unilaterally terminate this Agreement if

- (a) such a non-performance or breach has been remedied by the Company to the satisfaction of the Minister during the 120-day period, or
- (b) the Company has tendered to the Government of Mongolia monetary and other forms of compensation to the satisfaction of the Minister, if such a non-performance or breach has not been remedied during the 120-day period.

12. Add the following at the end of Article 6.1:

"6.1 Specifically, the parties hereby agree to submit any such dispute to arbitration pursuant to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention) which applies to the Project."

purposes of Article 25(2)(b) of the ICSID Convention, it is agreed that the Company shall be treated as a British national.

An award or decision, including an interim award or decision, in such arbitration proceedings shall be binding on the parties and the judgment thereon may be entered in any court having jurisdiction for that purpose.

For the purposes of this Article, a dispute means any dispute, controversy or claim arising out of or relating to the Stability Agreement (as amended), the Project or the breach or validity thereof which the parties are unable to resolve by mutual agreement."

13. Add the following as Article 6.2:

"6.2 This Agreement shall be governed by the laws of Mongolia, including its rules on the conflict of laws, and such rules of international law as may be applicable.

14. Renumber the current Article 6.2 to be Article 6.3, and add the following at the end of that Article:

"In case of a dispute relating to the interpretation of the Stability Agreement (as amended), the English text shall prevail."

This Agreement is made a part of the Stability Agreement and shall be read in conjunction with it.

This Agreement is made effective on the 9th day of May, 2000, in Ulaanbaatar, Mongolia, in both the Mongolian and English language.

ON BEHALF OF THE
GOVERNMENT OF
MONGOLIA

.....
MINISTER

ON BEHALF OF THE
BOROO GOLD COMPANY LIMITED


.....
GENERAL DIRECTOR