

STABILITY AGREEMENT

Ulaanbaatar, Mongolia
May 13, 1998

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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 by and between the Government of Mongolia, represented by Minister of Finance of Mongolia (hereinafter called as "Minister") and Tsairt Mineral Co.,Ltd (hereinafter called as "Company") which has been established as a joint venture of Mongolian Metalimpex Co., Ltd. and China Nonferrous Metal Industry's Foreign Engineering and Construction Co., Ltd., with a certificate of registration № 2548747 and the holder of the mining license № 723A, under the requirements of Mongolian legislation.

Article 1. Subject Matter

1.1. This agreement regulates relations with respect to legal guarantees to provide stable tax regime, free sale of products at international market prices and free use of hard currency derived from such sales for the entire period of mining the "Tumurtiin ovoo" zinc deposit located in Sukhbaatar sum of Sukhbaatar aimag of Mongolia by the Tsairt Mineral Co., Ltd. of Mongolia.

Article 2. General Provisions

2.1. The amount of the initial capital to be invested by Company, holder of a mining licence, during the first five (5) years of the particular project on the territory of Mongolia shall be no less than twenty (20) million US dollars.

2.2. The Company will be exempted from the income tax for the first five (5) years from the commencing date of its activity and be entitled to fifty (50) percent tax relief for the following five (5) 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 sales (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 Company exports its goods, the export taxes shall be set at zero (0) percent and sales taxes for export shall be set at zero (0) percent. If Company extracts gold and sells it to Mongolbank or any other commercial bank, it shall pay sales (or similar) tax of ten (10) percent.

2.4. The royalty to be paid by Company shall be set at the rate specified in the law regulating the minerals relations effective at the date of the agreement.

2.5. In exporting its products, selling them at international market prices and using the hard currency income derived from such sales, Company shall be granted the same rights and conditions as enjoyed by Mongolian citizens and legal persons.

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2.6. The 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 15 May 1998 until 15 May 2013 for fifteen (15) years.

Article 4. Duties and Rights of Company (Individual)

4.1. It shall fully perform its obligations under this Agreement and comply with the legislation of Mongolia.

4.2. Company shall invest in Mongolia no less than twenty (20) 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 and goods.

The term of the present Agreement shall be deemed extended if the construction of power grid between Choibalsan and Sukhbaatar aimags, including substation, shall not be completed on time.


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	November, 1998	100.0	100.0	
2	May, 1999	3100.0		3100.0
3	May, 2000	8200.0		8200.0
4	May, 2001	8400.0		8400.0
5	May, 2002	1200.0	1200.0	
	Total amount:	21000.0	1300.0	19700.0

If Company invests more than it has planned to invest for the 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, 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 Minister of Finance.

4.5. 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.

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4.6. If, as a result of Minister's failure to perform his obligations under this agreement, the guarantees provided for in the Stability Agreement were not honoured, Company shall be entitled to the restoration of guarantees and to sue for damages in accordance with the procedures specified in laws.

Article 5. Duties and Rights of Minister

5.1. Minister shall be responsible for providing Company with the guarantees and conditions specified in this agreement and aimed at securing long term stable investment environment for Company.

5.2. Upon signing the Stability Agreement, Minister shall notify Mongolbank and other relevant organizations of the provisions of the agreement.

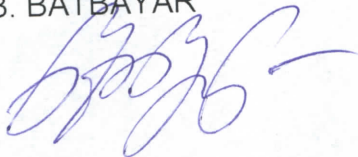
5.3. If Company fails to perform its obligations under this agreement or it is proved that it has seriously breached the laws of Mongolia, Minister shall notify Company accordingly and unilaterally terminate the agreement.

Article 6. Other Provisions

6.1. The parties shall amicably settle any disputes arising over the implementation of the Agreement. In case of unsettled disputes, the relevant Mongolian laws and international treaties shall be pursued.

6.2. The Agreement is made in Ulaanbaatar on 13 May 1998, two (2) copies each in Mongolian and English language, and parties shall preserve a copy each.

ON BEHALF OF
MONGOLIAN GOVERNMENT
MINISTER OF FINANCE
B. BATBAYAR



ON BEHALF OF
TSAIRT MINERAL Co., Ltd.
EXECUTIVE DIRECTOR
DALAN GORBAN

