

MINERALS LAW OF MONGOLIA

June 5, 1997

Ulaanbaatar

CHAPTER ONE

General Provisions

Article 1. Purpose of the law

The purpose of this law is to regulate relations with respect to exploration, mining and related activities within the territory of Mongolia.

Article 2. Legislation on minerals

1. Mineral related legislation consists of the Constitution of Mongolia, the Subsoil Law, this law and other relevant legislation which is consistent with those laws.
2. If an international treaty to which Mongolia is a signatory is inconsistent with this law, then the provisions of the international treaty shall prevail.

Article 3. Scope of this law

This law shall regulate relations with respect to exploration and mining of all types of mineral resources except water, petroleum and natural gas.

Article 4. Definitions

In this law the following terms shall have the following meaning:

1. "mineral" means any usable naturally occurring mineral concentration that has been formed on the surface or in the subsoil as the result of geological evolutionary processes;
2. "mining" means the entire range of activities that include separating and extracting minerals from the earth, course of water, ore stockpile or tailings, increasing the concentration of their usable contents, transforming these usable contents into marketable products, and marketing and selling those products;
3. "mining license" means the right to conduct mining granted by the Office of Geological and Mining Cadaster (OGMC) in accordance with this law;
4. "exploration license" means the right to conduct exploration granted by the OGMC in accordance with this law;
5. "registration of an application" means the official recording in the register maintained by the OGMC of applications for exploration or mining licenses and the transfer of such licenses;
6. "license cartographic register" means the official cartographic register maintained by the OGMC showing the boundaries of areas subject to mining and exploration licenses and any changes thereto;
7. "prospecting" means investigation to identify mineral concentration without disturbing the subsoil through physical observation, rock sampling, airborne surveys, and reviewing related geological and minerals information;
8. "exploration" means activities carried out on and under the earth's surface for the purpose of identifying the existence, location and quantity of mineral concentration and

determining the technical and commercial feasibility of mining such mineral concentration. Exploration includes trenching, digging, opening and closing pits, drilling, removal and assaying of samples, pilot testing, geophysical surveys, and remote sensing;

9. "license fee" means the payment that a license holder makes as provided in this law in order to maintain the license effective;
10. "license holder" means the person to whom an exploration or mining license has been granted or transferred in accordance with this law;
11. "reserved area" means an area which has been rendered temporarily unavailable for grants of licenses pursuant to Article 7 of this law;
12. "special needs land" means land taken by authorized government entities pursuant to the Land Law for special public needs where exploration and mining are restricted or precluded;
13. "mining area" means the area granted under a mining license;
14. "mining claim" means a part of the earth in the form of an inverted pyramid whose apex is the center of the earth and whose base is a mining area;
15. "exploration area" means the area granted under an exploration license;
16. "exploration claim" means a part of the earth in the form of an inverted pyramid whose apex is the center of the earth and whose base is an exploration area.
17. "hard rock" means mineral concentration that has been formed as a result of the geological evolutionary processes and that is located in the same subsoil from its creation. */This subparagraph was added by the Law of December 27, 2001/*
18. "plasser" means mineral concentration that has separated from its first subsoil location as a result of the depreciation and mechanic processes and that is located as a separate surface after re-concentration. */This subparagraph was added by the Law of December 27, 2001/*

Article 5. Ownership of minerals

1. The mineral resources naturally occurring on and under the earth's surface and in natural water courses in Mongolia are the property of the State.
2. The State, as owner of all mineral resources in Mongolia, has the right to grant exploration and mining licenses to other persons in accordance with the terms and conditions of this law.

Article 6. State regulation

1. The State Ih Hural shall have full authority with respect to the following matters:
 - 1) establishing a special regulatory regime for utilizing, storing and transporting radioactive materials;
 - 2) establishing State policy with respect to geology and mining;
 - 3) oversight of the implementation by the Government of legislation with respect to exploration and mining;
 - 4) deciding whether to permit mineral exploration and mining on State specially protected land.
2. The Government shall have the following rights and duties:
 - 1) enforcing implementation of legislation with respect to exploration and mining of minerals;

- 2) implementing State policy with respect to the development of the geology and mining sectors;
 - 3) granting of exploration and mining rights on State special needs land, except State specially protected land;
 - 4) establishing and maintaining an agency responsible for monitoring the mineral legislation; */This subparagraph was re-edited by the Law of September 1, 2000/*
 - 5) establishing and maintaining a Geological and Mining Development Agency (GMDA) responsible for conducting basic geological and mining surveys and research, and the issuing and registering of licenses.
3. The State central administrative body in charge of geology and mining shall have the following rights and duties:
- 1) to develop and implement State policy with respect to the development of the geology and mining sectors;
 - 2) to reserve certain areas for limited periods of time.
4. Local administrative body shall have the following rights and duties:
- 1) to organize and ensure the implementation of this law and regulations of higher administrative bodies in their respective territories;
 - 2) to permit the use of licensed areas for the purposes specified in the licenses, except where exploration or mining is prohibited or restricted by applicable legislation;
 - 3) to ensure and monitor compliance by license holders of their obligations with respect to environmental protection, health and safety regulations for workers and local residents, and payment of their obligations to the treasuries of local administrative bodies. Local administrative bodies shall also have the right to request from license holders information and reports with respect to the above matters.
5. The Government may participate in exploration and mining of mineral resources only through business entities in which the State holds interests. Such entities shall have the same rights, and be subject to the same obligations, as any other person under this law.
6. State administrative bodies or officials, in their dealings with a holder of a license issued under this law, may only establish conditions and terms and request information and reports as authorized by applicable legislation.

Article 7. Reserved areas

1. The Government member in charge of geology and mining may decide to establish reserved areas for periods of up to three (3) years solely for the following purposes:
 - 1) to bring order and accuracy to the Register of licenses;
 - 2) to resolve boundary disputes among license holders.
2. Within three (3) business days following a decision by the Government member to establish a reserved area, the Government member shall advise the OGMC of the decision and publish an official public notice containing the following information:

- 1) the name of the aimag or capital city and soum or district where the reserved area is located;
 - 2) the coordinates of the reserved area;
 - 3) the purpose for which the area has been reserved;
 - 4) the time period for which the area has been reserved.
3. The OGMC shall record the reserved area in the exploration license register, mining license register and cartographic register.
4. Reserved areas shall be released for the following reasons:
- 1) a decision by the Government member to release the reserved area prior to expiration of the original term for specified reasons; or
 - 2) expiration of the term for which the reserved area had been reserved.

Article 8. Special needs land with restrictions on exploration and mining

1. In the event that the Government, or a local administration body, establishes a special needs land in accordance with the Land law, a written notice containing the following information shall be delivered to the OGMC within ten (10) business days:
- 1) the name of the area where the special needs land is established, the name of the aimag or capital city and soum or district where the land is located;
 - 2) the coordinates of the land;
 - 3) the purpose for which the land has been taken for special needs;
 - 4) the time period for which the land shall be used for special needs.
2. The OGMC shall record the coordinates of special needs land in the exploration license register, mining license register and cartographic register.
3. If a special needs land overlaps entirely or in part with a territory covered by a valid license, thus precluding further exploration or mining in such overlapping area, the State administrative body that decided to establish the special needs land shall assume an obligation to compensate the license holder.
4. The amount of such compensation, and the time for payment, shall be negotiated and agreed to by the State administrative body that decided to establish the special needs land and the affected license holder. If the parties fail to reach agreement, then the amount of compensation and time for payment shall be determined by a neutral party in accordance with internationally recognized methods. The license holder shall have the right to resume its activities if the compensation is not timely paid in full.
5. Disputes with respect to compensation shall be decided by a court.

CHAPTER TWO

Legal requirements for conducting exploration and mining

Article 9. Prospecting

1. Any individual or legal entity shall have the right to conduct prospecting for minerals within the territory of Mongolia, except within special needs land areas, without a license. However, any person proposing to conduct prospecting must notify the OGMC and local administrative body and register its name and address and a description and location of the area in which it proposes to conduct prospecting.
2. Disturbing the subsoil while prospecting is prohibited.
3. Any person proposing to conduct prospecting shall obtain permission of landowners or land-possessors or land-users to enter their land.

Article 10. Eligibility for holding a license

1. Any Mongolian citizen, foreign citizen, or legal person shall be entitled to hold an exploration license (hereinafter referred to as “exploration license”).
2. A mining license may only be held by a legal person formed and operating under the laws of Mongolia.
3. A license may only be granted to one person .

Article 11. Prohibition on exploration and mining without a license

1. No person shall conduct exploration for minerals covered by this law within the territory of Mongolia without a valid license.
2. No person shall conduct mining of minerals covered by this law within the territory of Mongolia without a valid mining license.
3. The provisions of this Article shall not apply to landowners or land-possessors who utilize common minerals from their land for private and noncommercial purposes. A list of common minerals that can be mined without a license shall be approved by the Government.
4. Exploration license holders shall disclose to the GMIA the quantity and quality of all minerals recovered as a result of preliminary work done during exploration activities, and upon approval by the professional inspection institution, exploration license holders may sell such minerals for commercial purposes. In such case, the exploration license holders shall pay royalties and other relevant taxes as if they were mining license holders.
/This paragraph was amended by the Law of September 1, 2000/

In all other cases, exploration license holders shall have the right to sell samples and other products recovered during exploration activities only after obtaining a mining license or surrendering the entire exploration claim.

Article 12. Rights of exploration license holders

An exploration license holder shall have the following rights:

1. the exclusive right to conduct exploration for minerals within the boundaries of an exploration claim in accordance with this law;

2. the exclusive right to obtain a mining license for any part of an exploration area upon fulfilling the terms and conditions of this law;
3. the right to transfer or pledge all or part of an exploration license in accordance with the terms and conditions of this law;
4. the right to obtain two extensions of the term of an exploration license for two (2) years each, upon fulfilling the terms and conditions of this law;
5. the right to have access to, entry on, and transit through, the exploration area and a right to construct temporary structures necessary for conducting exploration activities;
6. the right of entry to and transit through the land adjacent to the exploration area for the purpose of gaining access and entry to the exploration area;
7. the right of entry to and transit through land owned or used by other persons in order to exercise the rights described in this Article. This right shall be determined by a contract between the license holder and the landowner or land-user in accordance with the provisions of the Civil law.

Article 13. Requirements for obtaining an exploration license

1. A person seeking an exploration license shall submit an application for the license to the OGMC in accordance with the requirements of this Article.
2. The applicant must be eligible to hold an exploration license in accordance with paragraph 1 of Article 10 of this law.
3. Coordinates of all corners of a requested exploration area shall be marked in degrees, minutes and seconds on an official standard map prepared by the OGMC and the map shall be attached to the application.
4. The requested exploration area shall meet the following requirements:
 - 1) the borders of the exploration area must be straight lines oriented north-south and east-west;
 - 2) no part of the requested exploration area may overlap with a reserved area or a special needs land area;
 - 3) at the time of submission of the application no part of the requested exploration area may overlap with an existing licensed area or an area covered by a previously filed pending application for a license.
5. Notwithstanding the provisions of this Article, the borders of an exploration area may deviate from straight lines in order to avoid overlapping with:
 - 1) national borders;
 - 2) a reserved area;
 - 3) a special needs land area;
 - 4) an exploration or mining license area granted before this law became effective having a shape and orientation other than as provided under this law;
 - 5) lakes, ponds and other natural geographic features that may be excluded from the exploration area.
6. The size of an exploration area shall be not less than twenty-five (25) hectares and may not exceed four hundred thousand (400 000) hectares.
7. A person may hold any number of exploration licenses.

Article 14. Granting an exploration license

1. An exploration license shall be granted to the first applicant who registers and files an application for an exploration area in accordance with the provisions of this law.
2. A person seeking an exploration license shall submit an application to the OGMC in the standard form approved by the OGMC. The following documents shall be attached to the application:
 - 1) the applicant's name, mailing address for official correspondence, phone and fax numbers and, in case of foreign citizens or legal persons, the name, address, phone and fax numbers of the authorized representative of the applicant in Mongolia;
 - 2) in the case of an individual applicant, a copy of the applicant's passport and, as applicable, visa;
 - 3) in case of a legal person, a certificate of valid existence and good standing issued by the jurisdiction under the laws of which the entity was established. If the certificate is in a foreign language, it must be accompanied by a translation into Mongolian.
 - 4) an exploration area map prepared in accordance with the requirements of Article 13 of this law. The map shall contain the name of the aimag or capital city and soum or district in which the exploration area is located.
 - 5) a document showing that the applicant has paid the application processing fee established by the Government member in charge of geology and mining.
3. Any application that does not meet the requirements of paragraph 2 of this Article shall not be accepted by the OGMC.
4. Upon the receipt of a complete application, together with the attachments specified in paragraph 2 of this Article, the OGMC official responsible for the application register shall register the application in the application register, specify the record number, date, hour and minute of filing on each page, and issue the applicant a receipt acknowledging the filing of the application and payment of the applicable fee.
5. At the end of each business day, the OGMC official responsible for recording applications shall make a written indication of the last recorded application in the application register book and sign the page.
6. Immediately following the recording of the filing of an application, the OGMC shall determine by a preliminary screening whether the application meets the requirements specified in paragraphs 2, 3 and subparagraph 1 and 5 of paragraph 4 and paragraph 6 of Article 13, and paragraph 2 of this Article.
7. If an application fails to meet the requirements of paragraph 6 of this Article, the OGMC shall, within two (2) business days, notify the applicant of the defects in the application and record the notice in the application register book, whereupon the application shall be deemed to be deleted from the application register.
8. As promptly as possible following the preliminary screening, the OGMC shall determine whether the requested exploration area overlaps with any reserved area, special needs land, or any area covered by a previously issued valid license or previously filed pending application for a license.

9. Within ten (10) business days following the registration of an application for an exploration license, the head of the OGMC shall take one of the following decisions and notify the applicant accordingly:
- 1) If the requested area does not overlap with any part of a reserved area, special needs land, or any area subject to a valid exploration license, or any area requested in a pending application for an exploration license filed and registered prior to the application, that the requested exploration claim is granted to the applicant, and the applicant is required to pay the first year's license fee within the time period specified in paragraph 1 of Article 25 of this law.
 - 2) The application is rejected and deemed to be removed from the register because of a complete or partial overlap with one of the following areas:
 - a) a special needs land;
 - b) a reserved area; or
 - c) an area subject to a valid license.
 - 3) The application is rejected and deemed to be removed from the register because of a complete overlap with an area requested in a pending application for a license filed prior to the application.
 - 4) If the requested area partially overlaps with an area requested in a pending application for a license filed and registered prior to the application, then an exploration license may be granted for the part of the requested area which does not overlap.
10. If an applicant receives a notice pursuant to subparagraph 4 of paragraph 9 of this Article, such applicant may, within three (3) business days following receipt of such notice, divide the available area into several areas of the shape, location and size as specified in this law and file a separate additional application for each such area. Upon registration of each such application with the OGMC, each such application shall be deemed approved as provided in subparagraph 1 of paragraph 9 of this Article.
11. If an applicant who has received an exploration license approval notice in accordance with paragraphs 9 and 10 of this Article fails to pay the first year's exploration license fee on a timely basis, the application shall be removed from the register book and the notice granting the requested exploration area shall be deemed rescinded.
12. Within three (3) business days after payment by the applicant of the first year's exploration license fee, the OGMC shall issue an exploration license for a period of three (3) years and record the license and the exploration area in the license register and license cartographic register.
13. A license certificate shall contain the date of issuance, the license holder's name, the coordinates of the area covered by the license, and an attachment in which all subsequent changes with respect to the license shall be recorded.
14. Immediately following the grant of an exploration license, the OGMC shall notify the GMDA and publish an official notice informing the public of the granting of the license.

Article 15. Extension of the term of an exploration license

1. Not less than thirty (30) days prior to the expiration of an exploration license, the license holder may apply for an extension of the term of the license by filing with the OGMC an application for such extension on the standard form published by the OGMC. The following documents shall be attached to the application:
 - 1) the exploration license certificate;
 - 2) receipts for license fee payments made by the license holder;
 - 3) a certificate of inspection evidencing implementation of the license holder's environmental protection plan in accordance with Article 31 of this law.
2. Within ten (10) business days following the receipt of an application for extension, the OGMC shall verify whether the license holder has complied with conditions for maintaining its eligibility to hold a license and shall record this fact in the license register book.
3. Within ten (10) business days following the receipt of an application for extension, the OGMC shall extend the term of the exploration license and record the extension in the license register book. The license that has been extended shall then be returned to the license holder.
4. Immediately following the grant of an extension of an exploration license, the OGMC shall notify the GMDA and publish an official notice informing the public of the granting of the extension.

Article 16. Rights of mining license holders

A mining license holder shall have the following rights:

1. the exclusive right to engage in mining of minerals within the mining claim in accordance with the provisions of this law;
2. the right to manage its operations and market its products, subject to compliance with the requirements of Chapter 4 of this law;
3. the right to sell mineral products from the mining claim at market prices on domestic and foreign markets, subject to compliance with the requirements of Chapter 4 of this law;
4. the exclusive right to conduct exploration for minerals within the mining claim;
5. the right to transfer and pledge all or part of the mining license in accordance with provisions of this law;
6. the right to extend the term of the mining license once for a period of forty (40) years;
7. the right of entry to and transit through the mining area, use of the mining area, the right to construct necessary structures, and the right to conduct other activities related to mining and exploration;
8. the right of entry to and transit through the land adjacent to the mining area;
9. the right of entry to and transit through land owned or used by other persons in order to exercise the rights described in this Article. This right shall be determined by a contract between the license holder and the landowner or land-user in accordance with the provisions of the Civil law;
10. the right to use water, subject to compliance with applicable laws.

Article 17. Requirements for obtaining a mining license

1. An applicant for a mining license must be eligible to hold a mining license in accordance with paragraph 2 of Article 10 of this law.
2. In the case of areas covered by a valid exploration license, only the exploration license holder may apply for a mining license. In other cases, a mining license shall be granted to the first applicant whose application meets the requirements under this law and is registered with the OGMC.
3. The applicant shall set forth the coordinates of all corners of the requested mining area in degrees, minutes and seconds on a standard map approved by the OGMC and attach the map to the application.
4. A requested mining area shall meet the following requirements:
 - 1) a requested mining area shall have the shape of a polygon with borders that are straight lines, not less than 500 meters in length, oriented north-south and east-west;
 - 2) a requested mining area may not overlap with a reserved area or special needs land;
 - 3) at the time of submission of the application a requested mining area shall not overlap with an area covered by a valid license or an area requested in a pending application for a license.
5. The borders of a mining license area may deviate from straight lines in the case of borders with following areas:
 - 1) national borders;
 - 2) a reserved area;
 - 3) a special needs land area;
 - 4) a mining license area granted under the prior minerals law having a shape and location that do not conform with the requirements of this law and natural geographic features, such as lakes and ponds, that may be excluded from the mining area.

Article 18. Procedure for granting a mining license

1. An applicant for a mining license shall submit an application to the OGMC on the standard form approved by the OGMC. The following documents shall be attached to the application:
 - 1) the applicant's name, mailing address for official correspondence, phone and fax numbers and a certificate containing the name of its officer authorized to make decisions;
 - 2) if the applicant is a business entity, a certificate of valid existence as a business entity in Mongolia issued by the appropriate registration agency;
 - 3) a map of the area prepared in accordance with the requirements of paragraph 3 of Article 17 of this law. The map shall contain the name of the aimag or capital city and soum or district in which the area is located.
 - 4) a document showing that the applicant has paid the application processing fee established by the Government member in charge of geology and mining.

2. The OGMC shall reject any application that fails to meet the requirements set forth in paragraph 1 of this Article.
3. Upon the receipt of a complete application, together with the attachments specified in paragraph 1 of this Article, the OGMC official responsible for the application register shall register the application in the application register and specify the record number, date, hour and minute of filing on each page, and issue the applicant a receipt acknowledging the filing of the application and payment of the applicable fee. At the end of each business day, the OGMC official responsible for recording applications shall make a written indication of the last recorded application in the application register book and sign the page.
4. Immediately following the recording of an application, the OGMC shall determine by a preliminary screening whether the application and attached documents meet the requirements specified in paragraph 1 of this Article and paragraphs 1 and 3 of Article 17. If an application fails to meet the above-noted requirements, the OGMC shall notify the applicant of the defects in the application and record the notice in the application register book, whereupon the application shall be deemed to be removed from the application register.
5. Within two (2) business days after the registration of an application for a mining license, the OGMC shall determine:
 - 1) in the case of an application submitted by the exploration license holder covering the requested mining area, whether such area is located entirely within the boundaries of the area covered by the exploration license;
 - 2) whether the requested mining area overlaps with any area already subject to a valid license or any area that is the subject of a pending license application;
 - 3) whether the requested mining area overlaps with a reserved area or a special needs land.
6. Within twenty (20) business days following the registration of an application for a mining license, the head of the OGMC shall take one of the following decisions and notify the applicant accordingly:
 - 1) in the case of an application submitted by the exploration license holder covering the requested area, that an exclusive mining license has been granted to the applicant and require the applicant to timely pay the applicable fee for the first year of the license as provided in this law;
 - 2) if the requested area does not overlap with any part of a special needs land with prohibition on mining, or any area subject to a valid license, or any area requested in a pending application for a license filed and registered prior to the application, that the requested mining area is granted and the applicant is required to pay the applicable fee for the first year of the license as provided in this law;
 - 3) if the requested area overlaps in any way with a special needs land with prohibition on mining, or any area subject to a valid license, or any area requested in a pending application for a license filed and registered prior to the application, that the application is rejected and deemed to be removed from the register.
7. If the applicant who has received a mining license approval notice in accordance with subparagraphs 1 and 2 of paragraph 6 of this Article fails to pay the first year's license fee

on a timely basis, that the application is rejected and removed from the application register, and that the decision granting the mining claim is rescinded.

8. Within three (3) business days following payment of the license fee for the first year, the OGMC shall issue a mining license to the applicant for a term of sixty (60) years and shall register the license and mining area in the license register and license cartographic register.
9. A license certificate shall contain date of issuance, the name of the license holder, the coordinates of the granted area, and an attachment in which all subsequent changes with respect to the license shall be recorded.
10. Within seven (7) business days following the decision to grant a mining license, the OGMC shall notify the professional inspection institution and GMDA and publish an official notice informing the public of the granting of the license. */This subparagraph was amended by the Law of September 1, 2000/*

Article 19. Extension of the term of a mining license

1. Not less than two (2) years prior to the expiration of a mining license, the license holder may file an application with the OGMC on the standard form specified by the OGMC for an extension of the mining license. The following documents shall be attached to the application:
 - 1) the mining license certificate;
 - 2) receipts for license fee payments made by the license holder;
 - 3) a certificate of inspection evidencing implementation of the environmental protection program in accordance with Article 31 of this law.
2. Upon filing of an application for an extension of a mining license, the applicant shall pay the processing fee established by the Government member in charge of geology and mining.
3. Within ten (10) business days following the receipt of an application for extension of a mining license, the OGMC shall verify whether the license holder has complied with the conditions for maintaining its eligibility to hold the license.
4. Within ten (10) business days following the receipt of an application for extension of a mining license, the OGMC shall record the application in the application register. The license certificate that has been extended shall then be returned to the license holder.
5. Within seven (7) business days following the decision to extend the mining license, the OGMC shall notify the GMDA, publish an official notice informing the public of the granting of the extension.

Article 20. Stability agreements

1. If a mining license holder undertakes to invest in its mining project in Mongolia no less than two (2) million US Dollars for the first five (5) years of the project, and if the mining license holder submits an application to enter into a stability agreement, then the Government of Mongolia, acting through the Minister of Finance, shall enter into such a

stability agreement providing guarantees for a long term stable environment for such mining license holder.

2. The form of the stability agreement shall be approved by the Government and shall contain provisions regarding the stability of tax rates for a definite time period, the right of the license holder to export and sell its products at international market prices, a guarantee that the license holder may receive and dispose of hard currency income derived from such sales, and provisions with respect to the purpose, amount, and term of the license holder's investment.
3. Within twenty (20) business days following the receipt by the Minister of Finance of the application and draft of the stability agreement, the Minister shall determine whether or not further clarification is required. If the Minister determines that no further clarification is required, the Minister shall enter into the stability agreement with the applicant.
4. If the amount of the initial investment in the Mongolian mining project is no less than two (2) million US Dollars, the term of the stability agreement may be ten (10) years. If such investment is no less than twenty (20) million US Dollars, the term of the stability agreement may be fifteen (15) years.

Article 21. Procedure for concluding a stability agreement

1. The license holder interested in concluding a stability agreement shall submit its application and draft agreement to the Ministry of Finance. An investment program, specifying the amounts to be invested within the first five (5) years, and the proposed term of the project, shall be attached to the application. If further clarification or amendment is required, the applicant shall be informed within seven (7) business days.
2. Upon signing the stability agreement by the Minister of Finance, notice of the terms and conditions of the agreement shall be delivered to the Mongolbank (Central Bank of Mongolia) and other relevant authorities.

CHAPTER THREE

Conditions for maintaining eligibility to hold exploration and mining licenses

Article 22. Maintaining the eligibility to hold exploration and mining licenses

A license holder must comply on a timely basis with the conditions set forth in this Chapter, and failure to comply with any of these conditions shall constitute grounds for cancellation of the holder's license pursuant to Article 47 of this law.

Article 23. Maintaining the legal status to hold exploration and mining licenses

Any license holder shall at all times during the terms of the license maintain its legal status to hold the license in accordance with Article 10 of this law.

Article 24. License fees

1. Holders of exploration and mining licenses shall pay license fees annually as set forth in this Article.

2. Exploration license fees shall be payable with respect to each hectare included within the exploration area at the following rates:
 - 1) US\$ 0.05 for the first year, and US\$ 0.1 for each of the second and third years of the term of the exploration license;
 - 2) US\$ 1.00 for each of the fourth and fifth years of the term of the exploration license;
 - 3) US\$ 1.50 for each of the sixth and seventh years of the term of the exploration license.
3. Mining license fees shall be payable with respect to each hectare included within the mining area at the following rates:
 - 1) US\$ 5.00 for each of the first three years of the term of the license;
 - 2) US\$ 7.50 for each of the fourth and fifth years of the term of the license;
 - 3) US\$ 10.00 for each year of the term of the license commencing from the sixth year.

Article 25. Payment of license fees

1. License fees for the first year shall be paid within ten (10) business days after the license holder receives the notice specified in subparagraph 1 of paragraph 9 of Article 14 and subparagraphs 1 and 2 of paragraph 6 of Article 18 of this law.
2. License fees for subsequent years shall be payable annually in advance, on or before the anniversary date of the issuance of the license.
3. The amount of the license fee shall be calculated on the basis of the measurements of the license area as registered in the register of licenses of the OGMC and the amount of the fee shall not change for the particular year.
4. No exploration license fees shall be payable with respect to a mining area located within an exploration area.
5. The license fee shall be deemed paid upon receipt by the OGMC of documents certifying the payment of the fees.
6. A license holder shall have an obligation to pay applicable license fees within the term specified in paragraph 1 of this Article and no notice or invoice with respect to such fees shall be sent to the license holder.

CHAPTER FOUR

Obligations of license holders while carrying out their activities

Article 26. General obligations of license holders while carrying out their activities

While carrying out their activities a license holder shall comply with general obligations set forth in this Chapter. Failure to comply with the general obligations set forth in this Chapter will subject the license holder to the penalties set forth in Chapter 8 of this law.

Article 27. Establishing the boundaries and marking the area held under a mining license

1. Within ninety (90) business days following the registration of the mining license in the register of licenses, the mining license holder shall establish the boundaries and mark the approved mining area by permanent markers in accordance with technical requirements specified by the GMIA. The establishment of the boundaries of the mining area shall be performed by a professional expert accredited by the OGMC, who shall file a report with the OGMC upon completion of the establishment of the boundaries.
2. A mining license holder shall preserve the markers and adjust and replace the markers upon extension of the license or any reorganization within the area in accordance with decisions of the OGMC.

Article 28. Environmental protection

1. An exploration license holder has an obligation to comply with environmental laws in effect and with the environmental protection provisions of this law.
2. A license holder may not commence exploration or mining operations without first obtaining written approvals from relevant environmental protection authorities pursuant to this law.

Article 29. Environmental protection obligations of exploration license holders

1. After consultation with the environmental inspection agency and local administrative bodies, exploration license holders shall prepare an environmental protection plan within thirty (30) days following the receipt of an exploration license.
2. The environmental protection plan shall provide for measures to ensure that pollution of the environment as a result of the exploration activity does not exceed maximum limits and that the exploration area will be rehabilitated by means of backfilling, plugging, and cultivation to allow future utilization of the disturbed land for public purposes.
3. The environmental protection plan shall be submitted to and approved by the Governor of the relevant soum or district where the exploration claim is located. The Governor of the soum or district shall make a decision with respect to the plan within ten (10) business days following receipt of the plan, and notify the license holder of the decision by an official letter.
4. Upon approval of the environmental protection plan, the license holder shall provide a copy of the plan to the local environmental inspection organization and professional inspection institution. */This paragraph was amended by the Law of September 1, 2000/*
5. The license holder shall record all instances of adverse environmental impact resulting from the exploration activity and submit annual reports with respect to the environmental protection plan to the Governor of the relevant aimag or capital city and soum or district. These reports shall contain information on measures taken to protect the environment and on the possible impact on the environment of new exploration machinery and technology, and proposed amendments to the environmental protection plan. All amendments to the environmental protection plan shall be approved by the Governor of the relevant soum or district.

6. A license holder shall provide officials in charge of monitoring implementation of the laws on environmental protection and local administrative body representatives with an opportunity to enter the exploration area to conduct monitoring activities on the site.
7. To ensure the discharge of its responsibilities with respect to environmental protection, an exploration license holder shall deposit an amount equal to 50 % of its environmental protection budget in a special bank account established by the Governor of the relevant soum or district. This deposit shall be refunded to the license holder upon full implementation of its environmental protection plan .
8. If a license holder fails to fully implement the measures provided for in the environmental protection plan, the Governor of the relevant soum or district shall use the deposit to enable the license holder to complete these measures, and if the deposit is not enough to cover the costs of environmental protection and rehabilitation activities, the license holder shall provide the required additional funds.

Article 30. Environmental protection obligations of mining license holders

1. An environmental impact assessment and an environmental protection plan shall be prepared by a mining license holder in accordance with applicable laws as soon as possible before or after receiving a mining license.
2. The environmental impact assessment shall identify the possible adverse environmental impact from the proposed mining operations on land, water, air, plant, animal, and human life and shall include preventive measures to avoid and minimize such adverse impact.
3. The environmental protection plan shall contain measures to ensure that mining operations are conducted in a least damaging way to the environment. The plan shall also identify preventive measures to protect air and water quality, and human, animal and plant life from the adverse effects of mining operations in accordance with the regulations adopted by the State central administrative body in charge of the environment.
4. An environmental protection plan must include measures with the respect to the following issues:
 - 1) storage and control of toxic and potentially toxic substances and materials;
 - 2) protection, utilization and conservation of surface water and groundwater;
 - 3) if necessary, construction, utilization and safekeeping of tailings dams;
 - 4) other measures as may be appropriate for the particular type of a mining operation.
5. The environmental protection plan shall also provide for post-mining rehabilitation measures through backfilling, plugging, and cultivation to allow future utilization of the disturbed land for public purposes.
6. The environmental impact assessment and environmental protection plan shall be submitted to the State central administrative body in charge of environment and to the Governor of the relevant soum or district. The State central administrative body in charge of environment shall review these documents and notify the license holder of its decision within thirty (30) days after receiving such documents.

7. Upon approval of the environmental impact assessment and the environmental protection plan, the license holder shall deliver the documents to the local environmental monitoring organization where the mineral deposit is located.
8. Mining license holders shall record all instances of adverse environmental impact resulting from mining activity, prepare and send a copy of annual reports on the implementation of the environment protection plan to the State central administrative body in charge of environment, the Governor of any relevant aimag or capital city and soum or district, and the GMIA, respectively. These reports shall contain information on measures taken to protect the environment and on the possible impact on the environment of new machinery and technology, or the expansion of mining operations, and proposed amendments to the environmental impact assessment and environmental protection plan .
9. Amendments to the environmental protection plan may be made only after the State central administrative body in charge of environment approves the amendments.
10. A mining license holder shall provide local and State central administrative bodies officials in charge of monitoring implementation of legislation on environmental protection, an opportunity to enter the mining claim area and to conduct monitoring activities on the site.
11. To ensure the discharge of its responsibilities with respect to environmental protection, a mining license holder shall deposit an amount equal to 50 % of its environmental protection budget for a particular year in a special bank account established by the Governor of the relevant soum or district. This deposit shall be refunded to the license holder upon full implementation of the environmental protection plan .
12. If a mining license holder fails to fully implement the measures provided for in the environmental protection plan, the Governor of the relevant soum or district shall use the deposit to enable the license holder to complete these measures, and if the deposit is not enough to cover the costs of environmental protection and rehabilitation activities, the license holder shall provide the required additional funds.

Article 31. Review of environmental protection plan in connection with extensions of licenses

1. Exploration license holders applying for a license extension shall submit for approval to the Governor of the relevant soum or district, prior to the expiration of the exploration license, either their revised environmental protection plan or a new environmental protection plan .
2. Mining license holders applying for a license extension shall submit to the State central administrative body in charge of environment a new environmental impact assessment and a new environmental protection plan.
3. The State central administrative body in charge of environment may require the license holder to amend the environmental impact assessment and environmental protection plan to reflect impacts from the use of new machinery or technology or environmental impact not foreseen in the approved environmental impact assessment or environmental protection plan .

Article 32. Impact on local buildings and structures

License holders shall fully compensate owners and users of private and public residential dwellings, wells, winter huts, other structures, and historic and cultural landmarks, for damages caused to these structures by exploration or mining operations, including, if necessary, relocation costs.

Article 33. Relations with local administrative bodies

1. License holders shall consult and coordinate their activities with local administrative bodies in connection with environmental protection, infrastructure development and employment development in accordance with the provisions of this Article.
2. If a license holder deems it necessary, it may request the local administrative body to organize a public debate in furtherance of objectives referred to in paragraph 1 of this Article.
3. A license holder may select and employ a representative from among the local residents to coordinate all the matters involving the local administrative body.

Article 34. Employment requirements

License holders shall employ citizens of Mongolia in their exploration and mining operations on a priority basis.

Article 35. Health and safety standards

In conducting their operations license holders shall comply with applicable laws so as not to endanger the health and safety of workers and local residents.

Article 36. Requirements for closure of a mine

1. Before closure of a mine, mining license holders shall take preparatory measures pursuant to regulations of the professional inspection institution to protect the health and safety of local residents. License holders shall inform the professional inspection institution by an official letter that the mine shall be closed in whole or in part, at least one year prior to any such closure, and the following measures must be implemented during the preparatory period:
 - 1) to take all necessary measures to ensure safe use of the mining site and mining claim for non-mining purposes and to protect the environment;
 - 2) to seal safely and fence off the parts of the mining area that may be dangerous during the use of the area for other purposes;
 - 3) to remove all machinery, equipment and other property from the mining area except as permitted by local administrative bodies or the professional inspection institution.
/This paragraph was amended by the Law of September 1, 2000/
2. Mining license holders shall prepare a detailed map on an appropriate scale showing dangerous or potentially dangerous areas created by mining operations.

Article 37. Registration and sale of precious stones and metals

1. All precious stones and metals extracted by mining license holders shall be assayed and registered by the State assaying agency. Regulations on assaying and registration of precious stones and metals, and a list of minerals subject to assaying and registration, shall be published by the Government.
2. Mongolbank shall pay world market prices when purchasing precious stones and metals.
3. A mining license holder shall have a right to export precious stones and metals only through Mongolbank or authorized commercial banks.

Article 38. Royalties

1. A mining license holder shall pay royalties to the treasuries of the central and local administrative bodies on the sales value of all products extracted from the mining claim that are sold, shipped for sale, or used. */This paragraph was amended by the Law of December 27, 2001/*
2. The sales value shall be determined as follows:
 - 1) for exported products, the sales value shall be the average monthly prices of the products, or similar products, based on regularly published international market prices or on recognized principles of international trade;
 - 2) for products sold or used on the domestic market, the sales value shall be based on the domestic market price for the particular or similar product;
 - 3) for products sold on international or domestic markets, where it is impossible to determine market prices, the sales value shall be based on the revenue derived from the sale of the product as declared by the license holder.
3. Royalties shall be equal to 2.5 per cent of the sales value of all products extracted from the mining claim that are sold, shipped for sale, or used.

Royalties shall be equal to 7.5 per cent of the sales value of gold extracted from the plasser that are sold, shipped for sale, or used. */The second sentence of this paragraph was added by the Law of December 27, 2001/*

4. The license holder shall pay royalties with respect to all extracted products that are sold, shipped for sale or used during a calendar quarter before the end of the next quarter.
5. The mining license holder shall submit to the GMIA a quarterly report, in the form approved by the GMIA and verified by the license holder's signature, indicating the quantity of products extracted and sold, shipped for sale, or used during the relevant quarter, the total value of the sales, and the basis of evaluation.
6. The Government shall prepare, and periodically publish a list of commodity exchange prices and related information, which shall be used for the purpose of calculating the sales value of exported products.

Article 39. Submission of information and reports

1. A license holder shall prepare all information and reports specified in this Article on a timely and accurate basis and submit copies of the information and reports to the

professional inspection institution and OGMC, respectively. */This paragraph was amended by the Law of September 1, 2000/*

2. An exploration license holder shall submit the following information and reports:
 - 1) a plan of exploration activities shall be submitted within thirty (30) days after the grant of the exploration license;
 - 2) annual reports on exploration activities for the previous year shall be submitted in the form approved by the Office of Geology within thirty (30) days after the expiration of the relevant period;

The report shall contain information on the amount of work completed and expenses incurred in prospecting, geophysical and geochemical work, drilling and other activities, information on the labor force, and the results of the exploration work. A map indicating the places where the work was done shall be attached to the report.

A copy of the final report on the results of the exploration work and original materials shall be submitted at no charge.

The GMDA shall accept the estimates of the ore reserves submitted in the report after receiving an opinion from a qualified expert and shall include the ore reserves into the national register of reserves.

- 3) the information reports on safe operations specified in Article 35 of this law.

3. The GMDA shall also have a right to demand information and reports from the license holder, even if such information or reports are incomplete.

4. A mining license holder shall submit the following information and reports:

- 1) a feasibility study on the exploitation of the deposit within sixty (60) days after obtaining the mining license;
- 2) estimated data with respect to the next year's production in the form approved by the Mining Office not later than September of every year;
- 3) a report on activities of the previous year, in the form approved by the Mining Office, shall be submitted by February 15 of the following year. The report must contain the following:

- a) number of work days, number of employees, and all contracts affecting the license holder's right of ownership;
- b) information on implementation of the mining plan, an estimate of changes in reserves, time periods of operation of the mine, a general overview of production facilities and any expansion or renovation of such facilities;
- c) information on the quantity of ore mined, the quantity of products produced, shipped and sold, the price of the products sold, information with respect to the purchasers, information on investments made during the year, operating expenses, royalty payments and information with respect to the equipment and technology used in mining operations and information on other related properties.

- 4) a report on safe operations as specified in Article 35 of this law.

5. A license holder shall prepare a report on environmental protection as specified in Article 30 of this law and submit it to the Governor of any relevant aimag and soum or district.

CHAPTER FIVE

Transfer and mortgage of licenses

Article 40. Transfers of licenses.

1. A license holder may transfer the license to persons eligible to hold a license by a transfer agreement or through legal processes such as inheritance, merger of business entities, or bankruptcy. A transfer of a license shall be recorded with the OGMC in accordance with the provisions of this Article, and the transfer of a license shall become effective upon such recording.
2. Either the transferor or the transferee of a license shall submit an application for the recording of a license transfer to the OGMC, in the form approved by the OGMC. The application shall contain the following:
 - 1) the license number, date of issuance, and the name of the license holder as indicated in the records of the OGMC;
 - 2) a copy of the transfer agreement, or a court order with respect to the bankruptcy of the license holder, a certificate of inheritance from a deceased license holder, or a certificate of reorganization of legal entities, or other legally binding documents evidencing a valid transfer of the license;
 - 3) a document evidencing the transferee's eligibility as specified in subparagraphs 1 and 2 of Article 10 of this law;
 - 4) a confirmation of acceptance by the transferee of all rights and obligations under the license, in a form approved by the OGMC.
3. An applicant for the recording of a license transfer shall pay the processing fee established by the Government member in charge of geology and mining and attach a proof of payment to the application.
4. The OGMC shall immediately deliver to the applicant a document containing the name of the applicant, the date of the application, and the type and number of the license to be transferred.
5. Immediately following the receipt of an application for the recording of the transfer of a license, the OGMC shall record the application and verify the following:
 - 1) that the application complies with the requirements of this Article;
 - 2) that the license to be transferred is valid;
 - 3) that the license transferee is eligible to hold the license.
6. Within fifteen (15) business days following the receipt of an application for recording of the transfer of a license, the head of the OGMC shall take one of the following decisions:

- 1) record the transfer of the license and make appropriate notations on the license certificate; or
- 2) inform the applicant of defects in the application and request the applicant to submit the necessary additional information; or
- 3) if the transferee is not eligible to hold a license, or the license to be transferred is invalid, then the application shall be returned and the applicant shall be notified accordingly.

If the OGMC gives the applicant a notice of defects as provided in this paragraph, the applicant shall, within ten (10) business days following the receipt of such notice, submit additional information to the OGMC. Within five (5) business days, the head of the OGMC shall take a decision as specified either in subparagraphs 1 or 3 of paragraph 6 of this Article.

7. Following the recording of the transfer of the license, the OGMC shall notify the professional inspection institution and the GMDA in writing of the recording of the transfer and, in case of the transfer of a mining license, it shall also notify the Ministry of Finance in writing, and shall publish an official notice informing the public of the license transfer. */This paragraph was amended by the Law of September 1, 2000/*

Article 41. Transfer of parts of licensed areas

1. License holders may transfer parts of a licensed area to persons eligible to hold a particular type of license by a transfer agreement. The shape, size and orientation of the transferred and retained parts shall conform to the requirements of this law. The transfer of a part of a licensed area shall be recorded with the OGMC in accordance with the provisions of Article 40 and the provisions of this Article. The transfer agreement shall become effective upon such a registration.
2. The application for recording the transfer of a part of a licensed area shall contain a description of the land. This description shall contain the information required by this law to be included in the initial application for a mining license.
3. The applicant shall pay the application processing fee established by the Government member and include it with the application.
4. The OGMC shall verify and confirm that the transferred area lies entirely within the boundaries of the licensed area covered by the transferor's license.
5. Upon each transfer of a part of a licensed area covered by a valid license to an eligible transferee, the OGMC shall take the following actions :
 - 1) record the location and coordinates of the transferred and retained parts of the licensed area in the register of licenses and in the cartographic license register;
 - 2) make appropriate notation in the license certificate of the transferor;
 - 3) issue the transferee a separate license.

Article 42. Pledges of licenses

1. To provide security for the financing of their investments and operations in Mongolia, license holders may pledge their licenses in accordance with the provisions

of the Civil law. The pledge agreement shall become effective upon its registration with the OGMC in accordance with the provisions of Article 40 of this law.

2. The pledgor shall submit a copy of the pledge agreement, together with the license certificate, to the OGMC. The pledgee is not required to confirm its acceptance of rights and obligations under the license.
3. The OGMC shall verify whether the application for recording the pledge of the license complies with the terms and conditions specified in this law.
4. Upon verification that the application for recording the pledge of the license complies with the terms and conditions specified in this law, the OGMC shall record the pledge of the license and deliver the license certificate to the pledgee.
5. Upon termination of the pledge agreement, the license holder shall submit an application to the OGMC together with the following documents:
 - 1) a statement signed by the pledgee to the effect that the license holder has fulfilled its obligations under the pledge agreement and that the pledge has been terminated;
 - 2) the pledged license certificate.

Upon receipt of the foregoing documents, the OGMC shall record the termination of the pledge and return the license certificate to the license holder.

6. During the period of time in which the license is pledged, the license may not be transferred to another person unless authorized in writing by the pledgee or transferred to legal successors of the exploration license holder.

Article 43. Transfer of a license pursuant to a pledge agreement

1. If the pledgor fails to fulfill its obligations under the pledge agreement and the pledgee of a license wishes to transfer the license to a person eligible to hold such a license, the pledgee may, in conformity with Article 40 of this law and the present Article, submit an application to the OGMC to transfer the pledged license.
2. The pledgee shall attach the following documents to its application for recording the transfer of the license to a person eligible to hold such a license:
 - 1) a document signed by the pledgor consenting to the transfer of the license and a statement by the pledgee confirming receipt of the license;
 - 2) a certificate of the pledged license;
 - 3) if the transferee is a person other than the pledgee, the documents specified in paragraph 2 of Article 40 of this law;
 - 4) confirmation by the transferee of its acceptance of rights and obligations under the license.

CHAPTER SIX

Termination of exploration and mining licenses

Article 44. Termination of licenses

1. A license shall be terminated in the following cases:
 - 1) expiration of the license term;
 - 2) surrender by the license holder of the entire licensed area in accordance with the provisions of Article 46; or
 - 3) revocation of the license by the OGMC.
2. A license shall terminate as to each and every part of a licensed area being surrendered by the license holder.
3. Upon termination of the license, the rights and obligations of the license holder under the license shall cease to exist, except the license holder's obligations with respect to environmental restoration and mine closure as provided for in Articles 29 and 30 of this law and other obligations pursuant to legislation on environmental protection.
4. Upon termination of the license, the license holder shall return the license certificate to the OGMC, and a new license may be issued for the area in accordance with the provisions of this law.
5. The ownership of buildings and structures, equipment and other property allowed to be left on the exploration or mining area in accordance with subparagraph 3 of paragraph 1 of Article 36 shall be determined in accordance with the provisions of the Civil law.

Article 45. Surrender of part of the licensed area

1. A license holder may surrender part of the licensed area in accordance with the provisions of this law.
2. A license holder shall submit to the OGMC an application for surrender of part of the licensed area together with the description of the surrendered part in the form approved by the OGMC. In the case of surrender of part of an exploration area, the description of the surrendered area shall conform with the requirements of paragraph 3 of Article 13 of this law. In the case of surrender of part of a mining area, the description of the surrendered area shall conform with the requirements of Article 17 of this law.
3. The following documents shall be attached to an application for surrender of part of a licensed area.
 - 1) the license certificate;
 - 2) a certificate from the Governor of the relevant soum or district stating that the license holder has complied with the environmental protection plan for the surrendered area;
 - 3) a report described in subparagraph 2 of paragraph 2 of Article 39 of this law.
4. The area retained by the license holder after surrender of part of the licensed area shall conform with the requirements of paragraph 4 of Article 17 of this law.
5. Upon receipt of an application for surrender of part of a licensed area, the OGMC shall register the surrender of part of the licensed area and make appropriate notations on the license certificate.

6. The surrender of a part of a licensed area becomes effective upon the registering the application in accordance with paragraph 5 of this Article.
7. The surrender of a part of a licensed area shall not entitle the license holder to a refund of license fees previously paid.

Article 46. Surrender of the entire licensed area

1. A license holder may surrender the entire licensed area by submitting an application, on a form approved by the OGMC, and by registering the application in accordance with this Article.
2. The following documents shall be attached to the application for surrender of the entire licensed area:
 - 1) a certificate of full compliance by the license holder with all environmental protection, mine closure, reporting and other requirements established by applicable laws;
 - 2) if the particular license is pledged, an official document signed by the pledgee consenting to the surrender.
3. Promptly upon receipt of an application for surrender of the entire licensed area, and upon verification that the application complies with the requirements of paragraph 2 of this Article, the OGMC shall record the surrender in the register of licenses and modify the cartographic register of mineral licenses accordingly.
4. Upon surrender of the entire licensed area, the license certificate shall be returned to the OGMC.
5. The OGMC shall notify the relevant authorities of the surrender of the entire licensed area, and publish an official notice informing the public of the surrender.
6. A license holder that surrenders a particular licensed area may not submit a new application for the same area for a period of two years following the surrender. If the person that surrenders the license is a legal entity, then this paragraph shall also apply to any third party that controls more than 50% of the voting rights in that legal entity or any third party in which such entity controls more than 50% of the voting rights.

Article 47. Revocation of licenses

1. The OGMC shall revoke any license, in accordance with this Article, if it determines that the license holder does not meet the requirements for maintaining eligibility to hold a license as specified in Chapter 3 of this law.
2. The OGMC, pursuant to a decision by the head of the OGMC, shall revoke a license on the following grounds:
 - 1) that the license holder has lost its eligibility to hold a License in accordance with this law; or
 - 2) that the license holder has failed to pay License Fees specified in Article 24 of this law in full or did not pay License Fee and penalty within the time specified in

the paragraph 4 of this article; or */This subparagraph was amended by the Law of January 8, 1999/*

- 3) that an exploration or mining area has been designated as a special needs land and the license holder has been fully compensated.
3. Immediately upon determining the existence of grounds for revocation of a license, the OGMC shall notify the license holder, and any license pledgee, in accordance with the procedures established by this law. The notice shall specifically indicate the grounds for revocation of the license.
4. Within thirty (30) days following the receipt of the notice specified in paragraph 3 of this Article, a license holder, or any license pledgee who paid the License Fee and the required penalty, may submit to the OGMC documentary evidence that the grounds for revocation of the license are not valid. */This subparagraph was amended by the Law of January 8, 1999/*
5. Upon review and analysis of the documentary evidence submitted by the license holder, if the OGMC agrees that the grounds for revocation of the license are not valid, it shall withdraw its notice of revocation and notify the license holder accordingly.
6. If the OGMC determines that the documentary evidence submitted by the license holder does not establish invalidity of the grounds for revocation of the license, the head of the OGMC shall revoke the license and notify the license holder and license pledgee accordingly.
7. The holder or license pledgee shall have a right to file a complaint with the court within thirty (30) days following the date of issuance of the decision.
8. If the license holder or the license pledgee files a complaint with the court, no license shall be issued with respect the license area until a valid court ruling has been made.
9. The OGMC shall notify the professional inspection institution and the GMDA of the revocation of a license, and in case of revocation of a mining license, the OGMC shall notify the Ministry of Finance, and publish an official notice informing the public of the revocation. */This paragraph was amended by the Law of September 1, 2000/*

CHAPTER SEVEN

Resolution of disputes arising out of exploration and mining licenses

Article 48. Resolution of boundary disputes between or among license holders

1. Boundary disputes between or among license holders shall be resolved by the OGMC. Any party to a boundary dispute may request the OGMC to resolve the dispute.
2. The OGMC shall give all parties to the dispute an opportunity to present their positions and arguments in writing.
3. The OGMC shall verify if there is an overlap between disputed areas in the register of licenses and the cartographic register of licenses. If there is an overlap, the OGMC

shall determine, based on the original applications and reports of field surveys, whether the coordinates and boundaries of the area were correctly recorded.

4. If, as a result of a field survey, an overlap is confirmed, the OGMC shall modify the area covered by the more recently granted license and eliminate the overlap.
5. The OGMC shall have disputed boundaries of a licensed area surveyed and established by an accredited professional geodesic surveyor and any costs and loss relating thereto shall be paid for by the party shown to be wrong.
6. The OGMC shall verify the disputed boundaries, make decisions on relevant modifications, and notify the parties to the dispute accordingly.
7. If the parties to the dispute disagree with the decision of the OGMC, they may file a complaint with the court.

Article 49. Resolution of disputes between license holders and land owners or users

Land access, rights of passage, and land use disputes between or among license holders and land owners or land users, shall be resolved in accordance with the provisions of the Land law, the Civil law and other relevant laws.

Article 50. Filing of complaints to State administrative bodies

Where any actions or failures to act by civil servants or State administrative bodies have prevented the exercise by citizens or legal persons of rights conferred upon them hereunder, such citizens or legal persons may file a complaint with respect thereto with relevant senior officials or State administrative bodies or the courts.

Article 51. Resolution of disputes arising out of a stability agreement

Any disputes arising out of a stability agreement concluded with the Government according to Articles 20 and 21 of this law shall be resolved in accordance with the Arbitration law and international treaties of Mongolia.

CHAPTER EIGHT

Sanctions

Article 52. Sanctions for breach of legislation

1. If a breach of the minerals legislation does not constitute a criminal offence, a geological and mining inspector, whilst taking into account the circumstances of the infringement, shall impose the following penalty on the guilty person:
 - 1) If any person has conducted exploration or mining activities or sold minerals without holding a mineral license, all income or products derived from such activities shall be confiscated by the State and, a fine in an amount equal to the double of the value of the minerals in question shall be imposed on such person. In such case, the amount of the penalty shall not exceed the maximum penalty set forth in the law on Administrative responsibilities;

- 2) A penalty of from 10,000 to 60,000 togrogs shall be imposed in the case of the non-timely submission of statements set forth in Article 39 of this law or the submission of false statements;
- 3) Prevention of a license holder from exercising rights conferred by this law shall give rise to the imposition of fines as follows:
 - a) with respect to citizens, from 10,000 to 40,000 togrogs;
 - b) with respect to officials, from 20,000 to 60,000 togrogs;
 - c) with respect to organizations and legal entities from 100,000 to 250,000 togrogs.
- 4) Failure of a license holder to comply with obligations with respect to the conduct of activities under a license as set forth in Chapter 4 of this law shall be fined as follows and, in addition, such license holder must pay for any damage resulting from such failure:
 - a) with respect to citizens, from 10,000 to 50,000 togrogs;
 - b) with respect to officials, from 20,000 to 60,000 togrogs;
 - c) with respect to organizations and legal entities, from 50,000 to 250,000 togrogs.
- 5) Failure of a license holder to comply with legitimate requirements imposed by a geological and mining inspector with respect to the elimination of deficiencies discovered in the course of exploration or mining shall be fined as follows:
 - a) with respect to citizens, from 15,000 to 50,000 togrogs;
 - b) with respect to officials, from 10,000 to 60,000 togrogs;
 - c) with respect to organizations and business entities from 50,000 to 250,000 togrogs.
- 6) Where a license holder continues to violate laws with respect to environmental protection, mine operation safety regulations, or the provisions of its environmental protection plan, the exploration and mining activities of such a holder be suspended for up to 60 days, and if such deficiencies are not eliminated within this period, the exploration activities of the license holder shall be terminated or, in the case of an operating mine, the mine shall be closed.
- 7) A legal person who has intentionally decreased, or attempted to decrease, disclosures with respect to sales revenue shall be fined from 100,000 to 250,000 togrogs and be required to pay any unpaid royalties due with respect to the shortfall and, in addition, a penalty equal in amount to such unpaid royalties.
- 8) Any legal person who has failed to comply with the regulations with respect the assaying and registration of precious metals and gemstones as provided by this law shall be fined from 100,000 to 250,000 togrogs.
- 9) Where a mining license holder has intentionally reduced the volume or amount of minerals extracted, or has intentionally reduced sales revenue by intentionally reducing the sales price by entering into a fictitious contract, or by selling the product at an unfair price, such license holder shall be fined 100,000 to 250,000 togrogs and the amount by which the revenue has been understated shall be paid by such license holder to the State treasury.

10) If the OGMC fails to make a decision within the time limit set forth in paragraph 9 of Article 14 of this law, it shall pay the applicant an amount equal to the processing fee for each ten (10) days such failure continues or, at the request of the applicant, such amount shall be deducted from the first year's license fee.

11) If the OGMC fails to make a decision within the time limit set forth in paragraph 6 of Article 17 of this law, it shall pay the applicant an amount equal to the processing fee for each day such failure continues or, at the request of the applicant, such amount shall be deducted from the first year's license fee.

12) Any other penalties provided for by law.

2. A court may impose a fine of up to 30,000 togrogs on any person who intentionally prevents an authorized official from performing his or her duties in the course of an inspection.

3. If the license holder did not pay the license fee within the period specified in the article 25 of this law, a penalty equal to the 0.5% of the total unpaid amount shall be paid for each expired day. */This paragraph was added by the Law of January 8, 1999/*

CHAPTER NINE

Structure and Composition of Agencies Responsible for Implementation of Mineral Related Legislation

Article 53. Geological and Mining Inspection Agency

The state monitoring on the exploration and mining activities shall be organized and implemented by the professional inspection institution in the central level, and by the inspection divisions in the local level. */This article was re-edited by the Law of September 1, 2000/*

Article 54. Geological and Mining Development Agency

The GMDA is the implementing agency of the State central administrative body in charge of geology and mining activities and includes three divisions: the Office of Geology, the Mining Office, and the OGMC.

The GMDA shall carry out its activities independently from the professional inspection institutions. */This paragraph was amended by the Law of September 1, 2000/*

Article 55. Office of Geological and Mining Cadastre

The OGMC shall have the following functions:

1. to receive, register and make decisions with respect to applications for licenses;
2. to maintain the register of licenses;
3. to maintain the cartographic register of licenses;
4. to issue exploration and mining licenses;
5. to collect and distribute application processing and license fees in accordance with applicable laws and regulations;
6. to receive and register applications for prospecting;
7. to review and resolve boundary disputes between and among license holders;

8. to provide interested persons with access to the register of licenses and the cartographic register of licenses and to notify relevant government agencies of changes in these registers, and to publish official notices informing the public of such changes.

Article 56. Office of Geology

The Office of Geology is responsible for providing the State central administrative body in charge of geology and mining with information for the development of policies and programs with respect to geology and related research, the conducting of such research, and the following other activities:

1. regional geological and hydro-geological mapping of Mongolia and related geophysical research;
2. research on the patterns of distribution and types of occurrence of mineral resources within the territory of Mongolia and the evaluation of such resources;
3. geo-ecological research and recommendations with respect to natural and human factors that may have an impact on the social and economic development of Mongolia;
4. providing interested persons with all available geological and mining related information, including information provided by license holders in accordance with this law, except for information classified as confidential;
5. maintaining and up-dating the information fund with respect to national geological and related resources.

Article 57. Mining Office

The Mining Office is responsible for providing the State central administrative body in charge of geology and mining with information and research on the development of the mining sector and for conducting of research with respect to the following matters:

1. evaluations and recommendations with respect to technology and equipment used in the mining industry, and implementation of mining technology policy;
2. creation of a favorable investment environment for the mining sector and evaluations and recommendations with respect to the existing investment environment;
3. research, evaluations and recommendations with respect to the impact the mining industry has on the social and economic development of Mongolia;
4. research on the supply, demand and prices of mining products, and forecasting of long-term trends;
5. development of proposals with respect to State policies with regard to particular mining projects, and implementation of such a policies.

CHAPTER TEN

Other Provisions

Article 58. Notification of Interested Persons

1. The State administrative body in charge of the issuance of licenses, their registration, and the monitoring of activities of license holders, shall notify relevant persons of its decisions by means of an official letter.

2. Such notices may be delivered to relevant persons in writing or by means of an official publication. In the event of a dispute with respect to the timing of the delivery of the notice, the date of the official publication shall be deemed to be the date of delivery of the notice.

Article 59. Payment of fees

With respect to license fees specified in this law in US dollars, the official exchange rate for the particular day established by the Mongolbank shall be used.

Article 60. Access to minerals related information and reports

1. Any interested person shall have a right to have access to the file of license applications, the register of licenses, and the cartographic register of licenses during office hours in specially designated rooms.
2. Reports of exploration work prepared by a license holder, information with respect to mine operations, and feasibility studies shall be treated as the license holder's confidential information.
3. Information classified as confidential shall not be disclosed, published or disseminated except in accordance with provisions and procedures established in the Law on State secrets, the Law on Organization secrets, and the Law on Private secrets. An interested person shall have a right to have access to minerals related information not classified as confidential during office hours in specially designated rooms.

Article 61. Distribution of royalty revenues

All royalty payments shall be deposited in the treasury of the central and local administrative bodies. */This article was amended by the Law of December 27, 2001/*

Article 62. Use of license fees

All license fee payments shall be deposited in the State central treasury.

Article 63. Specifics of mining industry finance and accounting

1. All costs incurred for exploration, and all expenses incurred in preparing a mine site for production, shall be amortized on a straight line basis over a period of five (5) years commencing with the tax year in which production from the mine commences.
2. The costs of acquisition of a license, either directly or by transfer, shall be amortized on a straight line basis over the term of the license.
3. Fixed assets used in mining operations shall be depreciated on a straight line basis over a period of five (5) years.
4. A loss incurred in any tax year may be deducted from taxable income during the three (3) tax years following the year in which the loss was incurred.
5. All costs incurred in developing industrial and social infrastructure shall be depreciated on a straight line basis over the useful lives of the facilities constructed. All costs of

maintaining and operating such infrastructure facilities shall be expensed in the year in which such costs are incurred.

6. All maintenance costs in connection with mining operations shall be expensed in the year in which they are incurred.
7. The Ministry of Finance shall adopt regulations implementing paragraphs 1 through 6 of this Article.

Article 64. Processing Fees

An applicant shall pay the specified processing fee when submitting an application to obtain a license, transfer a license, extend the term of a license, pledge a license, transfer a license pursuant to a pledge, or to surrender all or part of a licensed area, and when requesting the resolution of a boundary dispute.

Article 65. Coming into force of the law

This Law shall come into force on 1 July 1997.

Chairman of the State Ih Hural of Mongolia

R. Gonchigdorj