

**COOPERATION AGREEMENT
BETWEEN KHOVD AIMAG AND MOENCO LLC**

On March 6, 2014, this cooperation agreement (hereinafter referred as 'Agreement') is made by and between

- (i) Hovd Aimag, represented by D.Tseveenravdan- the Aimag Governor (hereinafter referred as 'Khovd aimag') from one part ; and
- (ii) MoEnCo LLC , represented by James Dolan – Country Director of MoEnCo LLC (hereinafter referred as 'Company') of the other part (together hereinafter referred as 'Parties')

THE PARTIES ENTERED INTO THIS AGREEMENT IN CONSIDERATION THAT:

MoEnCo LLC is the special mining license holder of the Khushuut Coal Mine in Darvi Soum of Khovd aimag.

For successful implementation of the Khushuut Project, the Parties will provide a pleasant investment environment in joint efforts from all aspects; to ensure the mining operation to be conducted eco-friendly with minimal negative impact on human health and safety and to restore the environment. To make contribution to the Khovd aimag social and economical developments by implementing MoEnCo LLC's planned projects' investment and construction activities step by step, the Parties are both aiming for transparent and productive cooperation and to increase job opportunities and support the small-size companies,

Khovd aimag is to ensure the normal operation of the Project without any obstacles but within framework of the law and the Company is to ensure regular operation in the concept of a responsible miner in the implementation of its targeted projects. Parties hereby agree to the following terms and conditions.

1. General basis

- 1.1 The purposes of this Agreement are to provide pleasant environment for further implementation of the Khushuut Project investment and construction; to improve cooperation of the Parties in the approach of increasing local and social productivity and economy; and to set out the Parties rights and obligations.
- 1.2 Matters related to this Agreement will be settled by according to the Mongolian Constitutions, Mineral Law, Administrative and Territorial unit and governance Law, Investment Law and other related laws, regulations and international convention.

2. Definitions of terms

Terms will have following meanings unless otherwise specified in the law:

- 2.1 "Licensed area" means the identified area in the Term 6.1 of this agreement;
- 2.2 "Project" means all the infrastructure development and construction works and the major operation with regard to the Khushuut Coal Mine as specified in the MoEnCo LLC special mining licenses which are issued under the laws and regulations of Mongolia.
- 2.3 "Mining infrastructure" means a mine road, culverts, site, channels, power sub-station, communication, water and heating pipelines and constructions and facilities;
- 2.4 "Major operation field" means the operation specified in the Term 7.1 of this agreement;
- 2.5 "Contractor" means a company or legal entity or individual contracted with the Company to perform a part of its major operation;

- 2.6 "Targeted Soum" means the soums directly affected by activities of Khushuut Project;
- 2.7 "Local legal entity" means legal entities registered at Khovd aimag tax agency.
- 2.8 "Exported coal" means coal volume successfully pass Mongolian customs into China territory.

3. Principles of Cooperation

Parties will cooperate under concepts as follows:

- 3.1 to ensure transparency of information and avoid any conflicts of interests;
- 3.2 to contribute efforts for the successful implementation of the Project and perform ones' duties honestly;
- 3.3 information relating to Project activities to be received and responded in the timely manner upon demands and request; and
- 3.4 to respect the interests and works of each Party and also to comply with the law.

4. Parties' relations

In connection with this agreement, the Parties will communicate under the principles as follows:

- 4.1 Cooperation of Khovd aimag and the Company will be regulated by this Agreement only and this Agreement is signed at the Aimag level.
- 4.2 Khovd aimag will involve representatives from project targeted soums, aimag and other soums and apply local and stakeholders initiatives into the agreement as it establishes the Cooperation Agreement. The Agreement shall be established by the Governor of the Aimag within framework of the Policy document discussed and approved by the Aimag Civil Representative Meeting
- 4.3 Company will cooperate with targeted Soums for the implementation of this agreement within framework of laws and regulations of Mongolia.

5. Term of the Agreement

- 5.1 This Agreement will be entered for a term of three years, from February..., 2014 to December 31, 2016.
- 5.2 Parties will discuss on further extension of the Agreement starting 30 days prior to expiration date and decide to extend or not.

6. Licensed area

- 6.1 MoEnCo LLC is granted by MRAM with special licenses numbered 4322A, 1414A, 5289A, 11888A, 11887A, 6525A, 1640A where the Khushuut deposit existed and located in Darvi Soum of Khovd aimag, for the purpose of mineral exploration and mining. The Licensed Area refers to the coordinates indicated in the Appendix A of this Agreement.

7. Company common rights and obligations

The Company has common rights and obligations as follows:

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- 7.1 to explore mineral in the licensed areas, to mine in the most efficient and effective manner, to process and make production, to transport and sell it and to carry out all other related operations as allowed under the Minerals Law.
- 7.2 Mineral resources to be fully used and not to do selective mining for maximizing profit.
- 7.3 to construct necessary industrial infrastructures and facilities, to provide employment opportunities to the local citizens and to train labor forces.
- 7.4 to operate its main activities ensuring community health & safety and in a eco-friendly manner.
- 7.5 take measures to protect soil, plant, water resources, rivers and animals adjacent to, mine facilities, mine and roads according to the detailed environmental impact assessment plan and carry out necessary rehabilitation.
- 7.6 to pay state and local tax, fee payments to budget in the a term as required by the law.
- 7.7 to engage competitive local enterprises registered at the local tax office for project's procurement and services.
- 7.8 to get necessary permission from local administrative bodies and officials and to get supported on Project issues.
- 7.9 to support community development and educations financially or in all other ways and to monitor the performance of the Program.
- 7.10 domestic coal supply to local citizens and organizations will be organized in cooperation with Khovd aimag. Domestic coal to be supplied from 1st of August of every year until the 30th of March of the following year without disruption. The Company is under no obligation to supply Domestic coal if the mine operation is interrupted or stopped not caused or initiated by the Company but because of local people or government reasons.
- 7.11 inform Project information to local administrative organizations and local community in the timely manner and liaise with them.
- 7.12 to issue the mining transparency initiative report and inform public on a half and full year basis.

8. Khovd aimag common rights and obligations

Khovd aimag has common rights and obligations as follows:

- 8.1 to provide Project support within the frameworks of legislation, to distribute actual information about the Project to local society and quarterly inform about the Project to the Governor's council and at the Civil Representative Council's meetings for appropriate actions.
- 8.2 to provide support on issuance of necessary permits for detailed coal and water exploration of drinking and industrial consumption, environmental evaluation for building mine, factories, settlement and control within the frameworks of the law.
- 8.3 to control and cooperate on execution of an approved environment impact assessment plan.
- 8.4 manage and issue permits within the frameworks of the law for earthwork of construction and land permits for building plants, mine, roads, settlement and its power, heating, water/waste, water distribution system and culverts & bridges

- 8.5 to cooperate with the Company on arranging training for local unemployed citizens and providing them with jobs.
- 8.6 to cooperate and support within the frameworks of the related law on getting foreign labor force during for Project work execution.
- 8.7 to organize professional and civil organization's investigation work during the Project.
- 8.8 Provide support to get resolved issues addressed by the Company in relation to the Project at relevant government organizations.
- 8.9 the Parties to cooperate on the execution of the domestic coal supply to local citizens and organizations.

9. Main Operations

- 9.1 The Company will implement the main operations as stated in 7.1 of this agreement, in the scope of the laws and regulations, and with the support from local administrative organizations.
- 9.2 The Company will enter a contract with mining contractor company in the beginning of 2014, after the Agreement gets into effect, and to commence stripping work, and mining operation by the second quarter of the year.
- 9.3 The Company will operate its Project in compliance with the relevant laws and regulations.

10. Tax Environment

- 10.1 The Company will pay taxes and fees in compliance with the Taxation Law to the state and local budgets.
- 10.2 Khovd aimag will impose taxes in compliance with the laws and regulations to the Company which is implementing Khushuut Project, the Contractor and their employees in the non-discriminating manner.
- 10.3 If the taxes, especially its amount, tax requirement, which imposed on the Company by local authorities are higher than taxes that are imposed to other enterprise, company, taxpayers, and employees, then the tax imposition will be considered as discriminated and shall be adjusted immediately.
- 10.4 Khovd aimag has no right to demand to pay taxes to the local budget in advance.

11. Environment, water utilization and land relations

- 11.1 The Company will ensure fulfillment of Articles 35 and 37 of the Minerals Law, regarding the Environmental Conservation.
- 11.2 The Company will ensure the use which is not exceeding soil pollution level from permissible amount, and the restoration such as backfilling of damaged soil, earth, leveling, planting to be available for public usage.
- 11.3 The Company will pay for use of surface water and underground water used for industrial and mining purpose in accordance with the applicable laws, and to allocate it to local budget. And the water usage terms will be same as other water consumers.
- 11.4 The Company will supply drinking and household usage water to Khushuut bagh, which is under direct impact of the Project, until Khushuut bagh resettlement has been completed.

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- 11.5 Khovd aimag will issue permits to the Company regarding water usage required for the Project in accordance with the relevant laws.
- 11.6 The Company will avoid using underground water for the dust elimination purpose on site and during mining for the Project operation, in order to consume water resource properly. The Company will study options including the construction of a water dam for better utilization of the surface water for industrial use.
- 11.7 The Company will plant trees in the same size of area which is stripped in association with present mine plan, as according to the Environment Restoration Plan. And Khovd aimag will determine the location of it.
- 11.8 The Company will obtain the Land Use Permits relating to land required for implementing the Khushuut Project such as a road, generation and usage of electricity, water supply, for building infrastructure construction facilities, in compliance with Land law and regulations, and the Khovd aimag will assist the requests made in these regards, and will settle the request in compliance with relevant laws.
- 11.9 The Company will be responsible for rehabilitation fee of its mined area.
- 11.10 Land use payment will be imposed in the non-discriminating manner.
- 11.11 Aimag will not issue land permission to any other third party on the Company lease area.

12. Infrastructure

- 12.1 MoEnCo LLC has invested a substantial amount of investments on the Khushuut Project, as of the day of this Agreement being effective, these include, among others, site infrastructure facilities: site employees' camp, maintenance shops for heavy machineries, office building, customs bonded yard, coal weigh bridge, power and heating lines and equipments and a dry processing plant and a 311 km long asphalt concrete paved road from Khushuut – Yarant road, 3 km long Bulgan road and 1,8 km long Uench road. The Parties hereby acknowledge and confirm that, these investments are the necessary infrastructural base conditions to implement this Project, successfully.
- 12.2 The Company will build the dry processing plant and get its commission it by the beginning of 2014, in order to increase benefit of the Project, to improve coal quality, and to save transportation cost. The Khovd aimag will provide its assistance to facilitate such commissioning.
- 12.3 The Company will buy 10 pieces of generators with capacity of 3 MW between 2013-2014, in order to supply power for short and medium term of the Khushuut Project and will build a facility and get it commissioned.
- 12.4 Khovd aimag will issue permits required for the power supply, as stated in 13.3 of this Agreement, to the Company in accordance to the law, without any obstacles.
- 12.5 The need, capacity, location and economical efficiency of Power station, expected for supplying power to Khushuut Project and Khovd aimag, will be studied in liaise with Working Group which is appointed by Khovd aimag and its further steps will be determined. Also, other potential power resources and central power network of Khovd aimag will be investigated.
- 12.6 In the event, the company uses local power grid, then the power source should be provided at commercial and non-discriminatory rate, and any additional power supply

required by the Project should meet conditions such as stable, continuous and uninterrupted service.

- 12.7 The Company will build a customs bonded yard, based on an advanced new technology, by its investment regarding the commissioning of DPP, and Khovd aimag will provide support to obtain required permits.
- 12.8 If a coal handling yard is necessary for Project activity, Company will build it and ensure its normal operation jointly with Khovd related government agencies. The Company should not be forced to use any third party re-handle yard.
- 12.9 The Company will commence step by step implementation of the Khushuut Relocation Project in collaboration with the Aimag starting May 2014 and complete it in accordance with a Plan that will be developed by the Working Group appointed by the Civil Representative Khural of the Aimag.

13. Road usage, protection

- 13.1 The Company will use the 311 km long road from Khushuut to Yarant ("Auto Road"), which was built within the Project framework, for the Project operations and let locals to travel freely, if they do not disrupt the normal Project operations. If the road is used for the purpose of trade and industry, it will be used by the tariff negotiated with the Company.
- 13.2 The Company will be responsible for the full Auto Road insurance and perform its maintenance, service on its own cost. Preference of road maintenance contractor shall be given to a Mongolian company which is technically competence and price competitive.
- 13.3 The Parties will cooperate with the Police Department on the matters related to regulation of the road traffic; appointment of relevant patrol and station; and ensure traffic safety at the Auto Road.
- 13.4 The Parties will negotiate and decide on Auto Road ownership and utilization during the Agreement period.

14. To support community development

- 14.1 The Company will implement programs to support local enterprises for the provision of goods and services to Khushuut Project, and to commence their operations, gradually, provide possibility to develop their business independently, and to increase comprehensive involvement.
- 14.2 To cooperate supporting and strengthening local small and medium businesses registered at the local tax department, including the procurement of meat, milk, vegetable, water, work uniform, the lease of bus and light vehicles and security service and supply of pastry and petroleum products required within the Project implementation. Local companies that are meeting the requirements to procure goods and services will be given a preference and if aimag business entities are eligible and meeting with the requirements, it will establish contracts.

The Company will consider the market prices of products and goods, quality and constant supply eligibility for it purchased products and goods from locals. The Company will cooperate by consulting in the manner of strengthening local entities and companies and providing the possibilities of supplying goods.
- 14.3 Aim to have no less than 70% of Khovd citizens will be employed in the Mongolian employees required for scope of the Project.

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- 14.4 Aim to have no less than 50% of transportation will be executed by Khovd aimag transportation organizations whose vehicles and drivers are suitable for transport, and will have technical quality guarantee and will include representatives of local transporters and the enterprises which have been officially registered in the local registration office. Aimag transportation auto road department will register enterprises which to perform transportation. Also it includes the MoEnCo LLC trucks registered under Khovd aimag.
- 14.5 600 million MNT shall be allocated into Khovd Khushuut development fund in 2014 in the following manner: (i) payment of fixed 300 million MNT shall be allocated when the Exported coal reaches 200 000 tons; and (ii) payment of 300 million MNT shall be allocated upon the Exported coal reaching 500 000 tons.
- 14.6 In 2014, when exported coal reaches 100 000 tons, then 0.6 (sixty cent) USD for each ton of coal exported shall be allocated to the Khovd Khushuut Development Fund. From the 9th month since the initial export started 1 USD shall be allocated into the above fund, whenever export tonnage exceeds 100,000 tons per month. If export tonnage is less than 100,000 tons per month, then 0.6 (sixty cent) USD shall be applied.
- 14.7 1 billion MNT shall be allocated into Khovd Khushuut development fund in 2015 in the following manner: (i) payment of fixed 500 million MNT shall be allocated when Exported coal reaches 500 000 tons from January 1, 2015; and (ii) payment of fixed 500 million MNT upon Exported coal reaching 1 000 000 tons.
- 14.8 Quantity of exported coal mentioned in Clause 14.5 to 14.7 shall be calculated based on registered by Mongolian custom's documentation. Parties shall calculate and confirm the quantity of exported coal at the end of every month.
- 14.9 Actual payments in Clauses 14.5 to 14.7 shall be payable to the Khovd Khushuut development fund within 30 days after confirmation by the Parties the quantity of exported coal when exported coal reaching the targets mentioned above.
- 14.10 All fixed and variable amount which will be allocated into the Khushuut Development Fund in accordance to Clauses 14.5 to 14.7 of the Agreement shall cover only 2014 and 2015. All fixed and variable amount which will be allocated into the above fund in 2016 will be mutually negotiated and agreed by the Parties in December 2015, in consideration of market conditions and mine operation.
- 14.11 For the purpose of supporting social and economic development of the Hovd Aimag the Hovd Khushuut Development Fund will be established by the parties and its regulation shall be discussed and approved by the Executive Meeting of the Ciivil Representative Khural of the Aimag for further execution.
- 14.12 Parties will cooperate and take measures to prevent illegal interruption and stoppage of the Project activities by the citizens and civil organizations.
- 14.13 If there is any interruption or stoppage of the operation for an aggregate of 14 days in a year in 2014 and 2015 not caused and initiated by the Company but because of local people or government reasons, any donation required to be made under clauses 14.5 to 14.7 above shall be stopped immediately and the Company is under no further obligations to pay. The Company is also entitled with the right to demand from Khovd aimag the reimbursement of all financing allocated under this Agreement if the Project operation in 2014 and 2015 was interrupted or illegally stopped for over 30 days in total in respective years. However, the reimbursement of financing allocated under this Agreement shall not be made if the Company does not fulfill its obligation under the Agreement.
- 14.14 If local people or organizations interrupt or illegally stop the normal operation of the Project during 2014, 2015 Khovd aimag shall be responsible in immediate

arrangement within 72 hours in appointing of working group with the aim to solve the raised issue at the place in collaboration with the Company.

- 14.15 “Illegal disruption and operation stoppage” stated under the 15.7 of this Agreement does not refer to peaceful demonstrations and gatherings organized within the law framework, with permission from the related authority under appropriate policy and procedure and claimed for implementing human basic rights given under the Constitution of Mongolia.
- 14.16 The Company will reserve no less than 10 million tons of thermal and lump coal throughout the mine life to be transferred to Khovd aimag for the future need of the local households and organizations, the coal calorie of which meets those usages.
- 14.17 The Parties will study and decide on if they cooperate on establishing Medium Scale Industry (MSI), using the thermal coal or supplying coal to the thermal plant which is building in the center of Khovd aimag.
- 14.18 MoEnCo within the scope of social responsibility with its own resources to construct protection fence and sidewalks, install lights, do greening work of roadsides between Nomin intersection and Bichigt post.
- 14.19 All other donation requests from local communities, aimag citizens and political parties outside of this Agreement will be rejected by the Company and those requests transferred to Khovd Aimag.

15. Operations guarantee

- 15.1 The Parties will implement the rights and obligation to provide all the conditions that the Project operate normally and make promotion about the Project to local society on a timely manner.
- 15.2 Khovd aimag will take measures to prevent citizens and NGOs to disrupt the Company’s operation illegally and disturb the normal operation and if such events occurs, Khovd aimag shall take immediate actions to stop it.
- 15.3 Khovd aimag will comply with appropriate laws and regulations as it takes actions indicated in the 15.2 of this Agreement and fulfills its obligation.
- 15.4 Khovd aimag will support to appoint a permanent police unit (consisted of no less than 2 police officers) on mine site on the purpose of ensuring a normal operation of Khushuut Mine.
- 15.5 The Company will receive and decide local people’s and the local authorities requests and inquiries in legal frame.

16. Dispute resolution

- 16.1 In the event of a dispute arising between Parties in relation to a matter under this Cooperation Agreement, it will be settled as indicated in 16 of this Agreement. The Parties agree not to settle any disputes through the court.
- 16.2 If a dispute arises between the Parties, the aggrieved Party shall give a written notice to the other Party. The copy of the dispute notice shall be delivered to the Working Group mentioned in clause ...of this Agreement.
- 16.3 The representatives of each Party appointed by the Working Group will negotiate and discuss the issues as soon as possible or within 5 working days in a friendly manner for the good in faith.

- 16.4 If the dispute is not resolved by the Representatives within 1 month, then the Parties shall agree on the appointment of independent Mediator with sufficient and relevant experience in the subject matter of the dispute.
- 16.5 If within 14 days the Parties are unable to agree on the identity of a Mediator, any Party to the dispute or representative of Working Group may request the Mongolian National Arbitration Court to appoint a Mediator and the Parties will agree to that appointment.
- 16.6 Despite the existence of a dispute or difference, each Party must continue to perform under this Cooperation agreement.

17. Default

- 17.1 The Parties agree that a breach of this Agreement by any Party shall not constitute the ground for termination of this agreement, unless material breach of contract obligation under Clause 14 is created a serious negative economic impact to the other Party.
- 17.2 If a Party breaches a term of this Agreement including any warrant and representation, a Party affected by the breach may give written notice of the breach to the Defaulting Party and Defaulting Party must remedy the breach within 30 days.
- 17.3 If breach is not capable of remedy the Defaulting Party must immediately take steps to avoid any repeat of the breach and advise the other Party of the steps taken or agree with the affected Party an amount of compensation.
- 17.4 Failing Agreement between the Parties compensation will be determined in accordance with the dispute resolution process in Clause 16.

18. Force Majeure

- 18.1 If a Party is unable to carry out any of its obligations under this Agreement due to an event of Force Majeure, then the affected Party will give to the other Party prompt notice. The notice must set out the details of the Force Majeure, the possible extent to which the affected Party will be unable to perform.
- 18.2 In the event of Force Majeure continues, the Party's obligation that affected by the event will be suspended and affected Party will not be liable for any failure to perform of delay in performance.
- 18.3 The affected Party will put all best endeavors to overcome or remove consequences of the event as quickly as possible and will give to the other Party updates and notice of recovering of normal conditions.
- 18.4 Force majeure means an event that is beyond the reasonable control of a Party, includes:
- war, insurrection, civil disturbances, blockades, riots
 - quarantine, earthquakes, storms, cyclones, floods, explosions, fires or lightning
 - Government Agency action or inaction
 - breakdown of machinery, equipment or facilities (unless caused by a failure by the affected Party to observe Best Practice), or shortages of material or equipment.
 - inclusion of the Khushuut Coal Mine as a strategic deposit by the government.

19. Change in Law

- 19.1 If there is a change in Law that will negatively affect the implementation of this Agreement, then one of a Party will give a notice to the other Party and promptly meet to negotiate in good faith and take a decision.
- 19.2 If any provision of this Agreement is found to be unenforceable for whatever reason, that provision will be severed from the Agreement, and the remainder of this Agreement will remain in force.

20. Agreement assessment

- 20.1 In January of every year Parties will be assess the implementation of the Agreement. If the Parties found that implementation of this Agreement is not sufficient, then Parties will discuss whether this Agreement shall be continued or not.
- 20.2 In case of necessity Parties can amend this Agreement through its Working group.

21. Miscellaneous

- 21.1 This Agreement will be valid upon the signing by the Parties.
- 21.2 This Cooperation Agreement contains the entire agreement between the Parties about its subject matter and supersedes all prior discussions and agreements made between the Parties.
- 21.3 If the authorized organization issued resolution to include Khushuut deposit to the Strategic importance deposit, then it shall be the ground to terminate this Agreement.
- 21.4 This Agreement will be executed in Mongolian language and original copies will be kept by the Parties.

AGREEMENT SIGNED BY:

ON BEHALF OF KHOVD AIMAG:

ON BEHALF OF MOENCO LLC:

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D. TSEVEENRAVDAN
GOVERNOR

.....

JAMES DOLAN
COUNTRY DIRECTOR

.....

M.AMARSANAA
DEPUTY GOVERNOR

.....

JAMSRAN OYUNCHIMEG
DIRECTOR OF LEGAL AFFAIRS

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