

Kyrgyzstan to compensate Stans Energy to the tune of \$118.2 million

At the end of last April, Stans Energy Corp. ('Stans', TSXV: HRE | OTCQX: HREEF), won its international arbitration case in the matter between itself



and the Government of the Republic of Kyrgyzstan at the Arbitration Court of the Moscow Chamber of Commerce and Industry. This week, the Court asked the State of Kyrgyzstan to compensate Stans to the tune of USD\$118.2 million. Stans gained more than 50% in Toronto trading, topping CAD\$ 0.20 per share even if the likelihood that the Government of Kyrgyzstan will abide by the Court's ruling is very slim. After all, the Kyrgyz government was given numerous opportunities to demonstrate their willingness to honor international business standards, and allowed the issue to move to the Courts. Nevertheless, Stans still has options and ways to apply pressure on the authorities in Bishkek. One of them involves Centerra, which operates the Kumtor gold mine in Kyrgyzstan, a frequent, which various factions within the Kyrgyz government have often used as 'punching bag' in their internal disputes.

Stans has the legal right to pursue any of the Kyrgyz State's foreign assets including its 32.7% stake, worth about some USD\$ 500 million, in Centerra. Stans has not announced any measures yet – after all it will give the Kyrgyz Government a

chance to abide by the ruling – but, clearly, Centerra appears to be likeliest option. With a gross domestic product (GDP) of about USD\$ 5.7 billion (2012) and annual per capita income USD 1,137 (2012), over 37% of Kyrgyzstan population lives below the poverty line: Kyrgyzstan a poor country. Kyrgyzstan relies for its survival on foreign investment in its most important asset, which remains the Kumtor gold mine, which alone accounts for 5.5% of GDP. Gold exports serve as Kyrgyzstan's main source of foreign currency. Yet Kyrgyzstan is considered to be one of the most democratic states in Central Asia. Its parliamentary democracy works reasonably well, compared to a region dominated by despots. This gives hope that some form of legal solution will be found such that Stans might be compensated.

Kyrgyzstan's growing relationship with Russia may also be useful, given that the Arbitration Court that has ruled in favor of Stans is in Moscow. Russia's President Vladimir Putin has to sponsor – to the tune of a billion dollars – the development of hydroelectric power stations, which is Kyrgyzstan's second largest source of wealth after its mineral assets. Russia's Gazprom, moreover, looking for ways to put pressure on the West in response to the Ukrainian crisis, will be more inclined to offer hydrocarbon resources, perhaps even taking over the ailing Kyrgyz gas network. The fact that the United States has left the Manas airport, which it used since 2001 in the 'War on Terror' (no less than the most important US aviation hub for the war in Afghanistan) has facilitated a gradual foreign relations policy aimed at closer ties to Moscow than Washington. As fragile as it is, Kyrgyzstan's economy cannot deal with more problems, which has made it even further bound to Russia after recently accepting USD\$1.2 billion in aid from Moscow.

Therefore, while Stans's possible pursuit of Centerra shares – for which there is a precedent: a Turkish company, Sistem, took 10% of the Kyrgyz government's Centerra shares – will

embroil it in more political/judicial issues with Bishkek, Moscow's legal pressure could be brought to bear. Indeed, Stans now has the authority to seize Kyrgyzstan's foreign assets as well as any capital transfers beyond its borders, including shipments of minerals such as...gold. In other words, Stans has sufficient means of applying pressure on Bishkek that it has a good chance of resolving the situation through negotiations. Centerra Gold, for its part, has always been able to keep the Kumtor mine up and running, no matter how difficult the political situation in Kyrgyzstan, even managing to received the Government's approval of its mine plan for 2014 – notwithstanding the five and a half months delay. Centerra had even threatened to close the Kumtor mine if it did not get the approval, after 17 years of activity, but it was able to exercise pressure because the Kyrgyz government needs the Canadian gold company's expertise to operate Kumtor and that a closure would have had serious economic and social consequences.

The Kutessay-2 field during Soviet times delivered up to 80% of the USSR's rare earth supply. Kutessay-2 contains up to 15 rare-earth elements, as well as lead, zinc, silver, bismuth, molybdenum, thorium, tin, and copper. In addition, it contains niobium, tantalum and hafnium. The only obstacle standing between Stans moving to full operation has been the Government's obstruction, which has now been dealt by the arbitration process.