

Stans Energy Trading Halt: Kyrgyz Legal Challenges are Baseless

✘ Stans Energy Corp. ('Stans', TSXV: HRE | OTCQX: HREEF) has announced that on April 3, 2013 trading of its shares resumed after a halt issued on April 1. The halt was prompted by a renewed effort by some Kyrgyz government members, and the Ministry of the Economy in particular, alleging that Stans, through its subsidiary 'Kutisay Mining LLC' improperly acquired the license to develop the Kutessay-2 deposit. To this effect, last March 4, the Kyrgyz Republic's legal representative formally withdrew an appeal against the Company in the Inter-District Court of Bishkek, which terminated all legal issues surrounding Stans' licence to operate at Kutessay-2, backing a previous verdict issued in Stans's favor to this effect last November. The Court essentially validated Stans' rights to the Kutessay-2 and its mining License Agreement.

Stans acquired a 20-year license for the development of the Kutessay-2 field in 2009, at the price \$860.000. Two years later the company completed the purchase of the local Kashkinsky plant of rare earth elements, specialized in the processing of rare earth elements from the Kutessay-2 field during Soviet times, delivering 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 government claims that "many mistakes were made [and that] the conditions were illegal." Stans has had to endure similar attacks before and it has regularly defended itself, producing all relevant documents filed since the outset of its venture

and remaining confident about its legal team's ability to successfully conclude this latest episode in the 'series'.

That confidence stems from the fact that Stans Energy has always adhered to Kyrgyz laws from the time of acquisition to the launch of operations. The Canadian government recently demonstrated its support for Stans Energy as senior representatives Bob Dechert; Parliamentary Secretary to Foreign Affairs Minister John Baird and the Trade Commissioner Marc Andre Savage from the Canadian Embassy in Bishkek met Kyrgyz government officials expressing full confidence in Stans' activities at Kutessay II.

Stans Energy acquired rights to re-develop the Kutessay II mine, which from 1960 to 1991, supplied some 80% of the former Soviet Union's rare earths. In late 2009, Stans acquired a 20-year mining license for Kutessay II, now fully within the jurisdiction of the independent Kyrgyz Republic. The deal was conducted transparently in accordance with Kyrgyz laws and legal procedures and approved by the Kyrgyz parliament, which implies that if the case were subjected to international arbitration, Stans would win it. In 2011, Stans also purchased the Kashka Rare Earth Processing Plant (KRP), which was used to process rare earths in the Soviet period when it was able to produce 120 different metals, alloys, and oxides. Until Lynas (ASX: LYC) started production last March, Stans was the only operational REE processing facility outside of China. Mining is crucial to the Kyrgyz economy and the fact that Stans legal wrangling have resumed just as another Canadian miner, Cemterra, operator of the Kumtor gold mine, has become entangled in government difficulties over licensing, further points to the highly political nature of the dispute. Kumtor's gold accounts for some 10% of Kyrgyzstan's GDP.

The factional politics have been having increasing repercussions on foreign owned businesses, mining ones in particular, in the form of populism and resource nationalism. The nationalist Ata Zhurt party has stayed outside the ruling

coalition, forming part of the opposition, but putting anti foreign enterprise pressure on the government. The Ata-Zhurt party shows hostility to foreign owned companies, in the hopes of intimidating them into abandoning the country. Opportunist political leaders then use foreign companies as scapegoats to gain stature and influence even as they drive away necessary investment.

The government is well aware of this risk and this is why Cemterra will not be nationalized and why Stans Energy will also succeed. It should be noted that the Kyrgyz' government is in dire need of investment and that the Kumtor mine is perhaps its biggest single source of revenue. The pursuit of legal disputes with foreign investors is self destructive as it will discourage others from even considering Kyrgyzstan. This suggests that, if common sense prevails, nationalization for Cemterra – and for Stans – remains out of the question. The government, in fact, took power last fall under a mandate to improve the investment climate in Kyrgyzstan, such as to attract rather than discourage foreign investment. In addition, while some opposition members have suggested the government revoke Stans' license and re-issue a competition for Kutessay II, there is the very important issue that such attempts have already been challenged and won in court.

The one conclusion in this situation is that some MP's are evidently demonstrating a lack of respect for the judiciary and its verdicts. Indeed, Stans Energy's reputation is intact and the attempts by some MP's to disrupt its operations, along with those of other foreign companies, have left all the damage to credibility on the side of the Kyrgyz Parliament – especially the government's Geological Authority – and the country's investment climate. Perhaps, the explanation for the odd behavior should be sought eastward from Kyrgyzstan. China has been investing billions in Central Asia. China needs security and stability to prevail in this crucial region as well as its fossil fuels and mineral wealth. This may have

prompted some MP's to pursue a 'better deal' with China. Conversely, China itself would prefer greater legal and political stability in Kyrgyzstan, which suggests that it could be more a source of solutions than volatility.