

Stans Energy can use the new geopolitical order in its quest for justice

☒ Stans Energy Corp. (TSXV: HRE | OTCQX: HREEF) announced that the Ontario Superior Court of Justice has issued an order prohibiting the Kyrgyz Republic and Kyrgyzaltyn JSC “from selling, disposing, exchanging, assigning, transferring, pledging or encumbering 47,000,000 shares in the capital of Centerra Gold Inc. (which is operating the Kumtor Gold Mine near Bishkek). Stans obtained the order as part of its efforts to enforce an international arbitration award issued by the Arbitration Court at the Moscow Chamber of Commerce & Industry against Kyrgyz Republic for US\$118,206,058.04. The Kyrgyz Republic has not paid the award nor are there any assurances that the Kyrgyz government will do so. However, by using Centerra, Stans can apply heavy pressure on the authorities in Bishkek. Centerra operates the Kumtor gold mine in Kyrgyzstan, 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.

Kyrgyzstan is a poor country and needs foreign investment to survive. To date, its most important asset is the Kumtor gold mine, which alone accounts for 5.5% of GDP. Gold exports serve as Kyrgyzstan’s main source of foreign currency. 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 receive 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.

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. Other than gold, Kyrgyzstan's growing relationship with Russia might be the most effective lever to engage in Stan's pursuit of justice – and rightful compensation, given that the Arbitration Court that has ruled in favor of Stans is in Moscow. Stan's Kutessay-2 project itself has Soviet roots. The mine and processing plant supplied some 80% of the USSR's rare earth needs including 15 rare-earth elements, as well as lead, zinc, silver, bismuth, molybdenum, thorium, tin, and copper. In addition, it contains niobium, tantalum and hafnium.

Russia, even as its involvement in the Ukraine crisis has alienated it from Western Europe, Canada and the United States, has been very active in cementing closer ties to the republics of Central Asia and China into something called the Eurasian Economic Union (EAO). Kyrgyzstan plans to enter the EAO by late 2014. Russia and Kazakhstan are already members. The EAO will pursue an ever more coordinated and common industrial and economic policy, which implies the adoption and enforcement of shared legal and regulatory systems.

Kyrgyzstan's President Atambayev said that he expects the EAO to "more easily and quickly solve regional problems [while gaining] enormous geopolitical advantages." Surely, the kind of geopolitical benefits Atambayev hopes to secure, implies equally important obligations, including those toward foreign owned companies operating in Kyrgyzstan's crucial economic sectors. Centerra is clearly the most important of these and, by linking its arbitration claim to Centerra, Stans Energy has a higher probability of a successful outcome.

The Eurasian Union aims not only to strengthen economic ties between the members, but also to promote a future political integration and it represents an element of considerable


significance in the international political scene. Moreover, the EAU will also bring Kyrgyzstan in the sphere of influence of the Shanghai Cooperation Organization (SCO), which was created in 2001 by Russia, China, Kazakhstan, Kyrgyzstan and Uzbekistan with the aim of ensuring regional security and fighting terrorism, separatism and extremism, defined the "three evil forces". In the future, Iran, Pakistan and even India might join, even if these steps will be complex, given the dispute between India and Pakistan on their respective borders. The SCO plans to challenge to American leadership in a region where the superpower has seen ever diminishing influence. The organization orbits around China, as its name indicates, marking the consolidation of the alliance between Russia and China, with its geopolitical and geo-energy considerations (including a Russian gas pipeline to China).

The SCO is the Asian answer to Western encroachment in the region and it is predicated on the restoration of what was once known as the 'Silk Road', linking it directly with Western Europe through Russia. The new Silk Road combines two powerful industrial centers in Chongqing in China with Duisburg in Germany, through Kazakhstan, Russia and Belarus, thus circumventing the more contentious areas south of the Caspian Sea as Afghanistan, Iran and Turkey. It could become the biggest 'mall' or 'bazaar' in the world, whose railroad cuts the time of shipping for five weeks only fifteen days. It might well lead to China becoming Germany's largest trading partner, which implies a major geopolitical shift. This explains the energy agreement with Russia, which is the only way that China can ensure a safe supply. 'The Economist' considers the SCO as "a kind of NATO led by China." This has also implications for the BRICS (Brazil, Russia, India, China and South Africa) economic bloc. Russian president Vladimir Putin has promised that he would lead BRICS to a new and closer level of alliance in 2015. In 2015 Russia will have the rotating presidency of the two main emerging economy blocs: the SCO and the BRICS. It should be stressed that at

present both structures are developing rapidly. SCO members have all backed the Russian position on the situation in Ukraine, endorsing the ceasefire agreement signed in Minsk and backing Putin's peace plan.

Evidently, Stans has garnered some powerful allies and it could still play a very productive role within the emerging geopolitical and economic landscape.

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.