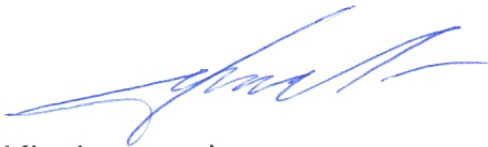


LAW FIRM “Kaiberen” LLC
89, Shopokova Street, the Kyrgyz Republic,
Tel.: (996) (0770) 88-15-88

To: Stans Energy Corp.
Attention: Robert Mackey, Boris Aryev
From: Temirbek Kenenbaev
Senior Partner
Date: 16 February 2011
Subject: Due diligence report
Pages: 16 (including this one)

Dear Sirs,

We are attaching Legal Due Diligence Summary Report of the “Kutisay Mining” Limited Liability Company.



Kind regards,
Temirbek Kenenbaev

LEGAL DUE DILIGENCE SUMMARY REPORT
of the “Kutisay Mining” Limited Liability Company

February 16, 2011

PART 1. INTRODUCTION

This Report will address certain aspects of the existence, operations and business of the “Kutisay Mining” Limited Liability Company, a legal entity established in accordance with the laws of the Kyrgyz Republic (“KR”).

This Report has been prepared by the lawyers of the Law Firm “Kaiberen”, specifically for the Company “Stans Energy Corp”, registered in accordance with the laws of Ontario, Canada, location of its office at: 8 King Street East Suite 205 Toronto, Ontario M5C 1B5 and contains our findings and comments up to and including February 16, 2011. This Report is based on our consideration of those documents with which we have been provided.

In this report the following terms and their abbreviations are used in this Report:

“**KR**” means the Kyrgyz Republic;

“**Government**” means the Government of the Kyrgyz Republic;

“**Ministry**” means the Ministry of Natural Resources of the Kyrgyz Republic;

“**Documents**” mean documents indicated and described in Annex No.2;

“**Company**” or “**Kutisay Mining**” means the “Kutisay Mining” Limited Liability Company, a legal entity registered in accordance with the laws of the Kyrgyz Republic.

“**Sole participant**” means the Company “Stans Energy KG”, registered in accordance with the laws of the Kyrgyz Republic, being the sole founder (participant) of the “Kutisay Mining” Limited Liability Company”.

SCOPE OF REVIEW, ASSUMPTIONS AND QUALIFICATIONS

Scope of review

We have confined the scope of our review to the following primary investigations:

1. Formation, validity and current existence of the Company;
2. Subsoil use rights claimed by the Company in the KR;
3. Liabilities of the Company for contracts with the third persons.

For the purposes of preparing this Report we have reviewed documents that were provided to us by the Company. We have not examined and, therefore, express no comment or opinion on or regarding any documents other than those referred to herein.

We emphasize that our investigations and observations, comments and findings on the primary investigations and ancillary matters are based upon the Documents provided to us, and the legal issues and legal considerations arising from our review of those Documents.

We have limited our review of legislation to the relevant laws of the KR, having regard to our scope of work. We have not reviewed or considered and, therefore, express no comment or opinion with respect to the laws of any other jurisdiction.

Assumptions and Qualifications

This Report is qualified by, and is subject to, the following limitations and assumptions:

- We have assumed the due execution and delivery, pursuant to proper authorization of the Documents, the genuineness of all signatures and seals, the authenticity and veracity of all original documents or copies of which we have reviewed, and the conformity of all copies reviewed to the originals of such Documents.
- We have assumed that none of the Documents have been amended, superseded, withdrawn, invalidated or cancelled; and that no proceedings or actions have been commenced to amend, challenge, contest or otherwise bring into question any such Documents.

PART 2. EXECUTIVE SUMMARY

This executive summary summarizes the main issues and findings identified by our due diligence investigation. More detailed descriptions of these issues are provided (and in some cases repeated) in the corresponding sections of this Report.

COMPANY

The Documents indicate the following structure:

Canadian Company → **Kyrgyz Company** → **Kyrgyz Company**
“Stans Energy Corp” **“Stans Energy KG”** **“Kutisay Mining”**

The “Kutisay Mining” Limited Liability Company is a legal entity, duly established, validly existing, and acting in accordance with the laws of the Kyrgyz Republic. All relevant documents have been validly executed and belong to the Company and have been duly registered with the relevant issuing body.

On the basis of review of the corporate documents and official confirmations submitted by authorities, it is obvious that the Company is duly registered by the Ministry of Justice and it has not been liquidated.

According to the Charter, the Kutisay Mining is a legal entity, the sole participant of which is the legal entity – the Company “Stans Energy KG”, registered in accordance with the Laws of the Kyrgyz Republic, with the address: 42a, house, Ahunbaeva st., Bishkek city.

According to the Charter, the Company “Stans Energy KG” is a legal entity, the sole participant of which is the foreign legal entity – the Company “Stans Energy Corp”, registered in accordance with the Laws of Ontario, Canada, with the office location at: 8 King Street East Suite 205 Toronto, Ontario M5C 1B5.

SUBSOIL USE LICENCES AND CONTRACTS

The Company, in accordance with the licenses, has obtained full and exclusive rights for subsoil use with the aim of: (1) mining of rare-earth metals, bismuth, molybdenum and silver on Kutesai II deposit, and (2) mining of beryllium and bismuth on Kalesay deposit.

The right of the Company for mining in the KR is confirmed by the licenses of the Ministry:

(1) **License No. 2488 ME dated 20 September 2010** on Kutesai II deposit.

(2) **License No. 2489 ME dated 20 September 2010** on Kalesay deposit.

We established that these licenses are valid and in force and belong to the Company.

PART 3. LEGISLATIVE SUMMARY

This section summarizes the KR laws applicable to the Company and reviews rights on geological exploration works and mining of minerals.

3.1 Legal Status of the Company:

Kyrgyzstani law requires that the Charter of a legal entity indicates the name of the legal entity, the location of the entity's office, the entity's procedure for the management of its activities, as well as other information that is specific to the type of entity in question¹.

The Foundation document of the Limited Liability Company (LLC) is the Charter.

Entities, including LLC, are required to be registered with the Justice bodies of the KR.²

The size of the authorized capital of LLC is specified in the foundation documents of the Company at the own discretion of the participants³

Laws of Kyrgyzstan do not foresee the licensing the entrepreneur activity, however, special types of activities are regulated by laws and require licensing.

3.2 Subsoil use legislation

Rights provided by the license for geological research.

Geological research licenses of subsoil grant the exclusive right to the Company to conduct geological investigations within the licensed areas for a period of 2 years, if the terms of the license are met, this period is extended for up to 10 years.

In case of discovering of a deposit, the Company is granted an exclusive right to obtain a license to develop this mineral deposit.⁴

Rights provided by the license for the development of deposit.

This license for development of deposit grants the owner the exclusive right to study, open, prepare the deposit, extract and refine minerals, use waste of products, clearing (refining), and to sell and export all extracted minerals and products of extracted raw materials for a period stipulated by the technical passport, which shall not extend beyond 20 years. This period can be extended until the mineral deposit is exhausted.⁵

Grounds for suspension or termination of the rights

The laws of the KR on subsoil⁶ provide grounds for suspension and termination of the rights for subsoil use:

¹ See: Article 87 of the Civil code of the KR

² See: Article 86 of the Civil code of the KR

³ See: Article 38 of the Law of the KR "On business partnerships and companies" dated 15 November 1996, No. 60

⁴ See: Article 10 of the Law of the KR "On subsoil"

⁵ See: Article 11 of the Law of the KR "On subsoil"

⁶ See: Article 18 of the Law of the KR "On subsoil"

- (A) **Suspension.** The right for subsoil use shall be **suspended for a period of up to three months** in the following cases: (1) subsoil use for the purposes other than those specified; (2) default of the License agreement conditions; (3) Force-majeure (military conflicts, natural disasters etc.)
- (B) **Termination.** The right of subsoil use **terminates upon withdrawal (annulment) of the License** in the following cases: 1) where the geological exploration is completed, the mineral stock is depleted, and (or) the enterprise is liquidated; 2) where technologies are used for subsoil development that create a threat to the health and safety of employees and the population, and a threat of irreparable damage to environment and the loss of mineral stocks; 3) where within an agreed term in the License agreement a Feasibility study is not presented for execution of works as agreed with the state bodies on subsoil protection, technical safety and the owners of the land rights; 4) where within one year the user fails to start development of subsoil in the volumes provided by the terms of licensing; 5) where the user voluntarily withdraws or the term of the License expires.

Fiscal regime in subsoil use

Pursuant to the laws of the KR on subsoil: the Company holding the License for subsoil use, must pay to the state: 1) bonus - a single payment for subsoil use right with the aim of geological exploration; and 2) royalty - current payment for subsoil use right with the aim of minerals mining.⁷

The following shall be exempt from the payment of taxes on subsoil use: (1) a landowner or land user extracting the generally found minerals and withdrawing underground waters for purposes other than business activities on the land plot owned or used by him for his personal use; (2) a subject that received subsoil plots for creation of the specially protected natural territories of a special ecological, conservation, scientific and historical cultural significance; (3) a subject engaged in processing waste products of mining, mineral and metallurgical production; (4) subsoil users carrying out geological, geophysical and other activities aimed at subsoil study, as well as forecasting earthquakes, engineering and geological study, geo-ecological study, control over underground water regime, and also other works without affecting integrity of the subsoil.⁸

Bonus. The tax base for bonus calculation is the quantity of reserves at the mineral deposit sites, including the quantity of incremental reserves as a result of commercial production of the pool during geological survey and development of the site. The bonus rate and the bonus calculation procedure shall be established by the Government of the KR.⁹

The bonus taxpayer shall submit the relevant calculations to the tax body and pay bonus within 30 days from the day of receipt of the license for exploration and development of a mineral deposit. If the originally established volume of mineable reserves increases during the process of additional exploration of the deposits, the bonus tax liability shall be recalculated. In this case, the bonus tax liability shall be discharged no later than the last day of the month following the month in which the increased volume of mineable reserves is registered.¹⁰

Royalty. The tax base for royalty shall be: (1) income less VAT and sales tax, received from the sale of mineral resources and of the products received as a result of mineral resources processing; (2) in kind volume of the products sold; (3) volume of underground water withdrawn, according to water gauges – for the royalty tax payers other than specialized water supply organizations¹¹.

⁷ See: Article 298 of the Tax Code of the KR ,and also Article 3 of the Law " On subsoil";

⁸ See: Article 300 of the Tax code of the KR;

⁹ See: Articles 303-305 of the Tax code of the KR;

¹⁰ See: Article 306 of the Tax code of the KR;

¹¹ See: Article 309 of the Tax code of the KR;

The royalty rate shall be determined based on the volume of sales of gold, silver and platinum given the incremental reserves: (a) 5% for mineral deposits with the reserves exceeding 10 tons; (b) 3% for mineral deposits with the reserves from 3 to 10 tons; (c) 1% for mineral deposits with the reserves less than 3 tons. The royalty rate for the mineral resources and for the products received from processing of these mineral resources, not listed up in Tax Code of the KR, shall be established based on the income from sales of: (1) mineral resources – at 3%; (2) products of mineral resources processing – at 2%.¹²

The tax period for royalty is a calendar month. The taxpayer is obliged to file tax returns and make royalty payments by the 20th day of the month following the reporting one in the registration place.¹³

3.3 Negative impact of any environmental law violations

The laws of the KR state that the ecological requirements set out for the protection of nature are intended to apply to all entities, irrespectively of forms of ownership.¹⁴

Issues of protection of environment in the KR are regulated by the following laws:

- Law “On environmental protection” dated 16 June 1999 No. 53;
- Law “On ecological expertize” dated 16 June 1999 No. 54;
- Law “On public health care” dated 24 July 2009 No.248;
- Law “On waste of production and consumption ” dated 13 November 2001 No. 89;
- Law “On rate of payment for environmental pollution (discharge, disposal of polluted substances, disposal of waste) dated 10 March 2002 No. 32.

Kyrgyzstani law prohibits: (i) the importation of radioactive waste and materials from other states for the purpose of storage or burial (ii) the use of non-decomposing toxic of chemicals which negatively impact humans and the environment.¹⁵

The disposal of waste is permitted only in defined locations. Disposal of waste and sewage to underground water-carrying systems and public reservoirs is prohibited.¹⁶

Entities are charged payments for the discharge and disposal of polluting substances under Kyrgyzstani law. The rate of such payments is set by the law at a rate of 1,2 som for every 1 tonne of polluting substances disposed or discharged.¹⁷ “**Discharge**” and “**Disposal**” mean release to the environment (atmosphere, water, earth) of polluted substances from any source of pollution.¹⁸ “**Waste**” means waste of raw materials, semi-finished materials and others produced in economic activity.¹⁹ Thus, polluting entities must make the relevant payments if waste is discharged or otherwised disposed of during production.

In conducting geological exploration of subsoil, companies are required to maintain approved technological regimes, have and provide safe and effective water treatment systems, sets and means of control, disinfection and utilization of waste products, introduce ecologically safe technologies and production methods, make protective and rational use of lands, subsoil, water, atmosphere (air), forests, and re-cultivate natural resources of the area.²⁰

Companies shall also be responsible for maintenance of the established norms for subsoil use: maximum permissible concentrations of harmful substances in the atmosphere, water, land and

¹² See: Article 310 of the Tax code of the KR;

¹³ See: Articles 311, 313 of the Tax code of the KR ;

¹⁴ See: Article 24 of the Law “On environmental protection” dated 16 June 1999 No.53 (hereinafter Law “On environmental protection”)

¹⁵ See: Article 20 p.2,3 of the Law “On environmental protection”

¹⁶ See: Article 23, p 1 of the Law “On environmental protection”

¹⁷ See: Article 1 of the Law “On rate of payment for pollution of environment” dated 10 March 2002 No.32”

¹⁸ See: Article 2 abstract.5 of the Law of the KR “On environmental protection”:

¹⁹ See: Article 2 abstract 29 of the Law of the KR “On environmental protection”:

²⁰ See: Article 18 of the Law of the KR “On environmental protection”

subsoil, as well as norms for maximum permissible disposal of harmful substances. These norms are approved by the Government of the KR. Companies are required to make payments for the use of natural resources.

Payments for the use of natural resources include payments for the use of natural resources within the established limits, environmental contamination and other negative impact on the nature - discharge, disposal of polluted substances, dispose of waste and others and negative impact on the nature.

In the case of the Parties who cause harm to the environment must, in addition to obligatory payments, pay compensation for the harm caused. The actual damage, as well as the lost benefits of the environment will be taken into account.²¹

In the case of ecological regulation violations, the Company and its officials shall bear disciplinary, administrative, criminal, and the civil-law responsibility.

3.4 Regulatory approvals

3.4.1. Search, exploration and exploitation of deposit of minerals is the type of licensed activity.²²

All types of mineral resources use, including underground fresh water and mineral water, except small deposits of generally found minerals, sited on lands, being in municipal and private property, as well as nonproductive placer occurrence of minerals, developed by individual prospector is subject to licensing.

Organization of the state system of licensing is performed by the Ministry of Natural Resources of the KR and acting as the licensor.²³

Issues of licensing mineral resources use in the KR are regulated by the following main acts:

- Law of the KR "On Subsoil" dated 02 July 1997 No. 42;
- Regulations about the order of licensing use of subsoil approved by the Decree of the Government of the KR dated 15 August 2007 No.336;

3.4.2. Dangerous industrial objects are subject to obligatory registration in the state registry. The State Inspection on supervision of industrial safety and mountainous supervision under the Ministry of Emergency of the Kyrgyz Republic is the authorized body on industrial safety.

According to the laws of the KR the following objects are among dangerous objects, where:

- 1) Mining, works on enrichment of minerals and underground works are carried out.
- 2) Flux of ferrous and nonferrous metals, rocks and alloys on the basis of these fluxes are received.
- 3) Equipment, working under pressure of more 0,07 MPa or under temperature of heating of water 115 Celsius and more is used.
- 4) Fixed and movable loading mechanisms, escalators, cable ways and funiculars are used;
- 5) Inflammables, combustible, oxidizing, exploding, toxic and radioactive substances are received, made, reprocessed, used, stored, transported and destroyed, realized. The procedure of referring to dangerous industrial objects, where above-mentioned harmful and dangerous substances are used, set up by the Government of the Kyrgyz Republic;
- 6) Burial of waste of mining industrial, containing substances dangerous for vital activity of human being and environment are conducted.²⁴

²¹ See: Article 54 of the Law of the KR "On environmental protection"

²² See: Article 9 of the Law of the KR "On subsoil" dated 02 July 1997 No. 42;

²³ See: Regulations on the order of licensing subsoil users approved by the Government of the KR dated 15 August 2007 No.336;

²⁴ See: Article 3 of the Law "On Industrial Safety of Dangerous Production Objects" dated 19 October 2001, No.93

In accordance with the Laws of the KR technical equipment, including the equipment of foreign manufacture used in dangerous industrial objects are subject to certification of compliance to the requirements of industrial security and expertise of industrial safety.

3.4.3. In accordance with the laws of the KR the foreign persons perform labor activity in the territory of the Kyrgyz Republic on the basis of a special permission for employee, and the employer also should have a special permission for attraction of the foreign labor force.

Permission for work – is a document of the established model issued by the State Committee of the KR on migration and employment (hereinafter – State Committee) which confirms the right of the foreign citizens and persons without citizenship for performing in the KR of labor or entrepreneur activity.

Permission for attraction of the foreign labor force is a document of the established model issued by the State Committee and grants the right to legal entities and individual persons for attraction of the foreign labor force.

The issues of performing labor activity by the foreign persons in the KR are regulated by the following main acts:

- Law of the KR “On Foreign labor migration” dated 13 January 2006 No.4;
- Law of the KR “About legal status of the foreign citizens in the KR” dated 14 December 1993 No.1296-XII;
- Regulations on the order of performing labor activity by the foreign citizens and persons without citizenship in the territory of the KR approved by the Decree of the Government of the KR dated 8 September 2006 No.639.

The companies which violated the established order of attraction of foreign citizens for work in the KR make answer for such violation in accordance with the laws of the KR.²⁵

Foreign citizens and persons without citizenship arrived in the KR and performing labor activity without relevant permits issued by the authorized state body in the sphere of migration are subject to administrative punishment in accordance with the laws of the KR.²⁶

PART 4. COMPANY

4.1. Establishment, status

The Kutisay Mining is a legal entity duly established and validly existing and acting in accordance with the laws of the Kyrgyz Republic. The Kutisay Mining is registered with the Ministry of Justice as the legal entity. This fact is confirmed by the presence of: (1) Certificate on state re-registration, series YP No. 0090487, registration No. 109254-3301-000, OKPO code 26739100, issued by the Department of Justice of Bishkek city dated 17 June 2010 (date of initial registration is 09 February 2009); (2) Charter approved by the Decision of the Sole Participant dated 20 January 2010.

4.1.1 State registration

Certificate on state re-registration of the Kutisay Mining, Series YP No.0090487 dated 17 June 2010 issued by the Department of Justice of Bishkek city. This certificate is printed on the official letterhead and contains the signature of the Head of the Department and official stamp of the Department of Justice of Bishkek city.

The Certificate states that, that the Kutisay Mining is a legal entity established in the form of the Limited Liability Company, having the right to deal with financial-economic activity in accordance with its Foundation documents and laws of the KR. The legal address indicated in the Certificate

²⁵ See: Article 26 of the Law of the KR “On foreign labor migration” dated 13 January 2006 No.4 (hereinafter “Law on labor migration”)

²⁶ See: Article 27 of the Law of the KR “On labor migration”

is as follows: 42a, h., Ahunbaeva st., Bishkek city, Kyrgyz Republic.

The Certificate indicates that the Kutisay Mining is passed the tax registration and is given the identification tax number 00912200910055.

4.1.2. Charter

We examined the Charter of the Kutisay Mining, approved by the decision of the Sole Participant dated 25 January 2010. According to the Civil law of the KR, the Participant does not have ownership rights over the property of the Kutisay Mining, but possesses liability rights.²⁷

According to the Kyrgyzstani laws, the Kutisay Mining is liable for its obligations arising by virtue of its ownership of property. The Kutisay Mining is not liable for the obligations of its Sole Participant. In its turn, the Sole Participant also is not liable for the obligations of the Kutisay Mining and carries out the risk of losses connected with the activity of the Kutisay Mining, only is limited to the cost of its share.

Thus, we confirm that all relevant documents of the Kutisay Mining are correctly and validly executed and belong to the Kutisay Mining, and that the Kutisay Mining has been duly registered by the relevant issuing body (Department of Justice of Bishkek city).

4.1.3. Confirmation of registration body

There are no public registries through which valid existence of the Kutisay Mining can be examined in the KR.

We considered: (1) submitted official letter No. 03-6/834 dated 04 February 2010 issued by the Ministry of Justice of the KR, printed on the official letterhead of the Ministry and signed by the Deputy Minister of Justice, informing that the Kutisay Mining was initially registered on 9 December 2009 No.2300; (2) the Kutisay Mining was re-registered by the order of the Department of Justice of Bishkek city No. 2379 dated 17 June 2010.

On the basis of review of the corporate documents and official confirmations submitted by authorities, we conclude that the Kutisay Mining is a legal entity duly registered in the form of a closed joint stock company and it has not been liquidated or reorganized.

4.2. Management of the Kutisay Mining

4.2.1. Supreme body of management of the Kutisay Mining is the Decision of the Sole Participant. The Charter of the Kutisay Mining stipulates those issues and decisions which are to be made only by the Sole Participant:²⁸

- (1) definition of main directions of the Company activity;
- (2) making changes and (or) amendments of the Company's Charter, change of the authorized capital volume;
- (3) approval of the annual report and balance sheet of the Company, allocation of profits and losses of the Company;
- (4) appointment to the post and dismissal the General Director and auditor of the Company;
- (5) giving consent to the General Director of the Company on concluding by him a deal to the amount of 400 000 (four hundred thousand) som and higher;

²⁷ Acting Civil Code of the Kyrgyz Republic is based on principle according to which the Founders, upon establishment of a legal entity, transfer to it the property and lose their property rights for it. They do not possess property rights as well as in relation to the property, being purchased by the legal entity itself in frames of its industrial activity. Instead of the lost property rights the Founders shall possess liability rights: participate in management of LLC; receive information about activity of LLC; obtain part of profit of LLC in dividends, buy and sell shares and etc.

²⁸ See: p.6.2 of the Company Charter

- (6) creation and liquidation of representative office and branches of the Company;
- (7) creation of subsidiary companies or participation in subordinate Companies;
- (8) making decision on reorganization or liquidation of the Company, appointment of liquidation commission, approval of liquidation balance;
- (9) admission to the Company new participants;
- (10) any other issue, connected with production and other activity of the Company.

4.2.2. Executive Body. The General Director shall carry out management of current activity of the Company. The General Director has the right to act on behalf of the Company without the Power of Attorney and has the right to make decisions by any issues of its activity, except for those which are at the exclusive competence of the Sole Participant.²⁹

As of the date of this report, Mr. Savchenko Gennadiy Arkadievich, the citizen of the KR, occupies the position of the General Director of the Company. The authority of Mr. G.A. Savchenko to act on behalf of the Kutisay Mining is confirmed by the Decision of the Sole Participant dated 25 January 2010.

4.2.3. Supervision Body.

The Auditor is exercising the functions of the Supervision Body in the Kutisay Mining, who shall be elected from the number of members as well as from other persons, except the employees of the Company.³⁰

As of the date of this report, the obligations of the Auditor are performed by external auditor Canadian Company KPMG LLP.

4.3. Authorized capital

4.3.1. According to the Charter, the size of the authorized capital of the Kutisay Mining is 19 000 000 som (nineteen million).³¹

4.3.2. The Authorized capital of the Kutisay Mining is paid completely.

4.3.3. The sole participant of the Kutisay Mining, who owns 100% share, is the Kyrgyz company "Stans Energy KG".

We confirm that at the date of this Report, 100% share of Kutisay Mining in the authorized capital is duly paid and belong to the Sole Participant the Kutisay Mining – Company "Stans Energy KG".

4.4 Encumbrances

The Central mortgage registration office under the Ministry of Justice of the KR, which holds the Unified State Registry of assets subject to registered mortgage, shows that the Kutisay Mining has not pledged or assigned any property or assets as collateral for any mortgage.³²

4.5 Accountability

According to the laws of the KR, the Kutisay Mining is obliged to report to the bodies of tax inspection, Social fund, bodies of statistics relevant accounting.

We confirm that on 16 February 2011 the Company has not indebtedness by tax payments and insurance payments before the budget of the KR, the relevant reports are submitted timely by

²⁹ See: p.6.3, 6.4 of the Company Charter

³⁰ See: p.6.8 of the Company Charter

³¹ See: p. 4.1 of the Company Charter

³² See: Extract from the Unified Registry of the Central mortgage registration office under the Ministry of Justice of the KR dated 08 February 2011 No.22/04-4

the Company.³³

4.6 Antimonopoly regulation

We examined the information in the State Republican Registry on subjects of natural and permitted monopolies of the KR for 2010, which are subject to regulation of antimonopoly law of the KR, and also information of the State Regional Registry on subjects of natural and permitted monopolies of the KR for 2010. There is no information about the Kutasay Mining in the registry of this body.

Thus, at the date of this Report, the activity of the Kutasay Mining does not fall under regulation of antimonopoly law of the KR.

PART 5. SUBSOIL USE CONTRACTS

Pursuant to its Charter, the Company has all the rights and liabilities required to conduct of all kinds of activities permitted by the laws of the KR. The Charter also allows to conduct activity in the sphere of search, exploration and exploitation of deposits of minerals³⁴.

5.1 Subsoil Use Licenses

The right of the Company for mining minerals in the KR is provided by two licenses of the Ministry:

5.1.1. **License No. 2488 ME dated 20 September 2010** grants the Company the right for mining of rare-earth elements, bismuth, molybdenum and silver on Kutesay II deposit (Kemin district, Chui region), the term of validity of the License is up to 21 December 2029.

The conditions to the use of rights granted by License No. 2488 ME dated 20 September 2010 are established in the License Agreement No.2 dated 20 September 2010. These conditions should be performed till 31 December 2011. In particular, during this term the company must prepare Feasibility Study and submit:

- (1) Drafts of:
 - mining of Kutasay II;
 - ore-dressing plant, tailing dumps and other objects of infrastructure;
- (2) expert conclusions on Drafts in the part of:
 - (a) environmental safety;
 - (b) technical safety;
 - (c) protection and use of subsoil;
- (3) land allotment.

We are submitted the copy of the Information report of performed works on Kutasay Mining in 2010 and Program of works for 2011 ("Information report"), dated 30 December 2010, which was made by the Company to the Ministry. This document contains information on works, performed by the Company during drawing up the Feasibility Study and preparing the Draft of mining of Kutesay II.

The fact of obtaining the License Agreement No.2 to License No.2488 ME indicates that the Company executed all conditions of the License Agreement No.1 dated 21 December 2009 to License No.2488 ME.

³³ See: Letter of the Kutasay Mining No. 02/2011 km dated 10 February 2011

³⁴ See: Article 2 p. 2.2 of the Company Charter;

In the result of analysis of the License Agreement No.2 to License No.2488 ME and the Information report, we understand that in 2010 the Company conducted only preparatory predraft and certified works (control testing and technological sampling; engineering geological explorations; comparative recalculation of reserves of deposits in JORC Code; negotiations and conclusion of agreements on purchase of the raw material processing plant and objects of infrastructure and communications). Drawing up the Feasibility Study, development of Drafts, provided by the License Agreement No.2488 ME will be completed during 2011.

The Information report provided to us indicates that total production expenses of the Company on the Kutesay II mining in 2010 amounted 9,960 000 mln.som.

Thus, we confirm that the License No.2488 ME dated **20 September 2010 for the right to mine Kutesay II**, and **also the License Agreement No.2 dated 20 September 2010 were truly issued by the Ministry and owned by the Company.**

5.1.2. License No. 2489 ME dated 20 September 2010 grants the Company the right to mine the beryllium and bismuth on Kalesay deposit (Kemin district of Chui region), the term of validity of the license is up to 21 December 2009.

The conditions to the use of rights granted by License **No.2489 ME dated 20 September 2010** are established in the License Agreement No.2 dated 20 September 2010. These conditions should be performed till 31 December 2011. In particular, during this term the company must draw up the bank Feasibility Study and submit:

(1) Drafts of:

- mining of Kalesay;
- ore-dressing plant, tailing dumps and other objects of infrastructure;

(4) expert conclusions on Drafts in the part of:

- (d) environmental safety;
- (e) technical safety;
- (f) protection and use of subsoil;

(5) land allotment.

We are submitted the Information report, which contains the information on works, performed by the Company during drawing up the Feasibility Study and preparing the Draft of mining of Kalesay deposit.

The fact of obtaining the License Agreement No.2 to License No.2489 ME indicates that the Company executed all conditions of the License Agreement No.1 dated 21 December 2009 to License No.2488 ME.

In the result of analysis of the License Agreement No.2 to License No.2489 ME and the Information report, we understand that in 2010 the Company conducted only preparatory predraft and certified works (control testing and technological sampling; engineering geological explorations; comparative recalculation of reserves of deposits in JORC Code; negotiations and conclusion of agreements on purchase of the raw material processing plant and objects of infrastructure and communications). Drawing up the Feasibility Study, development of Drafts, provided by the License Agreement No.2 to License No.2489 ME will be completed during 2011.

The Information report provided to us indicates that total production expenses of the Company on the Kalesay mining in 2010 amounted 6,470 000 mln.som.

Thus, we confirm that the License No.2489 ME dated **20 September 2010 for the right to mine Kalesay**, and **also the License Agreement No.2 dated 20 September 2010 were truly issued by the Ministry and owned by the Company.**

5.1.3. Permits and environmental issues

This section contains general review of conformity of the Company to licenses and permissive authorities, and includes issues on protection of environment. For these purposes, we examined licenses and permits, submitted to us.

According to the License Agreement No.2 to License No.2488 ME dated 20 September 2010 and No.2 to License No.2489 ME dated 20 September 2010, the Company up to 31 December 2011 must provide obtaining in the relevant state bodies of the KR the expert conclusions for Drafts of mining of Kutesay II and Kalesay in the part of protection and use of subsoil, ecological and technical safety.

5.1.4. Revegetation of lands

Since the License agreement No.2 to License No.2488 ME dated 20 September 2010 and No.2 to License No. 2489 ME dated 2010 does not stipulate obligation of the Company to return back areas, we consider that on this stage of works the Company have the right not to make re-vegetation of previous mountainous excavations. This obligation shall be subject to re-vegetation during return of areas.

PART 6. FIXED ASSETS, BUILDINGS, MACHINERY AND EQUIPMENT

Documents state that the Company possesses office equipment of book value of 48 775 som and furniture of book value 36 153 som³⁵

In 2010 the Company concluded with the “Kyrgyz chemical metallurgical plant” OJSC the agreement on purchase of several shops of this plant in the amount of 5 500 000 (five million five hundred thousand) USD. It is expected that the deal on purchase of these assets will be completed in March-April 2011.³⁶

PART 7. LOANS and CREDITS

According to the information presented by the Company on the date of this Report, the Company has indebtedness in the size of 25 417 000 som to the Sole Participant.³⁷

PART 8. LABOR ISSUES

The Labour Code of the KR, other laws and other normative acts containing norms of labour rights apply to all employers throughout the territory of the KR, irrespectively of their organizational legal forms and the forms of ownership.

The Labour Code of the KR stipulates that labour relations of an employee with an employer should be in written form by way of executed labour contract.

According to the staff list, provided to us dated 01 January 2010, it includes 5 working places with total annual wage fund in the size of 2 425 000 som.³⁸ As of the date of this Report 5 personnel carry out labour activity in the Company, whose wage fund in 2010 were 2 424 839 som.³⁹

According to the information provided by the General Director of the Company Mr. G.A. Savchenko signed employment contracts with all the employees of the Company. The General Director of the Company carries out its activity also on the basis of the Contract. The employment contact presented to us by Mr. G.A. Savchenko does not contradict to the existing laws of the KR.

³⁵ See:Reference of the Company No04/2011-KM dated 10 February 2011

³⁶ See: Agreement of purchase and sale dated 28 January 2011.

³⁷ See: Copy of the balance sheet dated 31 December 2010

³⁸ See: Staff list of the Kutesay Mining for 2010 dated 01 January 2010.

³⁹ See: Letter of the Kutesay Mining No.03/2011-KM dated 10 February 2011.

According to the information provided by the General Director of the Company Mr. G.A. Savchenko signed employment contracts with all the employees of the Company. The General Director of the Company carries out its activity also on the basis of the Contract. The employment contact presented to us by Mr. G.A. Savchenko does not contradict to the existing laws of the KR.

PART 9. MAJOR LITIGATION


At present the KR does not have a reliable system on which a public search of law proceedings can be made. We made several inquiries to the relevant courts of the KR to determine if there were any existing court proceedings where the Company could be involved.

We confirm that on the date of this Report preparation the litigations where the Company could participate as the Claimant or the Respondent were absent.

PART 10. ADDITIONAL ISSUES

At the date of this Report we did not receive yet the official replies to our inquiries from (a) the Supreme Court of the KR.

Sincerely,



Temirbek Kenenbaev

THE LIST OF DOCUMENTS

During preparation of this Report we used and relied on the following normative acts of the KR, official replies of the state bodies, and also the copies of the documents provided by the Company:

Normative acts:

1. Civil code of the KR dated 08 May 1996 No.15;
2. Tax code of the KR dated 17 October 2008 No. 230;
3. Land code of the KR dated 02 June 1999 No. 45;
4. Labor code of the KR dated 04 August 2004 No. 106;
5. Law of the KR "On subsoil" dated 02 June 1997 No. 42;
6. Law of the KR "On state registration of legal entities" dated 20 February 2009 No. 57;
7. Law of the KR "On restriction of monopoly activity, development and protection of competition" dated 15 April 1994 No.1487-XII;
8. Law of the KR "On natural and permitted monopolies in the Kyrgyz Republic" dated 08 October 1999 No.106;
9. Law "On environmental protection" dated 16 June 1999 No. 53;
10. Law "On ecological expertise" dated 16 June 1999 No. 54;
11. Law "On public health care" dated 24 July 2009 No.248;
12. Law "On waste of production and consumption" dated 13 November 2001 No.89;
13. Law "On rate of payment for pollution of environment" dated 10 March 2002 No.32;
14. Regulations on the order of licensing the use of subsoil approved by the Decree of the Government of the KR dated 15 August 2007 No.336;
15. Law "On Industrial Safety of Dangerous Production Objects" dated 19 October 2001, No.93;
16. Law of the KR "On Foreign labor migration" dated 13 January 2006 No.4;
17. Law of the KR "About legal status of the foreign citizens in the KR" dated 14 December 1993 No.1296-XII;
18. Regulations on the order of performing labor activity by the foreign citizens and persons without citizenship in the territory of the KR approved by the Decree of the Government of the KR dated 8 September 2006 No.639;

The documents relating to the activity of the company:

19. Certificate on the state re-registration of the Kutisay Mining, registration number 109254-3301-000, OKPO code 26739100, issued by the Department of Justice of Bishkek city on 17 June 2010;
20. Charter approved by the Decision of the Sole Participant dated 20 January 2010;
21. Letter of the Ministry of Justice of the KR No. 03-6/834 dated 04 February, 2011;
22. Order of the Department of Justice of Bishkek city No.2379 dated 07 June 2010;
23. Extract from the Unified State Registry of the Central Mortgage Registration Office under the Ministry of Justice of the KR dated 08 February 2011, No. 22/04-4;
24. License No.2488 ME dated 20 September 2010, the License Agreement No.2 dated 20 September 2010, the License Agreement No.1 dated 21 December 2009;
25. License No.2489 ME dated 20 September 2010, the License Agreement No.2 dated 20 September 2010, the License Agreement No.1 dated 21 December 2009;
26. Staff list of the Kutisay Mining for 2010 dated 01 January 2010;
27. Letter of the Company No 03/2011-KM dated 01 February 2011;
28. Information report on performed works by the Kutisay Mining in 2010 and Program of works for 2011;

29. Decision of the Sole Shareholder of the Kutisay Mining dated 25 January 2010;
30. Letter of the Interdistrict court of Bishkek city No.01-41/619 dated 03 February 2011;
31. Reference of the Company No04/2011-KM dated 10 February 2011
32. Purchase and Sale Contract dated 28 January 2011;
33. Balance sheet dated 31 December 2010;
34. Registration record of the introductory instructions of the Company dated 12 August 2010.