



MINING INDUSTRY AND LEGAL UPDATE

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Industry Update

31 October 2016

Mineral Licensing Commission of State Committee for Industry, Energy and Mineral Resources negotiating with 13 companies for gold mining license

The Mineral Licensing Commission of the State Committee for Industry, Energy and Mineral Resources is negotiating with 13 companies for gold mining license. These companies are:

1. Kyrex of Minerals LLC (Kylu-Irtashskaya area);
2. Kyrex of Minerals LLC (Karakyrskaya area);
3. Kyrgyz Oil LLC (Molo area);
4. Kyrgyz Oil LLC (Bekbulaktor area);
5. Zhaisan Gold LLC (Arykbulakskaya area);
6. Zhaisan Gold LLC (Alamuyunskaya area);
7. Imperial Group KG LLC (Ashu-Ter area);
8. Tien Shan Gold LLC (Kyzylsuu-Karamyetskaya area);
9. Kerege Tash-Invest LLC (Kashkasuyskaya area);
10. Kerege Tash-Invest LLC (Zhamantyyskaya area);
11. Imperial Group KG LLC (Granitogerskaya Eastern area);
12. Asia Gold Holding LLC (Tulkubash 1 Site);
13. Asia Gold Holding LLC (Tulkubash 2 Site).

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13 October 2016

Mineral license retention fee may increase in Kyrgyzstan

The State Committee for Industry, Energy and Mining held a roundtable to discuss a proposal to increase the rate of

Legal Update

29 October 2016

Government allowed Kichi-Chaarat mining company to establish easement on 2,962.8 sq.m. area of Kara-Buura natural park

The Government of the Kyrgyz Republic issued Ordinance dated October 4, 2016 № 413-o approving the proposal of the State Agency for Environmental Protection and Forestry under the Government of the Kyrgyz Republic and Kichi-Chaarat company to establish an easement on the land area of 2962.8 square meters, located in the Kara-Buura natural park in the Kara Buura district of the Talas region of the Kyrgyz Republic falling within the area of limited economic activity, to arrange the construction of a double circuit overhead transmission line of 110 kV, carried out by Kichi-Chaarat company.

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3 October 2016

Parliament held hearings on Mineral Resources Bill

On October 10, 2016, the Committee for Fuel and Energy Sector and Mineral Resources held the parliamentary hearings on the Mineral Resources Bill.

The Mineral Resources Bill is proposed to improve the regulation of mineral resources by introducing the new procedures and mechanisms addressing the

mineral license retention fee (LRF).

According to the chairman of the State Committee Duyshenbek Zilaliev, LRF was imposed several years ago to expedite mining operations of mineral rights holders. However, in practice, notwithstanding the increased number of issued licenses, expectations for growth of mining operations were not met.

"The low LRF rates instigated spontaneous unregulated secondary market i.e. resale of mineral licenses to third parties without undertaking any mining activities", the State Committee reported.

In this context, it was proposed at the roundtable to increase the LRF rates. If approved, this measure will force mineral rights holders either to commence mining operations as quickly as possible or return the license to the state.

The proposal to increase the LRF rates will be revised on the basis of comments of the business community and mining stakeholders and then submitted to the Government for consideration.

www.knews.kg

7 October 2016

State Committee for Industry, Energy and Mineral Resources announced auction for mining license for Bulteke slate deposit with starting price of \$100,000

The State Committee for Industry, Energy and Mineral Resources has announced an auction for mining license for Bulteke slate deposit.

The starting price of the license is USD 100,000 or KGS 6,800,000 at the official exchange rate of the National Bank as of 06.10.2016. The deposit is located in the Moscovsky district of the Chui region. The auction will take place on November 18 in the Moscovsky district of the Chui region.

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23 September 2016

Duyshenbek Zilaliev: In Kyrgyzstan, eight companies export gold

In Kyrgyzstan, there are eight companies engaged in the export of gold. This was reported by Duyshenbek Zilaliev, the Chairman of the State Committee for Industry, Energy and Mineral Resources, at the meeting of the Respublika - Ata Jurt parliamentary fraction.

shortcomings and filling the gaps.

The bill law is initiated by the MP Kozhobek Ryspaev.

The bill proposes amendments replacing the direct negotiations rule by the first-come, first-served rule, introducing the rules allowing the Government, in exceptional cases in furtherance of national projects and with consent of the Parliament, to grant mineral rights without tenders, auctions and first-come, first-served procedures.

The proposed amendments are also related to the periods of validity of mineral licenses, e.g. failure to comply with the social package requirements may be the grounds for suspension of mineral rights.

www.vb.kg

19 October 2016

Government Ordinance dated October 19, 2016 № 444-o

The Government, by it Ordinance dated October 19, 2016, appointed the members of the inter-departmental tender commission for the award of the mining rights over the Sulukta Area-11 lignite deposit.

The members of the commission include the Government's authorized representative in the Batken region of the Kyrgyz Republic, the Deputy Minister of Transport and Roads of the Kyrgyz Republic, the Head of the Department of protection of mineral resources and mining industry of the State Committee for Industry, Energy and Mineral Resources, and others.

16 September 2016

MPs propose general bonus rates for mineral rights awarded through tenders

A number of MPs initiated a bill proposing amendments to some statutory provisions such as Tax Code, Mineral Resources Law, for example, Article 304 of the Tax Code, imposing requirements for bonus rates applicable to mineral rights awarded through tender.

As stated in the explanatory note, the bill is designed to establish fair rules for the payment of bonuses for mineral rights. Under Article 301 of the Tax Code, bonuses are required to be paid by local or foreign companies operating through a permanent establishment in the Kyrgyz Republic, and individual entrepreneurs

According to him, as of today in Kyrgyzstan there have been issued 340 gold mining licenses, specifically 63 mining licenses, 155 exploration licenses, 37 operation licenses, and 122 prospecting licenses.

www.24.kg

19 August 2016

Altynken LLC explained why it sent gold concentrate to China

Altynken LLC, the operator of the Taldybulak Levoberezhny gold mine explained why it sent the gold concentrate to China. As was reported by the press-service of the company, it was forced to do so.

"The company has completed the construction of a gold mill and is now preparing for its commissioning. At this stage, the technology developed in the laboratory conditions, will be adapted for use on an industrial scale. In the process of flotation, ores yield 95% gold recovery. But during the chemical-metallurgical cycle, the float concentrate includes not only gold but also copper which significantly reduces the gold recovery and increases the consumption of reagents, including expensive cyanides", the company reports.

To solve the copper problem, it was proposed to extract the gold-copper concentrate from the float concentrate and to send the rest of the float concentrate to the company's mill. This decision necessitated the processing of the gold-copper concentrate abroad, as the Kyrgyz Republic has no appropriate facilities which can cope with this task in a cost-effective and environmentally friendly way.

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5 August 2016

Kyrgyzstan representative elected as chair to CIS Intergovernmental Council on Exploration, Mining and Protection of Mineral Resources

Kyrgyzstan representative has been elected as the chair to CIS Intergovernmental Council on exploration, mining and protection of mineral resources. His name is Ulanbek Ryskulov, who is the Vice Chairman of the State Committee for Industry, Energy and Mineral Resources.

It was noted that this decision was adopted at the Council's 10th anniversary session held in the Issyk-Kul region and attended by directors of geology agencies of Russia, Belarus, Tajikistan, China and Mongolia.

holding mineral licenses.

In case of change of control in a mining company by 10% or more, the new owners are required to pay the bonus in proportion to the new ownership interest, unless the company is listed on the stock exchange.

The bill proposes to remove this 10% requirement as ambiguous and avoidable. Thus, the mining companies practice fractional interest transfers involving re-registration and not formally subject to bonus payments.

In this context, under Article 5 of the Tax Code establishing the principle of fair taxation, it is proposed to amend Article 302 of the Tax Code by adding new activities subject to bonus payments.

Under the current version of Article 302 of the Tax Code, activities subject to bonus payments are: mining, exploration of areas with proven reserves, prospecting in the areas with proven and projected reserves, water withdrawal (extraction), wells drilling. The tax base for calculation of bonus is the amount of reserves in mineral deposits, including projected reserves recorded in the state cadaster of mineral resources, as well as the depth of the drilled wells.

To avoid ambiguity in interpreting and applying the bonuses (whether to reserves or to areas), it is proposed to amend Article 303 of the Tax Code by adding the provisions establishing the rates applicable specifically to mining, prospecting or exploration.

It is also proposed to:

- establish the bonus for collection of stone, mineralogical, or paleontological materials on the basis of the license area, since, as a rule, their reserves are not proven or explored;
- amend Article 302 of the Tax Code by removing wells drilling from the list of activities subject to bonus payments because the Mineral Resources Law does not require licensing for wells drilling;
- amend Article 306 of the Tax Code by adding the provisions regulating the procedure for payment of bonus in case of increase in reserves after obtaining of license and the period of payment of bonus in case of change of control of the licensee.

It is proposed to make amendments to the Mineral Resources Law to be in line with the proposal that for mining activities (except water withdrawal) the tax base is the amount of mineral reserves, recorded in the state cadaster of mineral resources, rather than the amount of geological reserves and projected resources recorded in the state cadaster of mineral resources.

The reserves are recorded in the state cadaster of mineral resources on the basis of the decision of the State Committee for Reserves.

The participants discussed and approved a number of decisions, including the proposal made by the Russian and Kazakh delegations to share experience in calculation of forecasted mineral resources based on international best practices, as well as to approve the design of the Council's logo (geologist hammer).

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5 August 2016

Tax inspection of Kumtor Gold Company revealed no violations

The State Tax Service confirmed that it revealed no violations of tax legislation by Kumtor Gold Company.

The Tax Service Department of Major Taxpayers of Bishkek city and Chui region has completed a routine tax inspection of Kumtor Gold Company covering the period from January 1, 2014 to December 31, 2015.

"Subject to the tax law requirements concerning the period of making, appealing or enforcing decisions on the basis of outcomes of inspection, the inspection covering the period specified above revealed no tax law violations", Kumtor Gold Company reported.

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The write-off of raw materials from the state cadaster is made on the basis of reports on the movement of reserves of raw materials received from the mineral rights holders or the decision of the State Committee for Reserves.

Upon discovery of a deposit or occurrence of mineral resources at the stage of geological prospecting or exploration, the information on the mineral deposit or occurrence is recorded in the corresponding passport. After the exploration of the reserves, the preparation of the final report on the proven reserves of mineral resources and the adoption of the decision by the State Commission for Reserves, the information on the reserves is recorded in the state cadaster. However, the record in the passport or cadaster that all reserves are extracted is made only after the full development of the deposit.

The state cadaster contains the current, regularly updated information on the status of mineral reserves. The information is updated on the basis of annual reports on the volumes of mineral production. Thus, the cadaster contains the latest updated information on reserves, as opposed to the passport which contains only the initial data on the total reserves.

In practice, in case of license transfer or change of control, the new participants have to pay the bonus again on the basis of the data recorded in the cadaster i.e. the initial data, rather than the actual data at the time of transfer, which is not fair and causes reasonable discontent among mining companies, as they pay for the non-existing reserves, MPs explain.

The initiators of the bill are MPs: Makhabat Mavlyanova, Mirlan Zheenchoroev, Maksat Sabirov, Aibek Altynbekov from Respublika - Ata-Jurt faction, Kozhobek Ryspaev, Uzarbek Zhylykbaev from SDPK faction, and Azizbek Tursunbaev, Kubanichbek Nurmatov from Kyrgyzstan faction.

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25 August 2016

Order of the Prime Minister of the Kyrgyz Republic dated August 25, 2016 No.485

The Prime Minister of the Kyrgyz Republic issued the order appointing Aibek Kadyrovich Asanov as the State Secretary of the State Committee for Industry, Energy and Mineral Resources of the Kyrgyz Republic, who was laid off from the previous job.

23 August 2016

Ordinance of the Government of the Kyrgyz Republic dated August 23, 2016 No. 381-o

In order to attract investment in the integrated and rational development of the Sulukta Area-11 lignite deposit, the Government of the Kyrgyz Republic has approved the conditions and procedure of the tender for mining rights over Sulukta Area- 11 lignite deposit and the winner selection criteria.

The State Committee for Industry, Energy and Mineral Resources was instructed to determine the date of the tender and to publish in the mass media the announcement on the tender for mining rights over the Sulukta Area- 11 deposit.

2 August 2016

President signed law determining operating conditions for hazardous production facilities

The President of the Kyrgyz Republic signed the Law of the Kyrgyz Republic "On industrial safety of hazardous production facilities".

The law provides the legal, economic and social frameworks for the safe operation of hazardous production facilities, including in terms of prevention of accidents at hazardous production facilities and emergency preparedness of operators of hazardous production facilities. The law was adopted by the Parliament on June 29, 2016.

The law came into force on September 19, 2016.



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