

THE KAZAKHSTAN STORY

Overview: In June 1996, World Wide Minerals Ltd. and its affiliates, Nuclear Fuel Resources Corp. and KazUran Corp. – now KazUran LLP (collectively, “World Wide”) were invited to tender for the management with option to purchase the uranium operations and assets of Tseliny Gorno-Khimicheskii Kombinat (“TGK”) located at Stepnogorsk, Kazakhstan. World Wide successfully tendered for the rights. In the tender proposal, World Wide agreed to assume management of TGK and to assist in the reorganization of the enterprise. It also agreed to lend money to the Republic of Kazakhstan through the State Property Committee of the Republic of Kazakhstan (collectively, “ROK”) on a secured, interest-bearing, demand loan basis. The loan funds were advanced to TGK and were used for working capital purposes and to fund payment of certain unpaid obligations of TGK for past wages and pensions. Under the tender proposal and an October 1996 management agreement signed with the ROK, World Wide had the option until the end of 1998 to purchase a 90% equity (100% voting) interest in TGK and to satisfy all or part of the purchase price with the amount of the loan advanced to the ROK. The remaining 10% equity (non-voting) interest would be set aside for the employees.

Background: TGK had been the second largest nuclear fuel mining and processing business in the former Soviet Union. However, in 1996 the TGK uranium mining operations on a standalone basis had become economically non-viable. For this reason, the northern mines, consisting of two underground mines and one undeveloped in situ leach (ISL) deposit (Semisbai), had been shut down for several years. The TGK processing facilities operated part time to process uranium concentrates from ISL mines in south Kazakhstan. Accordingly, the June, 1996 tender proposal and the October 1996 management agreement provided that, in addition to the TGK uranium operations and assets, World Wide would have the right to obtain sufficient additional uranium resources in Kazakhstan so that the combined uranium operations would be economically viable for a period of at least 20 years.

As a result of this requirement, in February 1997, at the behest of the ROK, World Wide entered into an agreement with Kazatomprom, the ROK State-owned uranium producer, under which a 50/50 joint venture was to be formed to operate 3 additional operating uranium mines (MMU No. 6, *Stepnoye* and *Centralnoye*) and to develop 4 then-undeveloped ISL uranium deposits (*Kharassan*, *Akdala*, *Irkol* and *Zhalpak*). This agreement was never fulfilled by Kazatomprom. In 2005, interests in 2 of these 4 deposits, namely Kharassan and Akdala, were acquired by a new Canadian company, UrAsia Energy Ltd. (now Uranium One Inc.), for \$89 million and \$415 million, respectively, from opaque holding companies registered in the British Virgin Islands. How these property interests came to be held by these BVI companies is equally opaque and this is the subject of a current investigation being carried out by the ROK and which so far has resulted in the conviction and imprisonment of the former CEO of Kazatomprom. In April 2007 UrAsia merged into Uranium One Inc. and prior to the merger UrAsia had reached a market capitalization of \$3.5 billion based on the value attributed to these 2 interests alone. Subsequently, Kazatomprom has entered into joint ventures on the other mines and deposits with entities based in China, Russia and Japan.

The 1996 tender proposal and management agreement provided that World Wide was to have the right freely to market its Kazakhstan-produced uranium in the international uranium market, subject to compliance with international nuclear safeguard agreements and treaties. There was

not then, and is not now, any domestic market for uranium in Kazakhstan. It was and is all exported. Based on these agreements, in November 1996 World Wide assumed management of the TGK operations after completing extensive technical, financial and legal due diligence. Nothing in this due diligence indicated any material impediment to the ROK carrying out its agreements.

Uranium Marketing: During the due diligence and contract negotiation period in 1996, the ROK and Kazatomprom specifically advised World Wide that there were no impediments to World Wide having the right freely to market its Kazakhstan-produced uranium in the international uranium market, so long as it complied with the above-mentioned agreements, and treaties of general application. Based on these assurances, World Wide entered into formal loan and security agreements with the ROK and TGK, assumed management of TGK, commenced funding the TGK operations and restarted production of uranium. Marketing of uranium also was begun by World Wide's Denver (USA)-based agent, Nuclear Fuel Resources.

The first uranium sales contract was signed in March 1997, with Consumers Energy of Michigan (USA). A second sales contract was signed in 1997 with Taiwan Power. Following signing of the Consumers Energy contract, application was made to the ROK for the requisite export license in accordance with applicable procedures, which should have been a perfunctory process. By this time, World Wide had advanced several millions of dollars under its loan and security agreements with the ROK and TGK to be used for the reactivation of the TGK facilities and the payment of past wage and pension obligations.

After two months of attempts to obtain the export license to permit completion of the sale to Consumers Energy, World Wide was told by the ROK for the first time that it would not issue the license, notwithstanding its express written agreement to do so, because an affiliate of Kazatomprom had granted a German-controlled, US company, RWE-Nukem, Inc., certain undefined rights to the USA market. The basis of any such alleged rights has not been demonstrated adequately to this day. A separate application for an export license to permit completion of the sale to Taiwan Power also was refused, with no explanation. To complete the Taiwan Power contract, World Wide was required to buy replacement uranium in the spot market and deliver it, which it did. This was not possible with Consumers Energy because its contract specified delivery of Kazakhstan-source uranium so this contract was allowed to lapse. RWE-Nukem subsequently delivered Kazakhstan-source uranium to Consumers Energy to complete this contract. World Wide received no compensation for this. Because of these refusals and breaches of agreement by the ROK, World Wide suspended operations at the TGK facilities. In retaliation, the ROK unilaterally and illegally terminated the management agreement and has refused to compensate World Wide for its un-repaid loan funds and accrued interest and its loss of future profits from the lost business opportunity. Subsequently, World Wide demanded repayment of its loan to the ROK and TGK, together with accrued interest and loan collection costs. This loan has not been repaid.

World Wide's Investment: Under the 1996 management agreement and related loan and security agreements, World Wide's total cash investment is in the form of an interest-bearing sovereign debt owing to World Wide by the ROK and TGK. To date, the aggregate of the World Wide cash loans to the ROK and TGK used in the TGK uranium operations and the 50/50 joint venture, plus interest accrued thereon, and the legal recovery costs, is well in excess of C\$50 million (adjusted to reflect prevailing exchange rates at the time of advances of funds when translated to current exchange rates). In addition, under these agreements the loans were

secured on all of the assets of TGK. Despite this fact, in March 1999 the ROK resold the TGK assets to an Israeli company without honouring the loan and security agreements and the TGK assets have since been re-sold to a British company, New Power Systems Ltd, again without honouring the loan and security agreements. When aggregated with World Wide's un-repaid sovereign loan to ROK and TGK, and reflecting the current spot price for uranium (US\$46.00 per pound of U3O8, and having been as high as \$138.00 per pound of U3O8 in 2007), the objectively demonstrable total economic loss to World Wide would be at least US\$4.0 billion.

Initial Recovery Efforts: Initially, in late 1997 and early 1998, bona fide efforts were made by World Wide to resolve this dispute with the ROK on a private, out-of-court basis. These efforts were encouraged by the ROK's then-Ambassador to the USA and Canada who advised World Wide in December 1997, on an official basis, that he had been advised by his Government that it would reimburse World Wide in full for its loan losses. Ultimately, these efforts at private resolution were unsuccessful. Accordingly, in May 1998 a lawsuit was commenced in the US Federal District Court in Washington D.C. against the ROK and Kazatomprom. Commencement of the lawsuit resulted in another short spurt of settlement discussions, at the request of the ROK, which ultimately were to no avail. In February 1999 the original lawsuit was amended to add RWE-Nukem as a defendant and to add further claims under the Racketeering Influenced and Corrupt Organizations Act (RICO). In July 1999, the defendants filed technical objections to the World Wide lawsuit and the ROK offered to arbitrate. No substantive defence on the merits of the lawsuit has ever been filed by any defendant. The US lawsuit was ultimately dismissed, essentially because the US Court in Washington D.C. would not take jurisdiction over the defendants. The Court decision ignored the fact that the loan to the ROK and TGK was a demand sovereign debt of the ROK, the debt was demanded in 1997 and it had not been repaid, with interest and collection costs. Application to appeal to the US Supreme Court was denied in February, 2003.

Commencement of Arbitration: The 1996 management agreement between World Wide and the ROK provided an option to arbitrate disputes in Stockholm, Sweden under the Arbitration Rules of the United Nations Commission on International Trade (UNCITRAL). In 2006, World Wide commenced an arbitration proceeding with the ROK under the UNCITRAL rules. The issues in dispute are those outlined earlier in this summary, which relate to the secured demand loans made by World Wide to the ROK and certain agencies of the ROK in 1996 and 1997. These demand loans were used for the reconstruction of the uranium industry in Kazakhstan and were not paid following demand. That arbitration also relates to damages suffered by World Wide when agreements were unilaterally breached by the ROK in 1997. In the initial arbitration proceedings, World Wide claimed that it had suffered damages and loss of property of at least: (i) US\$34.4 million, being the total at that time of the loans, costs and interest advanced and accruing on the loans; (ii) US\$750 million being the then current net value of assets that constituted the TGK complex and related uranium mining properties that World Wide had the right to acquire upon conversion of its loans to the ROK, but which World Wide was improperly deprived of; and (iii) US\$3.0 billion, being the then current net value of assets constituting the interests in the southern uranium mines in Kazakhstan that World Wide had the right to acquire under various agreements with the ROK and Kazatomprom.

Arbitration is also provided for under agreements between World Wide and Kazatomprom entered into in 1997 to create a 50/50 joint venture to develop existing uranium mines and to develop undeveloped uranium deposits. Kazatomprom did not complete the joint venture or live up to the terms of the agreements. Following commencement of the initial arbitration, World Wide gave further consideration with its legal counsel to its rights under those agreements and

the disposition of proceeds of sale and exploitation of those projects by Kazatomprom and other parties, as well as its rights under the *Foreign Investment Law* of Kazakhstan.

In accordance with the provisions of the *Foreign Investment Law*, in March 2007 World Wide offered to enter into settlement negotiations with ROK and Kazatomprom. Failing any meaningful response from the respondents, in June 2007 World Wide commenced a new arbitration proceeding against the ROK and Kazatomprom. The long-standing issues in dispute relate to damages and loss of property suffered by World Wide now estimated at no less than US\$4.0 billion representing the value of cash and services invested by World Wide in Kazakhstan in accordance with various agreements made by World Wide with Kazakhstan and Kazatomprom respecting the uranium industry in Kazakhstan in 1996-1997; and the net value of uranium concessions and related assets that World Wide had the right to acquire under such agreements and relevant laws and regulations but of which it was improperly and unlawfully deprived. The new arbitration proceeding also was commenced in Stockholm, Sweden, under the UNCITRAL (United Nations) Arbitration Rules in accordance with the provisions of World Wide's agreements with Kazakhstan and Kazatomprom and in accordance with the *Foreign Investment Law* of Kazakhstan. While this process is based upon many of the same facts as in the 2006 arbitration, it names Kazatomprom as a party and takes into account important new facts concerning the unlawful conduct of the defendant parties.

Kazatomprom is the sole uranium agency of the ROK and its success as a commercial entity relies on its ability to market uranium in the world nuclear industry. In the last three years, Kazatomprom has vended to various parties interests in certain uranium projects in Kazakhstan which, in 1996 and 1997, had been dedicated to World Wide. The Company also is considering with its legal counsel its rights with respect to these transactions and its rights to the disposition of proceeds of sale and exploitation of these projects by Kazatomprom and these other parties. World Wide is represented in the initial and new arbitration proceedings, which have been merged into one arbitration, by Ogilvy Renault LLP (Toronto, Montreal and London), which is supported by local counsel in Kazakhstan.

When the latest arbitration was commenced, Paul A. Carroll QC, CEO of World Wide, said that "the Company had been invited to come to Kazakhstan in 1996 and to invest substantial funds and effort in the reconstruction and development of the local uranium industry. Kazakhstan holds about 20 -25% of the undeveloped uranium resources of the world and those resources are capable of being operated in the lowest quartile of costs. Resources that were dedicated to World Wide by Kazakhstan under the parties' agreements today represent about 10% of the world total uranium resources. In its arbitration proceedings, World Wide claims that it has suffered damages and loss of property as a result of the conduct of the ROK and Kazatomprom, which damages and losses could amount to in excess of US\$4 billion

In summary, after investing many millions of dollars in Kazakhstan, World Wide was unlawfully deprived of its investment by the Government of Kazakhstan and its agency, Kazatomprom. In 1996, World Wide had the foresight to recognize that the world would finally wake up to the fact that nuclear energy is a clean source of electric power, and would largely replace the predominant power source, fossil fuels. In 1996, U3O8 was trading at \$12 per pound whereas U3O8 is now trading for \$46.00 per pound in the so-called spot market and considerably higher in long term contracts with utilities. In 2007 U3O8 traded as high as US\$138 per pound, and with predictions of it going to US\$200 per pound, World Wide's losses are in the billions of

dollars. Efforts to rectify this travesty are being aggressively pursued.

Current Status of Arbitration: In October, 2008, World Wide took a fresh step in the arbitration by appointing the initial arbitrator in a panel of three. The ROK and Kazatomprom then jointly appointed a second arbitrator. The two arbitrators were to appoint a third arbitrator before the end of 2008. In the meantime World Wide and its legal counsel have been assembling evidence for the commencement of the substantive arbitration itself.

In September, 2009 the initial arbitration was put on hold when World Wide and the ROK chose to simplify the process by appointing a mutually agreed, sole arbitrator to determine certain preliminary and substantive issues in connection with the November, 1996 Loan Agreement. This was done. Written submissions were made by both parties, an oral hearing was held in London (UK) in December, 2009 (to deal with the preliminary issues) and a second oral hearing was held in Brussels (Belgium) in July, 2010 (to deal with the substantive issues). At the July hearing the arbitrator reserved his decision which is expected to be received later in 2010.

Since 1998, World Wide has invested millions of dollars of its own capital in an attempt to recover its investment and damages for lost opportunity. Currently it has agreements with unrelated parties, including law firms, to pay costs contingent upon recovery of the claims. In addition, it has entered into an agreement with an officer of the Company pursuant to which it has agreed to pay a fee of 10% of any net proceeds recovered.

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