

# Growth Stocks Weekly

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**Performance:** Year ended April 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%

## Junior Gold and Natural Resource Sector Report December 9, 2005

### World-Class Uranium Production Opportunity URASIA ENERGY (UUU-TSX Venture Exchange)



One-Month Daily chart, High C\$1.84, Low C\$1.45, Last Trade C\$1.80

- One of the largest uranium producers in the world, with annual production of 1.4 million pounds annually
- Objective to increase production to 10 million pounds annually by 2015
- Strong growth profile turning resources into reserves (400 million pounds identified in Russian P1 Reserves)
- Two additional new mines to be in production by 2008
- Operating management has world-class uranium production experience—Phillip Shirvington and Wallace Mays

- Directors include Ian Telfer (Wheaton River / GoldCorp), Frank Giustra (Endeavour Capital) and Bob Cross (Northern Orion)
- All mines and development projects are low cost In Situ Leach (ISL) assets in Central Asia

## **Kazakhstan – Key Source for Uranium**

- Increasing Kazakhstan production is crucial in meeting the supply demand gap for Uranium
- 18% of the world's recoverable uranium resources, second only to Canada at 28%
- Current production of 7.8 million pounds U<sub>3</sub>O<sub>8</sub> is close to 9% of global production
- Low costs – almost all Kazakh uranium production is ISL

## **Board & Management**

### **Ian Telfer**, Non-Executive Chairman

Mr. Telfer was previously Chairman and CEO of Wheaton River Minerals from 2002 until its merger with Goldcorp in 2005. Mr. Telfer has over 20 years experience in the precious metals business. As a founding director of TVX he served as its President and CEO during the first ten years and has also held positions as a Director of Lihir Gold and as President and CEO of Vengold.

### **Phillip Shirvington**, CEO, Director

From 1994-2000, Mr. Shirvington was the managing director of Energy Resources of Australia Ltd., the third-largest uranium mining company in the world, where he oversaw the development of the Ranger-3 orebody and the doubling of capacity of the processing plant. He has over 20 years consulting experience in mining and energy, including work in the uranium business in Kazakhstan since 1992. Earlier in his career he was a nuclear scientist and first secretary of atomic energy at the Australian Embassy in Washington, D.C.

### **Frank Giustra**, Director

Mr. Giustra has been the Chairman of Endeavour Financial since 2001. In that time, Endeavour has raised in excess of US\$2 billion of equity and debt and advised on US\$4 billion worth of mergers and acquisitions. He was formerly Chairman and CEO of Yorkton Securities in Canada (1990-96) and in 1997, he became the founding Chairman of Lions Gate Entertainment, a NYSE-listed company with revenues of over US\$1 billion

## **Producing Mine**

### **Akdala Mine – UrAsia 70%**

- purchased 70% for US\$350 million (includes South Inkai development project)
- produced 1.7 million lb U<sub>3</sub>O<sub>8</sub> in 2004; estimates for 2005 production is 2 million pounds
- Russian geological studies estimate a 17 year mine life (non 43-101)
- expansion plan underway, funded from operating cash flow – to 2.6 million pounds U<sub>3</sub>O<sub>8</sub> by 2007

## **Development Assets**

### **South Inkai Development Project – UrAsia 70%**

- Located south of Cameco's Inkai JV, the project covers the southern most 14 km of the Inkai uranium deposit
- Aim is to extract uranium from the same horizons as the Inkai JV
- Fast tracking development – construction in parallel with pilot plant
- Production expected late 2007 at 5.2 million pounds U<sub>3</sub>O<sub>8</sub> annually, increasing to 10.4 million pounds during the life of mine
- Initial capex US\$80 million, to be completed with non-dilutive project / debt financing
- Russian geological studies estimate a 32 year mine life (non 43-101)

### **Kharassan Development Project – UrAsia 30%**

- Located south of KazAtomProm's South Karamurn ISL project, Kharassan aims to mine from the same horizons

- Purchase price US\$75 million (50% cash; 50% shares at issue price) plus US\$24 million upon start up
- KazAtomProm has Pre-Feasibility Study at 5.2 million pounds U3O8 production per year; UrAsia plans to increase this by 50% to 7.8 million pounds
- Annual production of first 5.2 million pounds planned for late 2007
- Second mine on same deposit producing 2.6 million pounds planned for 2009
- Initial capex estimated at US\$90 million, with project financing to be arranged by UrAsia

## **In Situ Leach Processing**

In Situ Leach process (ISL) was first tested in Wyoming, USA, during the 1960's and consequently put into commercial production in the 1970's. 100% of Kazakhstan uranium production and 16% of the world's uranium production comes from ISL production. ISL known as solution mining, pumps liquids into the ore in the ground and recovers the minerals by leaching. It is a cost effective environmentally preferred method which generates minimal surface disturbance with no tailings or waste rock generated.

## **Capital Structure**

Shares I/O	419.5 M
Shares F/D	431.9 M
Cash (Nov 05)	CAD\$75 million
CUSIP #	91703W108

## **Technical comments**

The stock came to trade on November 8, 2005 below the financing price of \$1.80 where C\$504 million was raised institutionally. The low of C\$1.45 was hit that day on volume of over 11 million shares. The next week, on November 15, we again hit the low of C\$1.45 on lower volume of about 2.7 million shares. A steady uptrend then commenced, and on December 6<sup>th</sup> we saw an acceleration of demand with price breaking out from resistance at C\$1.67. Next resistance is found at the C\$1.80 issue price. Once breached, next resistance is found around the C\$2.00 level.

## **Uranium Fundamentals**

- Nuclear power will be a critical component of base load electricity generation in developed and developing countries for decades to come due to issues of diversification, security of supply, economics, and environmental impact.
- Secondary sources of uranium are limited and primary uranium supply must increase to close the large and widening gap between mine production and reactor requirements.
- Growing demand for fuel for the world's expanding nuclear power capability will drive uranium prices higher.
- Australia, the world's leader in terms of undeveloped uranium resources, has political policies that are likely to preclude the development of new uranium mines this decade.
- Conventional mining continues to supply most of the world's primary uranium but in-situ leach (ISL) will become an increasingly important method of cost effective uranium extraction.

## **Kazakhstan – Attractive for Investment and Resource Development**

### ***Investment Climate***

The Republic of Kazakhstan is a stable democratic country and is considered a “model transition economy” after gaining its independence from the Soviet centralized command system in December 1991 to become a free market economy. It's a leader on such indicators as political stability, currency stability, investment climate, integration with the world economy, development of securities market legislation and price stability. Kazakhstan is the second largest (after Russia) of the former Soviet Republics, and is located in both Europe and Asia, as evidenced by its excellent relations with diverse interests that include Russia, China, Europe, Canada and the U.S.

The country is headed by highly-popular Nursultan Nazarbayev, its first president after gaining independence, re-elected in 1999 and again last week for a further 7-year term. Under Nazarbayev's presidency, Kazakhstan made substantial progress towards developing a free market economy. The country has a friendly foreign investment climate and is a member of the United Nations, the World Customs Organization the Organization for Security and Cooperation in Europe. Kazakhstan is also an observer at the World Trade Organization and an active participant in the North Atlantic Treaty Organization's (NATO) Partnership for Peace program. Nazarbayev has clearly determined and is successfully executing Kazakhstan's main diplomatic strategy - creating and maintaining favourable conditions for the steady development of the country on the basis of political and economic reforms.

The laws of Kazakhstan establish a single investment regime for both domestic and foreign investors. The country guarantees stability of contracts where investors enter into contracts with Kazakh State agencies, with the exception of a change of law intended for national or ecological security, public health or morality, or if it affects the procedure or conditions of import, production and/or sales of excisable goods. In 1994 the Law “Of Foreign Investments” was introduced to attract

foreign capital into the country's economy. In 1997 the Law "Of State Support of Direct Investments" was introduced to attract foreign investment into less attractive sectors of the economy. Continuing the evolution, by 2001 it was determined that there was a further need for amendments to existing laws, resulting in the new draft of the Investment Law which was passed in early 2003. This new law further improves state support for investors and their legal rights.

For five years in a row the country has experienced a significant growth in its GDP: 2000 - 9.8%, 2001 - 13.5%, 2002 - 9.8%, 2003 - 9.3%, 2004 - 9.4%. Economic progress during the first decade of Kazakhstan's independence was made possible as a result of large-scale political and economic reforms and a healthy investment climate. The first CIS country to reach investment grade status, 2002 saw Kazakhstan's bond rating upgraded by Moody's to Baa3, similar to Saudi Arabia, Bahrain and Mexico. By late 2004 a further Moody's upgrade was achieved to Ba1/NP (Positive), followed in May 2004 with a Standard & Poor's upgrading of its long-term local and foreign currency ratings to BBB/BBB- and a short-term foreign currency rating to A-3 (Stable).

Kazakhstan is well-placed for a period of solid economic growth, based on foreign direct investment in the energy sector, increased pipeline export capacity, combined with tight fiscal and monetary policy and strong banking system regulation and supervision. The Kazakhstan Government is continually taking steps to improve the domestic investment climate. Over-riding principles include stability and predictability; legal transparency; protection of investors; a level playing field for foreign and local investors; sanctity of contracts. Kazakhstan wants to encourage direct investment into the priority sectors of the economy and initiates full consultations and exchange of views with foreign investors, often within the framework of their Foreign Investors' Council (FIC) set up in June 1998. Investors carrying out projects in the priority sectors enjoy special privileges in taxation and customs tariffs.

With a strong and renewed 7-year mandate following last week's election, the government is focused on issues to further improve the economy, seeking to further improve the investment climate and business environment in the country. Priority is to ensure effective and level implementation of economic market legislation and investment laws at the local grass-roots level, diversification and modernization, stimulating the growth of the value-added and high-tech components of the economy, and to ensure that economic growth becomes sustainable and non-oil dependent. Over the next 10 years oil output is set to rise to around 3.5 million bpd from just over 1 million bpd, higher than current production levels in Norway and only slightly below output in Iran and Mexico. Natural gas production is also set to rise sharply. Against this background the current account is likely to record rising surpluses from 2008 onwards, the assets of the National Fund should continue to mount and the government's net creditor position should strengthen further.

### **Vast Resources**

Kazakhstan is geographically varied, comprising extensive grassland, semi desert and mountainous regions. It is bordered by Russia, China, Kyrgyzstan, Uzbekistan, Turkmenistan and the Caspian Sea. The population of some 14 million is highly literate and well educated. The country has good infrastructure with a well developed national grid and network of all-year roads, railways and airports.



Kazakhstan possesses significant fossil fuel reserves, along with mineral and metal deposits. Its burgeoning industrial sector is based on the extraction and processing of these natural resources. Since gaining its independence in 1991 after the break up of the Soviet Union, Kazakhstan has experienced rapid economic growth, mostly attributed to its natural resources. According to the EBRD, Kazakhstan's GDP grew by 9.4% in 2004 and is projected to grow by over 7.0% in 2005. The economic expansion is due to increased production of oil, minerals and other commodities, supported by high oil prices and rising foreign investments.

Kazakhstan's substantial mineral resources include the world's largest chromium, vanadium, bismuth and fluorine reserves. The country is a major producer of iron, coal, uranium, copper, lead, zinc, tungsten, molybdenum, borates, phosphorite, potassium and cadmium. It also

ranks third amongst CIS countries in terms of gold reserves. Almost all gold mining companies and properties have been fully privatized in Kazakhstan, the only country within the former Soviet Union to have done so. This allows gold doré and gold-copper concentrates to be freely exported and sold.

Coal reserves in Kazakhstan are approximately 160Bt from 155 deposits in 10 major coalfields principally comprising energy and coking coal. The country also possesses enormous iron ore resources, containing 50-60% iron. Kazakhstan contains world class phosphorite deposits in terms of thickness and quality. It is the eighth largest copper producing country in the world and is a major producer of alumina (1.55 Mtpa). Kazakhstan occupies a large proportion of the Caspian oil province, where reserves are estimated to contain 20 billion barrels of oil and 700,000,000t of gas condensate, attracting more than US\$15 billion in foreign direct investment over the last decade.

## **Conclusion**

Seeking to take advantage of the secular bull market in resource and materials, investors seeking higher returns increasingly look to the countries of the former Soviet Union. Kazakhstan – the first among these countries to receive the investment grade, is currently among top 10 world's fastest-growing economies (according to The Economist Intelligence Unit) with US\$8.4 billion of direct foreign investment in 2004 (82.8 % growth compared to 2003) and real GDP growth of 9.4% in 2004

Abundance of natural resources, many untapped resource-rich areas, economic and political stability, investor-friendly climate - all attributes that are proving popular with foreign investors, especially those in the extraction-based industries. However, to reduce the country's dependence on the energy sector through diversification and modernization of the economy, the government of Kazakhstan is keen to attract much needed investment into such sectors as agriculture, food and beverage, transport, communications, financial sector, tourism as well as to encourage the development of SMEs and boost manufacturing. Various incentives are planned for investors ready to develop these markets. With the traditional extraction-based sectors still offering plenty of opportunities and new prospects emerging thanks to the government's Strategy for Industrial and Innovative Development, Kazakhstan presents tremendous opportunities.

## **QUICK FACTS**

**President:** Nursultan Nazarbaev (re-elected to a seven-year term December 2005)

**Prime Minister:** Daniyal Akmetov (since June 2003)

**Independence:** December 16, 1991; National holiday: Republic Day, October 25, 1990 (date on which Kazakhstan declared its sovereignty)

**Population (2005):** 15.2 million

**Location:** Central Asia, bordering the Caspian Sea, Russia, Turkmenistan, Uzbekistan, Kyrgyzstan, and China

**Size:** 1,052,100 sq. miles (slightly less than four times the size of Texas)

**Major Cities:** Almaty; Astana (capital, moved from Almaty in December 1998); Karaganda; Shymkent

**Languages:** Kazakh (Qazaq, state language) 64.4%, Russian (official, used in everyday business, designated the "language of interethnic communication") 95% (2001 est.)

## **ECONOMIC**

**Minister of Finance:** Arman Dunayev

**Minister of Economy & Budget Planning:** Kairat Kelimbetov

**Currency:** Tenge

**Market Exchange Rate (7/19/2005):** US \$1=135.7 Tenge (KZT)

**Nominal Gross Domestic Product (GDP) (2004E):** \$39 billion, **(2005E):** \$49 billion

**Real GDP Growth Rate (2004E):** 9.4%; **(2005E):** 9.1%

**Inflation Rate (Change in Consumer Prices) (2004):** 6.9%.

**Unemployment Rate (2004E):** 8.4%

**Current Account Balance (2004E):** 533 million

**Major Trading Partners:** Russia, U.S., Uzbekistan, China, Turkey, U.K., Germany, Ukraine,

**Merchandise Exports (2004E):** \$20.6 billion

**Merchandise Imports (2004E):** \$13.8 billion

**Merchandise Trade Balance (2004E):** \$6.8 billion

**Major Exports:** oil, ferrous and nonferrous metals, machinery, chemicals, grain, wool, meat, coal

**Major Imports:** machinery and parts, industrial materials, oil and gas, vehicles

**External Debt (2004E):** \$32.4 billion, **(2005E):** \$37.5 billion

## **ENERGY**

**Minister of Energy & Natural Resources:** Vladimir Shkolnik

**Chairman, Kazmunaigaz (National Oil & Natural Gas Company):** Uzakbai Karabalin

**Proven Oil Reserves (1/1/2005E):** 9-29 billion barrels

**Proven Natural Gas Reserves (January 1, 2005):** 65-70 trillion cubic feet

**Oil Production (2004E):** 1,221.3 thousand barrels per day, of which 83% was crude oil.

**Oil Consumption (2004E):** 156.7 thousand barrels per day

**Natural Gas Production (2003E):** 500 billion cubic feet, **(2004E):** 560 Bcf

**Natural Gas Consumption (2003E):** 558 billion cubic feet, **(2004E):** 550 Bcf

**Recoverable Coal Reserves (2003E):** 34,479.2 million short tons

**Coal Production (2003E):** 86.45 million short tons

**Coal Consumption (2003E):** 58.5 million short tons

**Electricity Installed Capacity (2003E):** 17.2 gigawatts

**Electricity Production (2003E):** 60.4 billion kilowatt hours

**Electricity Consumption (2003E):** 52.6 billion kilowatt hours

**Total Energy Consumption (2003E):** 2.1 quadrillion Btus, of which Coal (52%), Natural Gas (26%), Oil (17%), Hydroelectricity (4%), Nuclear (0%), Other Renewables (0%)

**Total Per Capita Energy Consumption (2003E):** 135.4 million Btus

**Energy Intensity (2003E):** 42,428 Btu per \$1995-PPP

## ENVIRONMENTAL OVERVIEW

**Minister of Environmental Protection:** Aytkul Samakova

**Total Energy Consumption (2003E):** 2.1 quadrillion Btus, of which Coal (52%), Natural Gas (26%), Oil (17%), Hydroelectricity (4%), Nuclear (0%), Other Renewables (0%)

**Energy-Related Carbon Dioxide Emissions (2003E):** 150 million metric tons, of which Coal (65%), Natural Gas (19%), Oil (16%)

**Per Capita Energy Consumption (2002E):** 135.4 million Btus

**Per Capita Carbon Dioxide Emissions (2002E):** 9.7 metric tons

**Carbon Dioxide Intensity (2003E):** 1.5 metric tons of carbon dioxide/thousand \$1995\*\*

**Status in Climate Change Negotiations:** Non-Annex I country under the United Nations Framework Convention on Climate Change (ratified May 17th, 1995). Signatory to the Kyoto Protocol (March 12th, 1999).

**Major Environmental Issues:** Radioactive or toxic chemical sites associated with its former defense industries and test ranges are found throughout the country and pose health risks for humans and animals; industrial pollution is severe in some cities; because the two main rivers which flowed into the Aral Sea have been diverted for irrigation, it is drying up and leaving behind a harmful layer of chemical pesticides and natural salts; these substances are then picked up by the wind and blown into noxious dust storms; pollution in the Caspian Sea; soil pollution from overuse of agricultural chemicals and salination from poor infrastructure and wasteful irrigation practices

**Major International Environmental Agreements:** A party to Conventions on Air Pollution, Biodiversity, Climate Change, Desertification, Endangered Species, Ozone Layer Protection, Ship Pollution. *Signed, but not ratified:* Climate Change.

## ENERGY

**Organization:** Kazmunaigaz (vertically-integrated state oil and natural gas company, created in February 2002 by combining state-run Kazakhoil (oil) and TransNefteGaz (oil and natural gas transport, made up of KazTransOil and KazTransGaz)); Kazakhstanugol Corporation (state coal company); Kazakhstan Electricity Grid Operating Company (KEGOC)

**Major Oil and Gas Fields:** Tengiz (mostly oil), Karachaganak (oil and gas/condensate), Kashagan (oil), Amangeldy (natural gas)

**Major Oil Ports:** Atyrau and Aqtau on the Caspian Sea

**Oil Export Pipelines:** Tengiz-Novorossiysk (Russia); Uzen-Atyrau-Samara (Russia); Kenkyak-Orsk (Russia) line that transports oil from the Aktyubinsk fields to the Orsk refinery

**Major Oil Refineries (crude oil refining capacity):** Pavlodar (162,666 bbl/d); Atyrau (104,427 bbl/d); Shymkent (160,000 bbl/d)

**Major Power Plants (capacity):** Ekibastuz No.1 (4,000 megawatts, MW), Yermak (2,400 MW), Zhambyl (1,230 MW)

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*Sources for this report include: AFX-Asia, Agence France Presse, Associated Press, BBC Monitoring Central Asia Unit, Caspian News Agency, Caspian Business Report, Central Asia & Caucasus Business Report, CIA World Factbook, The Economist, Economist Intelligence Unit ViewsWire, The Financial Times, FSU Oil and Gas Monitor, Global Insight, Interfax News Agency, ITAR-TASS News Agency, The Moscow Times, Oil and Gas Journal, Petroleum Economist, Platt's Oilgram News, PR Newswire, Radio Free Europe/Radio Liberty, Reuters, Stratfor, The Times of Central Asia, U.S. Department of Commerce's Business Information Service for the Newly Independent States (BISNIS), U.S. Department of State, U.S. Department of Energy, U.S. Energy Information Administration, U.S. Department of State, World Markets Research Centre.*

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