Interview with Dr. Christian Schärer –

Manager of the Uranium Resources Fund and partner of Incrementum AG

Dr. Christian Schärer is a partner in Incrementum AG and responsible for special mandates.

During the course of his study he was looking for strategic success factors of successful business models. A topic that fascinates him until today and inspires him when selecting promising investment opportunities.

Dr. Schärer studied business administration at the Universität Zürich and he received his PhD extra-occupational at the Bankeninstitut Zürich for an analytical survey of the investment strategy of Swiss pension funds in the real estate sector. Since 1991 he has gained comprehensive financial market knowledge in several roles as investment adviser, broker and portfolio manager.

Since summer 2004 Dr. Schärer's focus as an entrepreneur, adviser and portfolio manager is on several investment themes with material asset character. He brings his practice-oriented financial market knowledge as board member to companies.

Dr. Schärer you are manager of the Uranium Resources Fund (ISIN LI0122468528) of LLB Fundservices AG in Lichtenstein. What is your strategy and what precisely represents the Fund?

The Fund invests heavily in companies which are involved in the development and mining of uranium deposits. The Fund predominantly has shares of mining companies in its portfolio. The investment goal is to benefit maximally from the emerging supply gap at the uranium market. This supply gap is the result of a scissor movement of supply and demand at the uranium market. While supply has been stagnant for years due to falling uranium prices, the demand is continuously growing with high visibility of 3% per year. Until now the supply deficit is covered by existing inventories as well as secondary sources. But this will not be sufficient in the near future

Nuclear energy, especially in the German-speaking region, is controversial and the politic has initiated the exit out of nuclear energy. Nevertheless you see an increase in demand by 3% per year?

We have to differentiate between the situation in Germany or in Switzerland on one side and the global perspectives on the other side. Contrary to Germany, the emerging economies in Eastern Europe or Asia count on the expansion of nuclear energy. The construction of new nuclear power plants should reduce CO2 emissions and air pollution as well as the dependence on imports of fossil fuels. In addition nuclear energy provides the baseload to the power grids which are constantly under pressure due to the fast growing demand. China and India especially consistently advance the expansion of their reactor fleet. Despite the events in Fukushima and the nuclear phase-out in German-speaking regions this results in total to a capacity expansion of the nuclear energy production from 330 gig watts (2012) to 580 gig watts in 2030. The predicted demand growth of around 3% per year is to be seen against this background.

Since the reactor accident in Fukushima the uranium price is permanently under pressure. What are the main reasons for this price collapse and how do you assess the current market situation?

At the uranium spot market the price dropped during the past 6 years from US$ 75 per pound to currently US$ 23. A movement that puts tremendous pressure on the producers. Three reasons seem to be primarily responsible: First, the sale of uranium from inventory of the Japanese nuclear power plant operators that were disconnected from the power grid after the reactor catastrophe in Fukushima. Second, the sale by uranium producers with liquidity shortages and producers with uranium as a by-product which then sell the uranium with little price sensitivity. Third, the restraint of the buyers, which are not stressed by falling prices despite low inventories.

The uranium spot price has marked a multi-year low with US$ 18 this past November and has risen moderately since. This price increase was stimulated by the announcement of a production cut of 10% by the largest uranium producer in the world Kazatomprom. In this context, precautionary purchases resulted in significant rebounds of the share prices of uranium producers. This rally has already sold off and from a technical perspective the securities are traded again at the breakout level of the bottom formation. With a view at the emerging supply gap an interesting entry opportunity for the long-term oriented investor is opening again.

How do the uranium producers come to terms with these low uranium prices and when do you expect a rebound?

The price decline at the uranium market is a tremendous challenge for the producers. A profitable production is unthinkable in this environment. The costs are consistently reduced accordingly. Production plans are adjusted to the low prices and unprofitable mines are closed. The existing capital is allocated with much discipline. Development and expansion projects are rescaled or cancelled accordingly. With this behaviour (tightening of the supply) the producers are preparing the ground for a medium-term price turnaround at the uranium market when the stagnant supply cannot satisfy the steady demand from China and India against this background. The uranium prices will have to rise in direction US$ 70 permanently to stimulate the necessary expansion of the production capacities.

Returning to your question: we expect that a change for the better could materialize by 2018. During that timeframe an inventory cycle comes to an end for many European and American nuclear power plant operators. They will have to come to the market to rebuild their inventories. This impulse could become the catalyst of a sustainable turnaround. Normally the market will anticipate this turnaround within a timeframe of several months.

Is such a fund, focussed on a single commodity, not too specialised and therefore too risky?

An investment in the fund is a focussed bet on the emerging supply gap at the uranium market. An attractive return potential is opening up in front of an investor with a medium-term investment horizon which could also be very risky. Therefore the fund is suitable as complementary building block in a diversified portfolio but not as a basic investment. The Uranium Resources Fund has between 25 and 30 positions in the portfolio. This diversification makes sense against the background of the current state of the uranium market.

What do you recommend to investors who are interested in an investment in the uranium sector?

The outlined supply gap and the related potential of rising uranium prices are only foreseeable at the moment. The exact timing of the expected turnaround at the uranium market is uncertain despite the good perspectives. If, against expectations, the current phase of lethargy continues for a longer time the air will become thin very fast for some uranium producers. Their balance sheets are emaciated after the persistent price collapse and the cost reduction potentials are mostly exhausted. Even for a developer of new uranium projects the environment is challenging because their projects become economically viable and thereby feasible with increasing uranium prices. As a result it is difficult to find investors for the funding of the next project stages. Who bets everything on one card at that constellation takes a big risk – possibly too big. The stake within a diversified investment fund seems to be reasonable. In addition we

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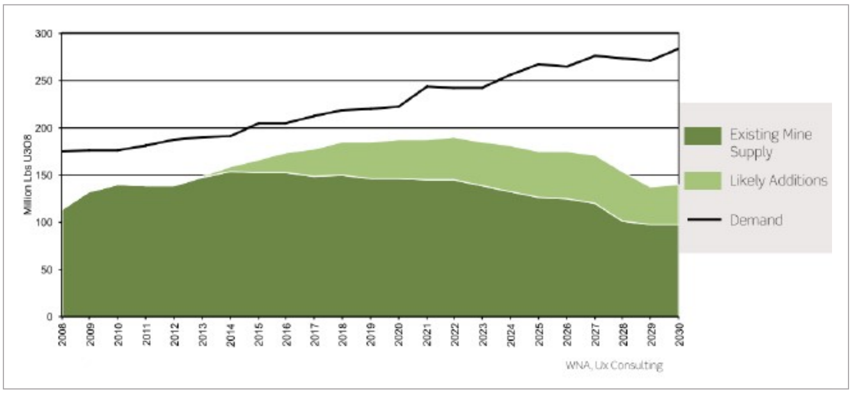
(Source: WNA, UX Consulting)



suggest a timely scaled build-up of the positions.

What are your selection criteria for the selection of your fund holdings?

We initiated the fund with great confidence based on the described positive medium-term prospects three weeks before the reactor accident in Fukushima. These events have pushed back the positive starting position by 5 to 6 years. The decommissioning of the Japanese reactor fleet, which comprises 10% of all operating reactors worldwide and the related uncertainty about the future perspectives of the civil use of nuclear energy is responsible for that. Against this background we became very humble although we still feel confident about the potential of the uranium market. Our primary goal is to remain a player when the uranium market rebounds.

Our portfolio is therefore based on three pillars. The core of the portfolio is comprised of 2 solid basic investments. First an investment in Uranium Participation (U CN), a Canadian holding company which invests in physical uranium. If we are right the supply gap at the uranium market will be closed by the increasing uranium price. Uranium Participation will be one of the first and direct profiteers. In addition we always have a significant position in the Canadian industry leader Cameco (CCO CN). The company has a broad-based portfolio of World Class Assets, is cash flow positive and pays a dividend despite the challenging environment.

When the prices begin to climb only the producers, which can place a significant uranium production on the market will benefit. Only the one who produces can deliver. To be on the safe side we invest in companies with low production costs and that have a solid order book. It is good to know in this context that only a relatively small amount of the annual uranium production is traded at the spot market. The main portion of the uranium production is processed within long-term delivery contracts at a predetermined (forward) price. We invest in companies that have sold a significant portion of their production in the past at a predetermined price, which is considerably higher than the current spot prices. This softens the current psychological strain. An example for a company in this category is Ur-Energy (URE CN).

Third, we invest in explorers and developers that are advancing development and mining projects on a world class level. Of special interest are those that can start their production in the timeframe of the expected supply gap. They will benefit from the attractive sales prices. In addition, these assets should have the necessary size to qualify as take-over targets. We assume that after the price turnaround at the uranium market a consolidation wave will roll through and mining companies from outside the sector would like to position themselves in the uranium business as well. This would make sense due to the low cyclical sensitivity and the relative high visibility of the uranium production.

Currently which are your biggest individual positions and why?

Besides the mentioned standard assets Uranium Participation and Cameco assets like Uranium Energy (UEC US), Berkeley Energia (BKY LN), NexGen Energy (NXE CN), Energy Fuels (EFR CN), Fission Uranium (FCU CN) or Denison Mines (DML CN) fit, for various reasons, in our aforementioned acquisition strategy.

In addition, do you keep an eye on smaller uranium companies which could become interesting during the coming months?

This is a difficult question. There are some attractive investment possibilities. If I have to name one of my favourites it would be Berkeley Energia after the recent significant price correction. The company has started the construction of the Salamanca uranium mine in Spain and will commence production in the coming year. At that time many nuclear reactor operators in the EU might start to renew their long-term delivery contracts. Berkeley Energia is in an excellent position because the Salamanca mine will be the only significant uranium producer in the EU-region. This makes the project attractive from a strategic point of view. In addition I like that, by global comparison, low investment volume of less than EUR 100 million is necessary to bring the mine to production. This is the result of the excellent infrastructure (water, electricity, and workforce) and the attractive geographic location. Due to the fact that the uranium deposit is near the surface low cost open pit mining is possible. Low investment volume, low production costs and an annual production volume of about 4.4 million pounds make the project from an economic perspective very attractive.