



**NAMIBIAN MINERALS CORPORATION**  
**MANAGEMENT PROXY CIRCULAR**  
**FOR A SPECIAL MEETING OF SHAREHOLDERS**  
**SOLICITATION OF PROXIES**

The information contained in this management proxy circular is furnished in connection with the solicitation of proxies to be used at a special meeting of shareholders of Namibian Minerals Corporation (the “Company” or “Namco”) to be held on January 17, 2002 at 11:30 a.m. at Orchard House, 167/169 Kensington High Street, London, England, and at all adjournments of the meeting, for the purposes set forth in the accompanying Notice of Meeting. It is expected that the solicitation will be made primarily by mail but proxies may also be solicited personally by employees of the Company. **The solicitation of proxies by this circular is being made by or on behalf of the management of the Company** and the total cost of the solicitation will be borne by the Company. Unless otherwise indicated below, the information included herein is given as of December 14, 2001.

**All dollar values in this management proxy circular are stated in United States dollars, unless otherwise noted.**

**Appointment of Proxies**

The persons named in the enclosed form of proxy are representatives of management of the Company and are directors and officers of the Company. A shareholder who wishes to appoint some other person to represent such shareholder at the meeting may do so by inserting such person’s name in the blank space provided in the form of proxy. Such other person need not be a shareholder of the Company.

To be valid, proxies must be deposited with any one of the following:

- (a) the Company’s registrar and transfer agent, Computershare Trust Company of Canada, at 4th Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9 (Fax: (604) 683-3694),
- (b) Transfer Secretaries (Pty.) Limited, P.O. Box 2401, Windhoek, Namibia (Fax: (264) 61-248531), or
- (c) the Company at its principal office at Orchard House, 167/169 Kensington High Street, London, England W8 6SH (Fax: 44-20-7938-1099),

so as to arrive not later than the close of business on January 15, 2002 or, if the meeting is adjourned, at least 48 hours before the time of such adjourned meeting, excluding Saturdays and holidays.

**Non-Registered Holders**

Only registered holders of common shares of the Company, or the persons they appoint as their proxies, are permitted to attend and vote at the meeting. However, in many cases, common shares of the Company beneficially owned by a holder (a “Non-Registered Holder”) are registered either:

- (a) in the name of an intermediary (an “Intermediary”) that the Non-Registered Holder deals with in respect of the shares, such as, among others, banks, trust companies, securities

dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or

- (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant.

In accordance with the requirements of National Policy Statement No. 41 of the Canadian Securities Administrators, the Company has distributed copies of the notice of meeting, this management proxy circular, the form of proxy (collectively, the “meeting materials”) to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward meeting materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the meeting materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive meeting materials will either:

- (a) be given a proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Holder. In this case, the Non-Registered Holder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it with any one of Computershare Trust Company of Canada, Transfer Secretaries (Pty.) Limited or the Company as described above under “Appointment of Proxies”; or
- (b) more typically, be given a voting instruction form, which must be completed and signed by the Non-Registered Holder in accordance with the directions on the voting instruction form (which may in some cases permit the completion of the voting instruction form by telephone).

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the shares they beneficially own. Should a Non-Registered Holder who receives either a proxy or a voting instruction form wish to attend and vote at the meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons named in the proxy and insert the Non-Registered Holder’s (or such other person’s) name in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on the form. ***In either case, Non-Registered Holders should carefully follow the instructions of their Intermediaries and their service companies.***

### **Revocation**

A registered shareholder who has given a proxy may revoke the proxy by:

- (a) completing and signing a proxy bearing a later date and depositing it with any one of Computershare Trust Company of Canada, Transfer Secretaries (Pty.) Limited or the Company as described above under “Appointment of Proxies”; or
- (b) depositing an instrument in writing executed by the shareholder or by the shareholder’s attorney authorized in writing: (i) at the registered office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment of the meeting, at which the proxy is to be used, or (ii) with the chairman of the meeting prior to the commencement of the meeting on the day of the meeting or any adjournment of the meeting; or

(c) in any other manner permitted by law.

A Non-Registered Holder may revoke a voting instruction form or a waiver of the right to receive meeting materials and to vote given to an Intermediary at any time by written notice to the Intermediary, except that an Intermediary is not required to act on a revocation of a voting instruction form or of a waiver of the right to receive materials and to vote that is not received by the Intermediary at least seven days prior to the meeting.

#### **VOTING OF SHARES AND EXERCISE OF DISCRETION OF PROXIES**

On any poll, the persons named in the enclosed form of proxy will vote the common shares in respect of which they are appointed by proxy and where instructions are given by the holder of the common shares in respect of voting for or against any resolution, will do so in accordance with such direction. **In the absence of any direction in the proxy, it is intended that such common shares will be voted for the resolutions in the form of the resolutions attached to this proxy circular.**

The enclosed form of proxy, where properly signed, confers discretionary authority upon the management representatives designated in the form of proxy with respect to amendments to or variations of matters identified in the notice of meeting and with respect to other matters, which may properly come before the meeting. At the date of this circular, the management of the Company knows of no such amendments, variations or other matters. However, if any other matters, which are not now known to management, should properly come before the meeting, the proxies hereby solicited will be exercised on such matters in accordance with the best judgement of the nominee.

#### **VOTING SHARES AND PRINCIPAL HOLDERS THEREOF**

As of December 14, 2001, 99,740,221 common shares of the Company ("common shares") were issued and outstanding. Each holder of common shares of the Company is entitled to one vote for each common share held on all matters proposed to come before the meeting, except to the extent that the holder has transferred any common shares after the record date for this meeting and the transferee of such shares establishes proper ownership thereof and a written demand, not later than 10 days before the meeting, to be included in the list of shareholders entitled to vote at the meeting, in which case only the transferee will be entitled to vote such shares. Unless otherwise stated, all matters to be voted on must be passed by a majority of votes cast by or on behalf of shareholders entitled to vote at the meeting.

Notwithstanding the foregoing, each of the resolutions presented to shareholders in this proxy circular must be approved by a majority of votes cast by or on behalf of shareholders entitled to vote at the meeting, other than interested shareholders, as set out in greater detail below.

#### **PRINCIPAL HOLDERS OF VOTING SECURITIES**

To the knowledge of the directors and officers of the Company, the only person who beneficially owns, directly or indirectly, or exercises control or direction over, shares carrying more than 10% of the voting rights attached to all outstanding shares of the Company is as follows:

| <u>Name and Address</u>                   | <u>Designation of Class</u> | <u>Number of Securities</u> | <u>Percentage of Class</u> |
|-------------------------------------------|-----------------------------|-----------------------------|----------------------------|
| LL Mining Corporation BV<br>("LL Mining") | Common                      | 37,727,273                  | 37.8%                      |

## **SPECIAL BUSINESS**

The Company is seeking the approval of shareholders of the Company for the issue of common shares of the Company in connection with two matters, as follows:

- (a) a restructuring proposal designed to improve the Company's difficult financial situation; and
- (b) an incentive program under which certain executives and former executives of the Company forgo 10% of their salary or other compensation in exchange for an equivalent value of common shares of the Company.

Each of these proposals are discussed in detail below.

### **Background**

#### **NAMSSOL ACCIDENT**

The Company is engaged in the business of exploring and mining offshore mineral properties off the coasts of Namibia and South Africa. The Company has developed advanced mining technology to enable it to recover diamonds efficiently from the ocean seabed and currently has two seabed mining crawlers (the NamSSol and the Nam 2), one airlift marine mining system and one sampling tool, which it utilises to mine and explore its marine diamond concessions.

On January 7, 2001, the Company's original sea bed crawler, the NamSSol mining tool was severely damaged during mining operations. The accident resulted in the complete loss of production from the NamSSol mining tool, which was the principal source of the Company's cash flow during the early commissioning stage of the new Nam 2 sea bed crawler. The impact of the loss of production from the NamSSol, combined with the Company's weakened financial position at year end, resulted in a severe deterioration of the Company's financial position in early 2001. At the end of February 2001, in the absence of available financing, nine subsidiary companies were placed into provisional liquidation. All mining and exploration activities were suspended following the provisional liquidation.

Due to the accident and the deterioration in the financial position of the Company, the Company defaulted on the terms of the loan facilities with its senior lenders, which had been put in place to finance the construction of the Nam 2 mining tool and the acquisition of a competing ocean diamond mining company. Despite these defaults, the Company's senior lenders chose not to accelerate repayment of their loans and instead have supported the Company through a series of temporary moratoria on debt repayment, pending the resolution of a longer term solution. Accordingly, the Company remains reliant on the continued support of its senior lenders to suspend repayment obligations, to not call for an accelerated repayment of loans and to agree to a rescheduling of debt repayments.

In order to restore the Company's financial stability, discharge its subsidiaries from provisional liquidation and resume business operations, the Company concluded several financing transactions, raising gross proceeds of US\$27,000,000, described in more detail below. Shareholders' approval for these transactions was obtained at a shareholders' meeting held on March 12, 2001 and at an adjourned shareholders' meeting held on April 25, 2001.

As a result of the uncertainty that arose while the subsidiaries of the Company were in provisional liquidation, the vessel owners also imposed new conditions for the renewal of the vessel charter party agreements, including requiring bank guarantees, increasing hire rates and modifying payment terms.

#### RE-FINANCING INITIATIVES

In March 2001, the Company raised aggregate gross proceeds of US\$9,400,000 through private placements of (a) US\$3,127,000 of special warrants ("Tranche 1 Special Warrants") exchangeable for common shares and warrants, and (b) US\$6,273,000 of special notes ("Tranche 1 Special Notes") exchangeable for convertible debentures ("Tranche 1 Convertible Debentures") and warrants ("Tranche 1 Warrants"). In April 2001, the Company sold US\$2,600,000 in principal amount of special notes ("Tranche 2 Special Notes") exchangeable for convertible debentures ("Tranche 2 Convertible Debentures") and warrants ("Tranche 2 Warrants"). The current outstanding balance of the Tranche 1 and Tranche 2 Convertible Debentures is approximately US\$7,646,000.

In May 2001, LL Mining acquired a combination of common shares and warrants in exchange for a US\$15,000,000 investment in the Company. LL Mining is part of a group of companies, the Leviev Group, controlled by Mr Lev Leviev, a prominent Israeli businessman in the diamond industry. The Leviev Group is the world's largest diamond manufacturer, with diamond polishing plants, marketing agencies and other diamond activities around the world. The Leviev Group's annual turnover exceeds US\$1.5 billion. As a result of the transaction, LL Mining became the largest shareholder of the Company. As a condition precedent to the investment by LL Mining in the Company, LL Mining received the right to nominate for election two-sevenths of the board of directors and the Company entered into a marketing agreement with an affiliate of LL Mining. The Company and certain of its subsidiaries granted to that affiliate of LL Mining exclusive rights to purchase all of the Company's diamond production and to act as the sole worldwide distributor of the Company's diamonds. The Leviev Group has a strong interest in investing in African diamond mining projects and, as the Company's new major shareholder, has demonstrated its commitment to restore the Company's long-term growth potential.

LL Mining made available to the Company a credit facility of up to US\$2,600,000 (the "First Leviev Loan"). The principal amount drawn under the First Leviev Loan is convertible by LL Mining into common shares at a price of US\$0.33 per share. The First Leviev Loan was subject to certain conditions, including that LL Mining receive 15,151,515 warrants at a price of US\$0.33 per share (the "First Leviev Loan Warrants"). The Company drew down all US\$2,600,000 of the First Leviev Loan, which is repayable to LL Mining in June 2002.

#### RECOMMENCEMENT OF MINING OPERATIONS

With the new funding available from private placements of special warrants and special notes, the significant investment by LL Mining and the credit facility from LL Mining, the Company was able to recommence mining operations. By July 2001, the Company had also discharged all the subsidiaries from provisional liquidation, leaving those subsidiaries free to carry on business without exposure to claims from pre-liquidation creditors. However, the costs of resuming mining operations have been substantial and diamond production has fallen below levels originally anticipated by the Company. Furthermore, the delays and disruption to implementing resource development, the deterioration of supplier relationships, the lack of access to spares, the absence of normal business relations, the longer than expected period to discharge the subsidiaries from provisional liquidation, the restricted market for specialist skills, suppliers and services, have all had and continue to have a detrimental and disruptive effect on the Company's efforts to re-establish effective and normal mining and exploration operations and have impeded the recommencement of full mining operations.

In order to resume full-scale mining operations and restore profitability as soon as possible to the Company's business, management of the Company has devised a business plan with the following objectives:

- maximise production and expand the Company's resource base;
- reduce operating and support costs;
- reduce operating risks; and
- restructure the Company's debts with its senior lenders and holders of the Tranche 1 and Tranche 2 Convertible Debentures.

Given the Company's cash flow position, in order to restore the Company to profitability, it is critical that:

- indebtedness of the Company to its senior lenders be rescheduled;
- repayment of the Tranche 1 and Tranche 2 Convertible Debentures be extended;
- repayment of the First Leviev Loan be extended;
- additional funds be obtained by the Company.

Delays in re-scheduling the indebtedness of the Company to its senior lenders and the resultant uncertainty have in turn impeded the Company from obtaining further funds. The lack of additional funding had an adverse impact on the Company and has delayed the normalisation of its operations. Accordingly, the working capital and available cash flow of the Company have been adversely affected and the financial position of the Company is strained. In order to allow the Company to continue operations pending conclusion of the restructuring initiatives outlined in this circular, additional funding has been provided by LL Mining to the Company by way of a US\$3,000,000 bridge credit facility.

#### DEBT RESTRUCTURING PROPOSALS

The Company has been negotiating with its creditors and stakeholders and has proposed the following debt restructuring proposals:

##### *A. Indebtedness to Senior Lenders*

The Company has held a number of discussions with its senior lenders, which commenced in August 2001. The Company's senior lenders agreed to a moratorium on capital repayments until September 30, 2001, which has been extended several times and currently extends to December 18, 2001. For the period between December 18, 2001 and the shareholder's meeting on January 17, 2002, the Company anticipates that either a rescheduling agreement will be concluded with the Company's senior lenders or the moratorium period will be further extended to facilitate finalisation of such an agreement.

The senior lenders have substantially agreed to reschedule the Company's indebtedness to them on the following terms (the "Senior Debt Rescheduling Plan"):

- a capital repayment standstill from December 1, 2001 until March 31, 2003. During this standstill period, the Company would be obliged to continue to service interest on indebtedness owing to the senior lenders;
- the principal amounts owing to the senior lenders would be repaid monthly during the period from April 1, 2003 to December 31, 2008 (the "Loan Repayment Period") by way of monthly repayments to the senior lenders to repay the amounts due to senior lenders in full by the end of the repayment period;
- repayment of the loans would be accelerated during the Loan Repayment Period using 50% of the free cash flow generated in each quarter, provided the Company has a cash reserve buffer of US\$5 million;

- as security, the senior lenders require that:
  - the existing security granted to the senior lenders be extended for the benefit of all the senior lenders;
  - the shares and inter-company claims of certain subsidiaries of the Company be charged in favour of the senior lenders;
  - a charge over the launch and recovery system aboard the M.V. Kovambo be granted to the senior lenders;
- the Company pay a one time re-scheduling fee equal to 1% of the outstanding balance of the loans, payable by way of the allotment of common shares in the Company based on a price of US\$0.22 per common share. As of November 30, 2001, the outstanding balance of the loans was approximately US\$49,387,000, so that the rescheduling fee represents approximately 2,250,000 common shares.

The Senior Debt Rescheduling Plan is subject to the following conditions:

- receipt of approvals necessary to implement the transaction including South African exchange control approval, approval of The Toronto Stock Exchange and shareholders approval;
- the Company concluding an unconditional US\$10 million loan from LL Mining on such terms and conditions approved by the senior lenders;
- implementing the T1/T2 Convertible Debenture Rescheduling Plan (defined below), on such terms and conditions approved by the senior lenders;
- implementing the First Leviev Loan Amendments (defined below), on the terms and conditions as may be approved by the senior lenders; and
- the allotment and issue of common shares in the Company to the senior lenders as payment of the re-scheduling fee.

*B. Tranche 1 and Tranche 2 Convertible Debentures*

The Company is also in discussions with the holders of the Tranche 1 and Tranche 2 Convertible Debentures, to extend the repayments of principal and accrued interest, and the redemption periods, on the Tranche 1 and Tranche 2 Convertible Debentures, on the following terms (the "T1/T2 Convertible Debenture Rescheduling Plan"):

- principal in respect of the Tranche 1 Convertible Debentures would be repayable in ten equal six monthly re-payments, beginning March 2004 and ending August 2008;
- principal in respect of the Tranche 2 Convertible Debentures would be repayable in ten equal six monthly re-payments, beginning April 2004 and ending September 2008;
- accumulated interest on the Tranche 1 and Tranche 2 Convertible Debentures up until June 2003 would be paid by the Company on June 2003, whereafter the accrued interest would be repaid every six months thereafter commencing December 2003 and ending August 2008;
- accrued interest on the Tranche 1 and Tranche 2 Convertible Debentures would be convertible into common shares of the Company at a conversion price equal to a weighted average market price for the common shares immediately prior to conversion, provided

that interest may only be converted upon the conversion of an equivalent proportion of principal of the Tranche 1 and Tranche 2 Convertible Debentures;

- the redemption periods for the Tranche 1 and Tranche 2 Convertible Debentures would be extended until August 23, 2008 and October 30, 2008, respectively; and
- the conversion price of the Tranche 1 and Tranche 2 Convertible Debentures would be reduced to US\$0.22 per share from US\$0.33 per share in respect of the Tranche 1 and Tranche 2 Convertible Debentures.

The T1/T2 Convertible Debenture Rescheduling Plan is subject to the following conditions:

- implementing the Senior Debt Rescheduling Plan;
- implementing the First Leviev Loan Amendments; and
- the Company concluding the Second Leviev Loan.

*C. First Leviev Loan*

LL Mining has agreed to extend the repayment period of the First Leviev Loan on the following terms (the “First Leviev Loan Amendments”):

- the repayment period and terms for the First Leviev Loan Amendments would match the comparable terms in the T1/T2 Convertible Debenture Rescheduling Plan;
- the conversion price of the First Leviev Loan would be amended from US\$0.33 to US\$0.22 per share; and
- accrued interest on the First Leviev Loan would be convertible into common shares of the Company at a conversion price equal to a weighted average market price for the common shares immediately prior to conversion, provided that interest may only be converted upon the conversion of an equivalent proportion of principal of the First Leviev Loan.

The First Leviev Loan Amendments are subject to the following conditions:

- implementing the Senior Debt Rescheduling Plan, on acceptable terms and conditions; and
- implementing the T1/T2 Convertible Debenture Rescheduling Plan, on acceptable terms and conditions.

In connection with the proposed restructuring of the First Leviev Loan, LL Mining has agreed to waive (a) the 18,863,636 warrants granted to it at the time of its US\$15 million investment in the Company, and (b) the 11,136,364 warrants granted to it in connection with the First Leviev Loan, for an aggregate total of 30,000,000 warrants across these two classes of warrants.

ADDITIONAL FINANCING

The Company has held discussions with LL Mining, the Company’s major shareholder, which has provided the Company with a US\$3 million interim bridge loan (the “Leviev Bridge Loan”) and has agreed to provide the Company with an additional \$10 million credit facility (the “Second Leviev Loan”), as described below.

*A. Bridge Loan*

In order to ensure that the Company has sufficient working capital to implement the rescheduling initiatives discussed in this circular, LL Mining has provided the Company with the Leviev Bridge Loan in the

amount of US\$3 million, which is repayable upon drawdown of the Second Leviev Loan. The Leviev Bridge Loan is secured by:

- a first priority charge over the mining plant, computer systems, the mining tool and the launch and recovery system aboard the M.V. Kovambo and owned by the Company's subsidiary, Namco South Africa (Pty) Ltd.;
- a first priority charge over the plant, and launch and recovery system and sampling tool aboard the M.V. Kovambo and owned by the Company's subsidiary Namco (Pty) Ltd.;
- a cession of the rights and assignment of the obligations under the charter party agreement entered into in respect of the M.V. Zacharias; and
- a surety mortgage bond of second priority over real estate property owned by the Company's subsidiary, NMS Management Services (Pty) Ltd, up to a value of \$1.6 million.

*B. Loan Facility by LL Mining*

LL Mining has agreed to provide the Company with a US\$10 million loan (the "Second Leviev Loan") to fund the cash flow and working capital requirements of the Company and its subsidiaries, on the following terms:

- the loan would bear interest at 10% annually, payable monthly;
- the principal amount of the Second Leviev Loan would be convertible into common shares in the Corporation ("Conversion Shares") at a conversion price equal to the greater of (a) US\$0.22 per share, and (b) the closing price of the Company's common shares on the date when the loan or any part thereof is drawn down by the Company;
- accrued interest on the Second Leviev Loan would be convertible into common shares of the Company at a conversion price equal to a weighted average market price for the common shares immediately prior to conversion, provided that interest may only be converted upon the conversion of an equivalent proportion of principal of the Second Leviev Loan; and
- the Company would grant LL Mining 45,454,545 common share purchase warrants exercisable at any time at the option of LL Mining, at a price of US\$0.22 per share (the "Second Leviev Loan Warrants"), over a period commencing on first draw down of the Second Leviev Loan until the earlier of (a) repayment in full of the loan plus interest thereon, or (b) 5 years from the date the Second Leviev Loan agreement is entered into. The Second Leviev Loan Warrants will vest in LL Mining pro rata in accordance with draw down of the Second Leviev Loan, such that 4,545,454 warrants would vest for each US\$1,000 drawn down on the Second Leviev Loan.

The advance of the Second Leviev Loan is subject to the following conditions:

- implementing the Senior Debt Rescheduling Plan, to the reasonable satisfaction of LL Mining;
- the senior lenders consent to the terms of the Second Leviev Loan;
- implementing the T1/T2 Convertible Debenture Rescheduling Plan, to the reasonable satisfaction of LL Mining, and that the senior lenders consent thereto;

- receipt of approvals and consents required for the Second Leviev Loan, including, the issuance of Conversion Shares and Second Leviev Loan Warrants from all authorities and from the shareholders of the Company; and
- that LL Mining shall have the right to nominate such number of persons for election as directors on the Company's board of directors, such that the nominees of LL Mining constitute a majority of members of the board of directors and that the relevant authorities and the Company's shareholders approve such condition if required.

The Second Leviev Loan is repayable by the Company in equal monthly payments, over a period commencing on January 1, 2004 and ending on the same date the last payment to any of the senior lenders is made under the rescheduling proposals referred to above, and in any event by no later than December 31, 2008 (the "Repayment Period"). During the Repayment Period, the Company shall be obliged to accelerate repayment of the Second Leviev Loan utilising 12.5% of the free cash flow generated by the Company on a quarterly basis, provided the Company has a US\$5 million cash buffer in respect of working capital requirements out of remaining cash flow after payment of the accelerated payment. A facility fee would be payable in cash equal to 0.5% of the amount of the Second Leviev Loan.

As security for the Second Leviev Loan, LL Mining requires:

- a first priority charge over the mining plant, the computer system, the mining tool and the launch and recovery system on board the M.V. Zacharias. Such security shall remain perfected until such time as LL Mining shall be required by the Company to make it available as security for the Company for the purpose of acquiring the MV Zacharias;
- a first priority charge over the plant and launch and recovery system aboard the M.V. Kovambo;
- a cession of the rights and an assignment of the obligations under the charter party agreement entered into in respect of the M.V. Zacharias;
- a surety mortgage bond over residential property owned by the Company's subsidiary, NMS Management Services (Pty) Ltd, up to a value of N\$1.5 million; and
- a surety mortgage bond of second priority by the Company's subsidiary, Namco Properties (Pty) Ltd, over its real estate property up to a value of R6.5 million. This residential property has a mortgage bond presently registered in favour of Cape of Good Hope Bank Limited.

### **Shareholder Approvals Sought**

#### **1. AUTHORIZING RESTRUCTURING INITIATIVES**

##### *Regulatory Requirements for Shareholder Approval*

- NASDAQ Rules: The rules governing the Company's listing on NASDAQ (the "NASDAQ Rules") require that the shareholders of an issuer approve the issuance of common shares by an ordinary resolution, in circumstances where an issuer listed on NASDAQ proposes to issue a number of common shares equal to or in excess of 20% of the number of common shares outstanding prior to the commencement of the transaction at a price less than the greater of book or market price of the common shares. If the Company were to issue the Conversion Shares and issue common shares upon exercise of the Second Leviev Loan Warrants and this exceeded 20% of the number of common

shares outstanding prior to such issuance, shareholder approval would be required in order to comply with the NASDAQ Rules.

- Toronto Stock Exchange Rules: Under the rules of The Toronto Stock Exchange (the “TSE”), the aggregate number of shares of a listed company which may be issued or made subject to issuance (i.e., issuable under a share purchase warrant or option or other convertible security) by way of one or more private placement transactions during any particular six-month period must not (absent shareholder approval) exceed 25% of the number of shares outstanding (on a non-diluted basis) prior to giving effect to such transactions (the “TSE 25% Rule”). If the Company were to issue, or make issuable, in aggregate, more than 25 million common shares (being roughly 25% of the number of common shares outstanding prior to such issuance), shareholder approval would be required in order to comply with the TSE 25% Rule.
- OSC Rule 61-501: Under Rule 61-501 of the Ontario Securities Commission (“OSC Rule 61-501”), any transactions between an issuer and a related party (including a significant shareholder able to materially affect the control of an issuer, such as LL Mining) must satisfy certain regulatory requirements. Under the Company’s particular circumstances, OSC Rule 61-501 requires approval of the proposed arrangements between the Company and LL Mining by a majority of the minority shareholders of the Company.

#### *Shareholder Approval Requested*

The Company is seeking shareholder approval for the restructuring initiatives described above, including the Second Leviev Loan, and for the issue of a significant number of common shares in connection with those restructuring initiatives. Shareholders of the Company are being asked to approve the resolution attached as Schedule A to this circular (the “Restructuring Resolution”).

Both the rescheduling of the Company’s indebtedness to senior lenders and the Second Leviev Loan (including the Second Leviev Loan Warrants) require that the Company issue or make issuable a significant number of common shares, as set out in the following capitalization table:

|                                                                                                                                   | Total <sup>(1)</sup><br>(in shares) |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| <i>Debt Restructuring Proposals</i>                                                                                               |                                     |
| Senior Debt Rescheduling Plan                                                                                                     |                                     |
| Rescheduling fee (in shares)                                                                                                      | 2,244,864                           |
| T1/T2 Convertible Debenture Rescheduling Plan                                                                                     |                                     |
| Conversion of Tranche 1 and Tranche 2 Convertible Debentures,<br>at reduced conversion price of US\$0.22 per share <sup>(2)</sup> | 34,753,341                          |
| First Leviev Loan Amendments                                                                                                      |                                     |
| Conversion of entire First Leviev Loan, at reduced conversion<br>price of US\$0.22 per share <sup>(2)</sup>                       | 11,818,182                          |
| <i>Additional Financing</i>                                                                                                       |                                     |
| Second Leviev Loan                                                                                                                |                                     |
| Conversion of entire Second Leviev Loan, at an assumed<br>conversion price of US\$0.22                                            | 45,454,545                          |
| Second Leviev Loan Warrants                                                                                                       | 45,454,545                          |
| <b>TOTAL SHARES TO BE ISSUED OR MADE ISSUABLE</b>                                                                                 | <b>139,725,477</b>                  |
| Outstanding common share capital, December 14, 2001                                                                               | 99,740,221                          |

Notes:

1. The numbers of common shares disclosed are estimates based on information available at December 14, 2001.
2. Note that a significant portion of the number of common shares listed as being made issuable are already issuable pursuant to conversions of the Tranche 1 and Tranche 2 Convertible Debentures at the existing conversion price of US\$0.33 per share.

The above table does not include common shares of the Company that are issuable on conversion of accrued interest in respect of (a) the Tranche 1 and Tranche 2 Convertible Debentures, (b) the First Leviev Loan, and (c) the Second Leviev Loan. The number of common shares issuable in these circumstances will be calculated as the amount of accrued interest divided by a weighted average market price for the common shares immediately prior to conversion. Accrued interest may only be converted upon the conversion of an equivalent proportion of principal amount of that indebtedness.

**If the Restructuring Resolution is approved and the transactions contemplated thereby are completed, LL Mining and others will acquire rights to purchase or convert into a very significant number of common shares of the Company, resulting in significant potential dilution to existing shareholders of the Company.** If the restructuring transactions described in this circular were all completed, LL Mining would hold approximately 51% of the Company on a fully diluted basis.

Given the large number of common shares being issued or made issuable to LL Mining, the TSE and OSC Rule 61-501 requires approval of the Restructuring Resolution by a majority of the disinterested minority shareholders of the Company. **Therefore, a majority of the votes cast at the special meeting of the**

**Company by shareholders who are entitled to vote, other than LL Mining and its insiders and affiliates, is required to pass this resolution.** To the best of the Company's knowledge, the 37,727,273 common shares of the Company held by LL Mining will not be counted for this purpose.

*Deliberations and Recommendations of the Independent Committee*

As noted above, the Company has been striving to improve its financial position following the severe operational and financial impact of the accident to the NamSSol mining tool. Under the direction of the board of directors, the Company completed several financings in late spring 2001 and has since been endeavouring to restore mining operations, restructure its liabilities and seek additional financing.

In October 2001, the Company received a term sheet from the Leviev Group in respect of the proposed Second Leviev Loan. The term sheet was distributed to the board of directors and the Company's senior lenders. Following receipt of the term sheet, the Company retained the services of Endeavour Financial Corporation ("Endeavour") to advise the Company about the Second Leviev Loan, restructuring the Company's indebtedness to its senior lenders, and extending the repayment terms of the Tranche 1 and Tranche 2 Convertible Debentures. Unfortunately, the Company, LL Mining, the Company's senior lenders and the Company's financial adviser were unable to reach a consensus, preventing the Company from obtaining additional funding from LL Mining and seriously impacting on the Company's cash flow position.

On November 21, 2001, the board of directors reviewed the terms of the Second Leviev Loan and the Leviev Bridge Loan. On or about November 28, 2001, LL Mining and the Company's senior lenders reached agreement on the security to be granted to LL Mining in respect of the US\$3 million Leviev Bridge Loan, as well as for the proposed Second Leviev Loan.

On December 11, 2001, a sub-committee of the board of directors of the Company, composed of Carlo Civelli, Loine Geingos and Neil Woodyer (collectively, the "Independent Committee"), all of whom are independent directors of the Company and unrelated to LL Mining, met to review the aspects of the restructuring proposals involving LL Mining and the Leviev Group, including the terms of the Second Leviev Loan. Neil Woodyer is a principal of Endeavour, which is acting as a financial adviser to LL Mining in respect of re-negotiating the Company's indebtedness.

The Independent Committee undertook full consideration of the aspects of the restructuring proposals involving LL Mining and the Leviev Group. The Independent Committee met with representatives of the Leviev Group to discuss, among other matters, aspects of the restructuring proposals involving LL Mining and the Leviev Group. The Independent Committee also met with management of the Company to discuss, among other matters, the reasons for the restructuring proposals in general, the financial situation of the Company, the terms and conditions of transactions involving LL Mining and the Leviev Group and management's views with respect to the benefits to the Company and to shareholders of the Company of the restructuring proposals, including those involving LL Mining and the Leviev Group.

In determining whether the restructuring proposals involving LL Mining and the Leviev Group are in the best interests of the Company and are fair to the minority shareholders of the Company, the Independent Committee considered a number of factors, including the financial position of the Company, alternative sources of financing, the dilutive effect of the Second Leviev Loan and the Second Leviev Loan Warrants on existing shareholders, the future prospects of the Company, the existence of a majority shareholder and the history of negotiations with each of the Company's creditors.

The Independent Committee unanimously of the view that the aspects of the restructuring proposals involving LL Mining and the Leviev Group, including the terms of the Second Leviev Loan, are in the best interests of the Company and fair to minority shareholders, for several reasons, including the following:

- The serious financial position of the Company requires that new financing be put in place without delay. If the Company is unable to substantially implement the re-financing or debt restructuring initiatives referred to above in the near future, the Company will likely be required to cease operations;
- Notwithstanding the Company's efforts to identify alternative sources of additional financing, no person other than LL Mining is willing to fund the Company. The senior lenders are unwilling to provide the Company with additional funding and, on the advice of financial advisers, the Company has determined that it is unable to raise funds through offerings of any of common shares, special warrants or special notes of the Company;
- Re-scheduling the Company's senior indebtedness is conditional upon securing the Second Leviev Loan, which in turn is conditional upon re-scheduling of the Company's senior indebtedness. Both the Second Leviev Loan and the re-scheduling of the senior indebtedness are also dependant upon the Company reaching re-scheduling the Tranche 1 and Tranche 2 Convertible Debentures. If the Company is unable to reach agreement with any of these three groups, the debt restructuring cannot proceed;
- The Second Leviev Loan represents a high-risk investment for LL Mining and the Leviev Group and no material security is being granted under the proposed Second Leviev Loan.
- The financing available under the Second Leviev Loan will allow the Company to proceed with restoring its mining operations, restore profitability and will permit the Company to fulfil the objectives of the recovery programme;
- Although the conversion of the Second Leviev Loan into common shares and/or the exercise of the Second Leviev Loan Warrants has a dilutive effect to existing shareholders, the benefits of the Second Leviev Loan and the Second Leviev Loan Warrants outweigh the detriment to shareholders if the Company cannot obtain new financing required for its debt restructuring, as the Company will not be able to survive without new financing.

The Independent Committee unanimously recommended that the full board of directors authorize the Second Leviev Loan and the Leviev Bridge Loan.

*Board Recommendation*

**Based in part on the recommendation of the Independent Committee, the board of directors unanimously (subject to the abstentions) recommends that shareholders of the Company approve the resolution set out in Schedule A.** The directors of the Company (subject to abstentions) and the Independent Committee unanimously believe that the Company is in serious financial difficulty, that the proposed debt restructuring initiatives and new funding from LL Mining are designed to improve the financial position of the Company and that the terms of these initiatives are reasonable in the Company's circumstances and in the best interests of the Company. As nominees of LL Mining on the board of directors of the Company, Aryeh Barboy, Eli Nefussy and Jay Kellerman declared their conflicting interests and abstained from voting as directors of the Company in respect of these matters.

2. SHARE REPAYMENT PLAN

In order to generate cost savings and to better incentivize key executives and consultants in the restructuring of the Company, the Company and the eight individuals listed below (the "Participants") have agreed to adopt a share compensation program described below (the "Share Payment Program"), subject to regulatory and shareholder approval. The Participants are:

| <u>Name</u>                 | <u>Office</u>                                   |
|-----------------------------|-------------------------------------------------|
| John Alastair Holberton     | President, Chief Executive Officer and Director |
| Eliezer Nefussy             | Chief Financial Officer and Director            |
| Peter Looijen               | Managing Director, African Operations           |
| Megan Jane Williams         | Communications Director                         |
| Michael Wane Woodborne      | Exploration Director                            |
| Craig Barry Assheton-Smith  | Corporate Secretary                             |
| Michael Ernest Michael      | Financial Manager                               |
| John Charles Fairburn Purdy | Consultant                                      |

The Participants and the Company have entered into an agreement in respect of the Share Payment Program, which provides for a 10% reduction in salary or other compensation for the Participants during the period from August 1, 2001 to March 31, 2002. In exchange for the salary reduction, the Company will issue common shares to Participants with an aggregate value equal to the salary or other compensation forgone between August 1, 2001 to March 31, 2002. The price of those shares will be US\$0.1365, calculated as the simple average market price on NASDAQ during the 20 business days immediately preceding December 7, 2001, the effective date of the agreement. The maximum number of shares that would be issuable under this program is 600,000 shares.

Shareholders of the Company are being asked to approve the resolution attached as Schedule B to this circular. As the TSE requires disinterested shareholder approval for share compensation programs which permit shares to be issued to officers and directors of an issuer, **a majority of the votes cast at the Special Meeting by shareholders who are entitled to vote, other than any of the Participants, is required to pass this resolution.** To the best of the Company's knowledge, 9,348,475 common shares will not be counted for this purpose, on account of Participants who hold common shares.

*Deliberations and Recommendations of the Independent Committee*

On December 11, 2001, after having received full and complete information pertaining to the material features of the Share Payment Program, the Independent Committee discussed the terms of the Share Payment Program amongst themselves. None of the members of the Independent Committee are Participants under the Share Payment Program.

The Independent Committee as unanimously of the view that the conclusion of the Share Purchase Program is in the best interests of the Company and fair to minority shareholders of the Company and recommended that the board of directors authorize the Share Purchase Program. In arriving at their decision to unanimously recommend these transactions to the full board of directors, the independent directors took into account a number of considerations, including the current financial position of the Company and the need to properly incentivize key personnel while the Company is being restructured.

*Board Recommendation*

**Based in part on the recommendation of the directors of the Company independent of the Participants, the board of directors unanimously recommends that shareholders approve the resolution set out in Schedule B.** The directors of the Company believe that the Company is in serious financial difficulty, that the proposed Share Payment Program is designed to improve the financial position of the Company and that the terms of these initiatives are reasonable in the Company's circumstances and in the best interests of the Company.

**OWNERSHIP OF SHARES**

The following table sets out the approximately number of shares that each director and senior officer of the Company has advised are beneficially owned, directly or indirectly, or subject to the control or direction by that person at the date of this circular.

| <u>Name</u>                 | <u>Office</u>                                 | <u>Shares Held</u>       |
|-----------------------------|-----------------------------------------------|--------------------------|
| John Alastair Holberton     | Chief Executive Officer, President & Director | 9,263,125 <sup>(1)</sup> |
| Eliezer Nefussy             | Chief Financial Officer and Director          | -                        |
| Andrew Buxton               | Director                                      | 50,000                   |
| Carlo Civelli               | Director                                      | 645,000                  |
| Loine Geingos               | Director                                      | 5,700                    |
| Neil Woodyer                | Director                                      | -                        |
| Aryeh Barboy                | Director                                      | -                        |
| Jay Kellerman               | Director                                      | -                        |
| Peter Looijen               | Managing Director, African Operations         | 50,000                   |
| Megan Jane Williams         | Communications Director                       | 5,350                    |
| Michael Wane Woodborne      | Exploration Director                          | -                        |
| Craig Barry Assheton-Smith  | Corporate Secretary                           | -                        |
| Michael Ernest Michael      | Financial Manager                             | -                        |
| John Charles Fairburn Purdy | Consultant                                    | 30,000                   |

Notes:

1. Includes common shares held by Rochford Trust, which is a family trust, the beneficiaries of which include Mr. J. Alastair Holberton, the Chief Executive Officer, President and Director of the Company and members of his immediate family. The trustee of Rochford Trust is Finsbury Trust Corporation Limited of Gibraltar.

Each of the above directors and senior officers, exercise control or direction over shares, has indicated to the Company that he intends to vote in favour of the resolutions at the meeting.

**PRICE RANGE AND TRADING VOLUMES FOR THE COMMON SHARES**

The common shares are listed on The Toronto Stock Exchange under the trading symbol "NMR", on NASDAQ under the trading symbol "NMCOF", and on the NSX under the trading symbol "NMC". The

following table sets forth the high and low sales prices per share and trading volumes for the Common Shares on the TSE and NASDAQ for the periods indicated.

### The Toronto Stock Exchange

| <u>Calendar Period</u> | <u>Price Per Share</u> |            | <u>Share Trading Volume</u> |
|------------------------|------------------------|------------|-----------------------------|
|                        | <u>High</u>            | <u>Low</u> |                             |
| 2000                   |                        |            |                             |
| Fourth quarter         | 4.00                   | 2.09       | 1,497,907 shares            |
| 2001                   |                        |            |                             |
| January                | 4.25                   | 2.38       | 530,527 shares              |
| February               | 2.45                   | 0.32       | 1,117,816 shares            |
| March                  | 0.83                   | 0.24       | 6,024,447 shares            |
| April                  | 0.93                   | 0.55       | 1,058,940 shares            |
| May                    | 0.86                   | 0.65       | 484,186 shares              |
| June                   | 0.83                   | 0.40       | 469,800 shares              |
| July                   | 0.69                   | 0.38       | 428,700 shares              |
| August                 | 0.43                   | 0.26       | 680,700 shares              |
| September              | 0.40                   | 0.28       | 453,800 shares              |
| October                | 0.40                   | 0.18       | 923,600 shares              |
| November               | 0.28                   | 0.19       | 1,135,500 shares            |
| December 1 to 14       | 0.25                   | 0.19       | 208,000 shares              |

### The NASDAQ National Market

| <u>Calendar Period</u> | <u>Price Per Share</u> |            | <u>Share Trading Volume</u> |
|------------------------|------------------------|------------|-----------------------------|
|                        | <u>High</u>            | <u>Low</u> |                             |
| 2000                   |                        |            |                             |
| Fourth quarter         | 2.56                   | 1.34       | 6,437,300 shares            |
| 2001                   |                        |            |                             |
| January                | 2.75                   | 1.50       | 3,680,200 shares            |
| February 1 to 23*      | 1.66                   | 0.69       | 1,850,500 shares            |
| September 25 to 30*    | 0.31                   | 0.10       | 383,300 shares              |
| October                | 0.35                   | 0.15       | 1,059,600 shares            |
| November               | 0.19                   | 0.11       | 1,588,000 shares            |
| December 1 to 14       | 0.17                   | 0.12       | 697,700 shares              |

\* Following the Company's February 23, 2001 press release announcing that it was placing certain of its South African subsidiaries into provisional liquidation, NASDAQ halted trading in the Company's common shares. Trading on NASDAQ resumed on September 25, 2001.

### EXECUTIVE COMPENSATION

The following Summary Compensation Table, presented in accordance with the regulation to the *Securities Act* (Ontario), sets forth the compensation paid in respect of individuals who were in respect of the financial year ended December 31, 2000, the Chief Executive Officer and the two other most highly

compensated executive officer of the Company whose total salary and bonus exceeded CAN\$100,000 (collectively, the “Named Executive Officers”).

### SUMMARY COMPENSATION TABLE

| Name and Principal Position                                       | Year Ended <sup>(1)(4)</sup> | Annual Compensation        |            |                                               | Long-Term Compensation Awards             | All Other Compensation (\$) |
|-------------------------------------------------------------------|------------------------------|----------------------------|------------|-----------------------------------------------|-------------------------------------------|-----------------------------|
|                                                                   |                              | Salary (\$) <sup>(2)</sup> | Bonus (\$) | Other Annual Compensation <sup>(3)</sup> (\$) | Securities Under Options/SARs Granted (#) |                             |
| Alastair Holberton, Chief Executive Officer, President & Director | 2000                         | 448,000                    | Nil        | Nil                                           | Nil / Nil                                 | Nil                         |
|                                                                   | 1999                         | 373,000                    | 271,000    | Nil                                           | 1,000,000/ Nil                            | Nil                         |
|                                                                   | 1998                         | 220,000                    | 77,000     | Nil                                           | Nil / Nil                                 | Nil                         |
| Charles Purdy, Chief Financial Officer, Secretary & Director      | 2000                         | 164,000                    | 4,000      | Nil                                           | Nil / Nil                                 | Nil                         |
|                                                                   | 1999                         | 141,000                    | 89,000     | Nil                                           | Nil / Nil                                 | Nil                         |
|                                                                   | 1998                         | 83,000                     | 29,000     | Nil                                           | Nil / Nil                                 | Nil                         |

#### NOTES:

1. All salary amounts paid in pounds sterling are converted to United States Dollars as of December 31, 2000 at a rate of exchange of US\$1.00 = £0.67.
2. All figures are in United States Dollars, unless otherwise stated. Prior year figures have been restated on the basis of the relevant rates of exchange on December 31, 2000.
3. The value of perquisites and other personal benefits for each Named Executive Officer does not exceed the lesser of C\$50,000 and 10% of the total annual salary and bonus of such Named Executive Officer and accordingly is not recorded.
4. The Company changed its financial year-end financial year in 1998, resulting in a seven-month financial year beginning June 1, 1998 and ending December 31, 1998.
5. Alastair Holberton held options exercisable into 1,000,000 common shares at US\$3.70, which expired in 2001. The Company granted Alastair Holberton new options in 1999 to replace these options. The new options may be exercised to acquire common shares at US\$2.75.
6. Charles Purdy ceased to be Chief Financial Officer and Secretary of the Company immediately following the Company's Annual General Meeting on June 29, 2001.

No officers of the Company other than the Named Executive Officers received individual compensation in excess of CAN\$40,000 for services in all capacities during the most recently completed financial year. Since Mr Charles Purdy ceased to be Chief Financial Officer and Secretary of the Company, Mr Eliezer Nefussy has been appointed Chief Financial Officer and Director. His compensation is US\$135,000 per annum.

#### **Stock Option Incentive Compensation**

No stock options were granted to any of the Named Executive Officers, Directors or Officers during the year ended December 31, 2000.

The following table sets forth information relating to options exercised by the Named Executive Officers, directors and officers during the year ended December 31, 2000:

**AGGREGATED OPTION/SAR EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION/SAR VALUES<sup>(1)</sup>**

| Name                                                                          | Common Shares Acquired on Exercise (#) | Aggregate Value Realized (US\$) | Unexercised Options/SARs at December 31, 2000 (#)<br>Exercisable/Unexercisable | Value of Unexercised in-the-Money Options/SARs at December 31, 1999 (US\$)<br>Exercisable/Unexercisable |
|-------------------------------------------------------------------------------|----------------------------------------|---------------------------------|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| Alastair Holberton, Chief Executive Officer, President & Director             | 10,000                                 | 312 <sup>(2)</sup>              | 615,000 / 375,000                                                              | Nil / Nil                                                                                               |
| Charles Purdy <sup>(3)</sup><br>Chief Financial Officer, Secretary & Director | Nil                                    | Nil                             | 156 250 / 93 750 <sup>(2)</sup>                                                | Nil / Nil                                                                                               |

**NOTES:**

1. The high and low trading price of the Company's stock on NASDAQ for the 30 days prior to the date of exercise of the option was US\$3.25 and US\$2.34, respectively.
2. Determined as the difference between the market value of the common shares underlying the option at the date of exercise (being US\$2,7812 per share at closing of the NASDAQ on September 8, 2000) and the exercise price of the option.
3. Charles Purdy resigned as Chief Financial Officer, Secretary and Director on June 29, 2001. The options granted to him have lapsed.

**Employment Contracts**

ALASTAIR HOLBERTON

The Company entered into a service agreement dated September 10, 1993 with Alastair Holberton, the Chief Executive Officer and President of the Company. The agreement provides that Mr. Holberton is employed by the Company on a non-exclusive basis and prohibits Mr. Holberton from being contractually involved with any enterprise that competes with the business of NAMCO. The term of the agreement was five years commencing on August 1, 1993 and the agreement will continue thereafter unless and until terminated by either party giving proper notice. At Mr Holberton's instigation, this agreement was revised on May 11, 2001 and the notice period required for termination was reduced from 36 months to 3 months ("Proper Notice"). Mr Holberton proposed a voluntary reduction in cost of employment from £300 000 to £210 000 following the Company's financial difficulties until June 2001 when it became £250 000 and thereafter from August 2001, £225 000 per annum

The agreement with Mr. Holberton provides for a payment in the event of termination for whatever reason (other than in circumstances where the Company gives Proper Notice) of a sum equal to his then applicable salary and the value of other benefits, which he would have received if the agreement had been terminated by the Company giving Proper Notice. The sum payable to Mr. Holberton in the event of such termination will be calculated gross and without deduction for any amount assessable by way of a discount for mitigation, accelerated receipt or otherwise.

ELIEZER NEFUSSY

The Company entered into a service agreement dated June 20, 2001 with Eliezer Nefussy, the Chief Financial Officer of the Company. The agreement is for an indefinite term commencing on or before July 15, 2001 and is terminable at any time by either party giving not less than 45 days prior notice. The agreement requires Mr. Nefussy to devote all of his time, attention and skill to the duties of his office. Mr. Nefussy is subject to non-competition and confidentiality obligations during and after his employment

with the Company. Mr. Nefussy's salary is US\$150,000 per year, which he has voluntarily agreed to reduce to US\$135,000 pursuant to the Share Compensation Plan. Mr. Nefussy is entitled to be refunded by the Company for reasonable and proper expenses relating to his work and the Company will cover his reasonable relocation expenses from Israel. The agreement states the intention of the Company to grant Mr. Nefussy options to acquire Common Shares.

#### CHARLES PURDY

Charles Purdy ceased to be Chief Financial Officer and Secretary following the Company's Annual General Meeting held on June 29, 2001 and Eliezer Nefussy was appointed at that time as the Company's Chief Financial Officer. In terms of a written agreement between the Company and Mr. Purdy, in consideration for waiving the 36 month notice period in his employment agreement, Mr. Purdy was paid a redundancy payment of £45,000 in June 2001 and entered into a 12 month consulting agreement. The terms of such agreement are as follows: Mr. Purdy will be paid £10,000 per month for up to 15 days of consulting per month for the first three months. For the remaining nine months, Mr. Purdy will be paid £3,500 per month for up to five days of consulting per month. Further, on July 1, 2001, Mr. Purdy will have vested 100,000 options to acquire common shares of the Company. The exercise price of the options will be US\$0.50. The options expire 36 months after the date of vesting.

#### **COMPOSITION OF COMPENSATION COMMITTEE**

On June 29, 2001, Andrew E Buxton (Chairman), Frank Guistra and Aryeh Barboy were appointed by the Board as members of the compensation committee. Frank Guistra has resigned as a director effective October 22, 2001.

The compensation committee of the board of directors of the Company (the "Compensation Committee") for the year ended 31 December 2000 is comprised of Howard L. Beck (Chairman), J. Alastair Holberton and Andrew E. Buxton. Alastair Holberton is the Chief Executive Officer of the Company. Neither Mr Buxton nor Mr Barboy is an officer, employee or former officer or employee of the Company or any of its affiliates nor is eligible to participate in the Company's executive compensation program, except as described under "Compensation of Directors". The Compensation Committee meets as required, and at least annually, to monitor and review management compensation policies and benefits, management succession planning and to review overall composition and quality of the Company's management resources. The Compensation Committee's mandate is to review and approve changes to executive compensation. This includes an annual evaluation of the performance of the Named Executive Officers of the Company and a review of the performance reports for other executive officers.

#### **REPORT ON EXECUTIVE COMPENSATION**

##### **Philosophy**

The Company believes that executive compensation should be based on the role and responsibility of the executive in relation to both the marketplace for comparable executive services and within the Company, as well as on the executive's individual performance and that this should apply equally to all executive officers. The compensation arrangements of the Company are focused on rewarding performance. Accordingly, compensation levels are and will continue to be monitored to ensure that they are competitive within the relevant marketplace.

The key components of executive compensation are currently base salary, short-term incentives and long-term incentives. The short and long-term incentive plans are designed to provide a significant amount of variable compensation, which is linked to individual performance and increases in shareholder value.

Short-term incentives are represented by cash bonus awards. Awards are determined based on both the performance of the Company and the individual executive. The performance of the Company is measured by the achievement of pre-arranged objectives established for individual executives by the board of directors and other objectives of the Company. The individual performance of the executive is based on the degree to which that executive has met specific pre-agreed objectives.

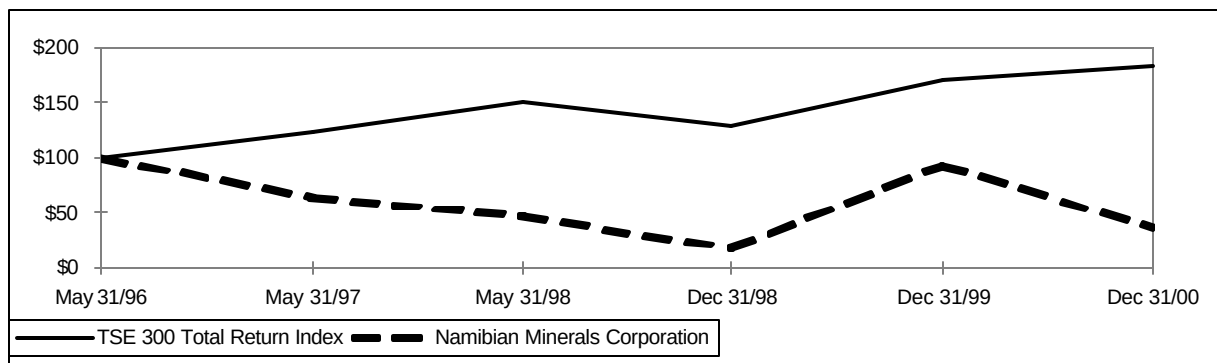
Long-term objectives are intended to reward management based on increases in the value of the Company's common shares. The purpose of these arrangements, reflected primarily in the Company's stock option plan, is to achieve a commonality of interest between shareholders and management and to motivate executives to improve the Company's longer term financial success, measured in terms of enhanced shareholder wealth over the long term. The allocation of share options to executives is based on criteria similar to those applicable to short-term incentives and, in part, on maintaining individual executives' pro rata interest in the stock option plan.

### **Compensation of the Chief Executive Officer**

The compensation of Alastair Holberton, the Chief Executive Officer of the Company, was determined by Howard Beck and Andrew Buxton in accordance with the compensation principles discussed above under "Philosophy". The cost of employment of Alastair Holberton, Chief Executive Officer and President of the Company was reduced as from February 2001 from £300 000 to £210 000 until June 2001 at which time it is set at £250 000 per annum and reset in August 2001 at £225 000. Based on Mr Holberton's performance and achievement of corporate goals, the Compensation Committee did not approve a cash bonus for the 2000 financial year.

### **PERFORMANCE GRAPH**

The following graph charts the performance of an investment in the Company's Common Shares assuming an investment of CAN\$100 on May 31, 1996 against the TSE 300 Total Return Index during such period. The total cumulative shareholder return to December 31, 2000 for CAN\$100 invested in the Company on May 31, 1996 was CAN\$183.14 as compared with CAN\$205.65 for the TSE 300 Total Return Index.



### **COMPENSATION OF DIRECTORS**

Other than compensation paid in respect of Alastair Holberton and Charles Purdy (who was a director until June 2001), as disclosed above in the Summary Compensation Table, the non-executive directors received an annual fee of US\$12,000 pro-rated for the period of service in the year of appointment as compensation in the most recently completed financial year for their services in their capacity as directors of the Company.

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Company maintains directors' and officers' liability and company reimbursement insurance. This coverage was renewed in 1999 for the one-year period ending October 20, 2000. The insurance has a limit of coverage of US\$7.5 million in aggregate for worldwide coverage, plus an additional 10% coverage in respect of defence costs. The policy is subject to various exclusions, including claims against directors or officers arising through fraud or wilful misconduct, personal injury and property and certain pollution claims. An additional insurance policy was purchased by the Company for coverage of US\$7.5 million, on the same conditions of coverage as the initial policy discussed above. The Company has renewed coverage under the above policies of insurance.

### **OTHER BUSINESS**

Management knows of no other matters to come before the meeting other than those referred to in the Notice of Meeting. Should any other matters properly come before the meeting, the shares represented by the form of proxy solicited hereby will be voted on such matters in accordance with the best judgement of the persons voting by proxy.

### **Directors' Approval**

The contents of this Circular and the sending thereof to the shareholders of the Company have been approved by the directors of the Company.

London, England, December 14, 2001.

By Order of the board of directors

**"Eliezer Nefussy"**  
**Chief Financial Officer**

## RESOLUTION OF SHAREHOLDERS

### **SCHEDULE "A": Debt Restructuring Proposals**

BE IT RESOLVED THAT:

1. The restructuring proposals outlined in the management proxy circular of the Company dated December 14, 2001, including the Senior Debt Rescheduling Plan, the T1/T2 Convertible Debenture Rescheduling Plan, the First Leviev Loan Amendments, the Leviev Bridge Loan, the Second Leviev Loan and the Second Leviev Loan Warrants, be hereby approved, ratified and confirmed.
2. The following issuances of common shares of the Company be hereby approved, ratified and confirmed:
  - (a) up to 2,500,000 common shares to senior lenders as payment of a rescheduling facility fee pursuant to the Senior Debt Rescheduling Plan;
  - (b) up to 35,000,000 common shares upon conversion of principal amounts of the Tranche 1 and Tranche 2 Convertible Debentures, based on a reduced conversion price of US\$0.22 per share, as amended pursuant to the T1/T2 Convertible Debenture Rescheduling Plan;
  - (c) up to 20,000,000 common shares upon conversion of interest accruing on the Tranche 1 and Tranche 2 Convertible Debentures;
  - (d) up to 12,000,000 common shares upon conversion of principal amounts of the First Leviev Loan, based on a reduced conversion price of US\$0.22 per share, as amended pursuant to the First Leviev Loan Amendments;
  - (e) up to 8,000,000 common shares upon conversion of interest accruing on the First Leviev Loan;
  - (f) up to 46,000,000 common shares upon conversion of the Second Leviev Loan, based on a conversion price of US\$0.22 per share;
  - (g) up to 30,000,000 common shares upon conversion of interest accruing on the Second Leviev Loan; and
  - (h) up to 46,000,000 common shares upon exercise of the Second Leviev Loan Warrants, based on an exercise price of US\$0.22 per share.
3. Any director or officer of the Company is hereby authorised and directed for and in the name of and on behalf of the Company to execute or cause to be executed, whether under the corporate seal of the Company or otherwise, and to deliver or cause to be delivered all such documents, and to do or cause to be done all such acts and things, as in the opinion of such director or officer may be necessary or desirable to carry out the intent of this resolution.

**SCHEDULE “B”: Share Compensation Plan**

BE IT RESOLVED THAT:

1. The Share Compensation Plan, as described in the management proxy circular of the Company dated December 14, 2001, providing for the issue of common shares of the Company to Participants in exchange for forgoing a portion of the Participant’s salary or other compensation, is hereby approved, ratified and confirmed.
2. The issue of up to 600,000 shares to the Participants pursuant to the Share Compensation Plan is hereby approved, ratified and confirmed.
3. Any director or officer of the Company is hereby authorised and directed for and in the name of and on behalf of the Company to execute or cause to be executed, whether under the corporate seal of the Company or otherwise, and to deliver or cause to be delivered all such documents, and to do or cause to be done all such acts and things, as in the opinion of such director or officer may be necessary or desirable to carry out the intent of this resolution.