

2010 BCSECCOM 466

August 3, 2010

Headnote

Multilateral Instrument 11-102 *Passport System* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* – National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, sections 3.2(a) and 9.1 - An issuer wants relief from the requirement that financial statements required by securities legislation to be audited must be accompanied by an auditor's report that does not contain a reservation - The auditors were not in attendance at the physical inventory taking and not able to satisfy themselves by other auditing procedures as to the opening inventory quantities; the issuer's most recent financial statements will include balance sheet and statements of operations and retained earnings and cash flows as comparatives and the audit report will not contain a reservation

Applicable British Columbia Provisions

National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, sections 3.2(a) and 9.1

In the Matter of
the Securities Legislation of
British Columbia and Ontario
(the Jurisdictions)

and

In the Matter of
the Process for Exemptive Relief Applications in Multiple Jurisdictions

and

In the Matter of
Uranium One Inc.
(the Filer)

and

Joint Stock Company Kazakh-Russian-Kyrgyz Joint Venture with Foreign
Investments Zarechnoye (Zarechnoye)

Decision

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Background

- ¶ 1 The securities regulatory authority or regulator in each of the Jurisdictions (Decision Maker) has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) that the requirement that an auditor's report must not contain a reservation does not apply to the financial statements of Zarechnoye for the financial year ended December 31, 2007 (the Exemption Sought).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a dual application):

- (a) the British Columbia Securities Commission is the principal regulator for this application,
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 – *Passport System* (MI 11-102) is intended to be relied upon in Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador and Prince Edward Island, and
- (c) the decision is the decision of the principal regulator and evidences the decision of the securities regulatory authority or regulator in Ontario.

Interpretation

- ¶ 2 Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning as is used in this decision, unless otherwise defined.

Representations

- ¶ 3 This decision is based on the following facts represented by the Filer:
- 1. the Filer is a company continued under the laws of Canada; the Filer's head office is located in Vancouver, British Columbia;
 - 2. the Filer is engaged, through its subsidiaries and joint ventures, in the mining and production of uranium and in the acquisition, exploration and development of uranium properties, primarily in Kazakhstan;
 - 3. the Filer is a reporting issuer each of the provinces of Canada, and is not in default of its reporting issuer obligations in any jurisdiction;
 - 4. the Filer's common shares are listed on the Toronto Stock Exchange under the symbol "UUU";

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The Acquisition

5. as disclosed in a press release dated June 8, 2010 and a material change report dated June 11, 2009, the Filer and Joint Stock Company Atomredmetzoloto (ARMZ), and its wholly-owned subsidiaries, Effective Energy N.V. (Effective Energy) and Joint Stock Company Uranium Mining Company (UMC), entered into an agreement (the Purchase and Subscription Agreement) under which, among other things, the Filer agreed to acquire (the Acquisition) a 49.67% interest in Joint Stock Company Kazakh-Russian-Kyrgyz Joint Venture with Foreign Investments Zarechnoye;
6. Zarechnoye is a joint stock company formed under the laws of the Republic of Kazakhstan; Zarechnoye owns and operates the Zarechnoye Uranium Mine in Kazakhstan; Zarechnoye is not now, nor was it at any relevant time, a reporting issuer in any jurisdiction of Canada or the equivalent in any other jurisdiction;
7. the Acquisition will be a “related party transaction” for the Filer, within the meaning of section 1.1 of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* (MI 61-101), since ARMZ owns more than 10% of the issued and outstanding common shares of the Filer;
8. as a result, the Filer is required under section 5.6 of MI 61-101 to obtain approval of the Acquisition from the shareholders of the Filer in accordance with Part 8 of MI 61-101 (the Minority Approval);
9. the Filer has called a special meeting of its shareholders to be held on August 31, 2010 at which it will seek the Minority Approval (the Special Meeting); in connection with the Special Meeting, the Filer will be preparing a management information circular in accordance with Form 51-102F5 – *Information Circular* (the Circular) and delivering the Circular to shareholders;
10. under item 14.2 of Form 51-102F5, the Filer is required to include in the Circular prospectus-level disclosure as described in Form 41-101F1 – *Information Required in a Prospectus* (Form 41-101F1) as mandated under National Instrument 41-101 – *General Prospectus Requirements* (NI 41-101) which includes the annual consolidated financial statements of Zarechnoye for each of the years ended December 31, 2009, 2008, and 2007 (the Historical Financial Statements);

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11. under section 4.2 of NI 41-101, the Historical Financial Statements are required to be audited in accordance with National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards* (NI 52-107);
12. under section 3.2 of NI 52-107, financial statements that are required by securities legislation to be audited must be accompanied by an auditor's report that does not contain a reservation;
13. Zarechnoye is a "foreign issuer" for the purposes of NI 52-107;
14. as permitted by NI 52-107, the Historical Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and audited in accordance with International Standards on Auditing as issued by the International Audit and Assurance Standards Board (ISA);
15. the financial statements for the year ended December 31, 2007 (the 2007 Financial Statements), were audited by Tabys-Audit LLP in Kazakhstan (Tabys); the financial statements for the years ended December 31, 2009 and December 31, 2008, were audited by Deloitte, LLP;
16. Tabys was appointed as auditor of Zarechnoye in January 2008 and was not able to verify Zarechnoye's inventory balances as at December 31, 2007 nor to satisfy itself concerning those inventory balances by alternative means;
17. since opening inventory balances enter into the determination of the results of the cost of sales, net income and cash flows for the year ended December 31, 2007, Tabys was not able to determine whether adjustments to the cost of sales, net income and cash flows for the year ended December 31, 2007 might have been necessary (the Audit Reservation); and
18. the audited financial statements for the years ended December 31, 2009 and December 31, 2008 do not contain any reservations.

Decision

- ¶ 4 Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemption Sought is granted provided that:

- (a) the Filer included in the Circular audited financial statements for the years ended December 31, 2009 and 2008 that are accompanied by an auditor's report that does not contain a reservation;

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- (b) the 2007 Financial Statements are accompanied by an auditor's report from Tabys that contains or is accompanied by a statement by Tabys that:
 - (i) describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS; and
 - (ii) indicates that an auditor's report prepared in accordance with Canadian GAAS would not contain a reservation other than the Audit Reservation; and
- (c) the Circular otherwise complies with the requirements of Form 51-102F5.

Martin Eady, CA
Director, Corporate Finance
British Columbia Securities Commission