

Niocan *inc.*

NIOBium / CANADA



Annual Report 2002

Steel and Niobium, a winning combination!

- weight reduction
- a reduction of CO₂ emissions
- super alloys for high tech applications

Profile and Mission

Incorporated in 1995, NIOCAN Inc. has invested more than seven million dollars over the past seven years in developing its niobium property in Oka, located approximately 40 km north-west of Montreal.

A feasibility study, completed by the Met-Chem/SNC-Lavalin consortium, indicated a high rate of return from the two major deposits on the NIOCAN property, the S-60 and the HWM-2. NIOCAN's mission is to start work on these two ore deposits and become a ferroniobium producer as quickly as possible.

In the long term, the company is planning to recover the by-products in the ore deposits and produce ferroalloys and other related products.

The capital structure of NIOCAN Inc. is comprised of an unlimited number of common shares at no par value. As of December 31, 2002, there have been 15,773,833 shares issued.



Award

In 1999, NIOCAN received the prestigious Development of the Year Award from the Quebec Prospectors' Association. This award is given to a person or group that has contributed to bringing a mining project to the production phase.

Corporate Information Directors and Officers

- (2)(3)(4) Bernard Coulombe – *Vice-Chairman*
- (2)(3)(4) René Dufour – *Chairman*
- (4) Richard Faucher – *President*
- (3) Clermont Levasseur, *Director*
- (2)(1) Hubert Marleau – *Director*
Alain Robin – *Secretary-treasurer*
- (4)(1) Dale Smith – *Director*
- (1) Mackenzie I. Watson – *Director up to October 24, 2002*
- (3)(1) Terence Ortslan – *Director since October 24, 2002*

(1) *Audit Committee*

(2) *Management Committee*

(3) *Human Resources and Governance Committee*

(4) *Project Committee*

Annual Shareholders' Meeting

The annual shareholders' meeting of NIOCAN Inc. will be held on Thursday, May 13, 2003, at 10.00 a.m. in the Salon Habitation B of the Marriot Château Champlain, 1 Place du Canada, Montreal.

Annual Report

For additional copies of this report, please write to:
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Legal Counsel

Ménard Mageau Valiquette

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Montreal QC H2Z 1W7

Auditors

KPMG, s.r.l.

2000 McGill College Ave., suite 1900
Montreal QC H3A 3H8

Registrar and Transfer Agent

Société de Fiducie Computershare du Canada

1500 University Street, suite 700
Montreal QC H3A 3S8

Computershare Trust Company of Canada

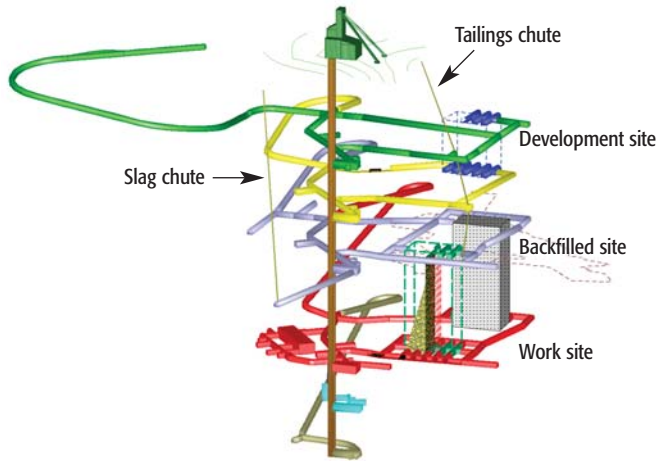
100 University Ave., 8th floor
Toronto, ON H3A 3K9

Exchange Listing

Toronto Stock Exchange – Symbol: NIO



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This 3-D illustration of the proposed mine highlights the various working levels over the life of the mine. Seen are the main shaft, the underground machine rooms and the way in which the process slag from the Niocan and the SLC site, as well as the mine tailings, will be sealed underground.

Cover:

The Annual Report cover illustrates a breakthrough in niobium's use in the production of structural steel components for the automobile industry.

Not only does niobium increase steel's yield strength, its ease in forming and its resistance to corrosion, this modern metal results in a 20 to 40% reduction in weight and a 20 to 25% reduction in costs when integrated into structural components.

Current uses of ferroniobium are the following: 72% in HSLA steels, which includes 25% for pipelines, 24% in structural steel, 23% in automobile components, as well as 13% into stainless steel and 15% in other types of steel.

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Year 2002 Highlights

January

- Quebec Administrative Tribunal (TAQ) hearings to review project opponents' objections to the Agricultural Land Protection Commission's (CPTAQ) favourable decision authorizing Niocan's use of 9.4 ha of land for mining infrastructure, continue. Hearings began in December 2001 and lasted until August 2002.

February

- TAQ
- Three days of open house in Oka– 450 visitors were briefed on the project. Hopeful of future employment, 224 drop off their résumé.

March

- TAQ
- Five Federal Ministries conclude, in writing, that there are no substantive reasons for them to get involved in a review of the NIOCAN project.

April

- The Environment Minister mandates the Bureau of Public Hearings on the Environment (BAPE) to assess the potential impact on public health and the environment of radioactive elements associated with the operation of the niobium mine and the converting operation.

May – June - July

- TAQ & BAPE
- The Mohawk Council withdraws from the TAQ hearings in July.

August

- TAQ hearings end with closing arguments from all parties involved.
- BAPE report submitted to the Minister of Environment.
- Private financing agreement for \$520,000 signed with a financial institution.

September

- Follow-up on requests by the Ministry of the Environment (MENVQ) to provide additional data for the permitting process.

October

- BAPE issues a public report on its findings. In its report to the Minister, it concludes that the project's impact on the environment should be negligible and that there should be no effect on public health.

November

- TAQ decision postponed as it requests answers to 4 additional technical questions.
- Legal council for the CPTAQ informs the TAQ that these questions are not related to agriculture and therefore are outside of the TAQ's mandate.

December

- A public and business community awareness campaign on the environmental integrity of the project begins to pay off.
- Agreement in principle is reached with the Cistercian Abbey allowing Niocan's operations to hook up to their sewage system.

Perspective 2003

- TAQ decision anticipated in March.
- Certificate of Authorization (CA) from the Quebec Ministry of the Environment– April or May 2003
- Promote company & update bankable feasibility study.
- Senior financing for start-up.
- Structure project management team.



By combining a contemporary design with a no-noise or dust environment, the NIOCAN operation will blend itself into the rural landscape in a harmonious manner. Occupying only 6.2 hectares of agricultural land (which includes a parking lot and a water retention basin), the area will be restored to its original state at the end of the operation's life-cycle.

Management Overview



Dear Shareholders:

At this time last year, as we began our planning for the 2001 Annual Report, we were convinced that this document would be used primarily for the senior financing required for the start-up of our niobium operation.

On June 26, 2001, we successfully reached a critical milestone in the permitting process for the delivery of our Certificate of Authorization from the Quebec Ministry of the Environment. This was a favourable decision by the Agricultural Land Protection Commission (CPTAQ) to authorize the use of 9.4 ha of land, of which 6.2 ha are farmland, for the project's surface operations. At that time, I informed you that a group of opponents to the project, represented by the Local Farmers Union (UPA), had invited the Mohawk Council of Kanésatake to join them in challenging the CPTAQ decision. We anticipated that the hearings at the Quebec Administrative Tribunal (TAQ), whose mandate was to review the CPTAQ decision, would be of short duration. Unfortunately it was not. The closing arguments by all parties were completed only on August 23, 2002, after 28 days of hearings. The legal council representing the CPTAQ argued that 80% of the arguments or questions raised by the opponents at the TAQ had nothing to do with agriculture and therefore were outside of the TAQ's mandate.

NIOCAN's expert witnesses at the TAQ were selected because of their impeccable scientific credentials and their professional integrity. Our legal counselors' work was equally commendable in their ability to counter often fallacious arguments put forward by the project antagonists.

NIOCAN's senior management team devoted a considerable amount of time and effort, as well as financial resources, to counter spurious objections from the opposing parties.

To provide a better understanding of the process involved in obtaining our Certificate of Authorization (CA), we have highlighted for you the sequence of events involved.

Private Placement

A financial institution, confident in NIOCAN's project and in its management team, acquired 800,000 shares at a price of \$0.65 each, with accompanying warrants of 400,000 shares at \$0.80 each and 400,000 shares at \$1.00 each, granted for 30 months.

Changes to the Board

At the 2002 annual shareholders' meeting, we elected two new directors: Mr. Dale Smith and Mr. Clermont Levasseur, to replace Mr. John Mavridis and Mr. Henri Roy.

During the year, Mr. Mackenzie I. Watson withdrew from the Board after more than five years of contribution. He was replaced by Mr. Terence Ortslan, on October 24, 2002.

On behalf of our Board of Directors and our shareholders, I would like to thank the directors who left the Board and in particular, Mr. Watson, who was one of the founding directors of NIOCAN.

Better Knowledge of the Carbonatite Deposit

During the year, a graduate student completed his master's thesis on the mineralogy of our S-60 ore body. His work provides us with very useful insights into the geological characteristics of the Oka carbonatite.

Increased Consumption of Niobium

Unlike the general softening experienced in most metal markets, the demand for niobium continues to grow. This growth is fuelled, to a large extent, by a significantly increased use of HSLA steel (niobium content) in automobile structural components.

The combination of new applications currently in development and the introduction of niobium to Chinese and Indian markets will ensure a continued growth in demand for ferroniobium, niobium oxide and niobium alloys.

Governance

The Board has adopted a code of governance in accordance with the directives issued by the TSE. The text of this code is included in the proxy circular convening shareholders to the Annual General meeting in 2003.

Control of Expenses

The 28 days of hearings at the TAQ, as well as the requests for additional technical information from the BAPE, have been costly in legal and expert witness fees. Our policy of scrutinizing and justifying every dollar spent continues.

A certified accountant prepares quarterly financial statements to ensure an ongoing control of our expenses. The audit committee meets quarterly to review these statements and makes its recommendations to the Board. KPMG are the official auditors for NIOCAN.

Working Capital

As of December 31, 2002, the short-term assets of the company, after subtracting amounts due, stood at \$1,162,694. A total of 15,773,833 shares were issued.

Directors' Compensation

In 1996, the Board adopted a share option program for directors, employees and consultants.

At the 1999 annual shareholder meeting, the shareholders approved 2,500,000 share options under this program. As of December 31, 2002, a total of 2,145,000 share options had been granted, at prices varying from \$0.50 to \$0.95 per share.

Priorities

The TAQ decision, which we anticipate to be positive, should be announced by early March. The Ministry of the Environment should then be in a position to issue NIOCAN's Certificate of Authorization (CA).

The priority of the Board will then shift to the solicitation of senior financing for the start-up of operations. In this respect, we are fortunate to have on our Board, directors who are highly qualified for this undertaking and are willing to assist us in meeting our objectives.

On behalf of the Board, I wish to express our appreciation to all of our shareholders and financial partners who have maintained their confidence in NIOCAN's ferroniobium project, despite a series of frustrating delays.

Our President, Mr. Richard Faucher, joins me in expressing our sincere appreciation to all of the legal and technical experts who represented us at the TAQ and the BAPE hearings.

A handwritten signature in black ink, appearing to read 'René Dufour'.

René Dufour, Chairman of the Board

Shared Responsibilities

Following the 2002 Annual Shareholders' Meeting, and during the year, the Board made the following nominations:

René Dufour, *Chairman*

Bernard Coulombe, *Vice-Chairman*

Richard Faucher, *President*

Alain Robin, *Secretary-Treasurer*

MANAGEMENT COMMITTEE

Bernard Coulombe, René Dufour*, Hubert Marleau

AUDIT COMMITTEE

Hubert Marleau*, Dale Smith, Mackenzie I. Watson, Terence Ortslan

HUMAN RESOURCES AND GOVERNANCE COMMITTEE

Bernard Coulombe, René Dufour, Clermont Levasseur*, Terence Ortslan

PROJECT COMMITTEE

Bernard Coulombe*, René Dufour, Richard Faucher, Dale Smith

* President

Year 2002 Activities

The Management Committee meets as required, to review current activities with the President and make decisions on issues which do not require the Board's involvement. The Board meets bi-monthly, or as required in the case of urgent matters.

Two new committees were created during the year— the Human Resources and Governance Committee and the Project Committee. The Board has adopted the corporate governance policies issued by the Toronto Stock Exchange. Copies of these regulations were included in the shareholders' proxy circular, sent prior to the 2003 Annual Shareholders' Meeting.

On October 24th, 2002, Mr. Mackenzie I. Watson, a director since NIOCAN's incorporation in 1995, tendered his resignation. The Board has nominated Mr. Terence Ortslan to replace him on the Board, as well as on the Audit Committee. This committee meets shortly after each quarter to review the unaudited financial statements, as prepared by an accountant. It considers any issues referred to it by the Board and makes recommendations accordingly.

Directors and Corporate Officers An Experienced Team

Members of the Board of Directors, as well as the company's Corporate Officers, are specialists in the various aspects of mining— exploration, project assessment, operations, finance and marketing.

RENÉ DUFOUR, *Mining Engineer* **Chairman of the Board**

- He held the position of Director on a number of Boards, including Noranda Inc. (for 14 years until 2002) and SOQUEM. He is currently on the Board of Directors of Mines Cancor, a mining exploration company. He has also held the following positions:
- President of La Fondation Polytechnique 2001-2002;
- Chief Mining Engineer and Manager of a 100,000 tonne per day operation;
- Full Professor and Director of the Mineral Engineering Department, École Polytechnique de Montréal; Assistant to the President of l'École Polytechnique; President, Association des diplômés de Polytechnique; Meritus Prize 2001;
- Advisor to the World Bank, the United Nations, Hydro-Québec, the Canadian International Development Agency (CIDA) and numerous mining companies;
- President of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) which has 12,000 members throughout Canada and the world;
- Chairman of the CIM Centennial Corporation from 1994 to 1999, and Chairman of the CIM Foundation from 1991 to 1997.

RICHARD R. FAUCHER, *Metallurgical Engineer* **President**

- Mr. Faucher, a graduate of Université Laval (1971), has held management positions in several mining companies: Noranda Inc.; Vice-President, Brunswick Mining & Smelting; President and General Manager, Falconbridge Dominicana. In 1997, as President and COO of Princeton Mining Corp., he was instrumental in raising \$140 million for the Huckleberry Mining Project in B.C.

BERNARD COULOMBE, *Mining Engineer* **Vice-Chairman of the Board**

- Mr. Coulombe was the President and principal shareholder of Jeffrey Mine and currently acts as a consultant. He has been a Director of Placer Dome since 1993. He is an expert in mining, ore concentration and the management of large mining operations.

ALAIN ROBIN, *Director*

- Mr. Robin was a member of the École Polytechnique de Montréal's Retirement Plan Management and Investment Committee and sat on the Board of the Caisse Populaire *Les Grands Boulevards* in Laval.



Niocan Board of Directors: Seated (l.- r.): René Dufour and Bernard Coulombe. Standing (l.- r.): Dale Smith, Richard R. Faucher, Terence Ortslan, Clermont Levasseur and Hubert Marleau. Inset: Alain Robin

HUBERT MARLEAU,
Director

He is currently President and Managing Director of Palos Capital Corp. A graduate of the University of Ottawa, Mr. Marleau was formerly Chairman and CEO of Marleau, Lemire Inc., Senior Executive Vice-President at Lévesque Beaubien Inc. and Senior Vice-President at Nesbitt Thompson. He sits on the Board of numerous companies.

CLERMONT LEVASSEUR, *Forestry Engineer*
Director

As a project manager and a Director of companies, he has gained extensive experience in corporate turnarounds. He has held the position of President and Vice-President in a number of forest sector companies. Since 1991, he has managed his own firm. Mr. Levasseur has participated in numerous foreign missions in the development of new markets.

DALE SMITH, *Chartered Accountant*
Director

President and COO of Norshield Capital. He joined Norshield as V-P Finance in 1998 and became President and COO in 2000. He has more than 20 years of experience in public accounting practices with Deloitte and Touche where, as a senior associate, he oversaw the activities of a broad range of companies.

Before joining Norshield, he consulted in mergers and acquisitions, financing activities and the development of strategies for small companies.

TERENCE ORTSLAN, *Mining engineer*
Director

T.S. Ortslan is the managing director of TSO & Associates, a firm focusing on independent mining, metals and fertilizer research.

Mr. Ortslan has been in the investment industry since 1975. He is a mining engineer and has worked for various natural resource companies in Ontario and Quebec.

The Project: An Overview

The Management

Basic Engineering Study of the Niocan Project

Early in the year 2000, the consortium of Met-Chem and SNC- Lavalin completed a project feasibility study for NIOCAN. It showed a 17.5% rate of return on investment, or 16% before inflation (100% equity), based solely on the operation's niobium output and its conversion to ferroniobium. The study went on to identify additional minerals in the ore, which could provide additional revenue. The principal minerals were apatite, magnetite, calcite and rare earths.

A review of the assay results undertaken before March 1999 confirmed a significant underestimation of the niobium mineralization by at least 3%. The methodology employed before March 1999 did not factor in the presence of rare earths in the fluorescent analysis of niobium. Accounting for this crucial factor increases the internal rate of return by 1.3%, to 17.3%.

Over \$1 million has been invested in the feasibility study and the basic engineering for the NIOCAN project. This study has confirmed that, based on its operating model, NIOCAN should rank as the second lowest cost producer of niobium in the world. The engineering feasibility will be updated after the TAQ decision in 2003.

Marketing

NIOCAN has invested a total of \$150,000 to conduct market studies and to sign distribution agreements in Europe, Japan and North America. A visit was made to the Brazilian operations of CBMM (the world's largest ferroniobium producer) and Catalão to assess NIOCAN's competitive position.

Agreements have been finalized with world class producers and distributors of ferroalloys. This guarantees the sale of 80% of NIOCAN's output in the third year of operation.

Project Assessment and Financing

The total project start-up cost, including working capital, is pegged at \$102 million.

The project could support a debt to equity ratio of 65/35, which would significantly raise the rate of return on equity. Management considers a debt/equity ratio of 60/40 as desirable.

Two possibilities are currently being considered with respect to construction: either a turnkey proposal by a major engineering/construction firm, or the creation of a construction team under the direction of NIOCAN. Management is currently assessing various financing options, one of which includes SOQUEM exercising its 20% option in the project.

Geology, Reserves, Mining and Concentration

Two main mineralized zones are of interest to NIOCAN– the S-60 deposit with an average grade of 0.66% Nb₂O₅ (the niobium is contained in the pyrochlore host mineral) and the HWM-2 deposit with an average grade of 0.56% Nb₂O₅.

Geologically speaking, the S-60 is a chimney-like endoskarn deposit of 100 by 200 meters. Its structure is quite different from those usually found in carbonatite. Usually, the deposits are present in the shape of lenses within the sub-vertical alkaline rock bands. The HWM-2 deposit, concentrated in one band, is over 600 m long and 25 m thick, but only the central portion of 300m is considered in the mining plan.

A total of 12.3 M tonnes will be mined during the first 14 years from the S-60 deposit, followed by 2.2 M tonnes from the HWM-2 deposit. These proven and probable reserves will support 17 years of production.

Both deposits have the potential to be expanded at depth, as well as laterally. Geologists consider that there is an excellent possibility of locating other endoskarn deposits on the property, similar to the S-60 deposit.

Geological Reserves

The geological reserves of the main body, the S-60, have been calculated to a depth of 500m and those of the HWM-2 deposit to a depth of 350m by Niocan consulting geologists and certified by the geologists of the Met-Chem / SNC-Lavalin consortium.

No additional drilling is required to go into production since the identified reserves are sufficient to recover the initial capital investment four to five time over. Only proven and probable reserves have been used in the feasibility study. A dilution factor of 10% was used to establish mineable reserves.

Geological Reserves Millions of tonnes (0.5% cut-off)					
ORE DEPOSITS	PROVEN	PROBABLE	POSSIBLE	TOTAL	GRADE Nb ₂ O ₅ (%)
S-60	7.63	3.11	3.63	14.37	0.66
HWM-2	1.32	2.22	2.41	5.95	0.56
TOTAL	8.95	5.33	6.04	20.32	0.63

Mining Lease

In July 2000, NIOCAN received its mining lease from the Ministry of Natural Resources. It grants NIOCAN appropriate access and surface usage rights to allow it to mine its niobium ore reserves. Such a lease is granted only if the ore reserves are proven and commercially viable. This step is critical to the next steps involved in obtaining the required permits to operate.

In the months of March and April, 2001, the Quebec Ministry of Natural Resources authorised NIOCAN (subject to an agreement with the Municipality of Oka) to use the SLC site for its tailings disposal and to build its mining complex on the site outlined in the engineering study, the same site authorised in June 2001 by the CPTAQ.



Mining

In 1999, Golder and Associates carried out a geotechnical study to determine the thickness and stability of the crown pillar. This allowed NIOCAN engineers to establish a precise mining plan.

The mining plan sets the first level of operation (0 m) at 82 m below the surface. The mine infrastructure will be developed in two phases:

Phase 1 consists of sinking a rectangular shaft with three compartments to a depth of 295 m and driving a service ramp at minus 17% down to the level – 220 m.

Phase 2 (starting in the seventh year) consists of deepening the shaft down to – 465 m level. Skipping capacity will be 313 tonnes an hour.

Mine water pumping stations located at various levels will keep the mine dry and discharge the water into a settling pond at the surface.

Mine production is based on a throughput of 892,000 tonnes a year. The first and second years are planned at 70% and 85% capacity respectively, in order to enter the market in an orderly fashion. Mining stopes will be paste back-filled as soon as their extraction is completed.

By the end of 1999, all of the planning for the mine development was completed and the bid documents were prepared for sinking the shaft and opening the mine.

Concentration Plant

The mill, the conversion plant and the project infrastructure have been scoped out and a capital budget has been established. All of the equipment has been specified and quotes have been received from suppliers. The concentration process consists of three parts: ore preparation, followed by primary flotation and a re-treatment and polishing circuit.

The optimization work carried out in 1999 shows that recovery in excess of 80% Nb₂O₅ can be obtained with the addition of a re-treatment circuit.

Ferroniobium Plant

SNC-Lavalin designed the ferroniobium plant with the help of specialized external consultants.

The ferroniobium produced will be crushed into different sizes, varying from 5 to 50 mm, depending on customer requirements.

On an annual basis, the plant should produce 2,800 tonnes of niobium contained in 4,500 tonnes of ferroniobium.

Training a Qualified Work Force

NIOCAN will provide specialized training during the construction period for new employees in certain sectors. The purpose of this training is twofold: it will create a qualified work force, and also facilitate the hiring of local people.

To carry out mining and certain specialized activities, NIOCAN will hire approximately 40 employees from outside the immediate area. Since the Oka region is not large enough to provide a pool of skilled professionals to fill all of the jobs, NIOCAN will have to recruit some of its specialists from beyond the immediate Oka area. The arrival of these workers with their families will boost real estate values in the area by encouraging new construction, as well as stimulating the sale of existing properties.

From the outset of the project, NIOCAN will become one of the key employers in the Oka region, with 160 employees. The arrival of technicians, engineers, miners, equipment operators, professionals and administrative staff from the region, as well as from other areas, will provide an important economic stimulus to the region. A \$1 million training budget has been put aside to train local residents who will be recruited by the company.

In order to plan our manpower requirements and to assess the availability of personnel in Oka and the surrounding area, NIOCAN held three days of open-house early in 2002. Over 450 visitors participated and 224 résumés were submitted – a clear testimony to the level of interest for the project among area residents.

Environment

Obtaining the Certificate of Authorisation

Environmental Impact Assessment

“NIOCAN’s mining project integrates a number of elements that make it a remarkably environmentally friendly project.” This is the general conclusion drawn by the experts at Roche Ltd, the firm that NIOCAN selected to undertake the environmental impact assessment (EIA) related to its ferroniobium project.

The EIA is based on the concept of returning 55% of the tailings underground, in the form of a paste backfill, and pumping the balance of the tailings to the abandoned SLC site. “This is the first time in Quebec where a disposal site for tailings will actually restore another mine site”, commented the experts at Roche Ltd in their EIA.

The overall approach minimizes the operation’s need to use agricultural land to dispose of tailings. This results in the need for only 6.2 hectares of agricultural land for the entire complex. It also reduces the size of underground openings, thus limiting the operation’s impact on the water table. In addition, the need to dispose of mill residues becomes a non-issue, since it is put to good use in restoring an abandoned mine site.

The environmental experts at Roche Ltd. noted that “this will be the only tailing site without effluents”, There will be no mine effluents discharged to local streams. Because the process water remains in a closed circuit, from the operations to the tailing site, no spill can occur. Since the tailings are 70% calcite and are non-acid, there will be no environmental impact.

The environmental impact assessment undertaken by Roche clearly indicates that the entire NIOCAN project easily complies with all of the existing environmental laws and regulations.

NIOCAN Commitments

In its positive decision to allow NIOCAN the use of 9.4 ha of land, where 6.2 ha are farmland, the Agricultural Land Protection Commission (CPTAQ) took into account many factors.

They include:

- The ecological value of the project;
- The mining history of our property, which dates back to 1953, when it was held by an American company. This was well before the creation of the current agricultural land protection law;
- NIOCAN’s commitment, since 1996, to create a project monitoring committee which would include representatives of the agricultural community and the municipality;
- NIOCAN’s promise to remove about 6,000 to 10,000 tonnes of radioactive slag from the abandoned St-Lawrence Columbiun (SLC) site. The clean-up costs of the SLC site are estimated to be \$1.5 M, an amount which local taxpayers from the Parish will be spared.
- The gradual restoration of the SLC site by NIOCAN and its transfer to the municipality at end of production;

- The site restoration guarantees, for the plant and the mine, which will be returned to farm land;
- The integration of an underground-only mining operation, thus significantly reducing the generation of noise and dust;
- That NIOCAN will bear the additional cost of a potable water supply system for the farmers, which can be used for their green houses and the washing of vegetables. This water is of a superior quality to that which is presently consumed. The potable water system will extend for 2.2 km.
- The use of niobium in ferroalloys results in a 20-40% reduction in the weight of a vehicle’s structural components and thus contributes towards a reduction of CO₂ emissions;
- The high level of personal commitment of NIOCAN’s Board members to environmental protection.

Significant Steps Taken Towards the Attainment of a Certificate of Authorization from the Ministry of the Environment

February 22, 1995 First meeting with the mayor of Oka, Mr. Yvan Patry

NIOCAN’s management commits itself to implementing an environmentally friendly operation, to meeting all regulations and to designing the operation to blend into the region. It also commits to maintaining an open dialogue with the agricultural producers, the residents and the town council.

1999 Provincial decree merges the Parish and Village of Oka. Prior to the merger, the opponents of the NIOCAN project inserted a clause in the Parish’s project referendum by-law, which excluded the participation and voice of the Village residents in the establishment of NIOCAN.

April 16, 2000 Referendum on NIOCAN’s Project

Upon direct consultation on the project by NIOCAN, 92% of the residents of the Village of Oka sign a notarised document supporting the project.

Despite a vociferous campaign of misinformation in the Parish of Oka that attempted to link NIOCAN with the long-abandoned St-Lawrence Columbiun (SLC) site, close to 40% of the residents in the Parish voted in favour of the project.

October, 2000 NIOCAN tables its Environmental Impact Study (EIS), prepared by Roche Ltée, to the Agricultural Land Protection Commission (CPTAQ). This triggers the process leading to a Certificate of Authorisation from the Quebec Ministry of the Environment (MENVQ).



2000 and 2001

- July 21, 2000** The Mine Lease is received from the Quebec Ministry of Natural Resources (MNR).
- March 21, 2001** The plan for the disposal of tailings on the SLC site is approved by MNR.
- April 2, 2001** The site for the operation's infrastructure is approved by MNR.
- June 26, 2001** A positive decision is received from the CPTAQ authorizing the use of 9.4 ha of land for the project's infrastructure, of which 6.2 ha are farmland.
- July 26, 2001** The Farmers Union (UPA) and the Mohawk Council of Kanestake challenge the CPTAQ's favourable decision.

The committee of opponents to the project succeeded in convincing the Mohawk Council to join in the challenge to the CPTAQ decision, on the basis that two agricultural properties in the Parish are owned by Mohawks. These properties are not in the carbonatite sector, but in a gneiss rock formation. In addition to this, they are located at such a long distance from the Niocan ore body that no impact is remotely possible.

- December, 2001** Hearings at the Quebec Administrative Tribunal (TAQ) begin.
- April 8, 2002** Review of the project by the Bureau of Public Hearings on the Environment (BAPE).

The Minister responsible for environmental affairs instructs the BAPE to carry-out a review of the project in order to establish any potential impact on public health and the environment by any radioactivity that may be associated with the operation of the mine and the production of ferroniobium.

- October 28, 2002** After a detailed inquiry, including a visit to the Niobec mine production facilities, and meetings with various federal ministries (which had concluded that there was no need for concern), the BAPE released its report. NIOCAN and its experts contributed extensively to the BAPE's inquiry, as this was seen as an opportunity to establish the truth about the project with the population of Oka and to expose the misinformation campaign initiated by the project opponents.

The BAPE's conclusions are summarized as follows:

Since the quantity of radioactivity freed by the project is very low, compared to the amount of natural radioactivity found locally, the Bureau concluded that the environmental impact associated with the project would be negligible and that no effect on public health should be observed.

- November 2002** The TAQ, whose decision was expected by then, requested information from NIOCAN related to four technical questions. The results were additional delays.

- 2001-2002-2003** Frequent meetings with experts from the MENVQ.

Following the public release of the BAPE's report, the Minister responsible for the Environment issued a press release expressing the need for NIOCAN to provide some additional information. The Ministry's questions related to earlier commitments made by NIOCAN. Our experts are in the process of completing all of the documentation and technical answers requested by the MENVQ. According to these consultants, it is the first time that so much detail has been requested for the issuance of a CA for a project of this nature.

- 2003** The TAQ's decision, which we expect to be positive, should be announced in early March.

By then, we will have answered most, if not all requests, from the MENVQ and we expect that the Ministry will issue the Certificate of Authorization shortly after the TAQ's decision.

The Niobium Market

Unlike the general slowdown we have seen in the demand for metals, the demand for niobium continued to grow significantly through 2001. This trend is illustrated in the two accompanying charts sourced in the December, 2001 Newsletter No. 108, published by the Tantalum (and Niobium) International Centre (TIC).

From 2001 to 2002, a North American producer of ferroniobium (FeNb) increased its output by approximately 40%. There were no difficulties in selling all of this new production. The main reason was that “the growth rate for HSLA grade FeNb continues to average about 7%, with the US and European markets consuming about 70% of the total production”. (T.I.C. Bulletin N° 112 – December 2002).

New applications in stainless steel and the development of structural components for cars using these modern steels are resulting in weight reductions of 20% to 40% and a strong growth for FeNb.

Future growth is based on an increase in the use of FeNb in new steels, as well as increased levels of use in existing applications. “The largest potential market is in China, the largest steel producing country in the world. The concentration of niobium in steel in China is only about 15% of that found in the US and Europe”. (T.I.C. Bulletin N° 112 – December 2002).

Only three producers of ferroniobium, two in Brazil (CBMM and Catalaó) and one in North America (Niobec), have been supplying over 90% of the world’s demand. There has not been any new producer since 1976. From 1979 to 1999, the only North American producer has seen its market share decline from about 20% to 10%, before undertaking an expansion. Its market share has increased to roughly 14% in 2002, but will decrease to approximately 10% in 2006.

By 2006, NIOCAN should be in its first year of production and making its entry on the market. Assuming a very conservative 6% annual growth in demand for ferroniobium (markets averaged 6.5% per year from 1965 to 2000), the total production of NIOCAN would only represent 10% of the forecasted demand in 2006. Niobec’s current capacity would also represent 10% of demand, for a total North American volume of 20%. In other words, as stated by Roskill in its 2002 niobium market review, “at the projected growth rates, this additional capacity could be required by the second half of the decade,” in reference to NIOCAN’s project.

NIOCAN also has a significant advantage over its competitors because of the particular mineralogical characteristics of the pyrochlore found in its ore. It is much coarser and nearly free of silica, thus the ability to produce a ferroniobium with low levels of impurities for the steel industry.

FIGURE A

Shipments: HSLA grade ferroniobium

Annual rate of growth: 7.5%

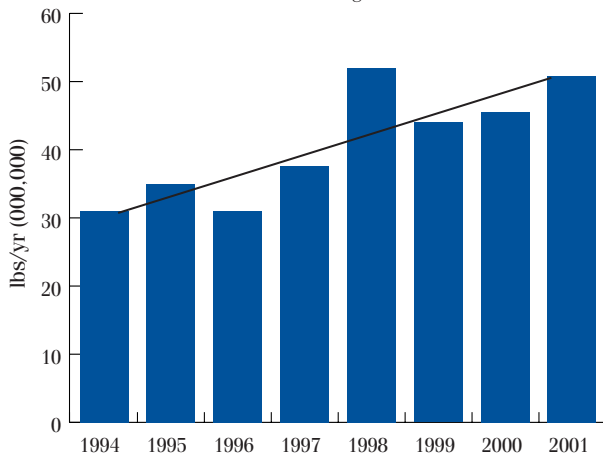
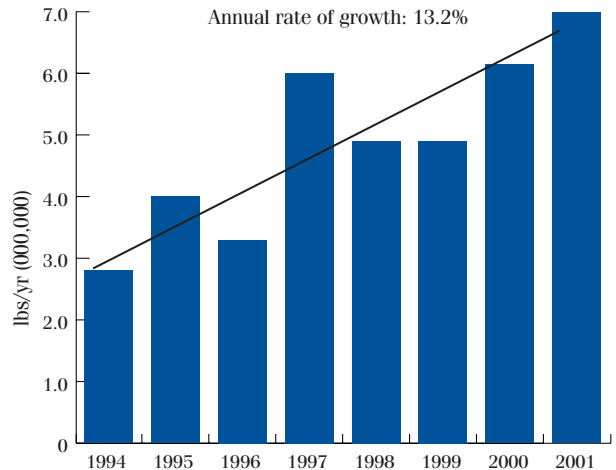


FIGURE B

Shipments: chemical compounds, pure ferroniobium, NiNb alloy

Annual rate of growth: 13.2%



Financial Analysis

A look at 1995-1998

NIOCAN was incorporated in 1995. The capital structure of the company is comprised of an unlimited number of common shares without par value.

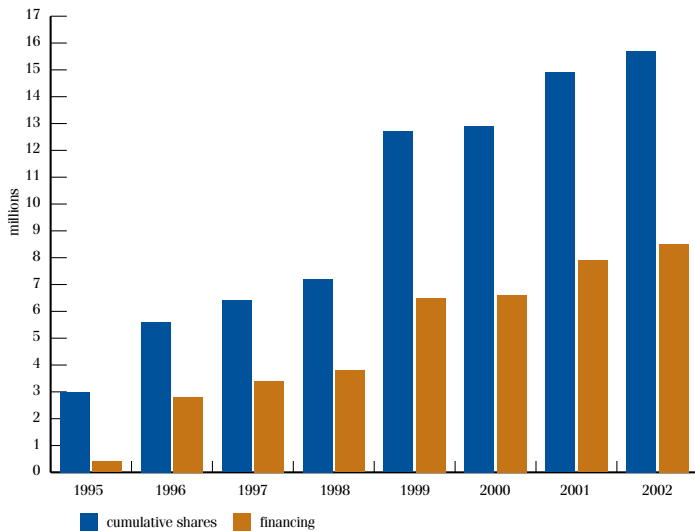
The first financing, raised as working capital, was subscribed to in 1995 by the original directors of the company.

The first Notice of Offer was done in November, 1995.

A first public underwriting by prospectus was done in late fall 1996, for a total amount of \$2,454,000. Since then, all funds have been raised through private placements.

The graph below illustrates the progressive financing and the cumulative amounts of funds and shares.

**CUMULATIVE INVESTMENTS
Through Shares Issued**



1995	2,977,500	.471,000
1996	5,604,000	2,818,000
1997	6,478,833	3,396,000
1998	7,278,833	3,783,000
1999	12,788,833	6,590,500
2000	12,888,833	6,640,500
2001	14,963,833	7,978,000
2002	15,773,833	8,503,000

In order to better appreciate the value of the NIOCAN project, we compared it to some gold producers, as gold equivalents. As one can see, NIOCAN's project compares quite advantageously to some of the best operations.

COMPARISON: GOLD - NIOCAN

	Prod. (000) ⁽¹⁾ eq. oz./an	Reserves (000,000) oz.	# Shares ⁽³⁾ (000,000)	# Shares oz (equiv)
IAMGOLD	284	2.0	78.3	39.1
Northgate	271	3.0	69.8	23.3
Aginco Eagle	246	3.3	68.4	20.7
TVX Gold	232	6.4	43.1	6.7
High River Gold	144	2.3	73.4	36.7
Eldorado Gold	97	4.1	162.8	39.7
Black Hawk Mining	63	0.2	141.6	-
Richmont Mines	111	0.43	15.1	35.1
NIOCAN Project	133	3.38 ⁽²⁾	15.8	4.7
Aurizon Casa Berardi Project	190-200	2.0	63.0	24.2

(1) Reference Canadian Mining Journal, Dec. 2002 issue pp. 12-13

(2) Recovery of gold at 90%; \$325 US/oz, CDN/US = 1.43

(3) Source: Canadian Mines Handbook 2002-03

We anticipate that the market will recognize the value of NIOCAN's project, once all environmental permits are received.

The company's engineering and financial feasibility study is based on FeNb production alone. The S-60 deposit contains a number of by-products which could be marketed as well.

By-products Increase Revenues

One of NIOCAN's business objectives is to identify potential additional revenues from its by-products.

The objective of this strategy is to generate by-product credits that would drive down the company's costs to a level close to the most cost-effective producer of niobium. In addition to this, the successful marketing of mineral by-products, such as apatite, magnetite and calcite would significantly reduce the volume of tailings that are generated by the complex and sent to the SLC site, thus increasing the life of the tailings disposal area.

Rare Earths and Niobium Oxide

In 2000, NIOCAN, with the assistance of a process specialist, undertook the task of designing a rare earths and tantalum extraction process at its complex. The process and its potential payback from rare earths extraction are enhanced by the production of 500 to 1,000 tonnes per year of niobium oxide with a 99.9% purity grade, providing revenues that are twice those of niobium in ferroniobium.

Other By-products

Samples of calcite, assessed in 2000, revealed its potential as a high quality by-product which could be sold to local farmers for agricultural amendment on their land. The local market is estimated to be in the neighbourhood of 10,000 tonnes per year, with an additional requirement for 10,000 to 20,000 tonnes per year in the broader region.

An evaluation undertaken by Lakefield Research Lab in 1998, on the production potential of an apatite concentrate, revealed that NIOCAN could potentially produce some 60,000 tonnes per year.

As for the potential to commercialize magnetite, no further study has been undertaken.

Financial Statements

for the year ended December 31, 2002

Auditors' Report to the Shareholders

We have audited the balance sheet of Niocan Inc. as at December 31, 2002 and the statements of operations and deficit, deferred expenditures and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG S.P.L.

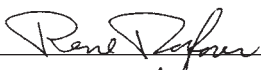

Chartered Accountants
Montréal, Canada
February 7, 2003

Balance Sheet

December 31, 2002,
with comparative figures for 2001

	2002	2001
Assets		
Current assets:		
Cash	\$59,742	\$60,085
Short-term investment, at cost	1,115,845	1,564,769
Accounts receivable	26,718	40,889
Prepaid expenses	1,835	1,528
	1,204,140	1,667,271
Fixed assets (note 2)	10,881	7,658
Land	506,887	506,887
Mining properties (note 3)	800,000	800,000
Deferred expenditures	3,893,489	3,683,412
	\$6,415,397	\$6,665,228
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$41,446	\$148,287
Shareholders' equity:		
Capital stock (note 4)	8,963,852	8,438,852
Deficit	(2,589,901)	(1,921,911)
	6,373,951	6,516,941
	\$6,415,397	\$6,665,228

See accompanying notes to financial statements.
On behalf of the Board:

 _____, Director
 _____, Director

Statement of Operations and Deficit

Year ended December 31, 2002,
with comparative figures for 2001

	2002	2001
Interest revenues and others	\$37,694	\$58,469
Expenses:		
Professional fees	437,178	358,030
Travel and business development	23,150	86,267
Management fees	90,000	115,496
Publicity and public relations	3,092	73,782
Reports to shareholders	35,838	54,339
Trustees and registration fees	24,992	24,504
Office	18,009	17,322
Rent	20,000	12,000
Insurance	10,201	8,971
Taxes and permits	9,108	8,142
Telecommunications	5,111	4,213
Amortization	2,777	2,976
Interest and bank charges	228	401
	679,684	766,443
Net loss	(641,990)	(707,974)
Deficit, beginning of year	(1,921,911)	(1,148,937)
Share issue expenses	(26,000)	(65,000)
Deficit, end of year	\$(2,589,901)	\$(1,921,911)
Net loss per share, basic and diluted	\$(0.04)	\$(0.05)

See accompanying notes to financial statements.

Financial Statements

for the year ended December 31, 2002

Statement of Deferred Expenditures

Year ended December 31, 2002,
with comparative figures for 2001

	2002	2001
Balance, beginning of year	\$3,683,412	\$3,427,909
Increase:		
Environmental study	240,756	220,420
Geological and metallurgy work	18,433	20,153
Characterization and engineering	–	9,930
Market study	21,600	–
Research and development	5,000	5,000
	<u>285,789</u>	<u>255,503</u>
Less credit for mining rights and resource credits	(75,712)	–
Balance, end of year	<u>\$3,893,489</u>	<u>\$3,683,412</u>

See accompanying notes to financial statements.

Statement of Cash Flows

	2002	2001
Cash flows from operating activities:		
Net loss for the year	\$(641,990)	\$(707,974)
Adjustment for:		
Depreciation	2,777	2,976
Net change in non-cash operating working capital items	(92,977)	96,250
	<u>(732,190)</u>	<u>(608,748)</u>
Cash flows from financing activities:		
Proceeds from share issuance	525,000	1,337,500
Share issue expenses	(26,000)	(65,000)
	<u>499,000</u>	<u>1,272,500</u>
Cash flows from investing activities:		
Fixed assets	(6,000)	(550)
Deferred expenditures net of credits	(210,077)	(255,503)
	<u>(216,077)</u>	<u>(256,053)</u>
Net (decrease) increase in cash and cash equivalents	(449,267)	407,699
Cash and cash equivalents, beginning of year	1,624,854	1,217,155
Cash and cash equivalents, end of year	<u>\$1,175,587</u>	<u>\$1,624,854</u>

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2002

The Company, incorporated under Part 1A of the Quebec Companies Act on August 29, 1995, holds a niobium property in Oka, Québec. The Company is at the stage of development of its mineral properties and has determined in 1999 that these properties contain ore reserves which are economically recoverable.

1. Significant accounting principles:

(a) Mining properties and deferred expenditures:

Deferred expenditures are presented net of amounts recovered on a property basis. These expenditures are carried at cost until a decision is made either to proceed with production or to abandon the property.

Recovery of the cost of mining properties and deferred expenses depends on the Company's ability to obtain the necessary financing to complete the development of the mining properties and future profitable production or disposal of the properties for proceeds in excess of their carrying value.

(b) Fixed assets:

Fixed assets are stated at cost. Depreciation is provided using the declining balance method at the following annual rates:

Asset	Rate
Equipment and furniture	20%
Computer equipment	30%

(c) Stock-based compensation and other stock-based payments:

On January 1, 2002, the Company prospectively adopted the new accounting recommendations published by the Canadian Institute of Chartered Accountants ("CICA") relating to stock-based compensation and other stock-based payments made in exchange for goods and services. The Company has chosen to continue using the settlement value method to record the stock options granted for the benefit of senior executives and management and the fair value method for the options granted to non-employees.

(d) Future income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying values and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates anticipated to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date.

(e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of estimates relate to assessing the realizable values of properties and deferred exploration costs. Consequently, actual results could differ from those estimates.

(f) Cash and cash equivalents:

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents. The major components of cash and cash equivalents are as follows:

	2002	2001
Cash	\$59,742	\$60,085
Money market fund	1,115,845	1,564,769
	<u>\$1,175,587</u>	<u>\$1,624,854</u>

2. Fixed assets:

	Cost	Accumulated depreciation	2002 Net book value	2001 Net book value
Equipment and furniture	\$7,925	\$1,560	\$6,365	\$1,206
Computer equipment	12,601	8,085	4,516	6,452
	<u>\$20,526</u>	<u>\$9,645</u>	<u>\$10,881</u>	<u>\$7,658</u>

Notes to Financial Statements (cont'd)

Year ended December 31, 2002

3. Mining properties:

The Company granted Soquem the option to acquire a 20% interest in two ore deposits of its mining property in consideration of a payment representing 20% of total expenses incurred to bring the said ore deposits at production.

The Company also granted Teck Corporation the option to acquire a 25% interest of its mining property in consideration of a payment representing 25% of total expenses incurred to bring the said ore deposits at production and by the payment of \$1,000,000 cash of which \$500,000 was received. The option cannot be transferred without the Company's approval.

4. Capital stock:

Authorized:

An unlimited number of common shares without par value

	2002	2001
Issued:		
15,773,833 common shares (14 963 833 in 2001)	\$8,963,852	\$8,438,852
1,475,000 common shares are escrowed.		
Issuance during the period:		
	2002	2001
For cash:		
800,000 shares (2,000,000 in 2001) pursuant to private placements	\$520,000	\$1,300,000
10,000 shares pursuant to exercise of options (75,000 in 2001 pursuant to exercise of warrants)	5,000	37,500
	\$525,000	\$1,337,500

Share purchase warrants:

The Company has granted share purchase warrants in different financing and could be required to issue shares as follows:

- 1,000,000 shares at \$0.80 until February 20, 2004
- 1,000,000 shares at \$1.00 until February 20, 2004
- 400,000 shares at \$0.80 until April 23, 2005
- 400,000 shares at \$1.00 until April 23, 2005

5. Stock option plan:

Under the stock option plan for the benefit of the directors and officers of the Company, 2,500,000 common shares are available and their life cannot exceed 10 years.

The number of stock options outstanding fluctuated as follows:

	2002	Average exercisable price	2001	Average exercisable price
Balance, beginning of year	1,795,000	\$0.63	2,145,000	\$0.64
Issued	360,000	0.54	-	-
Exercised	(10,000)	0.50	(75,000)	0.50
Expired	-	-	(275,000)	0.50
Balance, end of year	2,145,000	\$0.62	1,795,000	\$0.63

As at December 31, 2002, the following options were outstanding:

- 205,000 shares at \$0.80 until June 11, 2006
- 490,000 shares at \$0.70 until June 19, 2007
- 140,000 shares at \$0.55 until January 16, 2008
- 30,000 shares at \$0.55 until April 16, 2008
- 660,000 shares at \$0.50 until February 23, 2009
- 130,000 shares at \$0.95 until October 5, 2009
- 130,000 shares at \$0.72 until November 13, 2010
- 280,000 shares at \$0.53 until March 26, 2012
- 40,000 shares at \$0.50 per share until June 11, 2012
- 40,000 shares at \$0.65 per share until October 24, 2012

During the year ended December 31, 2002, the Company granted 360,000 stock options to directors. These options vest immediately. The fair value of each option granted was deter-

mined using the Black-Scholes option pricing model. At the date of the grant, this weighted average fair value of stock options granted was \$0.39 per option. The following weighted average assumptions were used in these calculations:

Risk-free interest rate	4.5%
Expected life	8 years
Expected volatility	73%
Expected dividend yield	\$0.00

The Company has elected to account for its stock options by measuring compensation cost for options determined under the settlement value. If the stock options had been accounted for using the fair value based method, pro-forma net earnings and pro-forma net earnings per share would have been as follows:

	As reported	Pro-forma
Net loss	\$(641,990)	\$(782,390)
Net loss per share:		
Basic and diluted	(0.04)	(0.05)

The pro-forma figures omit the effect of stock options granted prior to January 1, 2002.

6. Future tax benefit:

The income tax effect of temporary differences that give rise to future tax assets and liabilities are as follows:

	2002	2001
Future tax assets:		
Financing costs	\$42,000	\$66,000
Operating losses carry forward	1,016,000	840,000
	1,058,000	906,000
Valuation allowance	(311,000)	(118,000)
	747,000	788,000
Future tax liabilities:		
Mining properties	(281,000)	(306,000)
Deferred exploration expenditures	(466,000)	(482,000)
	\$-	\$-

As at December 31, 2002, the Company has tax losses of approximately \$2,949,000 available to apply against future taxable income as follows:

Expiry date	Amount
2003	\$279,000
2004	113,000
2005	73,000
2006	555,000
2007	433,000
2008	778,000
2009	718,000

The Company also has Canadian exploration expenditures of approximately \$1,562,000 which may be deducted from future taxable income.

The potential tax benefit relating to these elements has not been recorded.

7. Related party transactions:

During the year, the Company incurred the following expenses with a director or a company controlled by a director of the Company. These transactions were measured at the exchange amount.

	2002	2001
Administration expenses	\$5,000	\$4,500

8. Financial instruments:

The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments.

Short-term financial instruments:

Cash, short-term investment, accounts receivable, accounts payable and accrued liabilities are short-term financial instruments whose fair value approximates their carrying amount given that they will mature shortly.