

TRANS SIBERIAN GOLD

(TSG : LN : £1.425 : ISSUED SHARES 28.551M)

BUY

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12-MONTH TARGET PRICE: £2.00

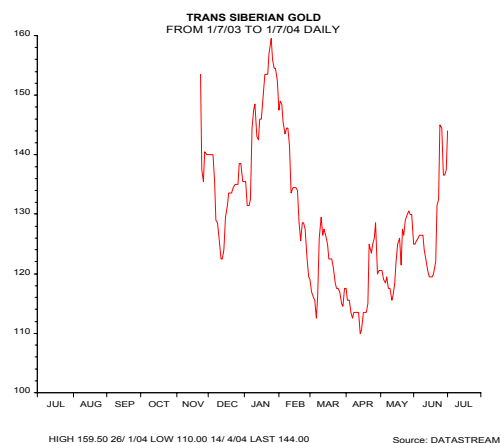
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Company Statistics:

Recommendation:	BUY
12-month target price:	200p
52-week price range	164.5p – 138.5p
Shares O/S: basic	28.651M
Net current assets:	(June 03) US\$2.5M
LT debt:	Nil
Weekly trading vol.:	725,000
Market capitalisation:	£40.7M

Sector: Gold Mining – Development
Website address: www.trans-siberiangold.com

Share Price Performance:



HIGHLIGHTS

- AngloGold Ashanti makes its first investment in Russia, and one of only a handful of minority investments, in TSG by spending £17.6 million to acquire 29.9%.
- TSG will now have the technical strength, funds, and major backer required to build its first two mines and to develop into a 300,000oz producer over the next two years as it builds its two major projects, Asacha in Kamchatka and Veduga in Krasnoyarsk.
- At an industry level, this confirms our long held attestation that majors can no longer sit by and miss out on the opportunities and consolidation offered in Russia and the FSU. Those majors clearly feel more confident in making their first moves in Russia through partnerships with well-run junior companies already operating there.
- TSG is recommended as a BUY with a £2.00 target price based on peer group assessment of its Asacha and Veduga properties.

ANGLOGOLD ASHANTI TO MAKE STRATEGIC INVESTMENT OF £17.6 MILLION

AngloGold Ashanti announced yesterday that it has agreed to acquire a 29.9% stake in Trans-Siberian Gold plc, through an equity investment of approximately £17.6 million.

TSG, which floated on AiM in November last year raising £16 million with a share price of £1.50, is the UK based holding company for the TSG Group's Russian gold business, and has three existing gold projects, Asacha and Rodnikova, both in Kamchatka, and Veduga, in the Krasnoyarsk region of Russia, as well as an exploration licence over an extensive area surrounding Veduga.

AngloGold Ashanti's investment in TSG will be used to help bring the most advanced of these, the Asacha and Veduga projects, into production, as well as to fund TSG's ongoing exploration and corporate development initiatives.

The investment will be made through a subscription in two tranches each of approximately 6.13 million newly issued ordinary TSG shares, following which AngloGold Ashanti is expected to hold a 29.9% shareholding in TSG. The first tranche will be paid immediately following shareholder approval, expected on July 27 after the AGM, priced at £1.3695 per share, and the second, subject to loan financing for the development of the Asacha project and expected before year end, at £1.494 per share.

In addition to the equity investment, AngloGold Ashanti and TSG have also agreed to form a broader partnership where AngloGold Ashanti will have an option to exercise an earn-in right enabling it to acquire a 51% direct interest in any of TSG's new mining or exploration projects.

Following completion of the first tranche, AngloGold Ashanti (AGA) will have the right to appoint two non-executive nominees to the board of TSG. AGA will provide technical and operating support to TSG as part of a consultancy agreement to be entered into between TSG and AGA (such services being provided on an arms length basis). Additionally, AGA will have anti-dilution rights to maintain its 29.9% interest, and also a right to provide financing for the Veduga development if it is able to offer terms that are equivalent to or better than any financing arrangements offered by third parties.

TRANS SIBERIAN GOLD

Trans Siberian Gold's initial project, for which Standard Bank has been mandated to arrange US\$30 million of project financing before year end, is the Asachinskoye / Rondikova project in the Kamchatka region of the Russian far east. The high grade epithermal deposit is expected to enter production in late 2005 / early 2006 at a production rate of 100,000oz pa for a period of six years. The area is understood to be highly prospective for further discoveries.

The company has also finished scoping its large Veduga deposit in the Krasnoyarsk region of central Siberia – adjacent to Russia's largest mine, Olympiada (Noril'sk Nickel) – where a resource of 2.3Moz has been defined

Asacha

The Asacha Bankable Feasibility Study (BFS) was completed in March and signed off by MDM, supported by AMC Consultants, VNIPiPromtechnology, and TSG's in house Russian technical team.

The Asacha resource, calculated to JORC standards by AMC, is 909,000 tonnes at 22.2g/t Au and 46.6g/t Ag containing 648,000 ounces of gold and 1,361,000 ounces of silver.

The plan envisages an underground cut and fill mine treating 200,000 tonnes of ore a year to a conventional gravity and CIL plant producing 100,000 ounces of gold per annum over a mine life of six years. First gold pour is scheduled for late 2005. There is a possibility to mine part of the deposit by open pit methods, enhancing economics, subject to permitting changes.

At a \$370/oz gold price the project yields \$37 million free cash on a total capital requirement of \$53.8 million, with an IRR of 19%. Cash operating costs are estimated at \$161/oz and full operating costs at \$282/oz. This undiscounted NPV is equivalent to US\$57/oz reserve. The financial assessment primarily relied on western costings, and as such there is significant potential to improve economics through local sourcing.

The BFS plan does not include any contribution from Rodnikova, TSG's other project in Kamchatka some 65 kilometres to the north of Asacha. Rodnikova has a Russian C category resource of 1.25Moz gold and 11Moz silver. However, there is clear potential for Rodnikova to provide additional ore for the Asacha mill and TSG will initiate exploration at Rodnikova to convert Russian resources to JORC classification.

Veduga

The Veduga resources, calculated to JORC standards, upon which the recently completed Scoping Study (also completed by an in house team, David Stock, MDM and AMC) is based, are 14.1 million tonnes of ore at an average grade of 5.09 g/t containing 2.3 million ounces of gold. Approximately 71% of the resources are contained in one orebody (OB1) with the balance in 12 satellite orebodies. Around 70% of these resources lie within 300m of surface and all orebodies remain open at depth and will be the subject of future exploration activity.

The suggested mining method has five separate pits being mined open pit at a rate of 1.2 million tonnes a year for 10 years, followed in year 11 by underground mining of OB1 at half that rate for a further four years. Gold production would initially be 160,000 oz a year with start-up scheduled for the latter part of 2006 (subject to engineering design and financing).

Following the results of the scoping study and initial testwork of a 1.2t sample by SGS Lakefield in South Africa, two process routes are currently under detailed review, namely pressure oxidation and bacterial oxidation of flotation concentrates, prior to normal CIL and elution, and supplemented by gravity recovery.

The capital cost of the project is estimated at US\$94 million, and at a US\$375/oz gold price, would generate around US\$150 million of free cash flow and an internal rate of return of over 30%. Cash costs of production are estimated at approximately \$170/oz and full operating costs at around \$290 an ounce. This undiscounted NPV represents a value of US\$65/oz.

A 16,000-metre diamond drilling programme designed to in-fill, expand and upgrade the classification of the orebodies in the central zone commenced in November 2003. Four rigs are currently dedicated to this activity.

A programme of drilling has also started on targets in the 540 sq km exploration licence area that surrounds the central Veduga licence and ore zone, details and results of which will be the subject of a separate announcement shortly.

COMMENT AND ANALYSIS

Compared to the international gold property transaction market, AngloGold Ashanti's purchase for £17.6 million of essentially 30% of 0.65Moz of reserves at Asacha, a further 1.25Moz of resource at Rodnikova and 2.3Moz resources at Veduga, the transaction appears to be priced at US\$25.70/oz resource. These are good quality resources and near production, and this price stacks up well against the world average (CC estimate) of US\$32/oz resource.

In our valuations we point to the peer group values that are being attained in this sector, which for the Africa / Asia end of the junior gold producers is US\$1,543/oz production, US\$95/oz reserve and US\$32/oz resource, valued in production. The ratio of enterprise value to cash margin on reserves is currently 70%.

With a likely production level of 260,000oz and a portfolio cash cost of around US\$170/oz, a current reserve of only 0.68Moz but a resource base of 4.2Moz, and future development costs of US\$148 million, these peer group valuations suggest market values (excluding balance sheet adjustments) of US\$253 million on a production basis, but negative values based on resources, existing stated reserves and margin. This is because the Veduga property is not that far advanced as yet and should not be treated in this manner.

On the same basis, Asacha alone would be valued at US\$100 million (production basis), US\$10 million (reserve basis), US\$7 million (resource basis, inc Rodnikova) and **US\$57 million** (margin basis). We prefer the margin based valuation as the others assume an "average" mine life and "average" opex.

Veduga, then, should be valued as a resource, albeit an advanced one. At this stage the company has completed its scoping study and is moving towards its more detailed engineering estimates. Global resources are trading (CC estimate) at market values of US\$21/oz for measured and indicated resources (not in production), and the 2.3Moz Veduga property would thus justify a value of **US\$48 million**, but clearly with room to improve significantly as definition improves.

Similarly, we would expect Asacha to continue to grow in reserve and life, and to improve on the stated undiscounted free cashflow of US\$37 million.

But at the present stage of definition and financing, we suggest a fair value for the company, pre this funding, of US\$105 million, or £57 million, a premium of 40% to the current price, for a fair target price of £2.00 per share and a BUY recommendation, with each asset representing approximately half of that value.

For TSG, AngloGold Ashanti's presence will bring needed technical strength to the management of the company; will ensure that Veduga does indeed get financed (as AGA has the right to match and replace any financing package for Veduga); and it will also mean that all known gold deposits are on the radar screen, with 51% AGA ownership in new licences and discoveries.

INDUSTRY COMMENT

This is AngloGold's first investment in Russia that we can remember, and is certainly one of only very few minority positions that it has taken. The appearance of the world's second largest gold producer in Russia confirms what we have attested for some time, that the majors can no longer carry on making neutral or expensive transactions in the traditional gold environments when such major opportunities exist in Russia. Deals done prior to this have been generally around US\$10-15/oz resource, while in North America recent ones have been in excess of US\$60/oz in general.

The Russian / Asian / London production and development scene is populated by Peter Hambro Mining, Highland Gold, Bema Gold, Oxus, Celtic, Trans Siberian Gold and Centara. Of these Peter Hambro is in JV with Rio Tinto, Highland has a major investor in the form of Barrick, Oxus has been widely rumoured to have been approached by Harmony, Centara is now a major spin-off of Cameco, and TSG now has AngloGold Ashanti as an investor. There is still plenty of scope for Peter Hambro Mining to attract an investor as opposed to a JV partner, and we believe Oxus would also be a likely vehicle for other major companies making first moves into Russia and the FSU.

The clear message is though that the major companies are now unwilling to miss out on the consolidation taking place and opportunities presented in the region, but rather than make that first move alone, they feel increasingly compelled to make that first step through investments and partnerships with successful juniors.

Risks associated with our valuation and financial forecasts

There are risks associated with the share price achieving our target price and our financial forecasts. Metal prices may not match our forecasts; as with any mining company, there are operating risks involved in both underground and open pit mining operations; foreign currency exchange rate fluctuations will impact both the company's operating costs and its revenues. There are also numerous technical and environmental risks associated with the operation of a mining company that could have an impact both upon the company's valuation and our financial estimates.

The analyst has not visited the issuer's operations.

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Distribution of Ratings

Global Stock Ratings Distribution
(as of June 2, 2004)

Rating	Coverage Universe	
	#	%
Buy	104	43.9%
Speculative Buy	48	20.3%
Hold	71	30.0%
Sell	14	5.9%
Total	237	100.0%

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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Company	Disclosure
Trans Siberian Gold	None

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