



City Capital Corporation Limited

Trans-Siberian Gold plc

Bankable Feasibility Study at Asacha and Scoping Study at Veduga are complete – now moving into the mine construction phase

- **TSG has completed the Bankable Feasibility Study at Asacha.** The BFS has been completed and signed off by MDM, with the support of other consultants. The study looks for gold production of 100,000oz per annum over a six year mine life. Capital costs are estimated at US\$54M, with cash costs of US\$161/oz. Construction will start in Spring 2004 and the first gold production is expected in late 2005.
- **The Scoping Study for Veduga is also complete.** TSG's in-house team carried out the Scoping Study, with the aid of external consultants. The study looks for gold production of 160,000oz per annum over ten years of open pit operations. Underground mining will then produce around 90,000oz per annum for a further four years. Capital costs are estimated at US\$94M, with cash costs of US\$170/oz from the open pit. A full BFS is expected to be completed by the end of 2004 and the first gold production is planned for late 2006.
- **Exploration is continuing at Veduga, Asacha and Rodnikova.** TSG has four drill rigs currently working on the central mining zone at Veduga to in-fill, expand and upgrade the resources. Drilling has also started on targets in the greater (540km²) exploration area. At Asacha nine additional targets will be drilled, and at Rodnikova drilling will confirm the Russian resources and look at new targets. TSG has successfully increased the resources at Veduga in the past year (from 1.8Moz to 2.3Moz) and we look for more positive results from the current work.
- **Our financial model gives a NPV of £1.82/share.** This is based on a gold price of US\$400/oz and a discount rate of 12%. TSG also compares favourably with its peer group in terms of 'gross capital' per ounce of resources and per ounce of planned annual gold production.

TSG's share price is now 20% below its issue price in November 2003. With mine construction at Asacha about to begin, and further good news from exploration expected through the year, we expect the share price to recover in the coming months.

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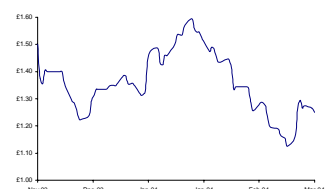
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Veduga Scoping Study complete

TSG's in-house team has completed the Scoping Study for the Veduga deposit. The results are similar to previous expectations - the mining rate from the open pit will be lower but the overall gold production has increased on the back of the recent ore resource additions. The major points of the scoping study and the press release, with our comments, are as follows:

- The Scoping Study is based on the increased ore resources announced in January 2004, namely 14.1Mt of ore grading 5.1g/t for 2.3Moz of contained gold (all to JORC standards). Just over 70% of the gold is contained in one orebody (OB1), with the balance in another 12 satellite orebodies. Also, 70% of the ore is within 300 metres of the surface and all the orebodies remain open at depth.
- Open pit mining from five separate pits will generate 1.2Mtpa of ore for 10 years. This will give gold production of 160koz per year. This is lower than the previously estimated mining rate of 1.5Mtpa as the mining advance has been limited to 50 metres depth per year. It is possible that further increases in the resources (giving larger / more pits) could see the mining rate increased.
- Once the open pits are exhausted, mining will move underground on orebody 1 ('OB1'), giving 0.6Mtpa of ore for another four years. This will give a gold production rate of around 90koz per annum.
- The total gold production over the mine life is therefore just under 2Moz (up from a previous estimate of around 1.75Moz).
- The ore will be processed by grinding and flotation, oxidation of the flotation concentrate, then gold recovery from the oxidised concentrate by Carbon-in-Leach ('CIL'). There are two possible methods of oxidation, namely pressure oxidation or bacterial oxidation, and these will be reviewed in detail for a decision in the feasibility study.
- Cash production costs for the open pit operations will be US\$170/oz (with a 6% gold royalty adding another US\$24/oz), while the underground operations will have cash costs of approximately US\$200/oz (plus royalties). This is in line with the previous estimates.
- The capital cost of the project is put at US\$94M, for the open pit and the recovery plant – approximately the same as previously estimated. Further capital (we estimate US\$10M) will be needed to develop the underground mine, but not until around 2015/16.
- Gold production is expected to start *'in the latter part of 2006'*. TSG had originally looked for production to begin in 2005, but is now being somewhat more cautious. The full Bankable Feasibility Study is expected to be completed by the end of 2004, with construction starting in the spring of 2005. This will give approximately 18 months for the mine construction – possibly slow by Australian standards, but the weather at Veduga is not so clement!

- The Scoping Study shows an Internal Rate of Return of more than 30% and free cash flow (after capex, royalties, tax, etc.) of more than US\$150M over the life of the mine, based on a gold price of US\$375/oz.

TSG has now called for tenders from a number of engineering companies to do the Pre-feasibility Study and full Bankable Feasibility Study for the Veduga project. The work will be commissioned shortly and will be completed by the end of 2004.

At the same time, a Russian company will be completing a Russian Feasibility Study (or 'TEO') for submission to the Russian authorities for approval. The first step in this process, submission of the Veduga resources statement, will be done by the end of March.

TSG is continuing to drill on the Veduga property. Four drill rigs are working on the central zone to in-fill, expand and upgrade the ore classification, in a 16,000 metres drill programme that began in November 2003. A drill programme has also started on targets in the 540km² exploration area and TSG will make an announcement on results from that work shortly.

The company has been successful in adding resources at Veduga over the past year or so – the total resources have increased from 1.8Moz in July 2003, to 2.1Moz in October 2003, to 2.3Moz in January 2004. We expect that the current drilling programmes will continue to add resources – both on the central mining area and also in the greater exploration area. Such additions are then likely to lead to an increased mining rate, possibly up to the originally planned 1.5Mtpa of ore to produce around 180-200koz of gold per annum rather than the 160koz now planned.

Asacha-Rodnikova Bankable Feasibility Study

TSG has also announced that the full Bankable Feasibility Study ('BFS') for the Asacha mine has been completed and signed off by MDM, the South African process engineers, with support from AMC Consultants on the resources and mining, VNIPiPromtechnology for the Russian TEO and environmental statement, and TSG's own in-house Russian technical team.

The main points from the BFS, together with our comments, are as follows:

- AMC Consultants calculated the Asacha resource, to JORC standards, at 909,000t grading 22.2g/t gold and 46.6g/t silver, for 648koz of gold and 1,361koz of silver (equivalent to 671koz of gold using a 60:1 gold:silver price ratio).
- Mining will be underground, using cut-and-fill to produce 200ktpa of ore. The ore will be processed using a conventional gravity and CIL plant to produce approximately 100koz of gold per annum over a mine life of six years. This is in line with previous plans.
- The capital cost of developing Asacha is estimated at US\$53.8M (marginally up on the previous estimate of US\$50M). The final permitting for construction is expected to be complete by May 2004, and some items are

being delivered on the winter road already. The first gold production is scheduled for late 2005.

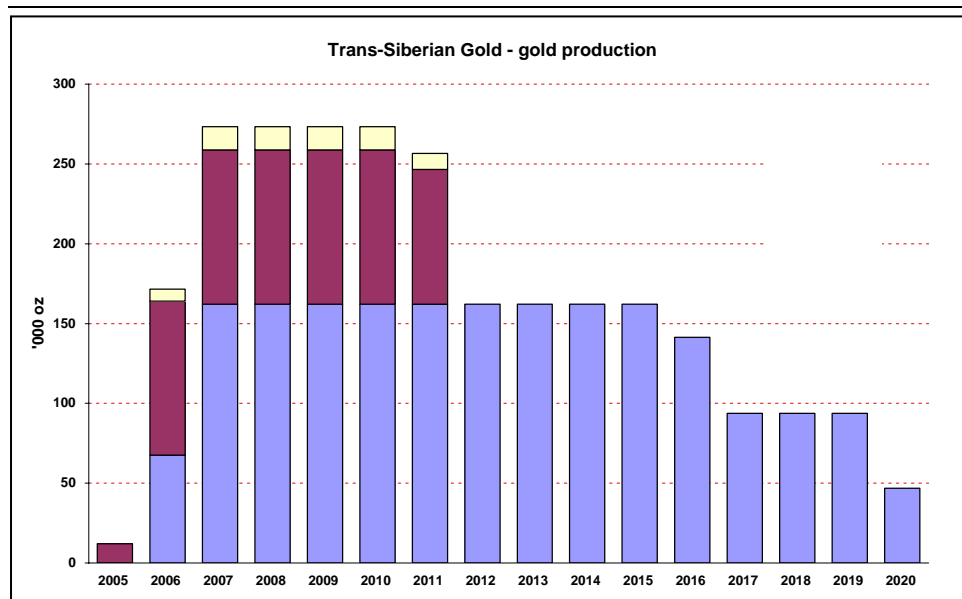
- Cash operating costs are estimated at US\$161/oz (excluding the gold sales royalty of 6%, which will add some US\$24/oz). We had previously estimated cash costs of US\$124/oz, or US\$60/t. The new estimate is considerably higher, at around US\$78/t. Part of the explanation may be a higher allowance for 'G&A', which we understand makes up around 30% of the cost. If the resources / mining rate could be increased at Asacha, this would likely reduce the costs per ton as many of the G&A costs will be fixed.
- The BFS model of Asacha generates US\$37M in free cash flow over the mine's life, at a gold price of US\$370/oz, with an IRR of 19%.
- The BFS does not include any mining at the Rodnikova deposit, 65km to the north of Asacha. The problem has been a lack of resources verifiable to JORC standards. The Russian estimates are 1.25Moz of gold and 11Moz of silver in C1+C2 categories, but the drill core underlying these estimates is no longer available and so the data cannot be verified to JORC standards. TSG's consultant geologist estimated, in 2003, mineable resources of 0.2Moz of gold and 2.1Moz of silver. We have no doubt that there are considerable resources at Rodnikova and TSG will be drilling to confirm this. We have, therefore, left Rodnikova in our model, contributing an *additional* 15koz of gold per annum at a cash cost of around US\$110/oz.
- The Russian mining permit, through the TEO process, calls for all underground mining at Asacha. However, the upper part of the orebody could be mined by open pit methods for the first couple of years, which would considerably improve the economics of the project. In addition, the mining equipment used in the open pit at Asacha could then be used at Rodnikova once Asacha operations move underground. TSG will therefore apply for a modification to the mining permit to allow an initial open pit.

The current licence for Asacha calls for some gold production in 2004. We understand that agreement in principle has been reached to amend this schedule to agree with the BFS, but this still needs to be formally signed.

Finally, as at Veduga, there is still considerable potential to add resources at both Asacha and Rodnikova and to therefore either increase the mine lives or increase the gold production rate. TSG has a licence over 24km² at Asacha and has identified other possible vein systems in the area with nine specific targets. At Rodnikova, proving up the Russian C1+C2 resources will give considerable upside, but the licence area covers 16km² with a number of other targets already identified. TSG has purchased a new Boart Longyear diamond drill rig and this is expected to be operational in May 2004.

Gold production profile

The Scoping Study at Veduga and the BFS at Asacha, together with our estimate of production from Rodnikova, gives the following gold production profile for TSG.

Exhibit 1. Gold production profile for Trans-Siberian Gold plc

Source: 3C estimates

Gold production will begin at Asacha in late 2005 and reach a peak of approximately 270koz (in total) in 2007. Currently, the mine plans look for production to fall back to around 160koz in 2012 as Asacha / Rodnikova close. Success in exploration in those areas, however, is likely to extend the mine lives and keep gold production at a higher level.

Valuation

We have revised our financial model of TSG to take into account the changes from the Scoping Study at Veduga and the BFS at Asacha. As stated above, we have also retained some production at Rodnikova, though this is not yet in the formal plans. We have then run the model for a range of gold prices (US\$350 – 450/oz) and discount rates (10% - 15%) as shown in the table of results below.

Exhibit 2. Net Present Value of Trans-Siberian Gold

		Discount rate		
		10%	12%	15%
Gold Price	350	£ 1.40	£ 1.23	£ 1.04
	375	£ 1.73	£ 1.52	£ 1.29
	400	£ 2.06	£ 1.82	£ 1.53
	425	£ 2.39	£ 2.11	£ 1.77
	450	£ 2.72	£ 2.40	£ 2.02

Source: 3C estimates

At the current gold price of US\$400/oz and using a discount rate of 12%, we derive a NPV of £1.82 per TSG share.

The model assumes that TSG will fund the US\$150M in capital costs through a mixture of cash on hand, bank loans and further equity issues. TSG raised US\$27.5M through its recent IPO, which together with bank loans should be

sufficient to fund the development of Asacha. This implies that the company will be looking for further equity funding and/or bank loans, in late 2004 when the BFS for Veduga is complete. We have assumed this will raise an additional US\$20-25M – but only at a price *above* the initial offering of £1.50/share.

We have also compared TSG to its peer group, as shown in the table below.

Exhibit 3. Western gold mining companies operating in Russia and the FSU

Company	Price	Issued shares	Mkt. Cap.	Net cash / (debt)	Capex req'd.	Gross Cap.	Resource	Gross cap./oz	LT prod. rate	Gross cap./oz	LT cash costs
	Local						'000oz	US\$/oz	'000oz	US\$/oz	US\$/oz
Bema Gold	\$4.48	351	1,181	1	577	1,757	19,848	89	1,092	1,609	157
Celtic Resources	£ 4.58	49	401	13	118	507	15,422	33	638	795	105
Highland Gold	£ 2.68	111	533	18	175	690	16,783	41	565	1,221	150
High River Gold	\$1.96	106	156	16	100	240	2,561	94	245	981	195
Oxus Gold	£ 0.52	195	183	22	61	222	8,673	26	258	861	124
Peter Hambro Mining	£ 5.10	58	529	-13	110	653	4,011	163	448	1,457	161
Trans-Siberian Gold	£ 1.25	29	65	30	151	185	3,211	58	272	682	164
Averages			435	12	184	608	10,073	60	502	1,210	148

Source: 3C estimates

In terms of 'gross capital' per ounce of resources, TSG ranks as average within its peer group. (*Note:* we have only included as resources those calculated to JORC standards, or Russian B, C1 and C2 categories. The Russian 'P' category resources, as quoted by Peter Hambro Mining and Celtic Resources, have been excluded as they are too uncertain.)

In term of 'gross capital' per ounce of planned annual gold production, however, TSG ranks as the cheapest of the group. This is to some extent a reflection of the relatively short life of Asacha on the current known resources, but we expect that success in exploration will allow the gold production rate to be maintained for longer than currently planned, or even increased.

TSG's share price has languished in the past few weeks and is now 20% below its listing price in November 2003. The successful completion of the Asacha BFS and the Veduga Scoping Study is good news and we can now look forward to mine construction. We are also hopeful that the exploration programmes at Veduga, Asacha and Rodnikova will generate further good news throughout the year. We therefore expect a recovery in the share price in the coming months.

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Author

This report was written on behalf of 3C by Roger Chaplin, acting as an equity research analyst. Roger Chaplin began his career in mining analysis in 1979, after completing an MBA at Cranfield. He worked for Gold Fields of South Africa in Johannesburg from 1979 to 1987, covering gold mining, base metals and coal companies. In 1987 he moved back to London and joined Laing & Cruickshank (latterly Credit Lyonnais Securities) as a gold mining analyst. In 1993 he moved, as Head of Research, to help to set up T. Hoare & Co., an independent brokerage focusing on mining and natural resources. T. Hoare & Co was taken over by Canaccord Capital in 1998. Roger covered the Canadian diamond scene from an early stage and also analysed the major London listed mining stocks, including Rio Tinto, Anglo American, BHP Billiton and Lonmin. He became an independent mining analyst in 2003.

Additional information is available on request from 3C.