



City Capital Corporation Limited

Trans-Siberian Gold plc

Increased gold resources and grade at Veduga and Asacha.
Bankable Feasibility Study for Asacha and scoping study for Veduga
expected by end of February.

- **Increased resources at Veduga.** The in-fill drilling programme at Veduga in late 2003 has added 8% to the total gold content of the ore resources. In addition, the confidence level of the resources has increased, with more ore in the measured and indicated categories and less in the inferred. It should also be noted that all TSG's resources are calculated to JORC standards.

Most of the additional resources came from the satellite orebodies at Veduga, rather than the main OB1, and the average grade of these resources has improved significantly, to 4.83g/t from 4.33g/t.

- **Low finding cost per ounce.** The drill programme comprised 4,450 metres of diamond and RC drilling, at a total cost of approximately US\$360,000. Since 174koz of gold was added to resources, this gives an average finding cost of just over US\$2/oz – which is low by any standards.

- **More drilling underway.** Three drill rigs are now working on the satellite orebodies at Veduga, with another 2,979 metres of drilling awaiting assay results. In the greater exploration area (540km² in total) two targets have been drilled and detailed assay results are awaited, particularly for the Interessny zone. Two drill rigs will be working in the exploration area with several targets to be tested this year. We look forward to more positive drilling results in the coming months.

- **Increased grade at Asacha.** The ore resources at Asacha were recalculated by AMC, using different geostatistics. The results show a small increase in total gold content, but a much higher average grade at 21.9g/t, which should improve the economics of the deposit.

- **Scoping study and Bankable Feasibility on schedule.** The full Bankable Feasibility Study for Asacha / Rodnikova and the scoping study at Veduga (to form the basis of a BFS) are on schedule for completion by the end of February.

- **Mining / financial model unchanged – for now.** We have left our mining / financial model unchanged for the moment, but will update it for the BFS / scoping study results. The valuation in US\$ terms therefore remains the same as in October. However, the US\$ is weaker, the gold price is now higher and the risks may be lower on the back of the IPO financing and these improved resources. We have tabulated a range of values for TSG at different gold prices / discount rates. Overall, with more good news expected as the year progresses, we recommend TSG as a **BUY**.

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Share Price chart (post IPO)



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Increased ore resources at Veduga

Trans-Siberian Gold (“TSG”) has announced the results of the drilling programme carried out on the Veduga project in late 2003. In total, the gold resources have increased by 8.2%, while the average grade has also risen, from 4.9g/t to 5.1g/t. The current resources at Veduga, with the resources as stated in the November listing document for comparison, are tabulated below.

Exhibit 1. Veduga ore resources

Ore class	As at November 2003			As at January 2004			Change %
	Tonnes '000t	Gold g/t	Gold '000oz	Tonnes '000t	Gold g/t	Gold '000oz	
Measured	2,148	5.5	383	2,696	5.9	514	34%
Indicated	4,524	4.9	720	4,859	5.1	794	10%
Sub-total	6,672	5.1	1,103	7,554	5.4	1,307	19%
Inferred	6,808	4.7	1,029	6,534	4.8	998	-3%
Total	13,480	4.9	2,132	14,089	5.1	2,306	8%

Source: Trans-Siberian Gold plc

The drilling programme comprised a total of 4,450 metres of drilling in the main orebodies, including 3,500 metres of reverse circulation drilling and 950 metres of diamond drilling. This was an ‘in-fill’ drilling programme, designed to increase the confidence in the ore resources. This has certainly been achieved – the measured resources have increased by 34% and the indicated by 10%, while the inferred resources fell as ore was moved into the other categories. However, the drill programme also increased the total resources and the average grade rose.

These are good results. To put the increase in resources in perspective, the drilling cost approximately US\$80 per metre, or a total of some US\$360,000. The increase of 174koz in the gold resources therefore cost just over US\$2/oz. This is a very low finding cost by any standards.

In addition, the increased average grade should help to improve the economics of the operation at Veduga – though for the moment we have not altered our original model (*see the valuation comments below*).

There was actually little change in the grade in OB1 (which carries 71% of the total resources), increasing to 5.20g/t from 5.14g/t. The higher overall grade was due mainly to better gold grades found in drilling the twelve satellite orebodies (in particular OB7 and OB11). The average grade in these other orebodies increased to 4.83g/t from 4.33g/t and the total resources in the satellite orebodies rose to 667koz from 522koz. This bodes well for further drilling adding to the resources in the satellite orebodies – which could ultimately give additional sources of open pit mining.

It should be noted that all TSG’s ore resources are calculated to the internationally accepted JORC standards, rather than using the Russian system. In general, the JORC standard gives lower ore resources than the Russian methods, but with a greater degree of certainty.

Further drilling underway at Veduga

TSG is continuing to drill at Veduga, both in the central mining area and in the greater exploration licence area.

Two drill rigs have been working on the satellite orebodies of the main zone; as at 24 January an additional 2,979 metres of diamond drilling had been completed, but no assay results were yet available. A third drill rig has also just started work on the satellite orebodies.

In the exploration licence area (covering 540km²), one drill rig has been testing targets suggested by previous fieldwork. As at 24 January, three holes totalling 571 metres had been drilled in two target areas to the south of the main zone. The first two holes, in the Strelka anomaly, intersected extensive sulphide type mineralisation. One of these has been assayed but did not have any significant gold grade, the results for the other hole are not yet available. The third hole was drilled in the Interessny zone, on the southern flank of the main Veduga ore zone. The total drill length was 210 metres, which included 155 metres intersection of black sulphidic carbonaceous-chloritoid shales that showed microscopic gold. The assaying of this core is being chased and will be known soon.

Drilling is continuing, with seven further targets to be tested in the coming months. A second drill rig will be working on the exploration area from March - making a total of five in the overall Veduga licence area.

We look forward to further positive drilling results in the coming months.

Veduga scoping study on schedule

A scoping study for the mine plan at Veduga is expected to be completed by the end of February. This will form the basis for the full bankable feasibility study and for the Russian feasibility study that is required for permitting and environmental clearance.

Increased resources / grade at Asacha

TSG commissioned AMC Consultants to undertake the resource and mining components of the bankable feasibility study for the Asacha and Rodnikova deposits. AMC has kept the geological interpretation of the Asacha vein system developed by AMEC (the previous consultants), but has revised the grade of the ore resources based on a different geostatistical evaluation of the database.

The results of this work show a lower tonnage of ore, but a considerably higher grade, so that the overall 'gold equivalent' ounces (gold plus 1/75th silver) increase by 3%. The table below shows the resources as calculated by AMEC in January 2003 and the updated figures derived by AMC in January 2004.

Exhibit 2. Asacha ore resources

<i>As at January 2003</i>			<i>As at January 2004</i>		
Tonnes	Grade	Gold equiv.	Tonnes	Grade	Gold equiv.
'000t	g/t	'000oz	'000t	g/t	'000oz
1,298	15.8	658	962	21.9	677

Source: Trans-Siberian Gold plc; 3C calculations

Again, this is a positive result as the increased grade of the ore resources should improve the economics of mining the Asacha deposit. The bankable feasibility study for Asacha is on schedule for completion by the end of February 2004.

Valuation

Although the results of the drilling at Veduga and the re-calculated ore resources at Asacha are positive we have not changed our model of TSG – for the moment. The full bankable feasibility study for Asacha / Rodnikova and the scoping study for Veduga will both be completed by the end of February. We have therefore left any recalculation of our mining / financial model until these more detailed assessments of the future developments are available.

Our basic mining / financial model for TSG shows an NPV at a 15% discount rate of US\$83M, or around US\$2.50/share assuming that a further US\$15M is raised in equity. Our underlying valuation, at US\$350/oz gold, therefore remains at US\$2.50 – 3.00 per share (as stated in our October 2003 report on the company).

However, the US\$ has weakened considerably in the past few months, falling to a current exchange rate of US\$1.825/£ from US\$1.67/£ at the end of September 2003. Using the same US\$ value of US\$2.50 – 3.00 for TSG, this reduces the value in UK£ terms to £1.37 – 1.64 per share, rather than £1.50 – 1.80 per share based on the September US\$ exchange rate.

Offsetting this, the gold price has risen and with the IPO fund raising completed, improved ore resources and near completion of the BFS at Asacha and scoping study at Veduga, the risk should be lower.

If we increase the gold price in the model to US\$400/oz, and reduce the discount rate to 12% rather than 15%, the NPV of TSG increases to US\$136M or US\$4.05 per share – equal to £2.22 per share even on the current weak US\$ exchange rate.

The table below shows the calculated NPV of TSG in £/share based on a range of gold prices and discount rates. The results are based on the mine plans in late-2003, with no consideration of the latest increased ore resources or the potential for further discoveries.

Exhibit 3. NPV of Trans-Siberian Gold

		Discount rate		
		10%	12%	15%
Gold Price	350	£ 1.70	£ 1.54	£ 1.35
	375	£ 2.08	£ 1.88	£ 1.64
	400	£ 2.45	£ 2.22	£ 1.93
	425	£ 2.82	£ 2.55	£ 2.22
	450	£ 3.18	£ 2.88	£ 2.51

Source: 3C calculations

TSG's share price has recovered from its recent lows. The company is now well funded, the work on the bankable feasibility studies is on schedule, and the recent drilling results have all been positive. With further drilling underway – giving the prospect of more good news as the year progresses – we recommend Trans-Siberian Gold as a **BUY**.

Disclaimer

The information and opinions in this report were prepared by Roger Chaplin (the 'Author', see below) on behalf of City Capital Corporation Limited ("3C") to provide background information on Highland Gold Mining Limited.

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3C may in the future be involved in providing investment banking services to companies mentioned in this report.

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.