



City Capital Corporation Limited

Trans-Siberian Gold plc

AngloGold Ashanti takes 29.9% stake in TSG for £17.6M.

- **AngloGold Ashanti will buy a 29.9% stake in TSG.** AngloGold Ashanti has agreed to buy a total of 12.26M new shares in TSG, in two tranches. The first tranche will be 6.13M shares at 136.95p per share to raise £8.4M and will be completed at the end of July once shareholder approval for the deal is received. The second tranche will be another 6.13M shares priced at 149.4p per share to raise £9.2M and will be completed when the bank financing for the Asacha project is agreed, expected to be October 2004.
- **AngloGold Ashanti will give technical assistance to TSG.** Under the agreement between AGA and TSG, AGA will provide technical resources to TSG to help with the development of its two new mines and its exploration programme. These services will be on an arms length basis. AGA will also be granted two seats on the TSG board, taking the total board strength to nine members.
- **AngloGold Ashanti will have earn-in rights to any new projects.** AGA will have the option to earn-in to 51% ownership of any *new* projects that TSG takes on in Russia. This option does not include the current mine developments at Asacha / Rodnikova and Veduga, nor the surrounding exploration areas, nor any other licences that TSG has already applied for.
- **AngloGold Ashanti may provide financing for Veduga.** When TSG seeks debt financing for the Veduga project, probably in early 2005 after the completion of the bankable feasibility study, AGA will have the right to provide such financing if it offers terms that are equivalent to or better than those offered by any third parties.
- **Little or no further equity funding required.** The total capital spending to develop Asacha and Veduga is estimated at US\$148M. We estimate that with cash on hand at the end of 2003, plus cash from the AGA share issues, plus bank financing for Asacha and Veduga, TSG will have available around US\$150M. Clearly some additional funds will be needed for ongoing administration and exploration costs, but it seems that any future dilution will be minimal.
- **Our model gives an NPV of £1.72/share.** Our valuation of TSG has fallen marginally in Sterling as the average share price for the issue to AGA is somewhat lower than we had looked for later this year or in 2005, and Sterling has strengthened against the US dollar. However, this is based on a 12% discount rate and the reduced risk now that AGA is onboard may justify a lower discount rate. At 10%, with a long-term gold price of US\$400/oz, the NPV increases to £1.95/share.

Analyst

Roger Chaplin

roger@ric-consulting.co.uk

+44 (0) 7950 403 154

City Capital Corporation Limited

Michael Hammond

meh@city-capital.com

David Meacher

dmeacher@city-capital.com

Scott Beattie

sbeattie@city-capital.com

+44 (0) 20 7583 5800



City Capital Corporation Limited

Sion Hall
56 Victoria Embankment
London
EC4Y 0DZ

Tel: +44 (0) 20 7583 5800
Fax: +44 (0) 845 280 1502
Web: www.city-capital.com

AngloGold Ashanti buys 29.9% of TSG

AngloGold Ashanti ('AGA') has agreed to buy new shares in Trans-Siberian Gold plc ('TSG') that will give AGA a 29.9% interest in TSG. The shares will be purchased in two tranches as follows:

- Tranche 1 will be for 6,131,585 new shares priced at 136.95p for a total cost of £8.40M or US\$15.2M. These shares are expected to be issued at the end of this month (July), following shareholder approval for the deal as a whole.
- Tranche 2 will be for another 6,131,585 new shares, but priced at 149.40p to raise £9.16M or US\$16.6M. These shares will be issued when the debt financing for the Asacha project is finalised, which is expected to be by the end of October 2004.

The average price to be paid by AGA will be 143.2p/share. This is approximately 15% above the average price in May 2004, when serious negotiations began. In addition, although the price is below the IPO price in Sterling of 150p, in US dollar terms at \$2.59/share on today's exchange rate it is above the \$2.50/share equivalent price at the time of the IPO – and both AGA and TSG do all their accounting in US dollars.

In total the AGA share issue will raise £17.56M or US\$31.8M for TSG, which the company plans to use to fund the development of its two new gold mines at Asacha in Kamchatka and Veduga in Krasnoyarsk.

TSG currently has 28.7M shares in issue and the deal with AGA will add another 12.26M to give a total of approximately 41M in issue. AGA's holding will thus be approximately 29.9%.

Board representation and technical assistance from AGA

As part of the deal, two AGA nominees will be appointed to the board of TSG upon completion of the first tranche. This will take the TSG board to nine members, with AGA thus having 22% of the votes.

AGA will also give TSG technical assistance in developing its projects. In the first instance TSG plans to use the services of a metallurgist from AGA to help in deciding the processing route for ore at Veduga (which is refractory) and a geologist to assist in the exploration programmes around Asacha and Veduga. This technical assistance will incur a small 'availability' fee together with payment of direct costs for the personnel.

Earn-in rights for AGA

AngloGold Ashanti will have the option to earn a 51% interest in any *new* mining or exploration projects taken on by TSG. It is important to note that this does **not** apply to the existing projects at Asacha / Rodnikova and Veduga, nor to the surrounding exploration areas, nor to any other exploration properties for which TSG has already applied. These properties will remain 100% owned by TSG.

The financial and technical backing of AGA does mean, however, that TSG will be able to look at additional projects, rather than focusing completely on the development of its two existing projects. In the long-term, having 49% of some

additional exploration projects will add value for TSG, despite AGA having the controlling share of such projects.

AGA may finance Veduga

When TSG seeks debt financing for its Veduga project, which we would expect to be the case in early 2005 after the bankable feasibility study is finished, AGA will have the right to provide such financing so long as the terms it offers are equivalent to or better than those offered by a third party.

This should give some comfort to the market that the Veduga financing will be available as AGA is clearly keen to see the mine developed and has already done its own due diligence on the project.

Little further equity needed?

TSG had just over US\$27M at the end of 2003, following share issues in 2003 that raised a total of some US\$32M. The deal with AGA will raise a further US\$31M (net), taking the available cash to approximately US\$58M.

TSG is in discussions with Standard Bank of London for up to US\$30M of project financing for the Asacha project. The total capital cost of the Asacha project is estimated at US\$54M and the project funding from Standard Bank is expected to cover 50% of this or US\$27M.

The capital costs for Veduga are currently estimated at around US\$94M, though these will be reviewed in the bankable feasibility study that is due for completion by the end of this year. With the technical / financial backing of AGA we expect that TSG will be able to borrow a greater proportion of the capital costs for Veduga, possibly around 70% or, say, US\$66M. This would leave US\$28M for equity funding.

So the broad financing picture can be summarised as follows.

Exhibit 1. Future funding estimates for Trans-Siberian Gold plc

Funding available:		Capex required:	
Cash on hand	27	Asacha	54
AGA share issue	31	Veduga	94
Asacha debt	27		
Veduga debt	66		
Total in	151	Total out	148

Source: 3C estimates

Clearly, TSG will also need cash to cover its administration costs and its ongoing exploration programme. But there are also 4.6M warrants / options outstanding that will raise approximately US\$9M if they are all exercised. In addition, once Asacha is in production in late 2005 it will begin to generate positive cash flow that may help to cover other operating expenses while Veduga is being completed in 2006.

So whilst we cannot say that TSG will definitely need no further equity, it seems that any such issues will be minimal.

Valuation

We have updated our model of TSG to take account of the proposed share issues to AGA. The change is relatively minor as we had assumed some further equity issues in 2004 and 2005 to fund the development of Asacha and Veduga. The results are shown in the table below.

Exhibit 2. Valuation of Trans-Siberian Gold plc

		Discount rate		
		10%	12%	15%
Gold Price	350	£ 1.40	£ 1.23	£ 1.04
	375	£ 1.67	£ 1.48	£ 1.24
	400	£ 1.95	£ 1.72	£ 1.44
	425	£ 2.22	£ 1.96	£ 1.65
	450	£ 2.50	£ 2.20	£ 1.85

Source: 3C estimates

Our 'central' valuation is marginally lower than in our previous note in May 2004 as the average price for the AGA share issues of £1.432/share is somewhat lower than we had hoped would be achieved later in 2004 and into 2005. In addition Sterling has strengthened against the US dollar (from US\$1.77/£ to US\$1.81/£), which reduces the valuation in Sterling.

However, the fact that AGA has carried out its own thorough due diligence on TSG and its projects and is prepared to give financial and technical backing to the company should reduce the risk for investors. The market may therefore be prepared to apply a lower discount rate than the 12% used for the 'central' valuation above. As can be seen, with a discount rate of 10% and a gold price of US\$400/oz the valuation increases to £1.95/share.

Peer group comparison

The table below shows the major statistics (market capital, capital expenditure required, gold resources, long-term gold production rate) for TSG and its peers. In the gold resources column we have only included resources that are stated to western (JORC) standards or to Russian C2 category or better. We have not included Russian P category resources, which are published by some of the companies, as these are considered too uncertain. TSG states all its resources to western standards.

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		US\$'M	US\$'M	US\$'M	US\$'M	'000oz	US\$/oz	'000oz	US\$/oz	US\$/oz
Bema Gold	\$3.64	356	966	1	577	1,541	23,626	65	1,092	1,412	157
Celtic Resources	£ 3.99	50	359	9	124	473	15,422	31	638	743	105
Highland Gold	£ 2.29	120	497	64	227	660	16,500	40	568	1,161	156
High River Gold	\$1.63	106	129	5	103	227	2,297	99	233	975	204
Oxus Gold	£ 0.59	195	207	22	61	246	8,770	28	258	954	124
Peter Hambro Mining	£ 4.15	74	556	65	243	733	7,455	98	836	878	149
Trans-Siberian Gold	£ 1.44	41	106	59	151	198	3,211	62	272	728	164
Averages			403	32	212	583	11,040	53	556	1,047	148

Source: 3C estimates

TSG remains the smallest of the companies in the list, at US\$106M market capital, despite the inclusion of the shares to be issued to AngloGold Ashanti.

In terms of capital spending required, TSG is in the middle of the group at US\$151M, with three less and three more.

The gold resources appear small at 3.2Moz in total (only High River Gold is lower), but these are all conservatively prepared to full western (JORC) standards. TSG has considerable exploration potential at both Veduga and Asacha and we expect that the continuing exploration programme will add further resources over time.

In terms of 'gross capital' per ounce of resources TSG is approximately average, with three better and three worse, as the lower level of gold resources is offset by the lower 'gross capital' (market capital plus capex, less cash).

TSG's planned long-term production level of around 272,000oz per annum is at the lower end of the range for its peers, though it should be noted that approximately half of Bema Gold's and a quarter of High River Gold's future production will be from outside Russia and the FSU.

Nonetheless, the valuation of TSG in terms of 'gross capital' per ounce of gold production is the lowest of the group, and some 30% below the average rating.

Overall we believe that TSG compares well with its peer group, with potential to add resources and room for upside potential in the share price.

Conclusion

We consider this deal with AngloGold Ashanti to be positive for Trans-Siberian Gold.

- The deal raises £17.6M or US\$32M that will cover the majority of any future equity requirements in funding the development of TSG's first two mines.
- The average price to be paid by AGA is approximately 15% above the average price in May 2004 – and in US\$ terms it is higher than the IPO price in November 2003.

- AGA has carried out its own substantial due diligence of TSG and its gold projects and the fact that the company has decided to buy 29.9% of TSG should be seen as a vindication of TSG's efforts so far.
- The technical and financial backing of AGA, and its clearly positive view of the company and its projects, will also reduce the risk profile of TSG.
- The involvement of AGA will give TSG the ability to look at tackling additional projects in Russia – and even though AGA may earn-in to 51% of such projects, the remaining 49% of such additional projects will add value in the long-term for TSG.
- From a broader viewpoint this deal also confirms that Russia is seen as a major, developing gold province. In the past few months Barrick Gold has taken a stake in Highland Gold Mining; Rio Tinto has an exploration JV with Peter Hambro Mining; AngloGold Ashanti has now taken a stake in TSG; and there are continuing rumours of another major taking a stake in Oxus Gold.

Disclaimer

This document has been provided to you solely for your information and may not be reproduced or redistributed, in whole or in part, to any other person. The information contained in this document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ("FSMA"). As such this document is being distributed only to and is directed only at persons falling within the categories of exempt person described in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, as amended, (the "Order") or pursuant to any applicable exemption under FSMA (together "relevant persons"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

In order to qualify as a Certified High Net Worth Individual you must have a current Certificate of high net worth in the form set out in Article 48(3) of the Order and you must have signed within the last 12 months a Statement in the terms set out in Article 48(2)(B) of the Order.

In order to qualify as a Certified Sophisticated Investor you must have a certificate signed by a person authorised by the Financial Services Authority to the effect that you are significantly knowledgeable to understand the risks associated with certain types of investment and you must have signed within the last 12 months a Statement in the terms set out in Article 50(1)(b) of the Order. By virtue of Article 50(3) of the Order, we are required to warn you that any reliance on this communication could potentially expose you to a significant risk of losing all of the property invested or incurring additional liability. If you are in any doubt about the investment to which this document relates, you should consult an authorised person specialising in advising on securities of the kind described in this document.

The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdictions.

In particular, neither this document nor any copy hereof may be taken or transmitted into the United States or distributed, directly or indirectly, into the United States or to any US person (as defined in Regulation S of the US Securities Act of 1933). By accepting this report you agree to be bound by the foregoing limitations.

This report is being provided to relevant persons by City Capital Corporation Limited ("3C") to provide background information about Trans-Siberian Gold plc ("the Company"). 3C, an appointed representative is regulated by the Financial Services Authority, and is retained to act as capital markets adviser for various clients, some or all of whom may now or in the future have an interest in the contents of this documents and/or in the Company.

In the preparation of this report, 3C has had access to publicly available information, and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, neither the author nor 3C has verified the information contained herein and accordingly none of the author, 3C, nor any of their respective directors, officers or employees makes any representation or warranty, express or implied as to the accuracy or completeness of the information or opinions contained herein and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith. Nothing in this paragraph shall exclude liability for any representations or warranties made fraudulently.

Any opinions, forecasts or estimates herein constitute a judgement as at the date of this report. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. This information is subject to change without notice. It may be incomplete or condensed and it may not contain all material information concerning the Company.

This document is intended to provide clients with information and should not be construed as an offer to buy or sell securities.

This document does not constitute or form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of or invitation to make any offer to buy or sell) any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

3C and/or persons connected with it may have acted upon or used the information herein contained, or the research or analysis on which it is based, before its publication.

THIS DOCUMENT MAY NOT BE DISTRIBUTED IN OR INTO AUSTRALIA, CANADA, JAPAN, THE REPUBLIC OF IRELAND, DIRECTLY OR INDIRECTLY TO ANY PERSONS WITH ADDRESSES IN THE REPUBLIC OF SOUTH AFRICA OR THE UNITED STATES (OR ANY OF ITS TERRITORIES OR POSSESSIONS).

3C may in the future or may have in the past have provided investment banking services to the Company.

3C or its directors or officers may in the future or in the past have had a material investment in the Company.

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.