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Application will be made for the Ordinary Shares, both issued and to be issued, to be admitted to trading on the Alternative Investment Market of the London Stock Exchange (“AIM”). The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority (the “Official List”). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Further it is emphasised that no application is being made for the admission of the Ordinary Shares to the Official List. The London Stock Exchange has not itself examined or approved the contents of this document.

Prospective investors should read the whole text of this document and should be aware that an investment in the Company is speculative and involves a higher than normal degree of risk. The attention of prospective investors is drawn in particular to the section entitled “Risk Factors” set out in Part 3 of this document. All statements regarding the Company’s business should be viewed in light of these risk factors.

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. In connection with this document and/or the invitation contained in it, no person is authorised to give any information or make any representation other than as contained in this document.

# TRANS-SIBERIAN GOLD PLC

(Incorporated in England and Wales under the Companies Act 1985 (as amended) with Registered Number 1067991)

Placing of 10,666,667 new Ordinary Shares of 10p each  
at 150p per share  
and  
Admission to trading on the Alternative Investment Market

Nominated Adviser and Broker  
Collins Stewart Limited

SHARE CAPITAL (immediately following the Placing)				
Authorised Amount	Number		Issued and fully paid Amount	Number
£5,000,000	50,000,000	Ordinary Shares of 10p each	£2,855,077.9	28,550,779

The Placing Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all respects with all other Ordinary Shares which will be in issue on completion of the Placing. Collins Stewart is regulated by the Financial Services Authority and is acting exclusively for the Company and no one else in connection with the Placing and Admission. Collins Stewart will not regard any other person as its customer or be responsible to any other person for providing the protections afforded to customers of Collins Stewart nor for providing advice in relation to the transactions and arrangements detailed in this document. Collins Stewart is not making any representation or warranty, express or implied, as to the contents of this document.

Collins Stewart has been appointed as nominated adviser and broker to the Company. In accordance with the AIM Rules, Collins Stewart has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. No liability whatsoever is accepted by Collins Stewart for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

This document, which comprises a prospectus, has been drawn up in accordance with the AIM Rules and the Public Offers of Securities Regulations 1995 (as amended) (“POS Regulations”). A copy of this document has been delivered to the Registrar of Companies in England and Wales in accordance with regulation 4(2) of the POS Regulations.

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays and public holidays) at the offices of Collins Stewart, 9th Floor, 88 Wood Street, London EC2V 7QR from the date of this document for the period of one month from Admission.

This document should not be distributed, published, reproduced or otherwise made available in whole or in part or disclosed by recipients to any other person and, in particular, should not be distributed to persons with addresses in Canada, Australia, the Republic of South Africa, the Republic of Ireland, Japan or the United States of America or in any other country outside the United Kingdom where such distribution may lead to a breach of any law or regulatory requirements. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, or under the securities legislation of any state of the United States of America. No securities commission or similar authority in Canada has in any way passed on the merits of the securities offered hereunder and any representation to the contrary is an offence. No document in relation to the Placing has been, or will be, lodged with, or registered by, The Australian Securities and Investments Commission, and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to the Placing or the Ordinary Shares. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or offered or sold to a person within the United States of America or a resident of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. The Placing Shares have not been and will not be registered under the Law “On the Securities Market” of the Russian Federation and are not being offered, sold or delivered directly in the Russian Federation or to any Russian resident.

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Jeremy Marshall, <i>Non-Executive Chairman</i> Jocelyn Waller, <i>Managing Director</i> Charles Dickson, <i>Finance Director</i> Philip Bowring, <i>Non-Executive Director</i> Peter Burnell, <i>Non-Executive Director</i> Alexander Ivanov, <i>Non-Executive Director</i> Vadim Nikolaitchouk, <i>Non-Executive Director</i> Nirmal Sethia, <i>Non-Executive Director</i>	
<b>Company Secretary</b>	Alison Barr	
<b>Registered Office</b>	Unit B1 Church Barn Old Farm Business Centre Church Road Toft Cambridge CB3 7RF	
<b>Nominated Adviser and Broker to the Company</b>	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR	
<b>Corporate Advisers to the Company</b>	Loeb Aron & Company Ltd. Georgian House 63 Coleman Street London EC2R 5BB	City Capital Corporation Limited Sion Hall 56 Victoria Embankment London EC4Y 0DZ
<b>Special Adviser to the Company</b>	John A. Franklin 76 Lansdowne Road London W11 2LS	
<b>Solicitors to the Company</b>	Freshfields Bruckhaus Deringer  65 Fleet Street London EC4Y 1HS	
	Barr Ellison 39 Parkside Cambridge CB1 1PN	Kadashevskaya Nab. 14/2 119017 Moscow Russia
<b>Auditors and Reporting Accountants</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH	
<b>Solicitors to the Nominated Adviser and Broker</b>	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ	
<b>Minerals Industry Consultants</b>	Steffen, Robertson and Kirsten (UK) Limited Windsor Court 1-3 Windsor Place Cardiff CF10 3BX	
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
<b>Bankers</b>	National Westminster Bank plc City of London Office PO Box 12258 1 Princes Street London EC2R 8PA	

## DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended);
“Admission”	the effective admission of the entire ordinary share capital of the Company, issued and to be issued, to trading on AIM becoming effective as provided in Rule 6 of the AIM Rules;
“AIM”	the Alternative Investment Market of the London Stock Exchange;
“AIM Rules”	the rules for AIM companies and their nominated advisers issued by the London Stock Exchange governing admission to and the operation of AIM;
“Amikan”	OOO GRK “Amikan”, a limited liability company organised under the laws of the Russian Federation, in which the Company holds a 100 per cent. ownership interest;
“Asacha” or “Asachinskoye”	the mineral deposit named Asachinskoye located in the Kamchatka region of Russia;
“Board”	the board of directors of the Company for the time being, including a duly constituted committee of the directors;
“Business”	the business of the Group which includes prospecting for gold and silver and acquiring, holding and operating mines in Russia;
“Collins Stewart”	Collins Stewart Limited of 9th Floor, 88 Wood Street, London EC2V 7QR;
“Company” or “Trans-Siberian Gold”	Trans-Siberian Gold plc;
“CREST”	the system of paperless settlement of trades and the holding of uncertificated shares administered by CRESTCo Limited;
“Directors”	the directors of the Company being Jeremy Marshall, Jocelyn Waller, Charles Dickson, Philip Bowring, Peter Burnell, Alexander Ivanov, Vadim Nikolaitchouk and Nirmal Sethia, and “Director” shall mean any one of them;
“Group”	the Company, Amikan, Zarevo and Svezhiy Veter;
“London Stock Exchange”	London Stock Exchange plc;
“New Ordinary Shares”	the 10,666,667 Ordinary Shares to be allotted pursuant to the Placing, such allotment being conditional on Admission;
“Nominated Adviser and Broker Agreement”	the agreement dated 20 November 2003 between the Company and Collins Stewart relating to Collins Stewart acting as nominated adviser and broker to the Company for the purposes of the Placing and Admission, further details of which are set out in paragraph 10.8 of Part 6 of this document.

“Official List”	the official list of the UK Listing Authority;
“Ordinary Shares”	ordinary shares of 10p each in the share capital of the Company;
“oz.”	ounces
“Placing”	the placing of the Placing Shares pursuant to the Placing Agreement;
“Placing Agreement”	the conditional agreement dated 20 November 2003 between Collins Stewart, the Company and the Directors relating to the Placing, further details of which are set out in paragraph 10.5 of Part 6 of this document;
“Placing Price”	150p per Placing Share;
“Placing Shares”	the New Ordinary Shares being placed with institutional investors pursuant to the Placing Agreement;
“POS Regulations”	the Public Offers of Securities Regulations 1995 (as amended);
“Reporting Accountants”	PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH;
“Rodnikova” or “Rodnikovoye”	the mineral deposit named Rodnikovoye located in the Kamchatka region of Russia;
“RUR”	the lawful currency of Russia from time to time;
“Russia”	the Russian Federation;
“Subsidiary”	as defined in sections 736 and 736A of the Act;
“Svezhiy Veter”	OOO Kompanyia “Svezhiy Veter”, a limited liability company organised under the laws of Russia, in which the Company holds a 100 per cent. ownership interest;
“TZ” or “Zarevo”	ZAO “Trevozhnoye Zarevo”, a closed joint stock company organised under the laws of Russia, in which the Company holds a 90.05 per cent. ownership interest;
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland;
“US” or “USA” or “United States”	the United States of America;
“US\$”	the lawful currency of the United States from time to time;
“VAT”	value added tax in the United Kingdom or Russia, as the case may be; and
“Veduga” or “Veduginskoye”	the mineral deposit named Veduginskoye located in the Krasnoyarsk region of Russia.



## GLOSSARY OF TECHNICAL TERMS

“Adit”	horizontal passage to access mineralisation, usually in the side of a hill;
“Ag”	chemical symbol for silver;
“AMC”	Australian Mining Consultants;
“Andesite”	a variety of volcanic rock;
“Anomalous”	value of a given element that is deemed to be above the background or normal value;
“Anticline”	an inverted “U” shaped fold or structure in stratified rocks with the oldest rocks in the centre;
“Arsenopyrite”	arsenic-iron sulphide mineral;
“ARSM”	Associate of the Royal School of Mines;
“Assay”	the analysis of minerals, rocks and mine products to determine and quantify their constituent parts;
“Au”	chemical symbol for gold;
“auriferous”	containing gold;
“Aurostibite”	a mineral contained both gold and antimony;
“AusIMM”	Australasian Institute of Mining and Metallurgy;
“Backfill”	material placed into stopes to support the hangingwall following extraction of the ore;
“Bacterial oxidation”	oxidation of sulphide ore using bacteria in order to make the ore amenable to leaching;
“Ball mill”	a type of mineral processing equipment containing steel balls used to reduce the particle size of the ore;
“Bankable”	term commonly used to refer to studies that are intended to be sufficiently advanced to secure debt finance;
“Benches”	individual levels in the extraction of an open-pit which often remain as ‘steps’ in the walls of the pit;
“Breccia”	rock composed of angular fragments;
“Bulk sample”	a large volume sample commonly taken for metallurgical testing or trial mining purposes;
“BWI”	bond work index. Measure of the amount of ‘work’ required to reduce the size of ore in the milling section of a mineral processing plant;
“Caldera”	a generally circular depression caused by the collapse of a volcanic edifice into the underlying magma chamber;
“Carbon-in-column” (CIC)	process for the extraction of gold from the leach solution in a series of columns;
“Carbon-in-leach” (CIL)	process in which carbon is added to the solution following leaching in order to extract the gold;
“Carbon-in-pulp” (CIP)	process in which carbon is added to the ore pulp during leaching in order to extract the gold;

“Carbonate”	relating to rocks rich in Calcium and / or Magnesium;
“CEng”	Chartered Engineer – professionally registered engineer;
“CGeol”	Chartered Geologist – professionally registered geologist;
“Chalcopyrite”	copper-iron sulphide mineral;
“Channel sample”	a means of taking a sample from a rock face by collecting the cuttings from a small channel;
“CKGE”	Central Kamchatka Geological Expedition;
“Country rock”	term used to describe the rocks surrounding an ore body;
“Craton”	ancient stable areas of the Earth’s crust;
“Crosscut”	a horizontal underground drive developed perpendicular to the strike direction of the stratigraphy;
“Crown pillar”	a pillar of ore left for safety reasons between the base of the open-pit and the first level of underground mining;
“Cu”	chemical symbol for copper;
“Cut-and-fill”	a mining method where the void resulting from mining the ore is filled with material in order to stabilise the roof enabling extraction of nearby ore;
“Cyanidation”	process in which the precious metals are extracted from the processed ore by leaching with a cyanide compound;
“Cyclone”	mineral processing equipment used to separate milled ore into different size fractions;
“Dacitic domes”	dome shaped masses consisting of dacite, an igneous rock;
“Deposit”	an anomalous occurrence of a specific mineral or minerals within the Earth’s crust;
“Diamond Drilling”	drilling method, which obtains a cylindrical core of rock by drilling with an annular bit set with diamonds;
“Dilational structure”	geological structure which results in an opening in the rock which can subsequently be filled by ore bearing material such as veins;
“Dilution”	incorporation of low-grade or waste material into the mined ore as a function of the mining process;
“Diorite”	an intrusive igneous rock with a mixture of dark and light minerals;
“Dip”	inclination of a geological feature/rock from the horizontal (perpendicular to strike);
“Disseminated”	fine grained material scattered quite evenly throughout the rock;
“Doré”	unrefined gold, usually in bar form and consisting primarily of gold with smaller amounts of other precious and base metal, which will be further refined to high purity gold bullion;
“Draw points”	access into stopes from which broken ore is removed;
“DTM”	digital terrain model – an electronic model of a topographic surface etc;
“Electrowinning”	recovery of metal from solution using electrolysis;
“Epithermal”	a hydrothermal ore deposit formed at lower temperatures (50-200° C) and depths (<1 km);

“Fault”	a fracture in a rock along which there has been relative displacement;
“Fe”	chemical symbol for iron;
“Feasibility Study”	a detailed study of the economics of a project based on technical calculations and specific mine designs undertaken to a sufficiently high degree of confidence to justify a decision on construction;
“FGS”	Fellow of the Geological Society;
“FIMMM”	Fellow of the Institute of Materials, Minerals and Mining;
“Fire assay”	assaying method commonly used for the determination of precious metal content;
“Flotation”	a mineral processing method used to concentrate the economic minerals from the ore prior to further processing;
“Fluvial”	sediments associated with river processes;
“Footwall”	the underlying side of a fault, ore body or mine working;
“FSAIMM”	Fellow of the South African Institute of Mining and Metallurgy;
“FSU”	former Soviet Union;
“g”	Gram;
“Geotechnics”	branch of engineering tasked with determining the factors influencing the stability of excavations such as pit slopes and stopes;
“Geothermal”	geological processes relating to heat derived from within the Earth commonly related to igneous intrusions;
“Geostatistics”	branch of mathematics often applied in the estimation of Mineral Resources;
“Grade”	the quantity of ore or metal in a specified quantity of rock;
“Granite”	medium to coarse-grained igneous rock usually light coloured;
“g/t”	unit of grade for precious metals: grams per tonne (=parts per million);
“Hangingwall”	the overlying side of a fault, orebody or mine working;
“HDPE”	High Density Poly Ethylene;
“Hydrogeology”	branch of geology associated with the study of underground water;
“Hydrothermal”	the name given to geological processes associated with heated or superheated water;
“IER”	Independent Mineral Industry Expert’s Report;
“INCO process”	a process used to detoxify tailings prior to their disposal;
“IMMM”	the Institution of Materials, Minerals and Mining;
“Indicated Mineral Resource”	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed;



“Inferred Mineral Resource”	that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability;
“In-situ”	in place;
“Intrusion”	body of igneous rock that invades older rocks;
“Jackhammer”	a hand-held drill used for drilling holes for explosives in underground mining;
“JORC code”	Australasian code for reporting of Mineral Resources and Ore Reserves produced by the Joint Ore Reserves Committee;
“km”	kilometre;
“Lenticular”	lens shaped;
“LHD”	Load Haul Dump. Underground mechanized mining equipment designed to perform all of these tasks;
“Lithology”	description of the characteristics of rocks;
“Logging”	recording geological, geotechnical and other information from drill core;
“m”	metre;
“M”	million;
“Marcasite”	white iron pyrites; a relatively common sulphide mineral;
“Measured Mineral Resource”	that portion of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity;
“Mesothermal”	a hydrothermal ore deposit formed at intermediate temperatures (200-300° C) and depths (1,200-4,500 m);
“Meta”	a prefix attached to the name of any rock which has undergone metamorphism;
“Metallurgical Testwork”	studies pertaining to the metal content of a rock and the extraction of such metals;
“Metamorphism”	process by which rocks are changed by heat and pressure;
“MDM”	Metallurgical Design and Management Pty Ltd;
“MICE”	Member of the Institute of Civil Engineers;
“MIChemE”	Member of the Institute of Chemical Engineers;
“Milling”	a process in which the particle size of the ore is reduced in order to extract the valuable component;

“Mineral Resource”	a concentration or occurrence of material of intrinsic economic interest in or on the Earth’s crust in such a form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories;
“MIMMM”	Member of the Institution of Materials, Minerals and Mining;
“Mineralised”	containing ore minerals;
“Mineralisation”	the concentration of metals and their chemical compounds within a body of rock;
“Mt”	million metric tonnes;
“Mtpa”	million tonnes per annum;
“Non-refractory ore”	ore that is relatively easy to process for the recovery of the valuable minerals or elements;
“Ordinary Kriging” (OK)	a geostatistical method used to interpolate grades into a block model from the sample data;
“Ore body”	the volume of rock containing the mineral resource;
“Ore losses”	ore which did not prove possible to extract during mining;
“Ore Reserve”	the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed, mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified;
“Ore shoots”	zones within a deposit which are higher grade and/or thicker than the remainder of the deposit;
“Outcrop”	exposure of rocks or other geological features at surface;
“Oxide”	soft, weathered rock. Formed by the processes of weathering near surface;
“Pillars”	columns of ore left in place as part of the mining process in order to support the hangingwall of the excavation;
“Placer”	a mineral deposit formed by the weathering, transport and concentration of economic minerals commonly by fluvial processes;
“Pressure cyanidation”	process in which the precious metals are extracted from the processed ore by leaching with a cyanide compound under high pressure conditions;
“Pressure oxidation”	oxidation of sulphide ore under high pressure conditions in order to make the ore amenable to direct leaching;

“Probable Ore Reserve”	the economically mineable part of an Indicated, and in some circumstances Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed, mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified;
“Proterozoic”	the youngest of the two divisions of the Precambrian era; 600-2,500 Ma;
“Prospect”	an area of ground considered worthy of investigation with respect to mineral potential;
“Proved Ore Reserve”	the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed, mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified;
“Pyrite”	iron sulphide mineral;
“Pyrrhotite”	iron sulphide mineral, close in composition to pyrite but deficient in Fe;
“Quartz”	a common rock-forming mineral (SiO <sub>2</sub> );
“Quartzite”	a rock type formed predominantly of recrystallised quartz;
“Raise”	a tunnel driven vertically or sub-vertically perpendicular to the strike of the ore body;
“Refractory ore”	ore in which the gold is not directly amenable to leaching by cyanide without an intermediate process such as pressure oxidation;
“Resin-in-leach” (RIL)	process in which a resin is added to the solution following leaching in order to extract the gold;
“Rifting”	geological process involving the splitting apart of the Earth’s crust;
“RL”	relative level. Elevation relative to a datum;
“RoM”	run-of-mine. Commonly referring the ore delivered to the mill from the mine;
“Roasting”	a process in which the sulphide ore is heated to high temperatures in order to make the ore amenable to leaching;
“RSG”	Resource Service Group Pty Ltd;
“SAG mill”	semi-autogenous grinding. A type of mineral processing equipment in which steel balls and the ore itself is used to reduce the particle size of the ore;
“Schist”	metamorphic rock type with a characteristic layered fabric;
“Sediment”	an accumulation of solid matter usually transported by and deposited from water;

“Sedimentary”	rock type formed from fragments of other rocks;
“Selective mining”	preferentially mining higher-grade material from within a lower-grade mineral deposit;
“Sericitation”	introduction of sericite into a rock via groundwater or fluids of igneous origin;
“Sericite”	a fine-grained white micaceous mineral often the product of alteration processes;
“Shrinkage stoping”	underground mining method where the broken ore is used to provide temporary support to the walls of the stope;
“SRK”	Steffen, Robertson and Kirsten (UK) Ltd;
“Silicification”	introduction of silica into a non siliceous rock via groundwater or fluids of igneous origin;
“Stibnite”	the major ore mineral of antimony;
“Stockwork”	mineral deposit formed of a network of small, irregular veins;
“Stratigraphic control”	control on the deposition of ore minerals by rocks of a particular sequence or age;
“Strike”	direction taken by a structural surface such as a fault or bedding plane as it intersects a horizontal plane;
“Strike-slip fault”	a fault where the component of movement occurs parallel to the strike of the fault;
“Stringer”	narrow quartz vein/veinlet;
“Sulphide”	metalliferous minerals formed with sulphur and often iron;
“Summit Valley”	Summit Valley Equipment and Engineering Inc;
“t”	metric tonne;
“Tailings”	waste product from mineral processing operations;
“Telluride”	a chemical compound combining tellurium, a rare element, and a metal;
“Tertiary age”	a period of the Cenozoic comprising the Palaeocene to Pliocene, 65.0 – 1.64 Ma;
“Trenching”	a means of exposing and sampling near-surface geology by digging a trench;
“TSF”	tailing storage facility;
“TsNIGRI”	a Russian research and development institution;
“Tuff”	rock formed from volcanic ash fall deposits;
“TVX”	TVX Gold Inc;
“Underhand”	where excavation is carried downslope from access level. (See cut-and-fill);
“Vein/veinlet”	small conduit within larger rock mass, consequently comprised of quartz or carbonate;
“VNIPI”	VNIPI Promtehnologii;

“Volcanic”	pertaining to igneous rocks which have been erupted from volcanoes;
“Weathering”	degradation of rocks at the Earth’s surface by climatic forces;
“Whittle optimisation”	a computerized method of determining the amount of material economically extractable by open-pit methods; and
“Zadra elution circuit”	the chemical process of desorbing gold from activated carbon followed by its recovery by electrowinning, with recycle of electrowinning tails to elution on a continuous basis.



## PLACING STATISTICS

Placing Price per Placing Share	150p
Number of Ordinary Shares in issue prior to the Placing and Admission	17,884,112
Number of Placing Shares	10,666,667
Number of Ordinary Shares in issue following the Placing and Admission	28,550,779
Estimated net proceeds of the Placing	£14.3 million
Proportion of enlarged issued Ordinary Share capital being placed	37.4 per cent.
Market capitalisation at the Placing Price on Admission	£42.8 million

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	20 November 2003
Admission and commencement of dealings in the Ordinary Shares on AIM	25 November 2003
CREST accounts to be credited	25 November 2003
Despatch of definitive share certificates (where applicable)	1 December 2003

## PART 1

### Information on the Group

#### Introduction

Trans-Siberian Gold plc's business was established in 2000 with the objective of acquiring and developing a portfolio of quality gold mining projects in Russia. The Group's strategy has been to acquire Russian mining assets on terms which benefited from the market discount then available and to develop them using the best of Russian and Western expertise.

The Company's policy to date has been to acquire 100 per cent. or controlling interests in Russian legal entities that hold licences for the development of mineral deposits. The Company has been and continues to be advised by legal and accountancy firms in Russia and the UK.

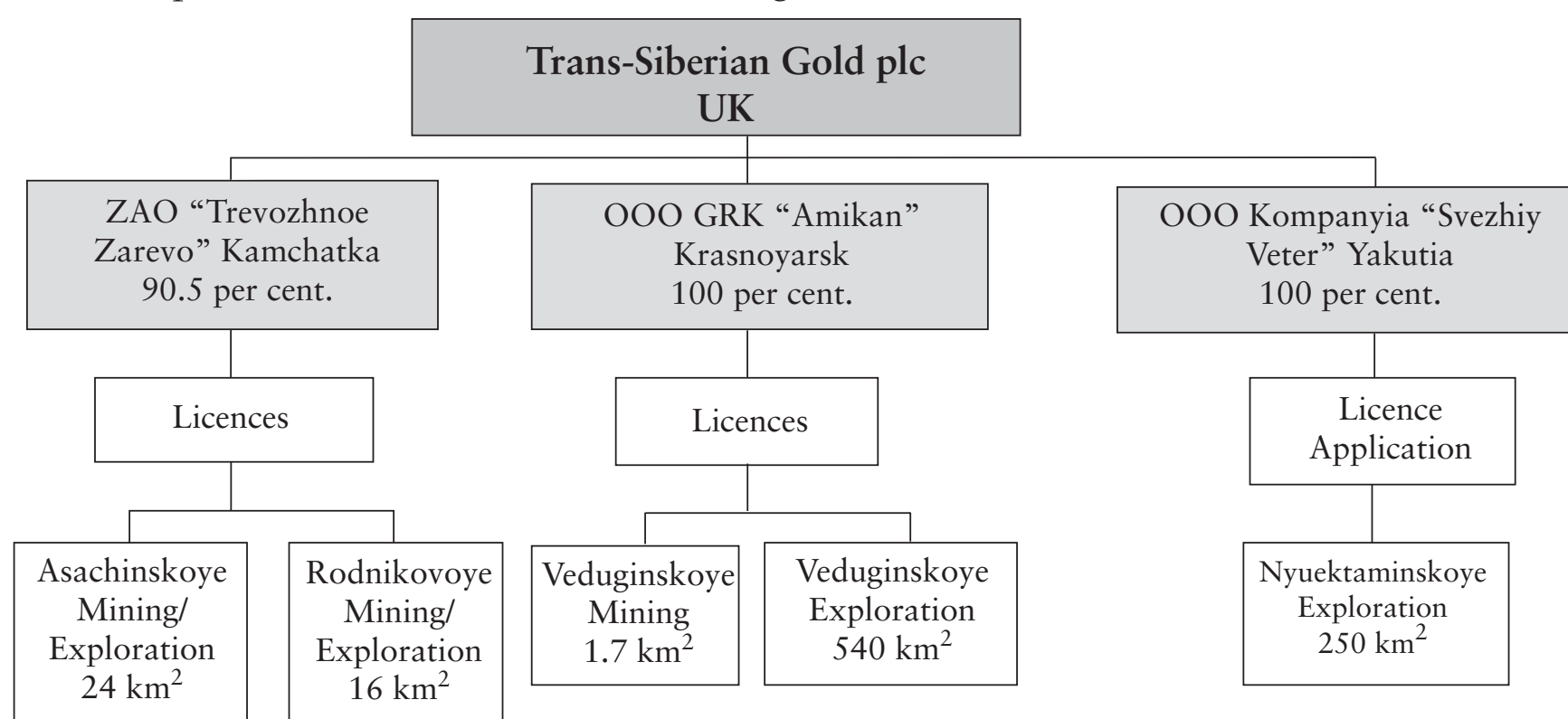
The Group currently has two projects in central and eastern Russia: the Asachinskoye/Rodnikovoye project in the Kamchatka region and the Veduginskoye project in the Krasnoyarsk region. The Company controls a total of approximately 3 million oz. of gold equivalent in the measured, indicated and inferred resource categories to JORC standards. In February 2003, the Group applied for an exploration licence over gold/silver prospects in the Nyuektaminskoye area of the Republic of Yakutia in eastern Russia, and as at the date of this document, it is not expected that the licence will be issued until July 2004.

#### Brief History of the business

During the three years since its establishment, the Company has raised approximately US\$17.4 million in equity from institutional and other investors, and has utilised this amount to fund the acquisition of its existing projects and associated work programmes. The Company has commissioned a Bankable Feasibility Study in respect of the Asachinskoye/Rodnikovoye project which is due for completion by January 2004 and further details of which are given in Part 5 of this document. The Company has also conducted definition and exploration drilling and bulk metallurgical test work in Veduginskoye, and a scoping study examining the economics of combined open pit and underground operations is nearing completion. The Company plans to appoint external consultants to complete a Bankable Feasibility Study in respect of the Veduginskoye project which should be completed by July 2004. Further details of Veduginskoye are also given in Part 5 of this document.

#### Group Structure

The Group structure is detailed in the following chart:



The Group's head office is situated in Toft, near Cambridge in the United Kingdom, and the senior operational management are based either at the head office or at offices in Krasnoyarsk or Petropavlovsk-Kamchatsky in Russia.

### Mining in Russia

According to the Gold Fields Mineral Services 2003 Gold Survey, Russia is the fifth largest gold producing country in the world and, like China, is regarded as an under-exploited region for gold mining. Decades of state sponsored exploration have identified much of Russia's gold resources although production has been mainly limited to seasonal alluvial mining and has been constrained by a difficult regulatory environment and high taxation. Since 1998, the legal environment for operating gold mines in Russia has benefited from legislative and regulatory streamlining, the abolition of export duty on gold sales and a reduction in the rates of taxation and gold royalties.

The Directors therefore believe that Russia provides the right environment for investment in gold mining projects with sound human and technical infrastructure at a reasonable cost base. The Company has focussed on acquiring full ownership of its projects rather than joint venturing with a local partner. The Group employs largely Russian management and staff on its projects working in conjunction with expatriate experts, thereby maximising available expertise.

### Strategy

The Group's strategy is to focus on developing the portfolio of Russian gold projects it has already established, and to take advantage of the identifiable opportunities and positive legal and regulatory developments in the Russian gold mining industry referred to above. The Group's senior expatriate management has extensive experience in developing and running similar projects in Australia and Malaysia.

In the medium term, the Group is working towards achieving gold production in 2005 while continuing in parallel with its exploration activities. In the short term, the Group is focussed on completing Feasibility Studies on its existing projects and obtaining funding for their development. The Group may also pursue further mining acquisitions where they add shareholder value and meet the Group's criteria. The Directors believe that this strategy will enable the Company to build upon the strong foundations it has established, to emerge as a significant mid-tier gold producer in Russia, and consequently be well placed to make further acquisitions.

### The Group's projects

A map showing the location of the Group's projects is set out in figure 1.1 of Part 5 of this document.

The Group's measured, indicated and inferred resources to JORC standards amount to approximately 3 million oz. of gold equivalent; using Russian classifications the figure would be higher. Veduginskoye is currently forecasted to have a total production life in excess of ten years on the basis of the known resources. Asachinskoye and Rodnikovoye are currently expected to have a combined production life of approximately six years. The Directors anticipate that in respect of the resources already identified, the Group's aggregate gold production could average around 260,000-280,000 oz. per annum during the period 2005 to 2009, falling to approximately 100,000 oz. per annum in respect only of the underground stage of the Veduginskoye operations thereafter. Further exploration successes would allow higher rates of production to continue for longer.

The Group's aggregate resource base is detailed in the following table:

<i>Project</i>	<i>Measured + Indicated Oz</i>	<i>Same + Inferred Oz</i>	<i>Grade g/t (Au Equivalent)</i>	<i>Cut-Off g/t</i>
Asacha	537,000	635,000	15.2	6.0
Rodnikovoye	139,000	234,000	9.4	4.5
Veduga	1,100,000	2,132,000	4.9	2.0
<b>Total</b>	<b>1,776,000</b>	<b>3,001,000</b>	<b>—</b>	<b>—</b>

Note: (1) Asachinskoye and Rodnikovoye figures include silver equivalent ounces (75oz Ag = 1oz Au)  
(2) Done on an assumed 100 per cent. basis

## **Veduginskoye**

The Company owns 100 per cent. of the Veduginskoye project through Amikan, a wholly owned Subsidiary. Amikan holds the licences for the Veduginskoye Mining Area (1.7 km<sup>2</sup>) and the Veduginskoye Exploration Area (540 km<sup>2</sup>) which are both located in the North Yenisei District of Krasnoyarsk Krai, Central Siberia, 370 km north of the regional capital Krasnoyarsk. The mining licence for geological exploration and mineral extraction is valid until 1 January 2022 and is renewable. The exploration licence is valid until 1 October 2007. The Company plans to appoint external contractors to report on the feasibility of its mining, infrastructure and mineral processing plans, which report should be completed by July 2004.

The Veduginskoye project is in a similar geological setting to Norilsk Nickel's Olimpiada mine, Russia's largest gold producing mine (it produced 850,000 oz of gold in 2002), which is 60 km north of the Veduginskoye project.

Total measured, indicated and inferred resources at Veduginskoye are 13.5 million tonnes of ore with an average grade of 4.9 g/t – containing 2.1 million oz. of gold. A 13,200 metre diamond drilling programme carried out between November 2002 and April 2003 corroborated the existing Russian drill data and doubled the resources in the central area. Two thirds of the resource are in one ore body (OBI) where most of the work was concentrated, with the balance in 11 adjacent ore bodies. The majority of the resources are contained within 350 metres of the surface and are open at depth.

Exploration work has been ongoing in the most promising parts of the exploration licence area which, if successful, the Directors believe could add to the resource base at Veduginskoye.

Work conducted thus far in 2003 has led to a discovery on the southern flank of the main ore zone in the area known as the "Interesniye" zone. Potentially economic grades of 5 to 7 g/t have been encountered in pits. This discovery is located in an extensive geochemical and magnetic anomaly measuring some 3km by 250m. Trenching of the areas has and is continuing to be done, and a further 16,000 to 20,000 metres of follow-up diamond drilling is planned to commence before the end of 2003.

Conceptual design and planning work undertaken by the Company on an earlier resource in May 2003 indicates that an open pit containing approximately 9 million tons of ore at 4.3 g/t gold ROM grade may be possible. Mining this pit at a rate of 1.5 million tons per annum would yield around 180,000 to 190,000 oz. of gold per annum. Initial capital costs are estimated to be of the order of US\$80-\$90 million with estimated operating costs of US\$21-\$23 per ton. Resources at depth also indicate that with an estimated capital investment of around US\$10 million, an underground operation producing around 100,000 oz. of gold per annum for approximately 5 years may be possible.

### *Future operations*

Evaluation work by the Company as part of the Veduginskoye scoping study suggests that the topography and ore body geometry is favourable for low strip open pit mining. The Directors believe that the ore body has good drill, blast and digging characteristics and the geo-technical conditions are favourable for pit wall profiles. It is likely that underground mining will be amenable to selective bulk mining. The Group intends to exploit the ore body using an open pit and decline approach with a mainstay mine and satellite pits and underground workings as required, possibly contemporaneously.

Metallurgical test work on a one tonne bulk sample has been undertaken in South Africa (at Lakefield Laboratories under the management of a local process engineering firm MDM). This test work has confirmed that the ore is partially (45 per cent.) refractory. The test work has indicated that a process route employing flotation and pressure oxidation of flotation concentrates will achieve recoveries of about 90 per cent. of the contained gold. Test work also showed biological oxidation is also viable and the final choice of process route will be made at the feasibility stage.



A Bankable Feasibility Study is planned to be commissioned after completion of a scoping study by year end 2003 for completion in mid 2004.

## **Asachinskoye and Rodnikovoye**

### *Introduction*

The Asachinskoye and Rodnikovoye projects are located in the Kamchatka region (eastern Russia) south of the port of Petropavlosk-Kamchatsky (the capital of Kamchatka). The Company holds a 90.05 per cent. interest in Zarevo which holds mining and exploration licences covering both the Asachinskoye (24 km<sup>2</sup>) and Rodnikovoye (16 km<sup>2</sup>) deposits. Both these licences are valid until 1 September 2014. The Company has an obligation to acquire the remaining 9.95 per cent. of Zarevo for US\$1 million when a decision is made by the Board to proceed with the development of a mine at Asachinskoye.

Asachinskoye, which is located 150 km south-southwest of Petropavlosk-Kamchatsky by road, is a high-grade gold/silver deposit with an average gold grade of 15.7 g/t and silver grade of 36.3 g/t. The Company has commissioned a Bankable Feasibility Study for developing Asachinskoye in conjunction with Rodnikovoye (which is located 60 km north of Asachinskoye) in a combination of open pit and underground mining. This is scheduled for completion by January 2004. The currently established reserves indicate a combined production mine life of about 6 years, although the Directors anticipate this could be enhanced by exploration within the same licence area. The aggregate Asachinskoye/Rodnikovoye gold production is expected to be about 100,000 oz per annum. Asachinskoye has free milling ore amenable to conventional cyanidation processing for recovery of gold and silver.

Pre-feasibility work undertaken on Asachinskoye has demonstrated that a combined open-pit/underground operation at Asachinskoye containing resources of 1.06 million tons of ore at 15.35 g/t gold equivalent ROM grade may be feasible. Processing at a rate of 200,000 tons per annum would yield approximately 90,000 to 100,000 ounces of gold per annum. Initial capital costs are estimated to be approximately US\$50 million with an estimated operating cost of approximately US\$70 per ton. Pre-feasibility work in Rodnikovoye has demonstrated that an open-pit containing resources of 203,000 tons at 10.6 g/t gold equivalent ROM grade may be possible. It is planned to mine and ship this ore to the Asacha mill.

### *Future operations*

Initial upgrading of the road to Asachinskoye and the establishment of an accommodation block and associated facility at Asachinskoye began in August 2003 and this phase of work is scheduled to be completed before the year end. Gold/silver production is scheduled to commence in the middle of 2005 on the assumption that financing for the project is obtainable.

The Directors believe that this project has upside potential in light of the number of epithermal gold/silver targets in the South Kamchatka region and in particular in the vicinity of Asachinskoye. The Directors believe that, following construction, the Asachinskoye/Rodnikovoye mill could become a regional milling centre for ore from other gold/silver occurrences in South Kamchatka. Drilling of targets in the Asachinskoye/Rodnikovoye licence areas is planned in 2004.

## **Yakutia**

In February 2003, the Group applied for an exploration licence over a territory of approximately 250 km<sup>2</sup> in the Nyuektaminskoye area approximately 500 km north of the capital of Yakutsk, and this application is still pending. The area contains a number of silver/gold deposits and occurrences, where channel chip sampling from trenches and grab sampling have established the presence of mineralisation with relatively high silver and gold grades.

The Directors believe that, at this early stage, the Yakutia project has promising exploration potential and is indicative of the exploration opportunities that the Group can pursue in Russia.



## Regulatory and Environmental

The Group's operations are subject to various laws and governmental regulations in Russia including special legislation relating to environmental protection and employee health and safety. Accordingly, the Group is required to obtain regulatory approvals, licences, permits and consents from Russian federal and regional authorities.

An overview of the mining regulatory framework in Russia can be found in Part 2 of this document.

Russian environmental laws govern, among other things, air emissions, waste water discharges, the use, handling and disposal of hazardous substances and waste, soil and, amongst other obligations, groundwater contamination and rehabilitation of mining areas on closure. These laws require the Group to perform ecological research and monitoring, to provide measures for environmental protection and to restore the area affected by its mining activities after use (in particular to re-soil the mining areas).

The Group has to incur significant effort and expenditure to comply with environmental regulation. Furthermore, additional financial reserves or expenditure might be required to ensure compliance in the future due to changes in law, environmental conditions or other unforeseen events.

The operations of the Subsidiaries of the Group in Russia will be subject to Russian taxation in the form of corporate profits tax, VAT and mineral extraction tax.

Subject to certain exceptions (which include dividends) corporate profits are taxed at the standard fixed rate of 24 per cent. Dividends are taxed at the standard rate of 6 per cent. if paid to Russian companies, but at 10 per cent., in accordance with a bilateral tax treaty between the UK and Russia, where dividends are paid by a Russian subsidiary to a UK parent company.

Tax is not payable in Russia on the repayment of loans, or the payment of interest on those loans, by a Russian subsidiary to a UK parent company.

VAT in Russia is chargeable on:

- (i) the supply of goods, works and services, as well as transfer of property rights in Russia;
- (ii) the importation of goods into Russia;
- (iii) the transfer of goods, works and services carried out by a company for its own needs in Russia; and
- (iv) building and assembly works provided for a company's own consumption,

in each case at the standard rate of 20 per cent. (to be reduced to 18 per cent. from 1 January 2004). Subject to certain statutory exceptions, Russian companies generally have the right to reduce the aggregate amount of VAT payable on their output by the VAT already paid by them in relation to the goods, works and services acquired for further taxable activities as well as on the goods, works and services acquired for resale. Generally, if at the end of each tax period the aggregate amount of reductions to which a company is entitled exceed the aggregate amount of VAT payable on its output, the difference may be recovered from the tax authorities by way of a VAT refund.

Mineral extraction tax applies at a rate of 6 per cent. *ad valorem* on all gold-containing concentrates and gold-intermediates produced by Russian companies in Russia.

The Group has retained Greatex, a legal and consulting firm based in Moscow, to provide legal, administrative and financial services to Amikan, Zarevo and Svezhiy Veter. Greatex advises the Group as to matters of Russian law, in particular on Russian regulatory and licensing matters.

## Licences

The Group requires licences and other regulatory consents from Russian federal and regional authorities. Details of these are provided in Part 2 of this document.

## Financial Information

The table below summarises the trading results of the Group for the year ended 31 March 2002, the nine months ended 31 December 2002 and the six months ended 30 June 2003. The information set out below has been extracted from the relevant audited accounts of the Group set out in Part 4 of this document. The statutory accounts have been prepared in accordance with UK accounting standards, and this information should be read in conjunction with Part 4 of this document.

	<i>Year ended</i> <i>31 March</i> <i>2002</i> <i>US\$</i>	<i>9 months</i> <i>ended</i> <i>31 December</i> <i>2002</i> <i>US\$</i>	<i>Six months</i> <i>ended</i> <i>30 June</i> <i>2003</i> <i>US\$</i>
Loss for the Financial Period	(582,765)	(1,120,892)	(820,958)
Net assets	2,048,138	7,681,757	9,561,424
(Decrease)/Increase in cash for the period	(257,740)	427,275	1,174,183
Net cash outflow from capital expenditure and financial investment	(565,698)	(2,243,192)	(2,738,157)

As described above, the Company is currently in an exploration and pre-development stage and has not yet generated revenue.

## Board of Directors

The Board comprises the following executive and non-executive directors who bring significant expertise and experience to the Group's operations and activities:

### *John Jeremy Seymour Marshall (Aged 65) – Non-Executive Chairman*

Jeremy Marshall was educated at New College, Oxford University. From 1971 to 1987 he was employed at Hanson plc in a variety of roles including Chief Executive of Imperial Foods. From 1989 to 1998 he was Chief Executive of De La Rue Holdings plc, a world leader in security printing, payment systems and smart cards with annual sales of £800 million. Jeremy Marshall has served on the board of directors of a number of companies, including BTR plc, Mowlem plc, Camelot Group (operators of the UK lottery) and Hillsdown Holdings plc.

### *Jocelyn Severyn de Warrenne Waller (Aged 59) – Managing Director*

Jocelyn Waller was educated at Churchill College, Cambridge University. From 1966 to 1988 he worked at Charter Consolidated plc in various executive positions in the Mining Division including assignments in Malaysia, Thailand and Africa. In 1989 he took over Avocet Ventures Inc to explore for gold in Malaysia and acquire tungsten interests globally. Avocet brought the state of the art 100,000 oz per annum Penjom gold mine in Malaysia into production in 1996 in which year the company listed on the London Stock Exchange as Avocet Mining plc with Jocelyn Waller as Chief Executive. He resigned from Avocet in 2000 and shortly thereafter set up Trans-Siberian Gold.

### *Charles Henry Dickson (Aged 51) – Finance Director*

Charles Dickson is a Fellow of The Institute of Chartered Accountants in England and Wales. He started his professional career with Price Waterhouse in the UK and transferred to the Far East in 1978. He joined the accounting and management consultancy firm Horwath International in Hong Kong in 1984 and spent 16 years helping to build it into a successful firm. He retired from the profession in 2000 to pursue his commercial interests, and has subsequently served as a director and consultant to several growing businesses. Charles Dickson continues to be based in Hong Kong but spends over 50 per cent. of his time working for the Company.

### *Philip Bowring (Aged 60) – Non-Executive Director*

Philip Bowring was educated at St. Catharine's College, Cambridge University. He has lived in Hong Kong since 1973 and held senior journalist positions including, among others, regional correspondent of the Financial Times and editor of the Far Eastern Economic Review. Since 1992

he has been an independent consultant on Asian financial and political issues and a columnist for the International Herald Tribune.

*Peter Charles Desborough Burnell (Aged 62) – Non-Executive Director*

Peter Burnell was educated at Magdalen College, Oxford University. He has spent most of his business career as senior executive and director of Anglo American Corporation of South Africa and Minorco Societe Anonyme. He is currently the Chairman of Foreign and Colonial Latin American Investment Trust plc.

*Alexander Ivanov (Aged 55) – Non-Executive Director*

Alexander Ivanov has spent most of his career working for the Russian Ministry of Foreign Affairs. He has served extensively in Africa in a number of senior diplomatic positions. In recent years, he has been a director of a Russian trading firm specialising in trade with Africa.

*Vadim Nikolaitchouk (Aged 54) – Non-executive Director*

Vadim Nikolaitchouk was educated as a Mining Engineer at the Mining Institute in St. Petersburg. He also holds a PhD from the Russian Engineering Academy. He started his working career as a mining engineer at the Zapolarnity Mine with Norilsk Nickel in 1972, becoming Chief Engineer in 1980. He was a member of Parliament (Supreme Soviet) from 1989 to 1992 where he was Head of the Economic Reforms Committee. From 1992 to date he has been managing director of OAO “DMIRP”, an oil products, gold mining and real estate development company.

*Nirmal Kumar Sethia (Aged 62) – Non-Executive Director*

Nirmal Sethia was educated at Calcutta University, thereafter joining Ewart McCoy as a tea trader. He held various management positions in the Sethia group, becoming Chairman in 1963, before moving to London in 1966 where he has been Chairman of Sethia London Limited. The Sethia group’s main activities centre around trade, tea production and packaging with ancillary interests in real estate, finance and advisory services.

**Company Secretary**

*Alison Barr (Aged 53)*

Alison Barr was educated at University College, London and qualified as a solicitor in 1974. She specialises in Company Commercial Law at Barr Ellison, Solicitors, who have been legal advisers to the Company since 2001.

**Special Adviser**

*John A. Franklin (Aged 59)*

The Company has retained John A. Franklin as a special adviser to advise and assist the Company and the Board in relation to Admission. John Franklin was educated at Pembroke College, Cambridge, and qualified as a solicitor in 1968 with Slaughter and May. From 1972 to 1994 he worked for the merchant bank Morgan Grenfell & Co Limited and held various senior positions in Banking and Corporate Finance. In 1994 he joined Fox-Pitt Kelton Limited as a corporate finance director specialising in the financial services sector on an international basis. Following the acquisition of Fox-Pitt Kelton by Swiss Re in 1999, he was seconded in 2000 to do internal investment banking and private equity with Swiss Re until his retirement in early 2003. He has also held a number of directorships.

**Senior management**

The Directors have put in place the following senior management team, consisting of highly experienced Russians and expatriates, which the Directors are confident has the skills and expertise necessary for the continuing growth of the Group’s operations.



### **Senior management at the Head Office in Cambridge, UK**

#### *Andrew Dinning (Aged 37) – Manager Business Development*

Andrew Dinning graduated with a Bachelor of Engineering in Mining from the South Australia Institute of Technology. He also has an MBA from Cranfield University. He worked for 13 years at WMC Resources Ltd., a blue chip Australian Mining Company where he gained extensive experience in a variety of positions including project manager, mine manager and risk manager. He was involved extensively in WMC's gold projects, in particular the St. Ives Gold Operations.

### **Senior management in Krasnoyarsk**

#### *Anatoly Yakimov (Aged 54) – General Manager, Amikan*

Anatoly Yakimov is a geophysicist by training. He was Head of the Geological Committee of the Department of Natural Resources, Krasnoyarsk, between 1997 and 1999. Between 1999 and 2001 and again from October 2002 to March 2003 he was the Deputy Governor of the Krasnoyarsk Administration responsible for natural resources.

#### *Vladimir Rukosuyev (Aged 44) – Deputy General Manager, Amikan*

Vladimir Rukosuyev graduated from the Krasnoyarsk Institute of Base Metals. From 1981 to 1992 he worked in various positions in a number of prospecting expeditions, including as a geologist studying various projects. From 1992 to 1999 he worked as a director on a number of construction projects in the mining sector, before joining Amikan.

#### *Mikhail Gorlov (Aged 43) – Chief Geologist, Amikan*

Mikhail Gorlov graduated as a mining engineer and geologist in 1983 from the Krasnoyarsk Institute of Base Metals. He specialised in the geological survey, prospecting and exploration of mineral deposits. From 1980 to 1995, Mikhail worked on a number of projects in the Krasnoyarsk region, primarily prospecting, evaluating and mapping various deposits. From 1998 to 1999 he was Chief Geologist at Amikan where he evaluated the Veduginskoye project. Before re-joining Amikan in 2002, he worked as Chief Geologist with Krasgeo preparing a geochemical map of the Trans-Angara part of the Yensei Ridge.

#### *David Stock (Aged 45) – Resource Geologist, Amikan*

David Stock graduated from Kings Polytechnic with a degree in Geology in 1979 and has held a number of positions in the mining industry. He began his career in South Africa working on various gold and diamond projects. In recent years he has specialised in resource estimation and is a qualified practitioner of the "Datamine" software system, the pre-eminent resource estimation methodology.

### **Senior management in Petropavlosk-Kamchatsky**

#### *Nikolai Kuptsov (Aged 39) – General Manager, Zarevo*

Nikolai Kuptsov was educated at the Omsk Military Academy where he graduated in 1985 as an officer with an engineering specialisation in wheeled and tracked vehicles. From 1985 to 1991 he was an officer in various military units in Khabarovsk, Kamchatka and Amur. Since leaving the army, Nikolai has held a number of positions in various gold companies in the Kamchatka region.

#### *Sergey Ikrin (Aged 48) – Construction Manager, Zarevo*

Sergey Ikrin graduated from the Kazakhsky Polytechnic Institute in 1984. He started his professional career in 1977 working with the OAO Dukat Geologic Exploration Expedition, where he became Chief Engineer in 1991. He has extensive experience in the mining sector and most recently was a senior member of the construction team that built the Bema Gold owned Julietta gold mine in the Magadan region of Russia.

#### *Marc Desmond Nally (Aged 35) – Consulting Exploration Geologist to Zarevo*

Marc Nally graduated from the Royal School of Mines in 1994 with a degree in Mining Geology. He worked as a project geologist in Chile with Minera Cominco, mapping copper targets in

Northern Chile. He worked for Avocet Ventures Inc from 1995 to 1996 prospecting for gold and copper deposits in Peru. He has also worked as a consultant on various gold projects evaluating copper and gold projects in Latin America.

## Employees

As at 1 November 2003 the Group had an aggregate of 93 employees based in Krasnoyarsk on the Veduginskoye project, in Kamchatka and in the United Kingdom. The following table shows this headcount divided by location and function:

	<i>Krasnoyarsk</i>	<i>Kamchatka</i>	<i>UK</i>
Management	2	3	3
Administrative	8	3	1
Technical	61	5	3
Support Staff	3	1	—
<b>Total</b>	<b>74</b>	<b>12</b>	<b>7</b>

In Moscow, Greatex has 8 employees advising the Group.

## Senior management of Greatex in Moscow

### *Boris Guzman (Aged 52) – Geologist*

Boris Guzman holds a PhD from the Institute of Geological Prospecting for Base and Precious Metals (TsNIGRI), Moscow. He has published 46 scientific papers including 5 monographs while at TsNIGRI. From 1973 to 1981 he was Chief Geologist of the Gold prospecting teams in the Kamchatka Ministry of Geology where he discovered the Aginskoe gold deposit. From 1981 to 1992 he was a Scientific Researcher at TsNIGRI. From 1992 to 1998, he worked as Chief Geologist at JSC Tumanov & Co and from 1998 to date he has worked as a geological consultant to various companies including Barrick Gold.

## Corporate Governance

The Company intends, where practicable for a company of its size and nature, to comply with the main provisions of the Principles of Good Governance and Code of Best Practice (the “Combined Code”) which applies to listed companies. The Company has employed non-executive Directors since 2001 to bring an independent view to the Board, and to provide a balance to the executive directors.

An Audit Committee consisting of Jeremy Marshall, Nirmal Sethia and Peter Burnell was established in August 2003. The Audit Committee is chaired by Jeremy Marshall. It will meet at least twice a year and will be responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported on and for meeting the auditors and reviewing their reports relating to the accounts and internal control systems.

In addition, a Remuneration Committee also consisting of Jeremy Marshall, Nirmal Sethia and Peter Burnell was established in August 2003. The Remuneration Committee is chaired by Jeremy Marshall and will be responsible for reviewing the performance of the executive directors and other senior executives and for determining appropriate levels of remuneration with due regard to the interests of shareholders. It will meet as required.

The Board has also considered the guidance published by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal control requirements of the Combined Code. In line with the Turnbull Report, the Board intends regularly to review key business risks in addition to the financial risks facing the Group in the operation of its Business.

## Current trading and prospects

The Company is currently at exploration and pre-development stage and as such has no revenue. The first production from its mining projects is expected to occur in 2005.



## **Reasons for Admission**

The Company holds a portfolio of gold projects in Russia and intends to commence gold production in 2005. The Directors have put in place a management team which they believe is fully capable of taking the Company forward to become a significant mid-tier gold producer in Russia. The Directors therefore believe that the Company has reached a stage in its development where it is appropriate to seek admission of its share capital to AIM, a market on which the shares of a number of other natural resource companies are quoted including some with gold interests in Russia. Admission to AIM will provide the Company with access to capital markets in the future, provide a market for its shares and increase the profile of the Company.

## **Details of the Placing**

The Company is issuing 10,666,667 Ordinary Shares pursuant to the Placing at the Placing Price, which will raise approximately £14.3 million (net of expenses) and will represent approximately 37.4 per cent. of the enlarged issued share capital following the Placing.

The Placing Shares will be issued fully paid and will, on issue, rank pari passu with the Ordinary Shares already in issue, including the right to receive, in full, all dividends and other distributions thereafter declared, made or paid.

The Placing has been fully underwritten by Collins Stewart and is conditional inter alia upon Admission becoming effective and the Placing Agreement becoming unconditional in all respects. Details of the Placing Agreement are contained in paragraph 10 of Part 6 of this document. Collins Stewart may terminate the Placing Agreement in specified circumstances, including upon the occurrence of certain material changes affecting the business, general affairs, management, financial conditions or prospects of the Group or upon certain material changes in financial, political or economic conditions.

## **Use of Proceeds and Future Funding**

The Company intends to use the net proceeds of the Placing, amounting to approximately £14.3 million, to finance:

- further drilling at Veduginskoye;
- a Bankable Feasibility Study in respect of the Veduginskoye project;
- completion of a Bankable Feasibility Study in respect of the Asachinskoye project;
- exploration drilling at Asachinskoye/Rodnikovoye;
- completion of basic infrastructure at Asachinskoye (road upgrade and site development);
- preliminary exploration in Yakutia; and
- the Group's working capital requirements.

The Company will require significant additional funds in order to bring its projects into production. According to current estimates, the additional funding required through combined debt and equity financing would be approximately US\$150 million. The timing of such additional funding will be dependent, amongst other things, upon completion of the Bankable Feasibility Studies in respect of Asachinskoye/Rodnikovoye and Veduginskoye in 2004. The Company's other mining projects would also require significant funding in the future in order to reach the development and production stage.

## **Risk Factors**

The Board recognises the risks of investments in the gold mining business in Russia and draws the attention of prospective investors to the Risk Factors set out in Part 3 of this document.

These risks are not easy to quantify and may be beyond the Company's control. They could result in a substantial loss of the value of the Group's investment in the interests and projects detailed in this part of the document.

### **Lock-up and Orderly Market Arrangements**

In accordance with Rule 7 of the AIM Rules, related parties (including directors) and applicable employees (as defined in the AIM Rules) have agreed not to dispose of any interests in the Company's shares for a period of twelve months from Admission. Certain shareholders of the Company have signed lock-up or orderly market agreements in relation to the trading of shares following Admission.

### **Incentive Schemes**

The Company has put in place two unapproved share option schemes (the "Share Option Schemes") and in the future, the ability of Directors and employees to participate along with other investors in the growth of the Company by having a quoted equity investment, will help the Company in retaining and recruiting high calibre personnel.

On Admission, the Board has the discretion to grant share options to the Directors and to employees of the Group pursuant to the second share option scheme, which is summarised in Part 6 of this document. If granted immediately prior to Admission, these options will be granted at an exercise price equal to the Placing Price and thereafter the intention is that options will be issued at market price. The Remuneration Committee of the Board will determine at the relevant time the performance criteria which should attach to such options.

Further details of the Share Option Schemes are set out in paragraph 9 of Part 6 of this document.

The total number of options to be issued under both schemes is limited to ten per cent. of the ordinary issued share capital of the Company from time to time. This is in accordance with the Association of British Insurers' guidelines.

### **Dividend Policy**

The Board anticipates that, following Admission, cash resources will be retained for the development of the Group's business and will not be distributed until the Company has an appropriate level of distributable profits. The declaration and payment by the Company of any dividends and the amount thereof will depend on the results of the Group's operations, its financial position, cash requirements, prospects, profits available for distribution and other factors deemed to be relevant at the time.

### **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001. The articles of association of the Company permit the holding of Ordinary Shares under the CREST system. All the Ordinary Shares will be in registered form and no temporary documents of title will be issued. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted and accordingly enabled for settlement in CREST on the date of Admission. It is expected that Admission will become effective and dealings in Ordinary Shares will commence on 25 November 2003. Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within the CREST system if any shareholder so wishes.

CREST is a voluntary system and holders of the Ordinary Shares who wish to receive and retain share certificates will be able to do so.

## **UK Taxation**

Information regarding United Kingdom taxation with regard to certain holders of the Ordinary Shares is set out in paragraph 14 of Part 6 of this document. If you are in any doubt as to your tax position, you should contact your professional adviser.

## **Further Information**

Your attention is drawn to the information on Russian mining authorities and licensing in Part 2 of this document, the financial information on the Group in Part 4 of this document, the independent minerals industry expert's report in Part 5 of this document and the additional information set out in Part 6 of this document.

## PART 2

### Russian Mining Authorities and Licensing

#### General Description of Russian Mining Regulations

All subsoil situated within the territory of Russia is deemed state property. The use of such property is controlled and regulated by a variety of state authorities through an intricate system of federal and regional licensing laws and regulations. This system is not generally believed, by mining companies and state functionaries alike, to be completely effective since competencies are not clearly divided between federal and regional authorities, regulation is often unclear or contradictory and not all the significant provisions of laws or regulations are enforced in letter and spirit.

#### *Applicable laws, rules and regulations*

The most fundamental law governing subsoil use in Russia as a whole is the Federal Law No. 2395-1 “On Subsoil” of Russia, dated 21 February 1992 (the “Subsoil Law”). The Subsoil Law allocates jurisdiction in the mining sector between federal and regional authorities, sets out the basic principles and features of the licence-based regulatory framework, and contains the rules governing the issuance, transfer, surrender and revocation of mineral licences.

The law specifically governing gold mining and distribution in and from Russia is the Federal Law No. 41-FZ “On Precious Metals and Precious Stones” of Russia, dated 26 March 1998 (the “Precious Metals Law”).

Detailed rules relating to licensing in Russia are set out in the Subsoil Law and in a number of regulations issued by the Russian federal government through its ministries and agencies including, for example, the Russian State Committee for Geology (a predecessor of the Russian Federal Ministry of Natural Resources (the “Federal Ministry”)) which has issued Order No. 65 dated 18 May 1995 containing detailed rules governing the transfer of mineral licences. Regulations passed by various regions of Russia also play an important part.

Customarily, a licence itself only sets out the most basic terms of the licensing arrangement ie. it identifies the licensee, the licence area and the term of the licence, and sets out the mineral rights granted thereunder. However, all or substantially all terms and conditions, including those concerning work programmes (which are essentially the licensee’s developmental commitments and its applicable milestones or deadlines), fiscal levies payable by the licensee, geological data ownership, safety, abandonment and confidentiality are documented in a licensing agreement entered into between the licensee and the relevant federal and/or regional authorities which is deemed to be an integral part of a licence. Compliance with the terms of the licensing agreement is vital for the validity of the licence, although holders of licences are in practice often able to obtain waivers and amendments to the licensing agreements. The grant of such waivers and amendments falls within the discretionary powers of the relevant federal/regional authorities.

#### *Russian mining authorities*

The Federal Ministry is the principal authority responsible for regulating the activities of the Russian mining sector. It grants (in conjunction with regional authorities) subsoil use licences and issues documents with respect to subsoil use procedures. All activities of the State Mineral Reserves Commission, the Central Mineral Reserves Commission and the various territorial commissions conducting registration and expert examination of mineral reserves on behalf of the state fall within the jurisdiction of the Federal Ministry.

The State Mining and Industrial Inspectorate also plays an important part in the functioning of the Russian mining sector. Amongst other things, it controls the technical aspects of mineral deposit exploitation, issues instruments creating mining allocations, determines the boundaries of mining allotments (mining allotments define the subsoil blocks from which natural resources forming the subject matter of any licence may be exclusively extracted) and grants licences covering hazardous industrial production.



According to the “double key” principle set out in the Subsoil Law, most subsoil use licences are granted (or authorised for transfer) by joint action on the part of the Federal Ministry (directly or through one of its regional units) and the government of the region where the subsoil in question is situated. The terms and conditions of a licensing agreement are also negotiated with both the Federal Ministry and the regional government involved.

#### *Modes of issuance of licences*

A significant number of exploration and production licences in Russia were issued between 1992-1993 on a tender-free basis pursuant to Section 19 of the “Regulations for the Procedure of Licensing the Use of Mineral Resources” (approved by resolution of the Supreme Soviet on 15 July 1992) which essentially permitted the then state-owned mining companies to retain their pre-1992 primary mineral rights. This process ensured the stability of the Russian mining sector during a difficult transitional period through the continued involvement of legal entities possessing the necessary expertise. Most of the production licences issued after such period were granted on the basis of a tender or auction, the most common mode of issuance of a production licence under the provisions of the Subsoil Law.

The Asachinskoye, Rodnikovoye and Veduginskoye production licences were issued to their respective initial licensees on a subsoil tender basis. However, the Subsoil Law also permitted the federal licensing authorities to issue exploration licences on a tender-free basis upon coordination of such issuance with the regional licensing authorities. Accordingly, the Veduginskoye area exploration licence was issued to Amikan on a tender-free basis.

A number of current licensees obtained their licences through transfers from one entity to another permitted under certain circumstances specified in the Subsoil Law (such cases, in particular, include corporate reorganisations and establishment of a subsidiary at least 50 per cent. of which is owned by the original licensee). Accordingly, the Veduginskoye production licence was issued to Amikan on the basis of its spin-off from the original licensee.

#### *Rights to the extracted gold*

As described above, a licensee’s rights to the minerals it extracts are set out in the terms of the relevant licence. Unless otherwise provided by the licence, any supply agreements entered into by a licensee or any applicable international treaty, the title to the extracted gold belongs to the entity which has extracted it. At the same time, under the Precious Metals Law, Russia is the sole owner of any and all illegally-extracted gold. Thus, in the event of any violation of applicable gold mining rules, a licensed subsoil user will not acquire any rights to the gold it may have extracted. The same would also apply to any person extracting gold without having the necessary licence.

In addition, the state has a pre-emptive right to purchase gold from any person or entity that may have lawfully extracted it. This right may be exercised both at federal and regional levels. This right is subject to prior conclusion of a sale and purchase agreement (no later than three months before the purchase date) and advance payment of the purchase price, which would be based on the market price prevailing on the date of execution of the sale and purchase agreement, but subject to any adjustment that may be necessary to conform it to the market price prevailing on the date of delivery of the gold.

#### *Grounds for termination of the right to use subsoil*

There is an extensive list of grounds for termination of the right to subsoil use, which, in light of the general interpretation of such grounds, allows a great degree of discretionary power to the Federal Ministry and regional authorities over the activities of subsoil users.

Pursuant to the Subsoil Law, the right to subsoil use may be terminated:

- upon expiration of the term stipulated in the licence;
- if the licence holder relinquishes its right to the use of subsoil;
- upon occurrence of any termination event specified in the licence; or
- if the licence has been re-issued in violation of the transfer provisions contained in the Subsoil Law.



Moreover, the right to subsoil use may be subject to early termination, suspension or restrictions imposed by licensing authorities if:

- an immediate danger to the life or health of the people working or living in the areas affected by the subsoil use is evident;
- the subsoil user repeatedly violates the established rules of subsoil use;
- an emergency situation involving a natural or man-made disaster arises;
- the subsoil user fails to commence operations to the extent set out in the licence;
- the subsoil user is liquidated;
- the subsoil user fails to file certain reports relating to subsoil reserves in accordance with applicable law;
- the subsoil user so requests or declares; or
- the subsoil user is in violation of the material terms of its licence.

It is noteworthy that, in practice, the expression “violation of the material terms of the licence” as used by the relevant regulatory bodies from time to time, is often interpreted quite broadly, which makes it necessary for licence holders to exercise extra care and caution in their compliance with the terms of their licensing agreements. Obtaining and maintaining in force the licences required for a successful exploration and production operation in Russia typically involves a series of voluminous filings, and even minor errors or omissions in respect of any documents that must form part of such filings in theory amounts to illegal subsoil use, although in practice such violations are widely encountered.

In practice, if a material violation of a subsoil use licence comes to the attention of the appropriate federal or regional authorities, the typical action taken is the issuance by the Federal Ministry of a written direction to the licensee to cure the violation within three months. If the licensee fails to cure within this time period, the Federal Ministry may revoke the licence, but the most common practice in such circumstances is the Federal Ministry and the licensee reaching a compromise by waiving or amending the terms of the licence so as to accommodate the violation in exchange for the licensee incurring additional obligations which were not part of the original licence.

## **The Group’s Licences**

### *Licences held by Amikan*

#### *(a) Mining licence series KRR No 00833 type BR*

This licence was granted to Amikan on 20 September 1999 for geological exploration and gold production at the Veduginskoye gold deposit in central Siberia. The licence was initially granted to AOOT IPK “Amikan” in December 1996 and was transferred to OOO GRK “Amikan” in 1999. The licence creates a preliminary mining allotment covering an area of 172 hectares without any restrictions on depth, and expires on 1 January 2022.

The licensing agreement forming part of this licence has undergone five amendments – on 10 December 1999, 10 January 2002, 11 July 2002, 30 December 2002 and 23 October 2003.

Under the material provisions of this licensing agreement, Amikan is required as licensee to:

- commence the mining process and attain an annual ore processing capacity of 250,000 tons before the end of 2005;
- complete its general geological exploration and submit a geological report containing reserve calculations for approval by state geological authorities before the end of the first six months of 2004, and within one year after such approval submit, according to established procedure, project documentation on overall field development and obtain an executed mining allotment act from Gosgortekhnadzor’s Yenisei District Office;
- contribute to the social and economic development of the Severo-Yeniseiskiy District pursuant to further agreements with local authorities;

- make annual payments for geological exploration of the deposit in the amount of RUR 90 per km<sup>2</sup> (for exploration and evaluation of the deposit) and RUR 3,000 per km<sup>2</sup> (for prospecting).

(b) *Subsoil use licence series KRR No 11309 BP*

This licence was granted to Amikan on 22 October 2002 for geological exploration of gold deposits located in the Veduginskoye exploration area. The licence creates a geological allotment covering an area of 540 km<sup>2</sup> and expires on 1 October 2007.

Under the material provisions of the licensing agreement forming part of this licence, Amikan is required as licensee to:

- prepare and submit for approval by the State Environmental Committee a geological exploration plan in respect of the licence area by 30 February 2003;
- commence geological exploration in the licence area no later than 30 June 2003;
- complete the first phase of exploration activity by 30 December 2004 – this phase involves area lithogeochemical tests of secondary mineral scattering halo (8,000 samples) and exploratory drilling of at least up to 1,000 running metres;
- complete the second phase of exploration activity, as well as assessment of gold ore reserves, by 30 December 2006 – this phase involves exploratory drilling of at least up to 4,000 running metres and calculation of proven and probable gold ore reserves classified by C<sub>2</sub>, P<sub>1</sub>, and P<sub>2</sub> Russian reserve categories;
- prepare a feasibility study relating to the industrial significance of the discovered deposits by 30 March 2007;
- submit for state approval a report on the results of the exploration activity conducted in the licence area by 30 July 2007;
- conduct and complete by 30 June 2003 an environmental study relating to the licence area on the basis of the programme approved by the Natural Resources and Environmental Protection Department of the Federal Ministry in the Krasnoyarsk Region in order to determine certain physical parameters before commencement of geological exploration works;
- take all necessary measures to preserve the archaeological findings at the licensed area and immediately report to the relevant authorities in respect of such findings;
- conduct social, economic and investment activities in the Severo-Yeniseiskiy District of the Krasnoyarsk Region; and
- employ the local workforce, as well as give preference to local contractors and sub-contractors.

*Licences held by Zarevo*

(a) *Mining licence series PTR No 11625 type BE*

The original licence (series PTR No 00070 type BE) was granted to Zarevo on 8 September 1994 for the development of the Rodnikovoye gold deposit and was re-issued (as series PTR No 11625 type BE) on 7 August 2003. The licence creates a mining allotment covering an area of 16 km<sup>2</sup> and expires on 1 September 2014.

The original licensing agreement forming part of this licence was amended on 26 July 1995, 16 January 1996, 4 June 1996, 29 August 1996, 6 January 1997 and 10 December 2000 and was replaced by a new licensing agreement on 7 August 2003.

Under the material provisions of the new licensing agreement, Zarevo is required as licensee to:

- conduct certain environmental investigations pursuant to a programme coordinated with the territorial subdivision of the Federal Ministry before 1 May 2003;

- submit for approval by the Kamchatka regional division of the Federal Ministry a plan of further geological exploration of the Rodnikovoye gold deposit before the end of 2003;
- implement the plan of further geological exploration and submit geological materials for state expertisation of reserves before the end of 2006;
- prepare and submit for approval a project relating to the processing of the Rodnikovoye gold deposit within 18 months after state expertisation of the reserves;
- employ at least 90 per cent. of its production workers and 75 per cent. of its specialists from the local workforce with preference given to persons with work experience in geological enterprises; and
- pay USD 5,000 to each of the discoverers of the Rodnikovoye gold deposit within one year of commencement of gold mining production on the deposit.

(b) *The mining licence series PTR No 11626 type BE*

The original licence (series PTR No 00071 type BE) was granted to Zarevo on 8 September 1994 for the development of the Asachinskoye gold deposit and was re-issued (as series PTR No 11626 type BE) on 7 August 2003. The licence creates a mining allotment covering an area of 24 km<sup>2</sup> and expires on 1 September 2014.

The original licensing agreement forming part of this licence was amended on 26 July 1995, 16 January 1996, 4 June 1996, 29 August 1996, 6 January 1997, 16 October 1998 and 10 December 2000 and was replaced by a new licensing agreement on 7 August 2003.

Under the material provisions of the new licensing agreement, Zarevo is required as licensee to:

- conduct certain environmental investigations pursuant to a programme coordinated with the territorial subdivision of the Federal Ministry before 1 May 2003 – the Company believes that this date was inserted into the new licensing agreement by technical error on part of the Federal Ministry and should be read as “10 December 2003” in order to be consistent with the original licensing agreement (as amended), and Zarevo filed an application requesting an amendment to this effect on 14 October 2003;
- submit for approval by *Kamchatgeolkom* a plan of further geological exploration of the Asachinskoye gold deposit before 1 August 2003 – the Company believes that this date was inserted into the new licensing agreement by technical error on part of the Federal Ministry and should be read as “10 December 2003” in order to be consistent with the original licensing agreement (as amended), and Zarevo filed an application requesting an amendment to this effect on 14 October 2003;
- submit geological materials available as of the date of issue of the licence for state expertisation of reserves before the end of 2000 – the Company believes that this date was inserted into the new licensing agreement by technical error on part of the Federal Ministry and should be read as “by the end of 2003” in order to be consistent with the original licensing agreement (as amended), and Zarevo filed an application requesting an amendment to this effect on 14 October 2003;
- monitor the environment in the area of influence of mining facilities, starting from 1 January 1996 and for the entire period of existence of the harmful characteristics of industrial waste – the Company believes that this date was inserted into the new licensing agreement by technical error on part of the Federal Ministry and should be read as “10 December 2003” in order to be consistent with the original licensing agreement (as amended), and Zarevo filed an application requesting an amendment to this effect on 14 October 2003;
- produce at least 1,000 kg of gold in 2004 – the Company has initiated the process of obtaining an extension of this term of the agreement to 2006 from the competent authorities and the Directors believe that such extension will be granted;
- ensure a minimum gold extraction rate of 94.6 per cent. and silver extraction rate of 38.6 per cent. and a maximum metal loss rate of 6 per cent. – each subject to verification by competent state authorities upon coordination of the development project;



- employ at least 90 per cent. of its production workers and 75 per cent. of its specialists from the local workforce with preference given to persons with work experience in geological enterprises;
- finance a programme of further geological exploration in respect of the Rodnikovoye gold deposit in a volume sufficient to permit submission of geological materials to state authorities for approval of reserves within 4 years after the commencement of production from the Asachinskoye gold deposit.

#### *Past licensing and current compliance*

As already noted above, Russian licensing laws and regulations are unclear, contradictory and burdensome from a licensee's perspective. Even minor errors or omissions on the part of a licensee in respect of any of its licensing obligations could amount to illegal subsoil use and, in certain cases, could lead to suspension or termination of the licences or related contracts.

The Group's four existing licences contain numerous past, current and future obligations on the licensees. Three of the four licences were granted to the existing licensees (or their respective predecessor entities) before the Company acquired ownership interests in such licensees. The Company, therefore, neither had control over the manner in which these three licences were issued, nor whether applicable laws were complied with by the relevant licensees prior to them becoming Subsidiaries of the Company. This also means that the Company cannot be certain of the nature and extent of any breaches of licensing obligations on the part of such licensees before they were acquired by the Company.

The only initial grant of a licence over which the Company had control was that of subsoil use licence series KRR No 11309 BP which was granted to Amikan on 22 October 2002. In the process of obtaining this, the Company has attempted to comply with all rules it considered applicable, and therefore knows with much greater certainty than with the other three licences all aspects of compliance that are involved.

Nevertheless, due to the nature of the Russian licensing regime, it is very difficult for the Group to be in full compliance with all terms of its existing four licences at any one time. Thus, the Group believes that it may at times have not been in full compliance as such and expects this to occur again from time to time in the future. It is also noted, however, that the Group has enjoyed a good working relationship with Russian mining authorities and has so far been able to resolve all its licensing issues through waiver or amendment of licence terms rather than through the receipt of punitive measures. However, the Group cannot guarantee that such authorities will be receptive to the solutions to alleged breaches proposed by the Group in the future.

## PART 3

### Risk Factors

In addition to all other information set out in this document, prospective investors should carefully consider the following specific factors in evaluating whether to make an investment in the Company. The value of the Ordinary Shares may go down as well as up. Investors may, therefore, realise less than the original amount subscribed pursuant to the Placing and could lose their entire investment.

The risks associated with subscribing for the Placing Shares include (but may not be limited to) the following identifiable risks which, individually or in the aggregate, could have a material adverse effect on the Group and holders of the Ordinary Shares.

This document contains forward-looking statements that involve risks and uncertainties. The Group's results could actually differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Group, which are described below and elsewhere in this document.

The investment offered in this document may not be suitable for all of its recipients. An investment in the Company is only suitable for investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result from such investment. If you are in any doubt about the action you should take, you should consult an investment adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The risks identified below are those that the Board believes to be material, but these risks may not be the only ones faced by the Company. Additional risks, including those that the Board currently does not know or deems immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the price of the Ordinary Shares.

#### General

The risks described in this section do not necessarily comprise all those faced by the Company and are not intended to be presented in any assumed order of priority. Reference should also be made to the risks described in the Russian Mining Authorities and Licensing section in Part 2, the Accountant's Report on the Company in Part 4 and the Independent Minerals Industry Expert's Report in Part 5 of this document. Investors in companies holding their assets in emerging markets such as Russia should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this document may become outdated quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves after proper consultation whether, in light of those risks, their investment is appropriate.

#### Risks Relating to the Group and the Gold Mining Industry

##### *Project development risks*

The Company plans to continue to progress its Asachinskoye, Rodnikovoye and Veduginskoye mining projects. Mining development projects typically require a number of years and significant expenditures during the development phase before production is possible. In addition, there can be no assurance that these projects will be fully developed in accordance with the Group's current plans or completed on time or to budget.

Estimates of resources are based upon the interpretation of geological data obtained from drill holes. The Bankable Feasibility Studies derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the orebody, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns may differ from those currently estimated.



Additionally, the resources underlying these projects require further evaluation and capital expenditure in order to bring them into production. Future work on the development of these projects (and any additional projects pursued by the Group in due course), the levels of production and financial returns arising therefrom may be delayed or adversely affected by factors outside the control of the Group.

#### *Reserve and resource estimates*

The Company has derived the ore reserves and resources presented in this document from the calculations and estimates prepared by the management and reported in the Independent Minerals Industry Expert's Report set out in Part 5 of this document. Reserves figures are estimates and there can be no assurance that they will be recovered or that they can be brought to profitable production. Reserve and resource estimates may require revision based on actual production experience. Further, the volume and grade of reserves mined and processed and the recovery rates may not be the same as currently anticipated, and a decline in the market price of gold may render ore reserves containing relatively lower grades of gold mineralisation uneconomic and may in certain circumstances ultimately lead to a restatement of reserves.

#### *The Group's licences*

The Group's exploration, mining and processing activities are dependent upon the grant, renewal or continuance in force of appropriate licences, concessions, leases, permits and regulatory consents which may be valid only for a defined time period, may be subject to limitations and may provide for withdrawal in certain circumstances. There can be no assurance that such licences, concessions, leases, permits and regulatory consents would be granted, renewed or continue in force, or, if so, on what terms.

The process of obtaining licences in Russia is complicated by the fact that federal and regional authorities are involved and that the law is often unclear and contradictory or interpreted in different ways by different authorities or not properly applied by the authorities. To the extent that the Company has controlled the process through which its existing Subsidiaries obtained licences, it has attempted to comply with all rules it considered applicable. To the extent the Company has acquired Subsidiaries with existing licences, the process of the initial granting of such licences was beyond its control, and the Company cannot be certain about the occurrence of any previous violations that could cause a licensing authority or a third party to challenge the validity of any of these licences. The Group has so far not been subject to any such challenge and the Company believes that it enjoys a good working relationship with the licensing authorities.

The Group's licences contain a range of past, current and future obligations on the Group, and there may be adverse consequences of breach of these obligations, ranging from penalties to, in extreme cases, suspension or termination of the licences or related contracts. The Group has at times been perceived not to be in full compliance with all terms of its licences, and historically, the Company has addressed any licensing issues by curing perceived breaches or taking up the issue where possible with the relevant licensing authority to obtain a waiver or amendment of the terms of the licence concerned. In its past dealings with licensing authorities, the Group has found such authorities to be receptive to the solutions proposed by the Group, and has accordingly secured satisfactory waivers and/or amendments to the terms of its licences. However, it cannot be guaranteed that the licensing authorities will continue to be receptive as such and that the Group will continue to avoid any adverse consequences if it were to be in breach of any of its licensing obligations in the future.

Withdrawal of licences or failure to secure requisite licences at any of the Group's operations may have a material adverse impact on the business, operations and financial performance of the Group.

Further information regarding the Group's licences can be found in Part 2 of this document.

#### *Environmental issues*

Regulation in Russia governing discharge of materials into the environment is likely to evolve in a manner which will require stricter standards and enforcement, increased penalties for

non-compliance, more stringent environmental assessment of proposed mining projects and a heightened degree of responsibility for culpable companies and their directors and employees.

There can be no assurance that compliance with regulations in Russia governing the discharge of materials into the environment, or otherwise relating to environmental protection, will not have a material adverse effect on the Group's exploration activities, results of operations or competitive position.

The Group's operations are subject to environmental regulation (including regular environmental impact assessments and permitting) in Russia. Russian environmental legislation consists of numerous federal and regional regulations which are not fully harmonised and may not be consistently interpreted. As a result, full environmental compliance may not always be ensured.

Moreover, there are certain risks inherent in the activities of every mining company that could subject the Company to extensive liability. New or expanded regulations, if adopted, could affect the exploration or development of the Group's projects, materially increase the Group's cost of doing business, or otherwise have a material adverse effect on the Group's operations.

As a result of the foregoing risks, project expenditures, production quantities and rates and cash operating costs, among other things, may be materially and adversely affected and may differ materially from anticipated expenditures, production quantities and rates, and costs. In addition, estimated production dates may be delayed materially. Any such events could materially and adversely affect the Group's business, financial condition, results of operations and cash flows.

#### *Past transactions*

Members of the Group (or their predecessor entities at different times) took a variety of actions involving the establishment of new business organisations, changes of legal status of existing entities (between limited liability companies, closed stock companies and open stock companies), share issuances, share acquisitions and spin-offs that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant Group members or their predecessors-in-interest, could result in the invalidation of such transactions or in extreme cases, may even expose the relevant Group member to the risk of liquidation. Due to certain transactions entered into by Group members prior to their acquisition by the Company, the Group may also be subject to unknown obligations owed to unidentified parties. The Company has taken measures to remedy the situation and is in the process of curing what could arguably be legal defects in certain of these transactions. However, applicable provisions of Russian law are subject to many different interpretations and there can be no assurance that the relevant Group member would be able to successfully defend any challenge brought against such transactions. The invalidation of any such transactions or imposition of any such liability may, individually or in aggregate, have a material adverse effect on the Group's business and operations.

#### *Dependence on key personnel*

The Company is dependent on the services of certain key members of the executive management team and a small number of highly skilled and experienced executives and personnel. The Company cannot guarantee the retention of the services of such executives and personnel and is not insured against damage that may be incurred in case of their loss or dismissal, although it intends to obtain such insurance in respect of Jocelyn Waller. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly skilled employees may adversely affect the exploration and development of its properties, which could have a material adverse effect on the Group's business and future operations.

#### *Negative net assets*

Under Russian legislation, if a company's net assets fall below certain minimum legal requirements, it is required to decrease its issued share capital and may in certain circumstances be involuntarily liquidated by the registration authorities. The net assets of Zarevo and Amikan from time to time

fall below the legal minimum, but as a practical matter, the Company believes that since it has taken action to remedy this situation, each of these Subsidiaries has been and continues to be capable of meeting all of its obligations to creditors in a timely fashion. Recent court decisions in Russia suggest that the aforementioned ground alone is usually not deemed adequate to result in the involuntary liquidation of a company, as courts will examine the overall financial situation of such company, including its ability to meet its obligations to creditors in a timely fashion. However, if involuntary liquidation were to occur, or if the Subsidiaries in question were in fact unable to meet their obligations to creditors, the Group may need to restructure its operations, which may negatively impact the Company.

#### *Uninsured risks*

The insurance industry is not yet well developed in Russia and many forms of insurance protection which are typically used in more economically developed countries are unavailable. Furthermore, the Group, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. In particular, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Group or to other companies in the mining industry on acceptable terms. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect upon the Group's financial performance and results of operations.

#### *Mining and processing risks*

There are risks inherent in the development and exploitation of mineral deposits. The business of mining by its nature involves risks and hazards often outside the Group's control including geological, geotechnical and seismic factors and production risks (ore grade/quality, tonnages and recovery/yields), industrial and mechanical incidents, unscheduled plant shutdowns or other processing problems, technical failures, labour disputes, environmental hazards including the discharge of toxic chemicals, fire, drought, flooding and other acts of God. The exploration, development and production of natural resources is an activity that involves financial risk.

As is common with all mining operations, there is uncertainty associated with the Group's operating parameters and costs. While costs can be budgeted with a reasonable degree of confidence, operating parameters can be difficult to predict and are often affected by factors outside the Group's control.

The locations of all of the Group's current gold operations dictate that climatic conditions have an impact on operations, and in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is therefore possible that gold production levels might fluctuate and income be deferred. In addition, a power transmission line presently running across the Veduginskoye licence area must be removed, and a new alternative transmission line installed, to allow development of the open pit required for mining the Veduginskoye deposit. This may have unforeseen cost and timing implications on the Group's activities.

The business of mining and mineral processing by its nature involves significant risks and hazards. Further information on the specific risks associated with the Group's mining operations are set out in section 4 of the Independent Minerals Industry Expert's Report in Part 5 of this document.

#### *Speculative nature of gold exploration*

With all mining operations there is uncertainty, and therefore risk, associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Gold exploration, in particular, involves a high degree of risk and exploration projects are frequently unsuccessful. Few prospects that are explored end up being ultimately developed into producing mines. To the extent that the Group is involved in gold exploration, the long-term success of the Group's operations will be related to the cost and success of its exploration programs. There can be no assurance that the Group's future gold exploration efforts will be successful. The risks associated with gold exploration include the identification of potential gold mineralisation based on analysis of geological data and the capital available for exploration and development.



If reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible, during which time the economic feasibility of production may change. Substantial expenditure may be required to establish ore reserves through drilling, to determine metallurgical processes to extract metals from ore and, in the cases of new properties, to construct mining and processing facilities. As a result of these uncertainties, there can be no assurance that current and future exploration programs will result in the discovery of reserves, the expansion of the Group's existing reserves or the development of mines.

#### *Financing*

Further exploration and the development of one or more of the Group's projects depend upon the Group's ability to obtain financing through the raising of additional equity or debt financing or by other means. Any additional equity financing may be dilutive to shareholders and debt financing, if available, may involve restrictions on financing and operating activities. The net proceeds of the Placing are expected to enable the Company to meet its working capital requirements for the next 12 months only, and the Company will thereafter need additional funds through debt and equity financing to meet such requirements. There can be no assurance that such funding required by the Group will be made available to it.

#### *Litigation*

While the Company currently has no material outstanding litigation, there can be no guarantee that the current or future actions of the Company will not result in litigation since the mining industry, as all industries, is subject to legal claims, both with and without merit. Defence and settlement costs can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, there can be no assurance that the resolution of any particular legal proceeding will not have a material effect on the Group's financial position or results of operations.

#### *Gold price volatility*

The market price of gold is volatile and is affected by numerous factors which are beyond the Group's control. These factors include world production levels, global and regional economic and political events, international economic trends, inflation and deflation, currency exchange fluctuations, speculative activity and the political and economic conditions of major gold-producing countries. Additionally, the purchase and sale of gold by world central banks or other large holders or dealers may also have an impact on the market price. The aggregate effect of these factors is impossible to predict. Sustained downward movements in gold market prices could render less economic, or uneconomic, any of the gold extraction and/or exploration activities to be undertaken by the Group.

Furthermore, reserve calculations and LOM plans using significantly lower gold prices than market prices could result in reduced estimates of reserves and resources, in material write-downs of the Company's investment in mining properties and increased amortisation, reclamation and closure charges.

#### *Exchange rate risks*

The Group's operations are subject to exchange rate fluctuations and may become subject to exchange control or similar restrictions.

The Group raises its financing in pounds sterling and US dollars but the Group's operating costs are incurred principally in Russian roubles. Up until 2001, the Russian rouble had continuously depreciated relative to the US dollar, but any significant and sustained appreciation of the Russian rouble could serve to materially reduce the Group's profitability.

#### *Holding company structure and restrictions on dividends*

The Company's results and its financial condition are entirely dependent on the trading performance of members of the Group. The Company's ability to pay dividends will depend on the level of distributions, if any, received from the Company's Subsidiaries. The Company's



Subsidiaries may from time to time be subject to restrictions on their ability to make distributions to the Company, as a result of factors including restrictive covenants contained within loan agreements, foreign exchange limitations, regulatory, fiscal or other restrictions. There can be no assurance that such restrictions will not have a material adverse effect on the Group's results or financial condition.

The Russian Civil Code and the Russian Federal Laws on Joint-Stock Companies and Limited Liability Companies provide that the shareholders in a Russian company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the parent) is capable of determining decisions made by another company (the subsidiary). The parent company may bear joint and several liability for transactions concluded by the subsidiary in carrying out those decisions. It may also be liable for the debts of the subsidiary if the subsidiary becomes insolvent or bankrupt owing to the action or inaction of the parent company. Under Russian law, such relationship of parent and subsidiary exists between the Company on the one hand and each of Amikan, Zarevo and Svezhiy Veter on the other hand, and the Company may accordingly be held liable as parent for the transactions to which each such subsidiary is a party.

#### *Short operating history*

The Group's business is at a relatively early stage of development and its success will depend largely upon the outcome of feasibility studies and exploration programmes that the Group is undertaking and proposes to undertake.

### **Risks Relating to the Ordinary Shares and their Trading Market**

#### *Forward looking statements*

Certain statements within this document, including in Parts 1 and 6, constitute forward looking statements. Such forward looking statements involve risks and other factors which may cause the actual results, achievements or performance of the Group to be materially different from any future results, achievements or performance expressed or implied by such forward looking statements. Such risks and other factors include, but are not limited to, general economic and business conditions, changes in government regulation, currency fluctuations (including the US\$/RUR rate), the Group's ability to recover its gold reserves or develop new reserves, competition, changes in development plans and other risks described in this section. There can be no assurance that the results and events contemplated by the forward looking statements contained in this document will, in fact, occur. These forward looking statements are correct only as at the date of this document. The Company will not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events, circumstance or unanticipated events occurring after the date of this document except as required by law or by any regulatory authority.

#### *Investment risk*

Although the Ordinary Shares are to be admitted to trading on AIM this should not be taken as implying that there will be a liquid market in the Ordinary Shares. The Ordinary Shares will not be listed on the Official List. An investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed.

Investors should be aware that following admission the market price of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore be unable to recover their original investment. This volatility could be attributable to various facts and events, including any regulatory or economic changes affecting the Group's operations, variations in the Group's operating results, the gold price, developments in the Group's business or its competitors, or changes in market sentiment towards the Ordinary Shares. In addition, the Group's operating results and prospects from time to time may be below the expectations of market analysts and investors.

At the same time, market conditions may affect the Ordinary Shares regardless of the Group's operating performance or the overall performance of the gold mining industry. Share

market conditions are affected by many factors such as general economic outlook, movements in or outlook on interest rates and inflation rates, currency fluctuations, commodity prices, changes in investor sentiment towards particular market sectors and the demand and supply for capital.

Accordingly, the market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets, and the price at which investors may dispose of their Ordinary Shares at any point in time may be influenced by a number of factors, only some of which may pertain to the Company while others of which may be outside the Group's control.

#### *Ordinary Shares available for future sale*

The Group is unable to predict whether substantial amounts of Ordinary Shares will be sold in the open market following the termination of the restrictions under the lock-in arrangements described in "Lock-in and Orderly Market Arrangements" in Part 1 of this document. Any sales of substantial amounts of Ordinary Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Ordinary Shares.

#### *Outstanding options and warrants to purchase Ordinary Shares*

As of 22 October 2003, approximately 1,960,000 Ordinary Shares are issuable on exercise of call options at prices ranging from £0.45 to £1.00 and a further 1,009,500 Ordinary Shares are issuable on exercise of warrants at US\$2.50 per share. During the life of the options and/or warrants the holders are given an opportunity to profit from a rise in the market price of the Ordinary Shares with a resulting dilution in the interest of the other shareholders. The Company's ability to obtain additional financing during the period such options are outstanding may be adversely affected, and the existence of the options and warrants may have an adverse effect on the price of the Ordinary Shares. The holders of the options and warrants can be expected to exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital by a new offering of securities on terms more favourable than those provided by the outstanding options and warrants.

#### *No dividends in the foreseeable future*

The Company does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Board after taking into account many factors, including the Group's operating results, financial condition and current and anticipated cash needs.

### **Risks Relating to Russia**

#### *Political and economic risks*

The Group's assets and operations are affected by various political and economic uncertainties. Russia has been undergoing a substantial political transformation from a centrally controlled command economy under communist rule to a pluralist market-orientated democracy. There can be no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system may be vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in government policies.

Accordingly, the various risks to which the Group may be exposed include the risks of war, civil unrest, coups or other violent or unexpected changes in government, political instability and violence, expropriation and nationalisation, renegotiation or nullification of existing concessions, licences, permits and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation, and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or impose burdensome requirements on foreign entities. There is no guarantee that future changes in legislation will not affect the Group retrospectively.

There have been a number of cases in recent history where the rights and privileges of mining companies have been the subject of litigation (including, for example, the action challenging Kinross Gold Corporation's ownership interest in the Omolon Gold Mining Company in the Magadan region of Russia on grounds of unauthorised share issuances) and the Company cannot preclude that such litigation may not be brought against the Company in future from time to time.

In addition, in view of the legal and regulatory regime in Russia, legal inconsistencies, which would not necessarily exist in the United Kingdom, may arise. In particular difficulties may arise in seeking to obtain redress through the legal courts in overseas jurisdictions.

#### *Financial instability*

The Russian economy has been subject to abrupt downturns. In particular, in August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble-denominated securities, the Central Bank stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments by state authorities. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds in the international capital markets.

These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies, and resulted in the widespread loss of bank deposits.

There can be no assurance that recent trends in the Russian economy – such as the increase in the gross domestic product, a relatively stable rouble and a reduced rate of inflation – will continue or will not be abruptly reversed. Moreover, recent fluctuations in international oil and gas prices, the strengthening of the rouble in real terms relative to the dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect Russia's economy and the Group's business in the future.

#### *The regulatory environment*

The Group's mining operations and exploration activities in Russia are subject to extensive federal, regional and local laws and regulations governing various matters, including licensing, production, taxes, water disposal, toxic substances, mine safety, development, exports, imports, labour standards, occupational health and safety and environmental protections. Compliance with these regulations increases the costs of planning, designing, drilling, operating, developing, constructing and mine and other facilities closure.

The Board believes that the Group is in substantial compliance with current laws and regulations in Russia. However, these laws and regulations are subject to frequent change. Amendments to current laws and regulations governing operations and activities of mining companies or more stringent implementation or interpretation of these laws and regulations could have a material adverse impact on the Group, cause a reduction in levels of production and delay or prevent the development or expansion of the Group's properties in Russia.

#### *Taxation*

Russian tax legislation is subject to frequent change and some of the laws relating to taxes to which the Group are subject are relatively new and untested. The government's implementation of such legislation, and the courts' interpretation thereof, has so far been often unclear or nonexistent. Although tax legislation has generally improved with the introduction of the Russian Tax Code, which, in particular, declared the invalidity of retroactive changes, the likelihood exists that, due to Russia's federal and local tax collection system and historically large government budget deficits, Russia will impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the Group's business. The introduction of new tax provisions may affect the Group's overall tax efficiency and may result in significant additional tax liability.

It is often the case that differing opinions regarding legal interpretation exist both among and within government ministries and organisations, such as the Ministry of Taxes and Levies, the Ministry of Finance and various local inspectorates. Tax declarations, together with other compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are enabled by law to impose severe



finances, penalties and interest charges on those in default. Generally, tax declarations remain open and subject to inspection for a period of three years following any tax year. This period could be further extended if a company is using the reporting year losses as a carry forward provision because it is then required to keep all documents for the entire period of the loss carried forward.

#### *Russia's physical infrastructure*

Russia's physical infrastructure largely dates back to Soviet times, in some cases to the post-World War II reconstruction era, and has not been adequately funded and maintained over the past decades. Such infrastructure includes the rail and road networks, power generation and transmission, communications systems and building stock. Road conditions throughout Russia are poor, with many roads unable to carry passengers or freight. The federal government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs to businesses, including the Group. The deterioration of the infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds cost to doing business in Russia and can interrupt business operations and this would have a material adverse effect on the Group's business.

#### *Property rights*

During Russia's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However this legislation has proved to be uncertain and the risks associated with the legal system include the untested nature of the independence of the judiciary, inconsistencies between relevant laws, presidential decrees and government and ministerial orders and resolutions, the lack of judicial or administrative guidance on interpreting the laws, a high degree of discretion on the part of the governmental authorities, conflicting local, regional and federal laws and regulations, the relative inexperience of judges and courts in interpreting new legal norms and the unpredictability of enforcement of foreign judgments and arbitral awards.

Consequently, it is possible that due to the lack of experience in enforcing these provisions and potential political changes, protections would not be enforced in the event of attempted expropriation or nationalisation. Expropriation or nationalisation of the Company's assets, potentially without adequate compensation, would have a material adverse effect on the Company.

#### *Crime and corruption*

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness, including organised criminal activity. In addition, bribery in Russian business is widespread and difficult to avoid. Government officials have engaged in selective investigations and prosecutions to further commercial interests of the government and individual officials. The Group, however, has a firm policy of staying clear of any activity involving corrupt or criminal practices. Additionally, a significant number of Russian media regularly publish biased articles in return for payment. All these factors could have a material and adverse impact on the operations of the Group.



## PART 4

### Accountant's Report on the Company



**PricewaterhouseCoopers LLP**  
1 Embankment Place  
London WC2N 6RH  
Telephone +44 (0) 7583 5000  
Facsimile +44 (0) 20 7822 4652

The Directors  
Trans-Siberian Gold plc  
Unit B1  
Old Farm Business Centre  
Church Road  
Toft  
Cambridge CB3 7RF  
  
Collins Stewart Limited  
9th Floor  
88 Wood Street  
London EC2V 7QR

20 November 2003

Dear Sirs

#### Trans-Siberian Gold plc

##### Introduction

We report on the financial information of Trans-Siberian Gold plc and its subsidiaries (together, “the Group”) as set out below. This financial information has been prepared for inclusion in the prospectus dated 20 November 2003 (“the prospectus”) of Trans-Siberian Gold plc relating to the proposed placing of ordinary shares in the capital of Trans-Siberian Gold plc and the proposed application for admission of the whole of such ordinary share capital to trading on the Alternative Investment Market of the London Stock Exchange plc.

##### Basis of preparation

The financial information for the periods ended 30 June 2003, 31 December 2002, 31 March 2002 and 31 March 2001 is based on the audited consolidated financial statements of the Group for the periods then ended.

##### Responsibility

Such financial statements are the responsibility of the directors of the Group who approved their issue.

The directors of Trans-Siberian Gold plc are responsible for the contents of the prospectus in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial records, to form an opinion on the financial information and to report our opinion to you.

##### Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amount and disclosures in the financial information. The evidence included that

previously obtained by ourselves relating to the audit of the financial statements underlying the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its consolidated losses and cash flows for the periods then ended.

### **Consent**

We consent to the inclusion in the prospectus of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

## Consolidated Profit and Loss Account

		<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
	<i>Note</i>				
<b>Turnover</b>		—	—	—	—
Administration expenses		(844,783)	(1,154,208)	(594,862)	(185,749)
<b>Operating loss</b>		<u>(844,783)</u>	<u>(1,154,208)</u>	<u>(594,862)</u>	<u>(185,749)</u>
Net interest receivable and similar income	4	<u>8,811</u>	<u>19,829</u>	<u>5,036</u>	<u>2,595</u>
<b>Loss on ordinary activities before taxation</b>	5	(835,972)	(1,134,379)	(589,826)	(183,154)
Tax on loss on ordinary activities	8	<u>—</u>	<u>—</u>	<u>1,074</u>	<u>1,066</u>
		(835,972)	(1,134,379)	(588,752)	(182,088)
Minority interest – equity		<u>15,014</u>	<u>13,487</u>	<u>5,987</u>	<u>—</u>
<b>Loss for the financial period</b>	17	(820,958)	(1,120,892)	(582,765)	(182,088)
<b>Loss per share</b>					
– basic (cents per share)	7	<u>(0.06)</u>	<u>(0.10)</u>	<u>(0.13)</u>	<u>(0.19)</u>

The results above are derived from continuing activities.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial periods stated above, and their historical cost equivalents.

The Group has no recognised gains or losses other than those stated above; therefore no separate statement of total recognised gains and losses has been presented.

## Consolidated Balance Sheet

		<i>As at</i> <i>30 June</i> <i>2003</i> <i>US\$</i>	<i>As at</i> <i>31 December</i> <i>2002</i> <i>US\$</i>	<i>As at</i> <i>31 March</i> <i>2002</i> <i>US\$</i>	<i>As at</i> <i>31 March</i> <i>2001</i> <i>US\$</i>
	<i>Note</i>				
<b>Fixed assets</b>					
Exploration and evaluation properties	9	6,795,028	4,785,453	2,406,520	32,892
Tangible assets	10	461,692	165,730	21,659	7,207
Investments	11	—	—	36,207	200,000
<b>Total fixed assets</b>		<u>7,256,720</u>	<u>4,951,183</u>	<u>2,464,386</u>	<u>240,099</u>
<b>Current assets</b>					
Stocks – consumables		41,493	14,055	—	—
Debtors					
Amounts falling due within one year	12	644,651	438,150	1,067,890	104,166
Amounts falling due after more than one year		<u>510,169</u>	<u>196,014</u>	<u>25,563</u>	<u>—</u>
		1,154,820	634,164	1,093,453	104,166
Cash at bank and in hand	13	<u>1,641,898</u>	<u>2,663,855</u>	<u>26,854</u>	<u>291,814</u>
		2,838,211	3,312,074	1,120,307	395,980
<b>Creditors – amounts falling due within one year</b>	14	<u>(371,898)</u>	<u>(404,877)</u>	<u>(1,346,445)</u>	<u>(37,086)</u>
<b>Net current assets/(liabilities)</b>		<u>2,466,313</u>	<u>2,907,197</u>	<u>(226,138)</u>	<u>358,894</u>
<b>Total assets less current liabilities</b>		9,723,033	7,858,380	2,238,248	598,993
<b>Minority interest – equity</b>		<u>(161,609)</u>	<u>(176,623)</u>	<u>(190,110)</u>	<u>—</u>
<b>Net assets</b>		<u>9,561,424</u>	<u>7,681,757</u>	<u>2,048,138</u>	<u>598,993</u>
<b>Capital and reserves</b>					
Called up share capital	16	1,124,474	985,227	479,713	249,508
Share premium account	17	11,135,422	8,571,044	2,322,047	520,342
Profit and loss account	17	<u>(2,695,472)</u>	<u>(1,874,514)</u>	<u>(753,622)</u>	<u>(170,857)</u>
<b>Equity shareholders' funds</b>		<u>9,561,424</u>	<u>7,681,757</u>	<u>2,048,138</u>	<u>598,993</u>



## Consolidated Cash Flow Statement

		<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
	<i>Note</i>				
<b>Net cash outflow from operating activities</b>	19	(668,791)	(707,579)	(59,422)	(243,312)
<b>Returns on investments and servicing of finance</b>					
Interest received	4	8,811	19,829	5,036	2,595
Interest paid		<u>—</u>	<u>(127,300)</u>	<u>(6,500)</u>	<u>—</u>
Net cash inflow/(outflow) from returns on investments and servicing of finance		8,811	(107,471)	(1,464)	2,595
<b>Taxation</b>	8	—	—	1,074	1,066
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets	10	(331,688)	(149,734)	(37,199)	(7,414)
Exploration and evaluation expenditure	11	(2,406,469)	(2,014,976)	(492,292)	(232,892)
Loans advanced to OOO Amikan	22	<u>—</u>	<u>(78,482)</u>	<u>(36,207)</u>	<u>—</u>
Net cash outflow from capital expenditure and financial investment		(2,738,157)	(2,243,192)	(565,698)	(240,306)
<b>Acquisitions</b>					
Payments to acquire subsidiary undertakings	11	—	(1,975,835)	(532,475)	—
Cash held by subsidiaries acquired	11	<u>—</u>	<u>1,340</u>	<u>—</u>	<u>—</u>
Net cash outflow from acquisitions		<u>—</u>	<u>(1,974,495)</u>	<u>(532,475)</u>	<u>—</u>
Net cash outflow before use of liquid resources and financing		(3,398,137)	(5,032,737)	(1,157,985)	(479,957)
<b>Management of liquid resources</b>					
Decrease/(increase) in bank deposits	18	2,200,000	(2,200,000)	—	—
<b>Financing</b>					
Issue of ordinary shares, net of expenses		<u>2,372,320</u>	<u>7,660,012</u>	<u>900,245</u>	<u>769,708</u>
<b>Increase/(decrease) in cash for the period</b>	18	<u>1,174,183</u>	<u>427,275</u>	<u>(257,740)</u>	<u>289,751</u>

Refer to note 16 for details of non-cash transactions.

## Reconciliation of movements in Shareholders' Funds

	<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
Loss for the financial period	(820,958)	(1,120,892)	(582,765)	(182,088)
Issue of shares	2,700,625	6,754,511	2,031,910	769,708
Net addition to shareholders' funds	1,879,667	5,633,619	1,449,145	587,620
Opening shareholders' funds	7,681,757	2,048,138	598,993	11,373
<b>Closing shareholders' funds</b>	<b>9,561,424</b>	<b>7,681,757</b>	<b>2,048,138</b>	<b>598,993</b>

## Notes to the Financial Statements

### 1. Principal Accounting Policies

The consolidated financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and applied on a consistent basis. They are stated in US Dollars, being the Group's functional currency. The exchange rate on 30 June 2003 was £1:US\$1.65 (31 December 2002 – £1:US\$1.61, 31 March 2002 – £1:US\$1.42 and 31 March 2001 – £1:US\$1.42)

#### *Basis of preparation*

Trans-Siberian Gold plc, together with the subsidiaries and quasi-subsidiary listed in note 24, form a mineral exploration and development group that is focused on precious metal opportunities in the Russian Federation. The recoverability of the amounts shown in the Group balance sheet in relation to deferred exploration expenditure are dependent upon the discovery of economically recoverable reserves, confirmation of the Group's interests in the underlying mining claims, the political, economic and legislative stability of the regions in which the Group operates, compliance with the terms of the relevant mineral rights licences, the Group's ability to obtain the necessary financing to fulfil its obligations as they arise and upon future profitable production or proceeds from the disposition of properties.

#### *Basis of consolidation*

The consolidated financial statements of the Group include the accounts of Trans-Siberian Gold plc and its subsidiaries and quasi-subsidiary. The results of Trans-Siberian Gold plc's subsidiary undertakings and quasi-subsidiary are accounted for in the profit and loss account from the date that the Group gained control.

The accounting policies are consistently applied across the Group.

#### *Goodwill*

Goodwill represents the difference between the cost of acquisition and the fair value of the identifiable net assets acquired, including mineral properties. Amortisation is charged on a unit of production basis.

#### *Foreign currency*

Transactions denominated in currencies other than the US Dollar are translated into US Dollars at the average exchange rate ruling during the month in which the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are re-translated into US Dollars at the rates of exchange ruling at the balance sheet date. All exchange gains or losses are taken to the profit and loss account.

#### *Deferred exploration expenditure*

When the Group has incurred expenditure on mining properties that have not reached the stage of commercial production, the costs of acquiring the rights to such mineral properties and related exploration and development costs are deferred where the expected recovery of costs is considered probable by the successful exploitation or sale of the asset. General overheads are expensed immediately. Finance costs incurred in respect of exploration and evaluation projects are capitalised in those instances where the other expenditure attributable to those projects is also being capitalised. Finance costs are only capitalised during periods when exploration and evaluation activities are in progress. The discount on the deferred purchase consideration is added back to reflect the actual cash paid in respect of net assets acquired on acquisition of companies.

Where a feasibility study indicates that the future recovery of the costs is not probable, full provision is made in respect of the deferred costs. Where mining properties are abandoned, the deferred expenditure is written off in full.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value if higher. Individual mining properties are considered to be separate income generating units for this purpose, except where they would be operated together as a single mining business.

The amounts shown as deferred exploration expenditure represent costs incurred and do not necessarily reflect present or future values.

#### *Taxation*

Deferred tax is provided in full in respect of timing differences which have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised if it is considered more likely than not that they will be recovered. No deferred tax has been recognised on the revaluation of purchased non-monetary assets at their fair value, in accordance with FRS 19 “Deferred Tax”.

#### *Tangible fixed assets and depreciation*

Tangible fixed assets are recorded at historical cost. Depreciation of tangible fixed assets is provided on the straight-line basis over their estimated useful lives, being five years for office furniture and motor vehicles and three to four years for computer and communications equipment.

#### *Investments*

Investments are valued at cost or, where there has been an impairment in value, at their recoverable amount.

#### *Inventories*

Stocks of consumables are valued at the lower of cost and net realisable value.

#### *Financial Instruments*

Financial assets are recognised when the Group has rights or other access to economic benefits. Such assets consist of cash, equity instruments, contractual rights to receive cash or another financial asset, or contractual rights to exchange financial instruments with another entity on potentially favourable terms. Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. When these criteria no longer apply, a financial asset or liability is no longer recognised.

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are in determinable monetary amounts, and the group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

Interest costs are charged against income in the year in which they are incurred. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or payable at maturity are taken to net interest payable over the life of the instrument.

## **2. Going Concern**

As at 30 June 2003, the Group had cash balances totalling US\$1,641,898. It has since raised a further US\$5,165,056 through the issue of shares. As at 30 September 2003, its cash balances had increased to US\$4.7 million, a large proportion of which was uncommitted.

In order to fund further drilling on all the properties and to bring both Asacha/Rodnikova and Veduga to bankable feasibility, the directors plan to list the Company’s shares on the Alternative Investment Market of the London Stock Exchange before year end. The intention is to raise sufficient funds from that process to more than adequately fund the Company’s projected working capital requirements for the next 18 months. The process is well advanced, with Collins Stewart engaged as Nominated Adviser and Broker to the Company.



Since the Group is not yet committed to further drilling or the Veduga feasibility study, and will not enter into these commitments until the required funding has been secured, the directors believe that the Company has sufficient cash resources to cover its committed expenditure until at least the end of 2004 even if the floatation does not go ahead as planned. Accordingly, they believe it is appropriate to prepare the financial statements on a going concern basis.

### 3. Segmental Reporting

The Group's operations are entirely focussed on exploration and development opportunities within the Russian Federation. Accordingly, the directors believe that there is only one relevant class of business and geographic segment.

### 4. Interest Receivable/(Payable) And Similar Income/(Charges)

	<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
Interest receivable from short term bank deposits	8,811	19,829	4,734	2,595
Other interest	—	—	302	—
	<u>8,811</u>	<u>19,829</u>	<u>5,036</u>	<u>2,595</u>
Unwind of discount on deferred purchase consideration	—	(51,100)	(82,700)	—
Less amounts capitalised in exploration and evaluation properties	—	51,100	82,700	—
	<u>—</u>	<u>19,829</u>	<u>5,036</u>	<u>2,595</u>

The Group deferred payment of the purchase consideration for mining properties acquired in 2001 and 2002. The deferred consideration was deemed to have been borrowed, and a theoretical rate of interest of 12 per cent., being comparable with commercial borrowings under similar circumstances, was applied to discount the deferred liability.

This deemed interest charge (the “unwind” referred to above) was recognised over the period of the deemed borrowing, and capitalised as part of the cost of the relevant mining property.

### 5. Loss On Ordinary Activities Before Taxation

		<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
Depreciation of tangible fixed assets	10	19,625	10,199	5,866	216
– owned assets					
Loss on disposal of tangible fixed assets	10	16,101	3,437	24,901	—
Exploration and evaluation expenditure written off	9	—	264,515	240,652	—
Auditors' remuneration					
– audit services		71,200	103,536	41,302	4,265
– non-audit services		<u>97,120</u>	<u>—</u>	<u>—</u>	<u>6,398</u>

## 6. Employees And Directors

	<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
Wages and salaries	82,933	86,261	44,408	21,326
Social security costs	58,162	59,040	32,816	2,620
Other pension costs	—	1,628	2,792	—
<b>Staff costs</b>	<b><u>141,095</u></b>	<b><u>146,929</u></b>	<b><u>80,016</u></b>	<b><u>23,946</u></b>

The average monthly number of persons employed by the Group during the following periods were:

### By activity

Exploration and development	42	35	5	—
Administration	10	8	4	1
	<u>52</u>	<u>43</u>	<u>9</u>	<u>1</u>

	<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
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### Directors

Aggregate emoluments	<u>62,055</u>	<u>86,809</u>	<u>68,888</u>	<u>23,946</u>
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Number of directors during the period	<u>7</u>	<u>7</u>	<u>7</u>	<u>4</u>

In addition, during the period ended 31 December 2002 one of the directors received US\$12,803 as compensation for loss of office as a director within the Group (see note 22).

During the period to 30 June 2003 one of the directors, V F Nikolaitchouk, exercised 20,000 share options at a cost of £0.90 per share. None of the other directors have exercised share options and there are no long-term incentive schemes other than the provision of share options. The Group does not provide its directors with any pension benefits.

## 7. Loss Per Share

Basic loss per share (LPS) is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The number of shares shown has been adjusted to reflect the sub-division of the Group's share capital as described in notes 16 and 23.

For diluted LPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all share options granted to directors where the exercise price is less than the average market price of the Group's ordinary shares during the period. However the diluted LPS amount is not shown when dilution has the effect of decreasing the LPS.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>12 months ended 31 March 2002 US\$</i>	<i>12 months ended 31 March 2001 US\$</i>
Loss attributable to shareholders	(820,958)	(1,120,892)	(582,765)	(182,088)
Shares*	13,973,482	11,303,483	4,511,730	982,167
Basic LPS (cents per Share)	(0.06)	(0.10)	(0.13)	(0.19)

\* Shares = Weighted average number of shares, after one for one bonus issue (see note 23)

## 8. Tax On Loss On Ordinary Activities

	<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
Current tax – UK Corporation tax credit relating to prior years	—	—	1,074	1,066

No liability to taxation arises as the Group has not yet generated any net taxable income.

During the exploration and development stages, the companies in the Group will accumulate tax losses carried forward which will reduce the Group's tax liability in the future and thus give rise to deferred tax assets. However, the directors believe that it would not be prudent to recognise such tax assets before the companies have operations that generate taxable income. Hence no tax credit has been recognised as attributable to the Group's loss for the period. The expected tax credit, at the standard rate of corporation tax in the UK (30 per cent.), at 30 June 2003 is US\$751,600 (31 December 2002 – US\$572,208, 31 March 2002 – US\$231,894, 31 March 2001 – US\$54,946).

## 9. Exploration and Evaluation Properties

(a) *Movements on deferred exploration and evaluation expenditure, by area of interest, are as follows:*

	<i>Kamchatka US\$</i>	<i>Krasnoyarsk US\$</i>	<i>Other US\$</i>	<i>Total US\$</i>
At 1 April 2000	—	—	—	—
Additions	14,125	18,767	—	32,892
At 31 March 2001	14,125	18,767	—	32,892
Additions	324,881	30,100	240,652	595,633
Capitalised interest	82,700	—	—	82,700
Acquisition of subsidiary	1,935,947	—	—	1,935,947
Written off	—	—	(240,652)	(240,652)
At 31 March 2002	2,357,653	48,867	—	2,406,520
Additions	762,545	505,120	264,515	1,532,180
Capitalised interest	38,600	12,500	—	51,100
Acquisition of subsidiary	—	1,060,168	—	1,060,168
Written off	—	—	(264,515)	(264,515)
At 31 December 2002	3,158,798	1,626,655	—	4,785,453
Additions	520,286	1,489,289	—	2,009,575
At 30 June 2003	3,679,084	3,115,944	—	6,795,028

The cumulative amount of interest capitalised in exploration and evaluation properties is US\$133,800 (31 December 2002 – US\$133,800, 31 March 2002 – US\$82,700, 31 March 2001 – US\$ nil).

(b) *Deferred exploration expenditure relates to the following agreements held by the Group subsidiaries, Zarevo and Amikan:*

(i) *Kamchatka (Zarevo)*

*Asachinskoye (“Asacha”) mineral rights licence issued by the Ministry of the Russian Federation for Natural Resources and the Kamchatka Regional Administration*

On 8 September 1994, the Kamchatka Department of the Geological Committee of the Russian Federation issued the original licence after tender to OAO “Trevozhnoe Zarevo” for the exploration and development of the Asachinskoye minerals deposit on Kamchatka. The original licence was replaced by the current licence on 7 August 2003 in accordance with a joint decision issued by the Kamchatka Regional Administration and the Ministry of the Russian Federation for Natural Resources. The current licence includes extraction of gold and silver and is valid until 1 September 2014.

Under the licence, Zarevo is required to produce at least 1,000 kg of gold at the Asachinskoye deposit by the end of 2004. In accordance with the terms of the licence, an application for a two-year extension of this condition has been lodged with the appropriate authorities.

*Rodnikovoye (“Rodnikova”) mineral rights licence issued by the Ministry of the Russian Federation for Natural Resources and the Kamchatka Regional Administration*

On 8 September 1994, the Kamchatka Department of the Geological Committee of the Russian Federation issued a licence after tender to OAO “Trevozhnoe Zarevo” for the exploration and development of the Rodnikovoye minerals deposit on Kamchatka. The original licence was replaced by the current licence on 7 August 2003 in accordance with a joint decision issued by the Kamchatka Regional Administration and the Ministry of the Russian Federation for Natural Resources. The current licence includes extraction of gold and silver and is valid until 1 September 2014.

(ii) *Krasnoyarsk (Amikan)*

*Veduginskoye (“Veduga”) mineral rights licence issued by the Russian Ministry for Natural Resources and the Administration of the Krasnoyarsk region*

On 20 September 1999, the Russian Ministry for Natural Resources and the Administration of the Krasnoyarsk region issued a licence for the purpose of geological exploration and production of gold on the gold ore field Veduga to Amikan. The licence is valid until 1 January 2022. Application for the State approval of reserves must be submitted before the end of the first six months of 2004.

On 22 October 2002, the Russian Ministry for Natural Resources and the Administration of the Krasnoyarsk region issued a licence for the purpose of geological exploration of the gold ore fields in the Veduga area to Amikan. The licence is valid until 1 October 2007.

(iii) *Yakutia (Svezhiy Veter)*

The Group continues to seek other areas suitable for exploration, and has formed a new subsidiary which has applied for a licence to explore an area in Yakutia.



## 10. Tangible Fixed Assets

	<i>Buildings</i> US\$	<i>Motor Vehicles</i> US\$	<i>Office Equipment and Furniture</i> US\$	<i>Total</i> US\$
<b>Cost</b>				
At 1 April 2000	—	—	—	—
Additions	—	—	7,423	7,423
At 31 March 2001	—	—	7,423	7,423
Additions	—	—	37,199	37,199
Acquisition of subsidiary	—	—	8,020	8,020
Disposals	—	—	(24,901)	(24,901)
At 31 March 2002	—	—	27,741	27,741
Additions	11,553	46,311	91,870	149,734
Acquisition of subsidiary	—	—	7,973	7,973
Disposals	—	—	(3,437)	(3,437)
At 31 December 2002	11,553	46,311	124,147	182,011
Additions	3,078	61,693	266,917	331,688
Disposals	(4,090)	—	(15,494)	(19,584)
At 30 June 2003	<u>10,541</u>	<u>108,004</u>	<u>375,570</u>	<u>494,115</u>
<b>Accumulated Depreciation</b>				
At 1 April 2000	—	—	—	—
Depreciation for year	—	—	(216)	(216)
At 31 March 2001	—	—	(216)	(216)
Depreciation for Year	—	—	(5,866)	(5,866)
At 31 March 2002	—	—	(6,082)	(6,082)
Depreciation for Period	—	(1,324)	(8,875)	(10,199)
At 31 December 2002	—	(1,324)	(14,957)	(16,281)
Depreciation for Period	(983)	(5,560)	(13,082)	(19,625)
Disposals	45	—	3,438	3,483
At 30 June 2003	<u>(938)</u>	<u>(6,884)</u>	<u>(24,601)</u>	<u>(32,423)</u>
<b>Net Book Value</b>				
At 31 March 2001	—	—	7,207	7,207
At 31 March 2002	—	—	21,659	21,659
At 31 December 2002	11,553	44,987	109,190	165,730
At 30 June 2003	<u>9,603</u>	<u>101,120</u>	<u>350,969</u>	<u>461,692</u>

## 11. Acquisitions

As at 31 March 2001 investments comprised a payment of US\$200,000 in respect of the proposed acquisition of ZAO “Trevozhnoye Zarevo”.

As at 31 March 2002 investments comprised a payment of US\$36,207 in respect of the proposed acquisition of OOO GRK “Amikan”.

### (i) Kamchatka (ZAO “Trevozhnoye Zarevo”)

On 3 August 2001, the Group acquired control of ZAO “Trevozhnoye Zarevo” upon receiving regulatory approval for the transaction. Having already paid US\$200,000 in the year ended 31 March 2001, the Group bought 50.05 per cent. of the issued share capital for an additional

US\$500,000 in the year ended 31 March 2002, and entered into a binding obligation to purchase a further 40 per cent. interest on 24 July 2002 for US\$1,100,000 (discounted value – US\$985,200). To reflect the substance of this transaction, ZAO “Trevozhnoye Zarevo” has been accounted for as a 90.05 per cent. subsidiary from 3 August 2001. The consideration payable for the 40 per cent. interest acquired on 24 July 2002 has been treated as deferred consideration arising from the initial acquisition. Refer to Note 20 regarding the commitment to purchase the residual 9.95 per cent. shareholding of ZAO “Trevozhnoye Zarevo”.

The acquisition method of accounting has been adopted. The analysis of net assets acquired and the fair value to the Group is shown below.

The company’s exploration projects, including the mineral licences it owns, have been revalued to the fair value of the exploration rights held by the company by the directors. These projects are the company’s major asset and the reason for the acquisition. The fair value represents the value agreed with the seller as part of the acquisition, based upon previous work done and drilling results.

ZAO “Trevozhnoye Zarevo” owed US\$13,500,000 to its former parent company on 3 August 2001. As part of the acquisition the Group purchased this debt for US\$63,640 through the issue of shares. It has subsequently been offset by a capital contribution to ZAO “Trevozhnoye Zarevo”. Accordingly, this debt has been reversed in assessing the fair value of net assets acquired.

#### Acquisition of ZAO “Trevozhnoye Zarevo”

	<i>Book value</i> US\$	<i>Revaluation</i> US\$	<i>Fair value</i> US\$
Tangible fixed assets	8,020	—	8,020
Exploration and evaluation properties	59,461	1,876,486	1,935,947
Stocks	1,214	—	1,214
Debtors	38,800	—	38,800
Creditors due within one year	(13,159)	—	(13,159)
Creditors due after more than one year	(13,500,000)	13,500,000	—
<b>Net (liabilities)/assets</b>	<b>(13,405,664)</b>	<b>15,376,486</b>	<b>1,970,822</b>
Minority share – 9.95%			(196,097)
<b>Share of net assets attributable to Group</b>			<b>1,774,725</b>
<b>Consideration (including expenses)</b>			
Cash paid in 2001	200,000	—	200,000
Cash paid in 2002	532,385	(6,500)	525,885
Deferred consideration	1,100,000	(114,800)	985,200
Issue of shares	63,640	—	63,640
<b>Total consideration</b>	<b>1,896,025</b>	<b>(121,300)</b>	<b>1,774,725</b>
<b>Goodwill arising</b>			<b>—</b>

The consideration included certain deferred payments, which have been discounted at a rate of 12 per cent., being the sum of US\$121,300, to arrive at their present value on the date of acquisition.

In the period from 1 January 2001 to 3 August 2001, ZAO “Trevozhnoye Zarevo” reported a loss after taxation of US\$88,207 in its local statutory accounts. This loss was calculated in accordance with Russian accounting regulations, which differ significantly from generally accepted accounting principles in the United Kingdom.

#### (ii) Krasnoyarsk (OOO GRK “Amikan”)

On 17 July 2002, the Group acquired 100 per cent. of OOO Gorno-Rudnaya Kompaniya “Amikan” LLC (“OOO Amikan”). The acquisition method of accounting has been adopted. The analysis of net assets acquired and the fair value to the Group is as follows:

## Acquisition of OOO Amikan

	<i>Book value</i> US\$	<i>Revaluation</i> US\$	<i>Fair value</i> US\$
Tangible fixed assets	7,973	—	7,973
Exploration and evaluation properties	183,078	1,074,865	1,257,943
Stocks	4,208	—	4,208
Debtors	41,523	—	41,523
Bank and cash balances	1,340	—	1,340
Creditors due within one year	(3,298)	—	(3,298)
Creditors due after more than one year	(114,689)	—	(114,689)
Net assets	<u>120,135</u>	<u>877,090</u>	<u>1,195,000</u>
Consideration (including expenses)			
Cash paid in 2002	1,003,135	(12,500)	990,635
Expenses paid in 2001	6,590	—	6,590
Advisory fees (see below)	197,775	—	197,775
Total consideration	<u>1,207,500</u>	<u>(12,500)</u>	<u>1,195,000</u>
Goodwill arising			<u>—</u>

The company's exploration project, including the mineral licences it owns, has been revalued to the fair value of the exploration rights held by the company by the directors. This project is the company's major asset and the reason for the acquisition. Its fair value represents the value agreed with the seller as part of the acquisition, based upon previous work done and drilling results.

The consideration included a deferred payment, which has been discounted at a rate of 12 per cent., being the sum of US\$12,500, to arrive at its present value on the date of acquisition.

In June 2002, 150,000 ordinary shares of 10p each were issued as payment for services provided to a third party who advised on the purchase of OOO Amikan. The consideration attributed to these shares was £135,000 (US\$197,775).

In the period from 1 January 2002 to 17 July 2002, OOO Amikan reported a loss after taxation of US\$2,617 in its local statutory accounts. This loss was calculated in accordance with Russian accounting regulations, which differ significantly from generally accepted accounting principles in the United Kingdom.

### (iii) Yakutia (OOO Kompanyia "Svezhiy Veter")

The company had acquired for a nominal sum the issued capital of OOO Kompanyia "Svezhiy Veter", a shell company incorporated in Russia. This company is applying for a licence to explore a potential mining site in Yakutia. At 30 June 2003, the application was pending and the company had no other activities.

## 12. Debtors

	<i>30 June</i> 2003 US\$	<i>31 December</i> 2002 US\$	<i>31 March</i> 2002 US\$	<i>31 March</i> 2001 US\$
<b>Amounts falling due within one year:</b>				
Unpaid share capital	59,311	—	1,055,636	60,422
Other debtors	17,914	39,995	1,538	7,522
Prepayments	567,426	398,155	10,716	36,222
	<u>644,651</u>	<u>438,150</u>	<u>1,067,890</u>	<u>104,166</u>

	<i>30 June</i> 2003 US\$	<i>31 December</i> 2002 US\$	<i>31 March</i> 2002 US\$	<i>31 March</i> 2001 US\$
<b>Amounts falling due after more than one year:</b>				
Taxes recoverable – value added tax	510,169	196,014	25,563	—
	<u>510,169</u>	<u>196,014</u>	<u>25,563</u>	<u>—</u>
	<u>1,154,820</u>	<u>634,164</u>	<u>1,093,453</u>	<u>104,166</u>

The directors anticipate that the value added tax debtor will be recovered when the Group commences selling its production or earlier if a proposed change in legislation in Russia becomes effective. If the Group's exploration projects do not proceed to production these costs may be irrecoverable.

### 13. Restricted Cash

There are no restrictions over the access and use of the Group's bank and cash balances, other than those that customarily relate to periodic short-term deposits.

### 14. Creditors – Amounts Falling Due Within One Year

	<i>30 June</i> 2003 US\$	<i>31 December</i> 2002 US\$	<i>31 March</i> 2002 US\$	<i>31 March</i> 2001 US\$
Deferred purchase consideration	—	—	1,061,400	—
Trade creditors	74,460	161,559	224,868	10,552
Taxation and social security	37,845	20,651	11,194	—
Other creditors	20,113	39,809	7,297	3,574
Accruals and deferred income	239,480	182,858	41,686	22,960
	<u>371,898</u>	<u>404,877</u>	<u>1,346,445</u>	<u>37,086</u>

### 15. Financial Instruments

The board reviews and agrees policies for managing financial risks.

The Group's strategy has been to finance its operations through private equity. The Group's principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments, such as debtors and trade creditors, that arise directly from its operations. Surplus cash within the Group is put on deposit, the objective to maximise returns on such funds whilst ensuring that the short term cash flow requirements of the Group are met.

The Group does not use derivative financial instruments.

#### Short term debtors and creditors

Short term debtors and creditors have been excluded from all numerical disclosures, other than the currency risk disclosures.

#### Commodity price risk

The Group has not yet commenced commercial gold mining and does not hold any financial instruments to hedge the commodity price risk on its expected future production. The Board will review this exposure when the gold mines are fully operational.

#### Foreign currency risk

The Group reports in US Dollars, and a large proportion of its business is conducted in US Dollars. It also conducts business in Russian Roubles, Sterling and Canadian Dollars.



## Liquidity/interest rate risk

The Group had no debt during the period from 1 April 2000 to 30 June 2003. Board approval is required for all new borrowing facilities. The Group has not used any interest rate swaps or other instruments to manage its interest profile during 2003.

The weighted average interest earned on the floating rate cash balances between 1 April 2000 and 30 June 2003 was between 1-3 per cent. Short term deposits held during the period had a 30 day notice period.

## Market risk

Exposure to interest rate fluctuations is minimal as the Group currently has no debt. Interest rates on US Dollar deposits are relatively stable and the impact of a fluctuation in the interest rate on interest earned on the Group's short term deposits is likely to be minimal.

### (a) Interest rate risk profile of the group's financial assets

The interest rate risk profile of financial assets of the Group is as follows:

		30 June 2003	31 December 2002	31 March 2002	31 March 2001
		US\$	US\$	US\$	US\$
Cash at bank					
US Dollars	Floating rate	1,461,648	2,282,304	2,432	14,770
Sterling	Non-interest bearing	172,862	367,375	15,889	277,044
Russian Roubles	Floating rate	7,388	14,176	8,533	—
<b>Total cash</b>		<b>1,641,898</b>	<b>2,663,855</b>	<b>26,854</b>	<b>291,814</b>

30 day US\$ deposits are included within the floating rate balances in the table above.

### (b) Currency exposures

The table below shows the extent to which the Group held monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account. All amounts are shown as US Dollar equivalents.

Falling due within one year	30 June 2003			31 December 2002			31 March 2002		31 March 2001	
	RUR	GBP	CAD	RUR	GBP	CAD	RUR	GBP	RUR	GBP
Debtors	3,168	72,604	—	7,025	5,525	—	5,996	1,538	—	7,522
Creditors	(59,842)	(187,343)	(21,917)	(59,633)	(108,533)	(130,479)	—	(240,286)	—	(37,086)
Cash	7,388	172,862	—	14,176	366,934	—	6,931	18,256	—	277,044
<b>Net</b>	<b>(49,286)</b>	<b>58,123</b>	<b>(21,917)</b>	<b>(38,432)</b>	<b>263,926</b>	<b>(130,479)</b>	<b>12,927</b>	<b>(220,492)</b>	<b>—</b>	<b>247,480</b>
Falling due after one year										
Debtors	510,169	—	—	196,014	—	—	25,563	—	—	—
<b>Net total</b>	<b>460,833</b>	<b>58,123</b>	<b>(21,917)</b>	<b>157,582</b>	<b>263,926</b>	<b>(130,479)</b>	<b>38,490</b>	<b>(220,492)</b>	<b>—</b>	<b>247,480</b>

### (c) Fair values of financial assets and financial liabilities

The fair value of cash and short-term deposits of the Group was approximately equal to their carrying value at each period end because of the short term maturity of these instruments.

## 16. Called Up Share Capital

	As at 30 June 2003 US\$	As at 31 December 2002 US\$	As at 31 March 2002 US\$	As at 31 March 2001 US\$
<b>Authorised</b>				
5,000,000 ordinary shares of £1 each				7,544,000
50,000,000 ordinary shares of 10p each	7,544,000	7,544,000	7,544,000	

	<i>As at</i> <i>30 June</i> <i>2003</i> <i>US\$</i>	<i>As at</i> <i>31 December</i> <i>2002</i> <i>US\$</i>	<i>As at</i> <i>31 March</i> <i>2002</i> <i>US\$</i>	<i>As at</i> <i>31 March</i> <i>2001</i> <i>US\$</i>
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**Allotted and fully paid**

175,500 ordinary shares of £1 each				249,508
3,370,430 ordinary shares of 10p each			479,713	
6,672,930 ordinary shares of 10p each		985,227		
7,533,550 ordinary shares of 10p each	<u>1,121,474</u>	<u></u>	<u></u>	<u></u>

On 28 March 2002, shareholders approved a sub-division of the Group's equity share capital whereby each ordinary share of £1 was replaced by 10 ordinary shares of 10p.

In the year ended 31 March 2001, 175,400 ordinary shares of £1 each (equivalent to 1,754,000 ordinary shares of 10p each) were issued for cash. The nominal value of these shares was £175,400 (US\$249,366) and the aggregate consideration received was US\$769,708.

In the year ended 31 March 2002 150,893 ordinary shares of £1 each (equivalent to 1,508,930 ordinary shares of 10p each) were issued for cash. The nominal value of these shares was £150,893 (US\$215,044) and the aggregate consideration received was £1,330,015 (US\$1,895,459). The proceeds from these share issues have been used to finance the acquisition of ZAO "Trevozhnoye Zarevo" and to develop its operations, including the expenditure on its exploration projects.

In addition, in the year ended 31 March 2002 10,650 ordinary shares of £1 each (equivalent to 106,500 ordinary shares of 10p each) were issued for consideration other than cash, being part of the consideration for the acquisition of ZAO "Trevozhnoye Zarevo" (as described in note 11), as compensation for loss of office (see note 22) and as payment for services provided. The consideration attributed to these shares was £95,850 (US\$136,451).

In the period ended 31 December 2002 3,193,605 ordinary shares of 10p each were issued for cash. The nominal value of these shares was £319,361 (US\$488,833) and the aggregate consideration received was £4,294,019 (US\$6,604,376). The proceeds from these share issues have been used to finance the acquisitions and to develop operations, including the expenditure on exploration projects.

In addition, in the period ended 31 December 2002, 108,895 ordinary shares of 10p each were issued for consideration other than cash being principally as payment for services provided. The consideration attributed to these shares was £98,010 (US\$150,135).

In the period ended 30 June 2003 688,135 ordinary shares of 10p each were issued for cash. The nominal value of these shares was £67,082 (US\$113,548) and the aggregate consideration received was £1,519,672 (US\$2,495,612). The proceeds from these share issues have been used to develop operations, including the expenditure on exploration projects.

In addition, in the period ended 30 June 2003, 22,485 ordinary shares of 10p each were issued for consideration other than cash being principally as payment for services provided. The consideration attributed to these shares was £44,370 (US\$71,219). Also, 150,000 ordinary shares of 10p each were issued in June 2002 as payment for services provided (see note 11). This share issue was booked in the period to 30 June 2003.

## 17. Reserves

	<i>Profit and loss account US\$</i>	<i>Share premium account US\$</i>
Balance as at 1 April 2000	11,231	—
Premium on shares issued	—	520,342
Loss for the financial period	(182,088)	—
<b>Balance as at 31 March 2001</b>	<b>(170,857)</b>	<b>520,342</b>
Premium on shares issued	—	1,801,705
Loss for the financial period	(582,765)	—
<b>Balance as at 31 March 2002</b>	<b>(753,622)</b>	<b>2,322,047</b>
Premium on shares issued	—	6,248,997
Loss for the financial period	(1,120,892)	—
<b>Balance as at 31 December 2002</b>	<b>(1,874,514)</b>	<b>8,571,044</b>
Premium on shares issued	—	2,564,378
Loss for the financial period	(820,958)	—
<b>Balance as at 30 June 2003</b>	<b>(2,695,472)</b>	<b>11,135,422</b>

## 18. Reconciliation Of Movements In Cash Balances

	<i>FRS 1 Cash US\$</i>	<i>Liquid Resources US\$</i>	<i>Total Cash US\$</i>
Balance as at 1 April 2000	—	—	—
Cash flow	289,751	—	289,751
Non-cash changes	2,063	—	2,063
<b>Balance as at 31 March 2001</b>	<b>291,814</b>	<b>—</b>	<b>291,814</b>
Cash flow	(257,740)	—	(257,740)
Non-cash changes	(7,220)	—	(7,220)
<b>Balance as at 31 March 2002</b>	<b>26,854</b>	<b>—</b>	<b>26,854</b>
Cash flow	427,275	2,200,000	2,627,275
Non-cash changes	9,726	—	9,726
<b>Balance as at 31 December 2002</b>	<b>463,855</b>	<b>2,200,000</b>	<b>2,663,855</b>
Cash flow	1,174,183	(2,200,000)	(1,025,817)
Non-cash changes	3,860	—	3,860
<b>Balance as at 30 June 2003</b>	<b>1,641,898</b>	<b>—</b>	<b>1,641,898</b>

Non-cash changes in bank and cash balances result from exchange differences on non-US\$ denominated balances. Liquid resources comprise bank deposits that require 30 days withdrawal notice.

## 19. Reconciliation Of Operating Loss To Net Cash Outflow From Operating Activities

	<i>6 months ended 30 June 2003 US\$</i>	<i>9 months ended 31 December 2002 US\$</i>	<i>Year ended 31 March 2002 US\$</i>	<i>Year ended 31 March 2001 US\$</i>
Operating loss	(844,783)	(1,154,208)	(594,862)	(185,749)
Depreciation	19,625	10,199	5,866	216
Loss on disposal of fixed assets	16,101	3,437	24,901	—
Exploration expenditure written off	—	264,515	240,652	—
(Increase)/decrease in stocks	(27,438)	(9,847)	1,214	—
Decrease/(increase) in debtors and prepayments	21,161	(31,451)	76,880	(88,536)
Increase in creditors and accruals	79,184	69,367	105,896	32,820
(Profit)/loss on foreign exchange	(3,860)	(9,726)	7,220	(2,063)
Expenses paid through issue of shares	71,219	150,135	72,811	—
<b>Net cash outflow from operating activities</b>	<b>(668,791)</b>	<b>(707,579)</b>	<b>(59,422)</b>	<b>(243,312)</b>

## 20. Contingent Liabilities And Commitments

Under the terms of the acquisition of ZAO “Trevozhnoye Zarevo”, the Group has undertaken to purchase the residual 9.95 per cent. shareholding for US\$1,000,000 but this is conditional upon the directors formally deciding to proceed with mine development of the Asacha deposit.

The Group’s debtors at 30 June 2003 include prepayments totalling US\$527,863 (31 December 2002 – US\$201,096, 31 March – US\$nil, 31 March 2001 – US\$nil) in respect of exploration and evaluation expenditure that the Group has committed to undertake.

## 21. Site Restoration

No provision is currently recognised for site restoration as project development and exploration to date on the Group’s mineral properties has been limited to surface and underground drilling and sampling, and upgrading existing underground infrastructure to support feasibility studies and exploration programmes. The directors do not believe that any companies in the Group have incurred a liability to rehabilitate any site as a result of these activities.

## 22. Related Party Transactions

During the period from 1 April 2001 to 30 June 2003, the Group paid rent of \$42,017 to the Company Secretary for the use of office space.

Prior to the acquisition of OOO Amikan, the Group advanced loans totalling US\$114,689 to this company on which it earned interest of US\$302 in the period to 17 July 2002.

In the period ended 31 December 2002, 1,000 ordinary shares of £1 each (equivalent to 10,000 ordinary shares of 10p each) were issued as fully paid to VF Nikolaitchouk, a director of the Group, as compensation for loss of office as a director of ZAO “Trevozhnoye Zarevo”. The value of the shares was US\$12,803.

## 23. Post Balance Sheet Events

Since 30 June 2003, 1,408,506 ordinary shares of 10p each have been issued for cash representing an increase in capital of £3,136,587 (US\$5,175,369).

On 22 August 2003 the Company issued a warrant to entitle a shareholder to subscribe for 125,000 Ordinary Shares at US\$5 each, exercisable at any time in the following 2 years.

On 12 September 2003 the Company issued warrants to entitle shareholders to subscribe for 103,750 Ordinary Shares at US\$5 each, exercisable at any time in the following 2 years.



On 18 September 2003, the Company issued warrants to entitle shareholders to subscribe for 1,000 ordinary shares at US\$5 each, exercisable at any time in the following 2 years.

On 19 September 2003, the Company issued warrants to entitle shareholders to subscribe for 275,000 ordinary shares at US\$5 each, exercisable at any time in the following 2 years.

On 26 September 2003, at the AGM by ordinary resolution, the Company agreed to issue bonus shares of one bonus share for each existing ordinary share.

On 30 October 2003 the court order approving the reduction of the Company's Share Premium Account by US\$3,500,000 became effective and such amount was applied against the accumulated losses. This enabled the Company to re-register as a public company and to proceed with its application to list its shares on the Alternative Investment Market.

## 24. Principal Subsidiaries

The Group has interests in the following subsidiaries:

<i>Subsidiary undertaking</i>	<i>Country of incorporation/ registration</i>	<i>Principal Activity</i>	<i>Principal country of operation</i>	<i>Description and proportion of shares held</i>
ZAO "Trevozhnoye Zarevo"	Russia	Exploration and development	Russia	Common shares 90.05%
OOO GRK "Amikan"	Russia	Exploration and development	Russia	Participating shares 100%
OOO Kompaniya "Svezhiy Veter"	Russia	Exploration and development	Russia	Participating shares 100%

In addition, the Group formed a new subsidiary called OOO Yuzhno-Kamchatskaya Gornaya Kompaniya in February 2003. This subsidiary was incorporated in Russia and did not actively trade. It was sold on 27 June 2003, but the Group has retained effective control and obtains benefits from the company that are in substance no different from those that would arise if it were a subsidiary. Accordingly, OOO Yuzhno-Kamchatskaya Gornaya Kompaniya has been treated as a quasi-subsubsidiary since 27 June 2003 and is consolidated in these financial statements.

As at 30 June 2003, OOO Yuzhno-Kamchatskaya Gornaya Kompaniya had tangible fixed assets of US\$7,732, intercompany debtors of US\$14,234,735, and intercompany creditors of US\$14,242,467. It did not undertake any transactions between 27 June 2003 and 30 June 2003.

Yours faithfully

PricewaterhouseCoopers LLP  
Chartered Accountants

## PART 5

### Independent Minerals Industry Expert's Report



The Directors  
Trans-Siberian Gold plc  
Unit B1  
Church Barn  
Old Farm Business Centre  
Church Road  
Toft  
Cambridge CB3 7RF

The Directors  
Collins Stewart Limited  
9th Floor  
88 Wood Street  
London EC2V 7QR

20 November 2003

Dear Sirs

#### 1. Introduction

##### 1.1 Background

Trans-Siberian Gold plc (the Company) is proposing to seek admission of its ordinary shares to trading on the Alternative Investment Market (AIM) of the London Stock Exchange. Steffen, Robertson and Kirsten (UK) Limited (SRK) has been requested to prepare this Independent Mineral Industry Expert's Report (IER) in connection with this listing.

This IER provides independent commentary and opinion on the technical aspects of the Company assets described in Section 1.2. This report has not been prepared according to any guidelines or regulations beyond those of the professional institutions of which the authors are members.

SRK understands that this report will be included, in its entirety, in an admission document drawn up in accordance with AIM Rules in connection with an application for the admission of the Company's Ordinary Shares to trading on AIM.

##### 1.2 Assets Reviewed

This IER reviews and comments upon the technical aspects of the Company's principal assets, namely the Asacha and Rodnikova gold projects (Asacha-Rodnikova Project) and the Veduga Project. The Asacha-Rodnikova Project is considered by SRK to be advanced and at a pre-development stage, while Veduga is considered to be an advanced exploration project.

The Company has a 90.05 per cent. interest in ZAO "Trevozhnoe Zarevo" (TZ) and two Russian shareholders hold the remaining 9.95 per cent. TZ has a 100 per cent. interest in the Asacha-Rodnikova gold project. Both of these gold projects are located in the Kamchatka Peninsula in the far east of the Russian Federation and contain silver as a by-product. An agreement is in place to purchase this remaining stake for US\$1M, contingent on a decision to commence mining. TZ currently holds mining licences for Asacha (24 km<sup>2</sup>) and Rodnikova (16 km<sup>2</sup>).

The Company also has a 100 per cent. interest in OOO GRK “Amikan” (Amikan), which holds a 100 per cent. interest in the Veduga Project. Veduga is a gold project located in the Krasnoyarsk region of central Siberia in the Russian Federation. Amikan currently holds a mining licence (1.7 km<sup>2</sup>) within which the Veduga all-weather exploration camp is located and also an exploration licence (540 km<sup>2</sup>) encompassing the surrounding area.

Figure 1.1 presents a location plan for these assets.

### 1.3 Basis of SRK’s Review

In preparing this report, SRK has:

- Undertaken site visits to Asacha, Rodnikova and Veduga in July 2003;
- Reviewed technical information provided by the Company and its consultants;
- Held discussions with the employees of the Company and its consultants in Moscow, Cambridge and London;
- Reviewed the Company’s estimates and classification of Mineral Resources; and
- Reviewed the technical inputs into the working capital model prepared in support of admission to AIM and found these to be reasonable.

SRK has not included as part of this review any work to confirm the ownership rights of the Company to its assets or the validity of its mining and exploration licences. SRK understands that such work is to be undertaken by others.

Figure 1.1 Asset Location Plan





## 1.4 *Statement of Qualification*

SRK is part of an international group (the SRK Group) which comprises over 500 professional staff worldwide offering experience in a wide range of engineering and scientific disciplines.

The SRK Group's independence is ensured by the fact that it holds no equity in any project and that its ownership rests solely with its staff. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, competent person's reports and independent feasibility evaluations to bankable standards on behalf of exploration and mining companies and financial institutions worldwide.

The SRK Group and, in particular, the SRK UK practice, has extensive experience of project work in the Former Soviet Union (FSU) and in particular in Russia. This work has included undertaking technical work as part of feasibility studies as well as technical audits in support of acquisitions, project finance and stock exchange listings. The SRK Group has specific experience in transactions of this nature.

This report has been prepared by a team of consultants and associates sourced from SRK over a 4-month period. All technical aspects of the projects, inclusive of geology, resource estimation and classification, open-pit and underground mining, geotechnical engineering, mineral processing, hydrogeology and hydrology, environmental management, mine waste disposal and mining economics have been reviewed by full-time employees or approved associates of SRK.

Neither SRK nor any of the audit team employed in the preparation of this report has any beneficial interest in the assets of the Company. SRK will be paid a fee for its work in accordance with normal professional consulting practice.

The individuals responsible for this report, listed below, are appropriately qualified, have extensive experience in the mining industry and are members in good standing of appropriate professional institutions.

Neal Rigby, C.Eng., MIMMM, AIME, PhD;  
Richard Clayton, C.Geol., FGS, MSc;  
John Miles, C.Eng., MIMMM, ARSM, MSc;  
Paul Riley, C.Eng., FIMMM, MIChemE, BSc Tech;  
Ian Brackley, C.Eng., MIMMM, FSAIMM, MICE, PhD.

## 1.5 *Reliance on and Limitation of Information*

The opinions expressed by SRK in this document are based in part on observations made during site visits to the Company's projects held over an 11-day period in July 2003. These observations have been supplemented by discussions held with Company staff and their consultants, and the review of data and documentation either provided to SRK by the Company, or requested during and following the site visits. All the information received has been accepted by SRK in good faith. SRK has not undertaken any independent testing, analyses or calculations beyond limited high-level checks intended to test the material accuracy of the data provided.

This report comments on the current evaluation status of the projects, including mining method, mineral process facility design and capital and operating costs estimates. These estimates are subject to the completion of definitive feasibility studies in all cases and are, therefore, preliminary in nature. SRK's comments and opinions on these, whilst based on the all information made available to SRK, should therefore also be considered in this context.

## 2. **Asacha-Rodnikova**

### 2.1 *Introduction*

The Asacha-Rodnikova project constitutes a pre-development stage project on which a large amount of work has been completed to date. This section of the report comments on the main technical aspects of the Asacha-Rodnikova project, including the geological setting and resources,



exploration potential, proposed mining and mineral processing methods and costs and also environmental, water management and waste disposal issues. Comment is also made on the status of ongoing studies, project access and also existing and required project infrastructure.

## 2.2 *Status of Ongoing Studies*

The Company is currently drawing together a definitive Feasibility Study for Asacha-Rodnikova from previous studies undertaken on behalf of the Company. The principal of these studies comprise a Feasibility Study on Asacha produced by the international consultants AMEC E&C Services Limited (AMEC) in February 2003 and a parallel study produced by the Russian design institute VNIPI Promtehnologii (VNIPI). In addition, it is likely that this study will also draw on the work undertaken by Australian Mining Consultants (AMC) as part of a pre-feasibility study on Asacha completed prior to the commissioning of the Feasibility Studies. The object of the ongoing studies is to draw on the best aspects of both the western style and Russian style studies and also to incorporate Rodnikova into the project. The mining and environmental sections of this study are the responsibility of AMC, while Metallurgical Design and Management Pty Ltd (MDM) is re-evaluating the circuit design. In addition, AMC is currently undertaking a pre-feasibility level study into the incorporation of Rodnikova into the Asacha project.

## 2.3 *Location, Access and Climate*

Both the Asacha and Rodnikova deposits are located in the south of the Kamchatka Peninsular in the far east of the Russian Federation. The region surrounding the project sites is characterised by rugged terrain with steep-sided valleys dominated by volcanic edifices.

Asacha is located 90 km south-southwest of Petropavlovsk-Kamchatski (Petropavlovsk), the regional capital, the most populous city, and a major port with associated infrastructure. The site is accessed by a 150 km long road from Petropavlovsk, 45 km of this is paved with a good quality unpaved road as far as the geothermal power station at Mutnovskaya, some 40 km to the north of the site. Beyond this point, the road decreases significantly in quality such that is to be upgraded as part of the development of the project. SRK has been informed that this is currently underway.

Rodnikova is located close to the Petropavlosk to Asacha road, some 60 km north of Asacha. Currently, access to Asacha from Rodnikova is only by four-wheel drive vehicles, although this part of the road is to be upgraded as part of improving the access to Asacha.

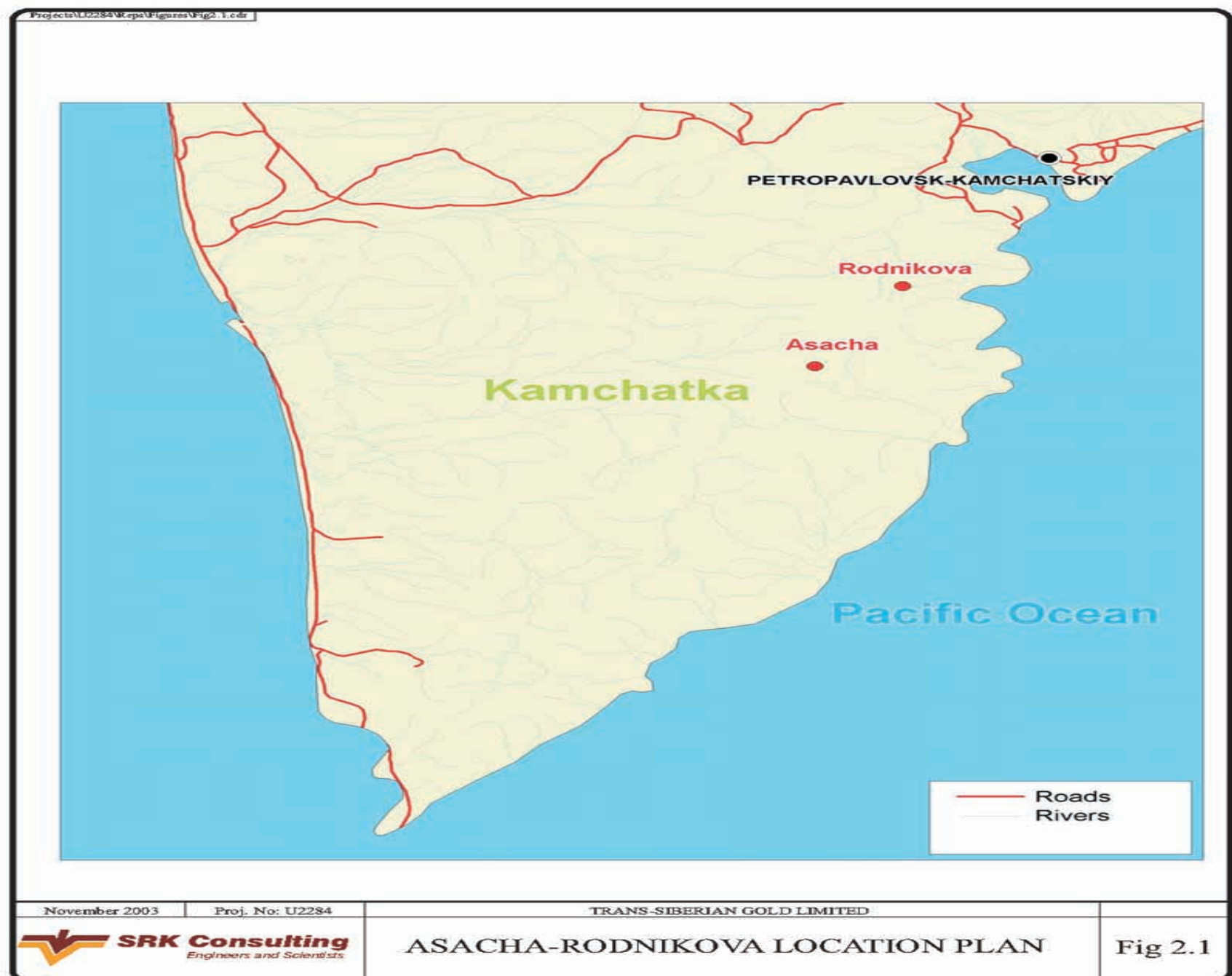
Figure 2.1 presents a location plan of Asacha and Rodnikova in relation to each other and Petropavlovsk. Both sites are considered to be remote in terms of location within Russia and ease of access from the nearest town and port.

The climate of the region is tempered by the proximity of the Pacific Ocean. This results in an average temperature of some 2°C with a seasonal high of 13°C and low of –9°C. Precipitation is high, averaging 1200-1800 mm of rain and snowfalls of up to 1 m during the winter months. It is anticipated that access along the Asacha to Rodnikova road will be adversely impacted by snowfall and other climatic conditions intermittently for a total of some three months of the year. These effects are to be accommodated in project designs.

## 2.4 *Geology*

This section draws upon reports and fieldwork undertaken by Soviet era geological surveys, geological consultants to the Company, and SRK's field observations made during the July site visits.

Figure 2.1 Asacha-Rodnikova Location



#### 2.4.1 Regional Geology

The Kamchatka Peninsular forms part of the 'Pacific Ring of Fire', a volcanically and seismically active zone that rings the Pacific Ocean. The peninsular is formed from a number of superimposed volcanic arcs that have been actively forming since the Tertiary age through to the present day. The arcs are orientated north-northeast along the axis of the peninsular and are delineated by linear alignments of volcanoes and valleys. The peninsular has been geologically active since the Tertiary and the presence of active volcanoes, geothermal springs and regular seismic events indicates that this activity is ongoing to the present. Such geological conditions are conducive to the formation of epithermal style gold/silver deposits.

A large number of gold occurrences have been identified in Kamchatka, the majority of which occur in two distinct zones. The Vilyuchinskoye-Golsovskoye Zone, a northwest-southeast trending zone of gold occurrences, is of most importance in the context of Asacha-Rodnikova and has been interpreted to be a result of regional scale rifting forming dilational structures between two strike-slip faults. Such dilational structures are recognised as being conducive to the formation of hydrothermal vein deposits such as at Asacha and Rodnikova. Rodnikova occurs at the southern end of the zone while Asacha is located some 60 km south-southwest of the main trend. Figure 2.2 presents a regional map of southern Kamchatka indicating the location of Asacha and Rodnikova in relation to the Vilyuchinskoye-Golsovskoye Zone and other gold occurrences.

#### 2.4.2 Deposit Geology

##### *Asacha*

Russian geological survey work suggests that the Asacha deposit occurs within either a caldera structure or the remains of a large eroded volcanic edifice. Younger ash deposits that limit the

exposure of the older rocks now overlies much of the area surrounding the deposit. The deposit consists of a number of north-south orientated parallel veins emplaced into the surrounding country rocks.

The country rocks have been subdivided into a suite of volcanics and a number of sub-volcanic intrusions. The volcanics consist of a variety of tuffs that are permeable and incompetent in nature and are therefore not susceptible to brittle deformation and subsequent vein deposition. The sub-volcanic intrusions consist of a number of dacitic to andesitic domes and sills that are competent in nature and subject to brittle deformation and vein formation. Figure 2.3 presents a schematic geological map of the Asacha project area.

Figure 2.2 South Kamchatka Gold Occurrences

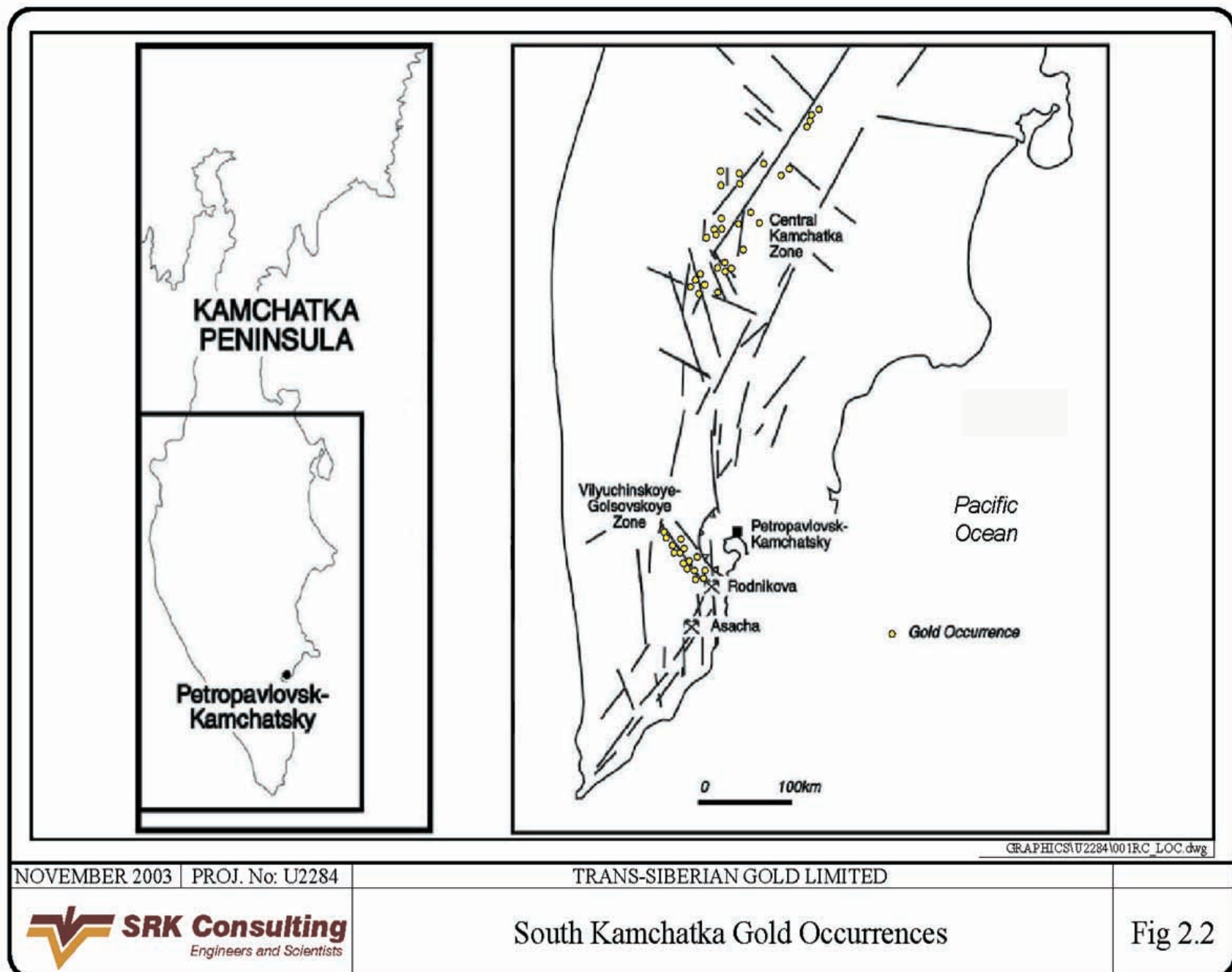
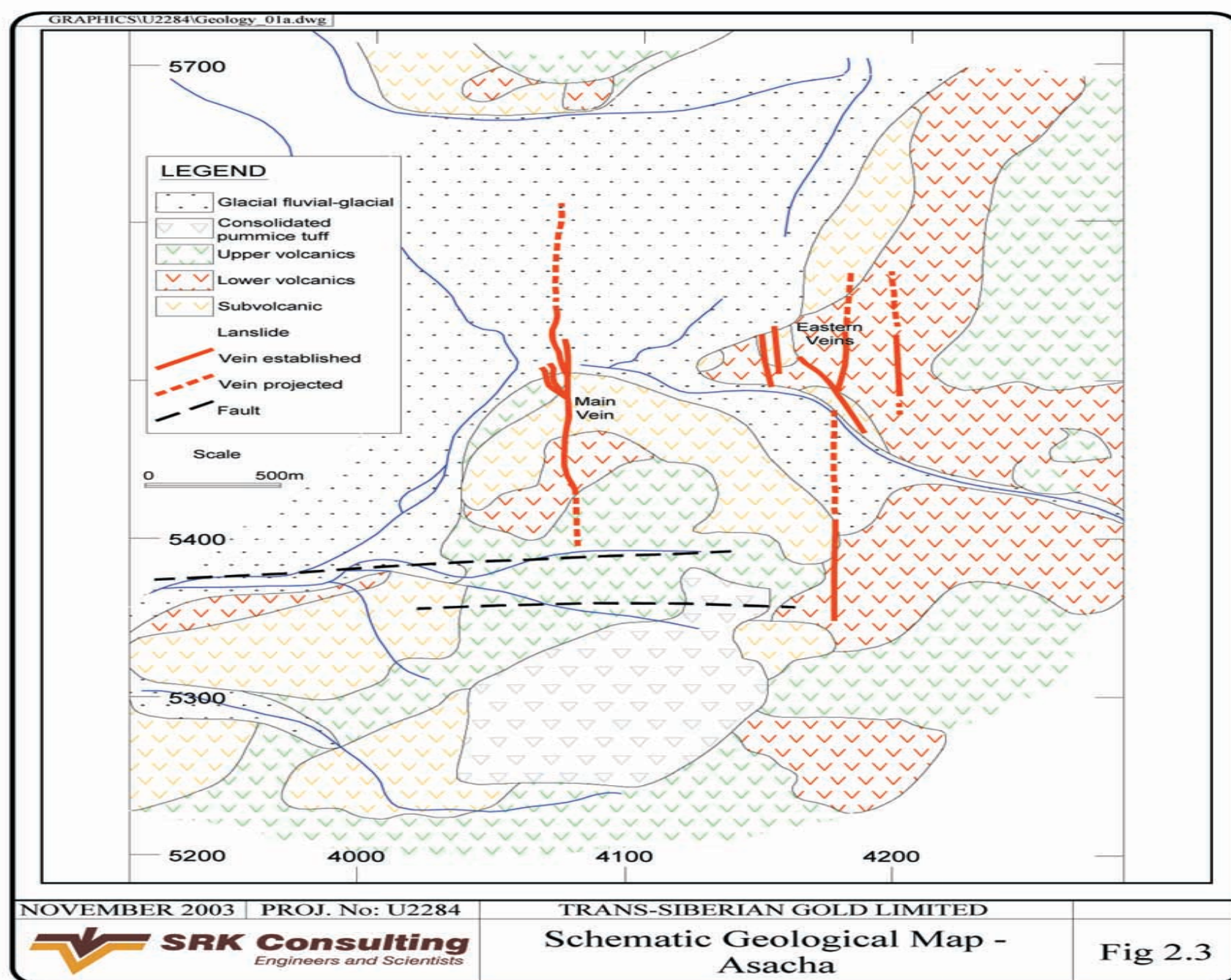




Figure 2.3 Asacha – Schematic Geological Map



A number of structural trends have been identified in the Asacha project area. Two regional northeast trending structures are present the most northerly of which crosscuts the veins without any discernible deformation. These are therefore interpreted as pre-mineralisation regional features. A series of east-west trending structures are present which are also interpreted to be pre-mineralisation features. Some post-mineralisation movement, however, may have resulted in some displacement of the mineralised veins. The veins themselves are hosted in north-south trending structure corridors. A series of northwest trending structures has resulted in a number of mineralised offshoots and splays from the main veins. Notwithstanding the apparent structural complexity of the area, the veins containing the bulk of the resource are essentially undeformed in nature and continuous along strike.

The Company has classified the gold-silver mineralisation at Asacha as a low sulphidation adularia-sericite epithermal type quartz veins, such as those found in a number of localities along the margins of the Pacific Ocean. Two principal vein systems have been identified: the Main Vein system; and the lesser explored Eastern Vein system. The majority of the identified resources occur in the Main Vein. The Main Vein at depth consists of a north-south striking vein dipping steeply to the east. Closer to surface, this vein splits into a number of subsidiary veins including some zones of stockwork. The Eastern Zone consists of a number of minor north-south trending steeply dipping veins.

The veins at Asacha are banded in nature with alternating bands of quartz and dark sulphidic material. The majority of the gold mineralisation occurs within the sulphidic bands, with lesser amounts in the surrounding quartz. Ore shoots have been identified in the veins and are interpreted as being a function of the interaction between the northwest trending structures and the veins, resulting in dilational zones. Figure 2.4 presents a schematic geological cross-section through the Main Vein system.



## Rodnikova

The geology at Rodnikova is similar in nature to that at Asacha. The deposit consists of a number of north-south trending veins hosted by a brittle diorite intrusion, which is emplaced into a suite of volcanic rocks. Other volcanic rocks in the surrounding area have been interpreted to post-date the diorite, but pre-date the veins. As at Asacha, it is postulated that the deposit is contained within a collapsed or eroded volcanic edifice. Rodnikova remains geothermally active, with hot water exiting through the exploration adits. Figure 2.5 presents a schematic geological map of the Rodnikova project area.

Figure 2.4 Asacha – Schematic Geological Cross-section

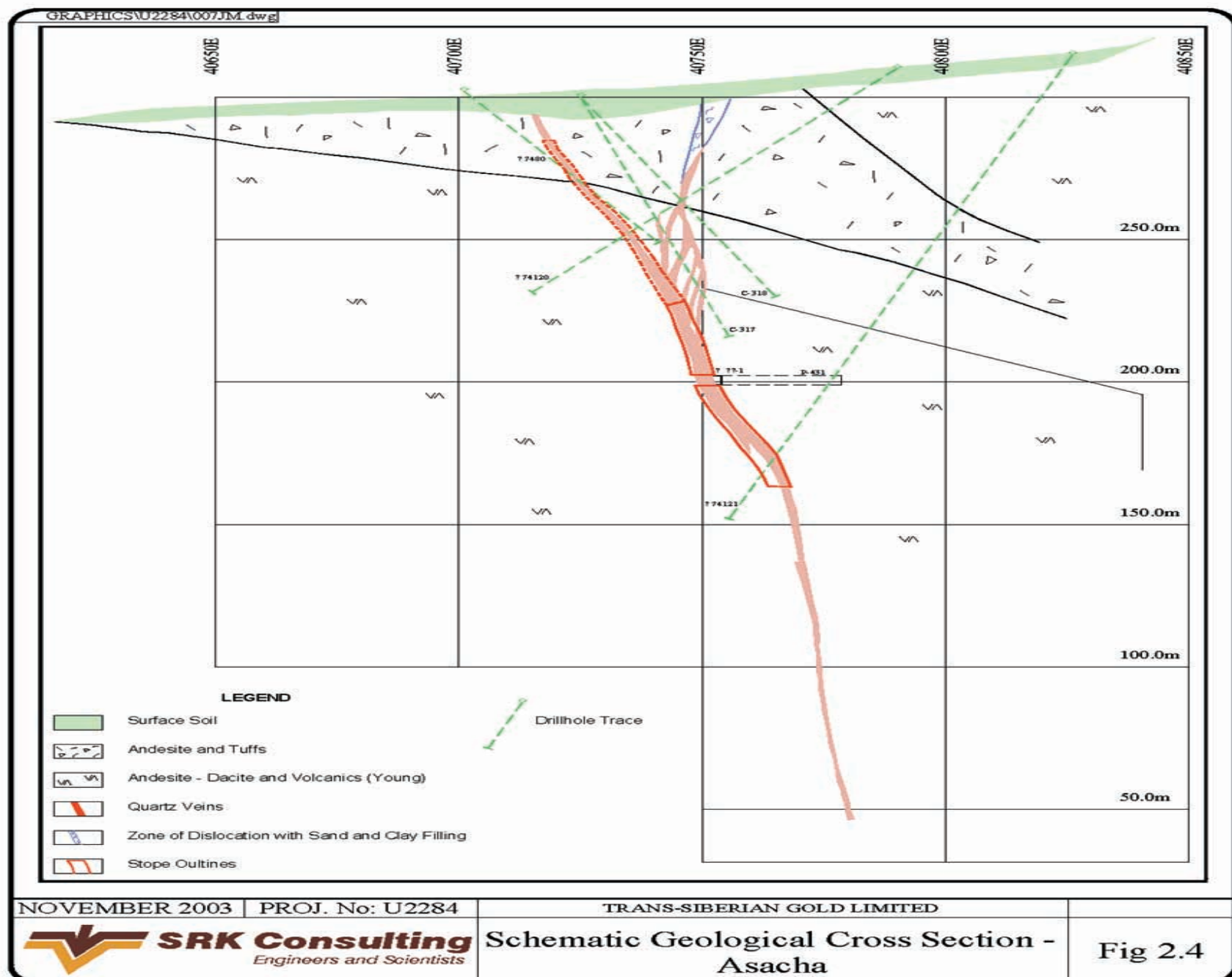
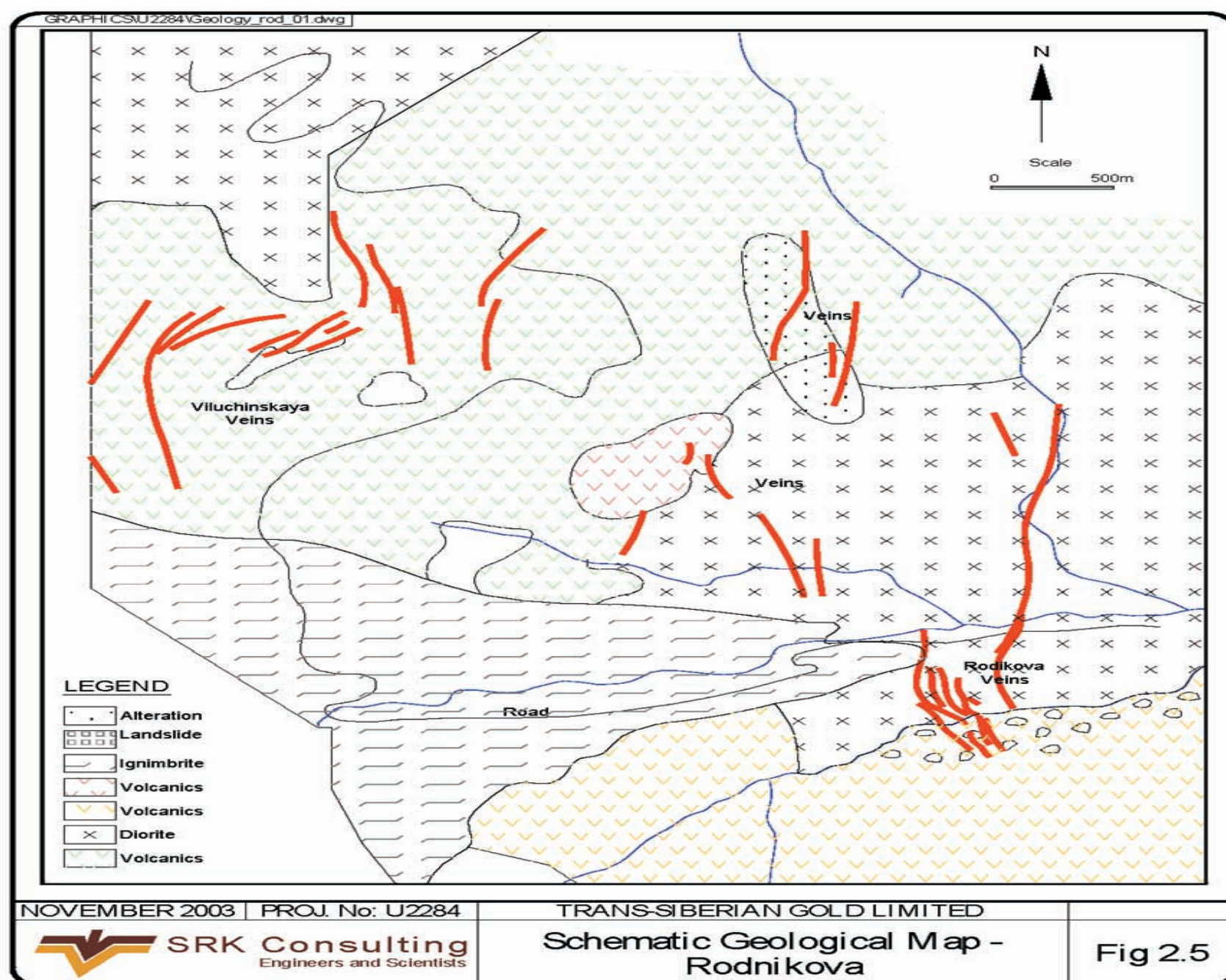


Figure 2.5 Rodnikova – Schematic Geological Map



The veins occupy a north-south structural trend and occur as a number of parallel veins the principal of which are steeply dipping, while further to the west the veins display moderate dips to the east. It is postulated that these veins may converge at depth to form a single vein. Some breccias and associated stockwork has been identified in between the veins. Post-mineralisation landslides have obscured the southern continuation of the veins although their presence has been confirmed by drilling.

As at Asacha, Rodnikova is classed as a low sulphidation adularia-sericite epithermal type vein deposit with the gold being predominately associated with dark sulphidic bands within the quartz vein.

#### 2.4.3 Exploration Potential

SRK considers there to be good exploration potential, both in the areas surrounding the Asacha and Rodnikova deposits, and in the South Kamchatka area generally. The geological nature of the area is considered conducive to the formation of epithermal style gold/silver metal deposits, and a large number of such occurrences have already been identified. The majority of these have been small-tonnage high-grade deposits for which insufficient resources have yet been identified to support the establishment of mining operations. Notwithstanding this, further exploration may well increase the resource base of these deposits beyond current levels.

At Asacha, drilling along strike of the Main Vein has indicated that it becomes fragmented and lower grade. In addition, the Eastern Vein system has proved discontinuous. Notwithstanding this, potential remains for further Mineral Resources to be delineated along these structures, either beyond the current drilling or following an increase in drilling density. Potentially of more



significance is the existence of a number of other dacitic domes crossed by north-south and northwest trending structures that have yet to be tested. Their brittle nature and association with apparently preferential structures may yield additional Mineral Resources following detailed exploration including diamond drilling.

At Rodnikova, the principal potential appears to lie in extensions to the current veins that have been drilled during Soviet times, but are not currently included in the Company's resource base. Given Rodnikova's position at the southern end of the Vilyuchinskoye-Golsovskoye Zone, the area surrounding the deposit should be considered as prospective and a number of targets for future work have been identified.

In summary, South Kamchatka and the areas surrounding the Asacha and Rodnikova deposits should be considered as prospective. It is likely that any future discoveries will be low-tonnage high-grade deposits similar to those at Asacha and Rodnikova and these may lie outside of the area of the current mining licence.

## *2.5 Mineral Resources*

This section summarises and comments upon the basis of the Mineral Resource estimate presented in Section 2.5.3. These comments are based on SRK's review of the available reports and resource models. The Mineral Resource estimate for Asacha was undertaken by AMEC, while that for Rodnikova was undertaken by David Stock, Consultant Resource Geologist for the Company.

### *2.5.1 Quantity and Quality of Available Data*

#### *Asacha*

The data used to estimate the Mineral Resources for the Asacha project were obtained during two phases of exploration. The Central Kamchatka Geological Expedition (CKGE) undertook the first phase of exploration between 1986 and 1990. The investigative works consisted of some 3,025 m of underground development, 3,200 m of surface trenches and 37,000 m of diamond drilling obtained from 181 holes. TVX Gold Inc (TVX), who diamond drilled some 19,500 m obtained from 123 drill holes, undertook the second phase of exploration. Some degree of uncertainty remains over the survey accuracy of the CKGE data. The underground development, however, has been re-surveyed as well as the majority of the drill holes.

The CKGE drilling used a non-wire-line rig that utilised a number of drill bits resulting in core diameters of 56 mm, 40 mm and 29 mm. The entire core was sampled and submitted for analysis using variable intervals of up to 1 m, controlled by lithology and mineralogy. TVX utilised a wire-line rig producing 47.6 mm diameter core that was then sampled in intervals of up to 1 m in the mineralised zone. This core was halved using a diamond saw with one half being sent for analysis and the other half being retained as a record. TVX calculated core recoveries for their own drilling using a weight-based recovery (actual weight of sample/expected weight of sample) as opposed to a length-based recovery (recovered length/drilled length). For comparison purposes, the CKGE length-based recoveries were also converted to the weight-based versions. Using this method, the average core recoveries are 53.4 per cent. and 77.9 per cent. for the CKGE and TVX drilling, respectively. Determining recoveries for diamond drilling using a weight-based approach is not considered usual industry practice. The original length-based approach for the CKGE drilling returns an average recovery of 79.2 per cent., as opposed to 53.4 per cent. It can be assumed that the length-based recoveries for the TVX drilling would display a similar 'improvement'. Notwithstanding the method used, the core recoveries for the CKGE drilling should be considered to be poor, while those of TVX should be considered to be moderate. The implication of this is discussed further below.

The underground development consists of 1,121 m of development drives along the main vein, 803 m of crosscuts, 194 m in five raises and 460 m of other ancillary development. The remaining 181 m consists of the access drift from surface. The development drives and crosscuts were channel sampled at the face. The raises were sampled every 2.5 m on both sides of the raise. All channel samples taken were 10 cm wide and 5 cm deep, using hammer and chisels. The surface trenches were excavated to a depth of 5 m and were channel sampled as per the underground development.

The quality of the underground sampling has been independently audited by the consultants Resource Service Group Pty Ltd (RSG) and was considered to be of good quality. This is further supported by check samples taken by TVX. It is also reported by RSG that a number of bulk samples were taken for metallurgical purposes prior to TVX's involvement, the grades of which are reported to support the channel sample results.

Samples from both the CKGE and TVX campaigns were prepared and assayed using the same protocol. The samples were crushed, pulverised and split to produce six, 400 g samples for analysis. Two of the samples were returned for storage while the other four were used to derive the sample assay value and for internal and external quality control checks. The samples were assayed using fire assay with a gravimetric finish. Appropriate internal and external quality control procedures were applied which showed acceptable levels of precision and accuracy for both gold and silver.

A comparison of the mean grades of the various sampling methods and campaigns appears to indicate that the samples obtained by drilling may underestimate the gold grade relative to the channel samples. This could be explained through the preferential loss of gold as a function of the poor core recovery. This apparent underestimation, while at this stage is unconfirmed, is supported by the bulk sample results commented on above.

A total of 167 bulk density measurements taken from core samples from the TVX drilling were used for the resource estimate. As little variation was recorded, these were then averaged in order to derive a bulk density for each lithology.

In summary, while some uncertainty remains with regard to the accuracy of some of the CKGE surveying, and while the core recoveries obtained are poor to moderate, SRK considers the quantity and quality of the data used to be adequate for the derivation of the Mineral Resource for Asacha presented in Section 2.5.3.

### *Rodnikova*

The veins at Rodnikova were explored by the CKGE from the early 1970s through to 1990, with the bulk of the sampling undertaken between 1985 and 1989. This exploration consisted of a total of 4,800 m of surface trenching, 3,900 m of underground development and 26,000 m of diamond drilling. No additional sampling has been undertaken since the end of CKGE's involvement. Unlike at Asacha, no re-surveying of the drill collars, trenches or underground workings was undertaken, resulting in some uncertainty over the accuracy of the surveys. In light of the results of the re-surveying work undertaken at Asacha, SRK considers that this uncertainty is unlikely to materially affect the accuracy of the Mineral Resource estimate for Rodnikova.

A total of 135 diamond drill holes were completed using non-wireline methods from both surface and underground. This drilling yielded core diameters of approximately 42 mm. Variable length samples based on lithology were taken and the entire core was submitted for assay as at Asacha. The mean core recovery, assessed on a length basis, was 84 per cent. While this is an improvement on the CKGE drilling at Asacha it is still low compared with modern industry standards. An analysis of grade versus recovery, however, indicates that this poor recovery may understate the in-situ grade.

Two adits were developed at Rodnikova which access development drives along the principal vein. Crosscuts were excavated at 10 m intervals, in order to access the full width of the veins and to explore other veins parallel to the main development. As at Asacha, the development was channel sampled using a hammer and chisel at 2.5 m to 3 m intervals along strike, using channels 10 cm wide and 5 cm deep. At the time of SRK's visit, unfortunately, both adits were inaccessible due to falls of ground. The surface trenches were also channel sampled to a width of 10 cm and a depth of 5 cm. Reports indicate that these trenches are spaced approximately every 2.5 m along strike and excavated to a depth of 5 m.

The sample preparation and assaying techniques were the same as employed at Asacha. Some 7 per cent. of the assays were subject to internal checks, with some 6 per cent. subject to external checks. The quality control data reviewed by SRK indicates that the standard of the analyses is suitable for use in the derivation of Mineral Resources.



Some 90 density determinations were undertaken by CKGE to determine the bulk density of the veins at Rodnikova. These resulted in an average density of 2.54 t/m<sup>3</sup> that has subsequently been applied in the resource estimate.

As no independent check sampling has been undertaken since the end of CKGE's involvement with the project, the Company is currently undertaking a re-sampling program in the trenches that will attempt to duplicate some 10 per cent. of the original samples. While neither the Company nor SRK expects the results of this check sampling to differ materially from the original results, the lack of independent sampling results in a degree of uncertainty, albeit small. This uncertainty is addressed in the classification of the resource presented in Section 2.5.3. Notwithstanding this, in SRK's opinion, the quantity and quality of the data is sufficient to support the Mineral Resource estimate for Rodnikova presented herein.

### *2.5.2 Estimation Methodology*

#### *Asacha*

Firstly, a three-dimension geological model for each of the veins was produced, which was then used to composite the sample data across the full intersected width of each of the veins. Where underground channel samples did not intersect the full width of the vein, these were excluded from the estimate. The retained composites were then analysed statistically before grades considered to be anomalously high were cut using a statistical based method. Two cuts were employed dependent on the density of information. Where the data density is high, typically in the vicinity of the underground development, a cut was employed which effectively removed 7-10 per cent. of the metal contained in those composites. Where the data density is low, typically where only drilling information is available, the cap removed some 16-40 per cent. of the metal. Considering the postulated understating of grade by the drilling, this approach may be conservative. The capped composites were then analysed geostatistically in order to determine the parameters to be used to interpolate grade into a three-dimensional block model using Ordinary Kriging (OK).

SRK considers the estimation methodology applied at Asacha to be appropriate and robust. It is possible that the high-grade cuts applied may be conservative. Given the inherent difficulty often found in estimating grade in epithermal gold deposits, a function of complicated gold distributions, SRK considers this conservatism to be appropriate at this stage of project evaluation.

In summary, SRK considers the approach used to estimate the Mineral Resources at Asacha to be appropriate and that the estimates, as a whole, are unbiased.

#### *Rodnikova*

As at Asacha, a three-dimensional model of the veins has been produced which was used to constrain the estimate to these identified structures. The vein models were extended no more than 30 m beyond the last data point. Samples within the vein were then composited to 0.7 m, which constitutes the average sample length, before being analysed statistically. In order to limit the influence of extremely high-grade composites, a top cut was statistically determined for each vein. SRK has reviewed this approach and considers it reasonable, given the geological setting and estimation methodology. The cut data was then geostatistically analysed to determine suitable estimation parameters resulting in the use of OK to interpolate grades into a three-dimensional block model.

SRK has reviewed the resulting block estimates and considers the approach used to estimate the Mineral Resources at Rodnikova to be appropriate and that the estimates as a whole are unbiased.

### *2.5.3 Mineral Resource Statements*

Tables 2.1 and 2.2 below present audited Mineral Resource statements for Asacha and Rodnikova respectively. AMEC's estimate of Asacha's resources was classified according to the Canadian reporting regulations contained within National Instrument (NI) 43-101. SRK considers that, in the case of Asacha, the classification terminology and guidelines presented in NI 43-101 are in line with those of the 1999 version of the Australasian Code for Reporting of Mineral Resource and Ore Reserves (the JORC code). Consequently, the audited estimate presented below is reported in line with this code.

In deriving these statements, SRK has not undertaken any check sampling or re-estimation, but has reviewed both the available data and the approach used and considers these to be of sufficient quality to support the statements. In summary, it is SRK's opinion that the Mineral Resources tabulated below reflect the current status of the Mineral Resources at Asacha-Rodnikova and that they are appropriately classified in accordance with the 1999 version of the JORC code.

**Table 2.1: Asacha Audited Mineral Resource Statement**

<i>Resource Category</i>	<i>Tonnes</i>	<i>Au Grade (g/t)</i>	<i>Ag Grade (g/t)</i>	<i>Contained Au (oz)</i>	<i>Contained Ag (oz)</i>
Measured	280,000	18.8	33.3	163,000	300,000
Indicated	751,000	15.4	37.4	358,000	903,000
<b>Sub-total</b>	<b>1,031,000</b>	<b>15.7</b>	<b>36.3</b>	<b>521,000</b>	<b>1,203,000</b>
Inferred	267,000	11.4	23.0	95,000	198,000
<b>Total</b>	<b>1,298,000</b>	<b>14.8</b>	<b>33.6</b>	<b>616,000</b>	<b>1,401,000</b>

Note: Based on a cut-off grade of 6.0 g/t Au

**Table 2.2: Rodnikova Audited Mineral Resource Statement**

<i>Resource Category</i>	<i>Tonnes</i>	<i>Au Grade (g/t)</i>	<i>Ag Grade (g/t)</i>	<i>Contained Au (oz)</i>	<i>Contained Ag (oz)</i>
Measured	—	—	—	—	—
Indicated	443,000	8.6	89.2	122,000	1,270,000
<b>Sub-total</b>	<b>443,000</b>	<b>8.6</b>	<b>89.2</b>	<b>122,000</b>	<b>1,270,000</b>
Inferred	331,000	7.9	78.8	84,000	839,000
<b>Total</b>	<b>774,000</b>	<b>8.3</b>	<b>84.7</b>	<b>206,000</b>	<b>2,109,000</b>

Note: Based on a cut-off grade of 4.5 g/t Au

#### 2.5.4 SRK Comments

SRK considers that sampling of sufficient quantity and quality is available at both Asacha and Rodnikova to support the classification of the Mineral Resource presented above. While the core recovery achieved by the diamond drilling is considered to be moderate at best, the presence of underground development and sampling, and at Asacha bulk samples, give comfort that the overall estimate is unbiased. The estimation methodology applied to both Asacha and Rodnikova is also considered appropriate for both the deposit styles and the mining operations currently envisioned. In summary, SRK considers the Mineral Resources presented in section 2.5.3 to be, as a whole, unbiased, with the potential for additional resources to be delineated by further exploration.

## 2.6 Mining

### 2.6.1 Introduction

The principal focus of investigation at Asacha is the Main Vein system, comprising Vein No.10 and No.20 and a limited portion of Vein No.40 that together contain the majority of the Mineral Resources over a strike length of some 1,000 m. The Asacha deposit is planned to be exploited by underground mining methods to a depth of some 250 m below surface. The smaller Rodnikova deposit is located some 60 km to the north of Asacha and is planned to be mined as a satellite ore body by a combination of open-pit and underground methods to supplement overall production. Both ore bodies dip sub-vertically and outcrop at surface and the Company's investigations have been assisted by the presence of significant underground excavations that were developed for the purposes of exploration.

The mine design and planned production rate at Asacha has been based on a Mineral Resource estimate of some 1.0 Mt of high-grade ore. The Measured and Indicated Resources at the Rodnikova deposit comprise some 0.4 Mt at a lower grade than that of Asacha. The Asacha deposit has been the subject of a number of feasibility studies and investigations that have been conducted by the Company and external independent technical consultants that have proposed an underground mining method principally utilising shrinkage stoping.

AMC completed an pre-feasibility report on Asacha for the Company, dated August 2001, that proposed a 200,000 tonnes per annum (tpa) operation for a mine life of six years. More recently, AMEC completed an interim feasibility study for the Asacha deposit, dated March 2002, at the same production rate, which suggested that the quantity of Mineral Resource was insufficient to define an economic mine life. In conjunction with the AMEC study, VNIPI has been undertaking independent investigations principally focused at completing the local permitting and approvals process. The VNIPI work has recently been completed and certain aspects of the mining study were available for review by SRK. It is understood that the Company has commissioned AMC to assimilate the relevant information and results from all these studies, incorporate the Rodnikova deposit, as well as investigate an initial open-pit for the Asacha deposit. The AMC, AMEC and related reports have been reviewed by SRK and, together with certain technical information from the VNIPI study and information gathered during the site visit, forms the basis of this section of the IER.

### 2.6.2 Mining Methods

#### *Asacha*

The underground mining methods considered for the Asacha deposit is dictated principally by the geology, which is characterised by narrow steeply dipping vein systems with definite and highly visible geological contacts and fair to good ore and country rock strength. The relatively high grade also suggests that a method that reduces ore losses would be preferable. A shrinkage method of stoping, supplemented by cut-and-fill, has been proposed in the studies reviewed. The VNIPI study defines three methods comprising: shrinkage stoping (45 per cent.); sub-level shrinkage stoping (5 per cent.); and underhand cut-and-fill mining (50 per cent.). As it is not permissible to use mine tailings as fill material, fresh surface material will need to be sourced and the costs of this are likely to lead to a requirement to limit the cut-and-fill mining method to the areas of thicker and/or poorer ground conditions.

All mining methods are based on short-hole drilling techniques in stopes that are developed from raises spaced 50 m apart between the main levels. Five main levels are planned at 50 m vertical intervals to exploit the defined Mineral Resources from the 50 level (lowest level) to the 250 level; currently a top down approach is proposed, although higher grades are found at the lower levels and, consequently, would be exploited later in the schedule. There is an opportunity to amend the schedule to exploit the higher grade ore earlier. Significant exploration development was undertaken between 1986 and 1990 from surface adits installed on the 200 and 250 levels. This development totals some 3,000 m including 1,100 m of drifting along the strike of the Main Vein system and the installation of crosscuts every 5-10 m, where the full width of the ore body was not initially exposed by the main development. It is planned to widen the existing access adits to accommodate production operations. A centrally located ramp is planned to be installed to access the lower levels from the main 200 level and facilitate the hauling of ore to surface. Each level will contain a waste strike drive located in the immediate footwall adjacent to the deposit from which the ore body will be accessed through suitable crosscuts.

With the shrinkage mining method, sufficient ore to enable extraction of the next lift will be removed by LHDs, loading from draw points situated at the base of the stopes. The installation of timber pack support will be used to assist with the support of the hangingwall and footwall over the life of the stope and reduce dilution. An orepass will service the cut-and-fill stopes, with ore moved by scrapers from the face to the orepass, from where it will be loaded at the base of the pass by LHD. LHDs will tip the ore either into main level orepasses or directly into articulated dump trucks that will haul the ore along the waste footwall drive to the ramp and to surface. In each of the methods proposed, very little ore is left remaining in pillars as either bulkheads filled with high cement fill are installed up-front and/or pillars are removed, wherever possible, at the end of the life of the stope.

Stope layouts and levels plans have been completed by VNIPI to a feasibility study level of design, although scheduling of the development and production requirements and assessment of productivities and efficiencies appears to be to a lower level of confidence. In terms of the



geotechnical design, a number of studies and investigations have been completed. Although the ore and volcanic country rock are, in the main, competent, three areas of rock mass classification, in terms of rock strength and quality, have been identified in order to facilitate selection of the specific mining methods and support requirements. AMEC compiled a rock mechanics review report, dated January 2001, in which it was stated that there are no material issues regarding the geotechnical aspects of the project development. The geotechnical parameters for use in the mine design were also detailed. The shallow depth and relatively competent rock, together with the good underground ground conditions observed during the site visit, suggest to SRK that rock mechanics aspects are not a material concern to the development of the project. Localised faulting also does not appear to be significant and the Main Vein system appears relatively continuous.

Ventilation is planned to be provided by a surface fan that will force air along the 200 level to the stopes and working places via ventilation passes and airways utilising standard ventilation controls. The mine design incorporates services and facilities for the provision of electric power, compressed air and water together with pumping facilities to be installed on the 150 and 50 levels of the mine. The pumping facilities have been designed in accordance with recommendations made from a number of hydrogeological studies. Although the normal water balance indicates relatively low pumping volumes, the planned presence of mining in proximity to the Semeyniy Stream, coupled with a possibility of water bearing faults and aquifers, has led to a more conservative design. A safety pillar is also planned to be left in-situ in the vicinity of the stream.

All production and development equipment of the ore horizon is intended to be mechanised. This is compatible with the proximity of the ore body to surface and the use of inclined ramps. A combination of Western and Russian equipment is planned and the principal load and haul system is likely to be small LHDs coupled with 15-20 t low profile underground trucks. Mechanised drilling will be used for all development, although stoping on the ore horizon will be either by hand held or bar mounted pneumatic jackhammers. Due to the absence of any mining activity in the Kamchatka Peninsular, a specific focus will need to be made on the importation and development of skills necessary to undertake the project development and mining. The likely costs and timing required for the provision of suitable training and specialist skills will need to be accounted for in the future development plans of the project.

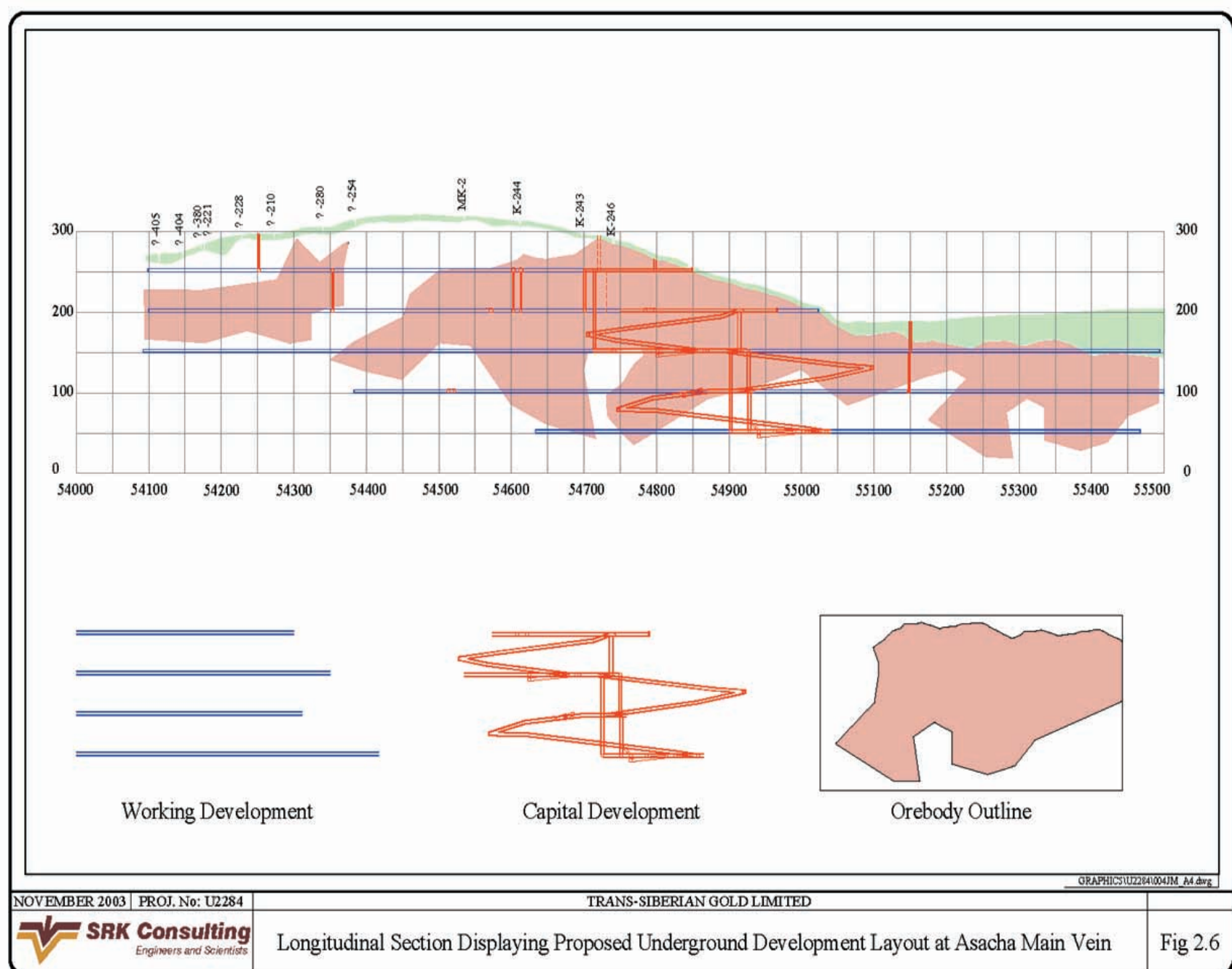
Figure 2.6 presents a longitudinal section indicating the currently proposed mine layout for the Asacha Main Vein.

### ***Rodnikova***

An open-pit mining method has been selected as being the most suited to commencing the mining of the Rodnikova deposit with a possible underground extension. Very little work has been completed to date on the mine design, methods and equipment selection. The ore widths at Rodnikova are, however, thicker than that at Asacha, which compensates for a lower (but still high by open-pit standards) grade. Ore will be trucked to Asacha along the main access road, while waste will be deposited adjacent to the ore body. SRK understands that an investigation incorporating the mining of the Rodnikova deposit as part of the Asacha project is to be completed by AMC in the near future.



Figure 2.6 Asacha – Longitudinal Section



### 2.6.3 Production Rates, Dilution and Mining Losses

Previous feasibility studies and investigations reviewed by SRK considered a mining rate of some 200,000 tpa for the Asacha Project. The production rate for the deposit is constrained by the current quantum of Mineral Resources that have been defined for the project and the limited strike length of the veins. In terms of the rate of vertical fall through the ore body, this production rate is equivalent to some 50 m per year, which is comparable with industry standards for a mine of this size. This production rate, although considered appropriate by SRK, would lead to a mine life of only some five years if Asacha were mined alone. The smaller Rodnikova deposit is intended to be mined at a rate of some 40,000-50,000 tpa as a supplement to production from Asacha. Further, the Company is planning to undertake additional exploration at Asacha along strike to the south of the current Mineral Resources (the Main Vein system pinches out to the north). Success of this exploration, together with the incorporation of the Rodnikova deposit in further feasibility investigations, will lead to a longer project life at the production rate currently proposed.

The production estimates made by VNIPI include a provision for ore losses of some 7 per cent. and dilution of 14 per cent., which appear compatible, to SRK, with the short-hole stoping methods currently planned for the deposit and pillar recovery activities planned.

### 2.6.4 Operating Costs

Although a number of feasibility study investigations have been completed, the operating and capital cost estimates presented do not appear to have sufficient support in the form of suitable production and development schedules to be considered “bankable”. Typically detailed development and production schedules, containing equipment and labour productivity estimates and efficiencies, would be used for the direct development of the mining and capital costs.

The overall operating cost estimates made by AMC, AMEC and VNIPI are similar and range from US\$26-30/t of ore mined. This range of operating cost appears reasonable to SRK, when considering the mining methods and size of the operation planned.

#### *2.6.5 Capital Costs*

The equipment requirements and associated capital cost estimates would also be derived from detailed schedules although, considering the simplicity and size of the deposit, the estimates of mining equipment complements made by AMEC and VNIPI appear reasonable to SRK. The principal capital cost elements are for pre-production development and for the purchase of mining equipment and were estimated at US\$8.4 million and US\$8.8 million in the AMEC and VNIPI studies respectively. These figures exclude VAT. Similar to the operating costs, the pre-production capital costs are considered by SRK to be estimated to a lower level of confidence than that required of a feasibility study.

#### *2.6.6 SRK Comments*

The technical design of the mine and mining methods proposed in the various feasibility studies for the Asacha deposit appear appropriate and conservative to SRK. The continuity and thickness of the Asacha ore body in places could lead to the use of limited long-hole drilling methods and, even if conventionally drilled, would lead to cost improvements above purely short-hole drilling methods proposed. The intention of the Company to investigate an initial open-pit for the Asacha deposit could also significantly improve the project economics. The estimates of mining losses and dilution are appropriate for the mining methods proposed. The decision to increase the quantum of Mineral Resources through further exploration at Asacha and incorporation of Rodnikova is supported by SRK and is likely to lead to an improved project mine life at the 200,000 tpa production rate.

The overall operating and capital cost estimates appear reasonable to SRK, although more detailed scheduling of the production and development requirements, leading to the development of productivity and more accurate cost estimates, would be more appropriate. As there is no recent history of mining in the Kamchatka Peninsular, special attention needs to be given to the logistics and associated costs of establishing a new mining operation and particularly to the training and skills development of the work force.

### *2.7 Mineral Processing*

#### *2.7.1 Introduction*

To date, the focus of the metallurgical investigations for the Asacha-Rodnikova Project has been on the Asacha deposit. Metallurgical testwork has been undertaken and suitable flowsheets have been developed for treatment of the Asacha ore. The proposed treatment rate is 200,000 tpa at an average expected grade of some 15 g/t Au (+32g/t Ag). It is intended that ore from the Rodnikova deposit will supplement this feed and investigations are currently underway to evaluate the viability of mining and transporting the Rodnikova ore to the Asacha project site. As the geology of the Rodnikova deposit is similar to that at Asacha, it is expected that a plant designed to treat Asacha ore will give acceptable performance when treating ore from Rodnikova. Preliminary testwork is reported to support this.

A pre-feasibility study and two detailed feasibility studies have previously been undertaken into treating the Asacha ore. Plant capital and operating costs have been established, although there is still opportunity for optimisation of the design and costs.

The Company is currently reviewing the work undertaken to date and plans to produce an optimised design from the work previously undertaken for final evaluation and costing. This would include a detailed evaluation of the proposed project execution philosophy, in order to assemble appropriate project costs.

#### *2.7.2 Mineralogical and Metallurgical Testwork*

Initial mineralogical investigations and metallurgical testwork on the Asacha ore were undertaken by TsNIGRI in Russia in the 1990s. Additional testwork aimed at detailed flowsheet development

was undertaken by Lakefield Research in Canada and, more recently, by Lakefield, South Africa, on the request of the Company. In SRK's opinion, sufficient data have been obtained for the plant design and operating parameters to be established.

Representative samples are to be obtained from Rodnikova and will be subject to testwork based on the parameters selected for the Asacha plant to determine the metallurgical response, and to quantify or confirm recoveries, reagent consumptions, and other operating parameters.

The multi-vein deposit at Asacha is typical of a low temperature epithermal system. Low levels of sulphide minerals occur (<0.2 per cent. S), mainly as pyrite, arsenopyrite and chalcopyrite. The gold and silver is generally associated with sulphides and tellurides, although the ore is not refractory in nature. Gold particle size ranges from 0.001 to 0.8 mm and silver particle size ranges from 0.002 to 0.15 mm.

Diagnostic leaching investigations and metallurgical testwork have confirmed that the Asacha ore is free-milling, with over 95 per cent. of the gold amenable to direct cyanidation with a relatively fine grind being beneficial to gold recovery. Milling and cyanidation are considered to be the optimum treatment route, although the benefits of gravity recovery of free gold prior to cyanidation are open to interpretation.

Tests have included grind versus recovery, the effect of cyanide concentration and duration, and gravity pre-concentration before leach. Additional testwork has been undertaken into ore hardness, settling characteristic and adsorption onto carbon or resin to determine equipment-sizing parameters.

### *2.7.3 Proposed Plant Designs*

Based on the available testwork data, three plant studies have been undertaken. The flowsheets presented vary considerably, although they are all seen as appropriate to process the Asacha ore and each has different merits. By combining the best features of each of the three flowsheets, a plant design can be derived that optimises performance, capital and operating cost.

A pre-feasibility study on Asacha was undertaken for the Company by AMC. The flowsheet selected incorporated a typical Australian low tonnage free-milling gold recovery circuit, which incorporated two stages of crushing followed by ball milling. The cyclone overflow was routed directly, without thickening, to two stages of pre-leach and into five stages of CIL. A gravity circuit was included on the cyclone underflow stream returning to the mill. CIL tails were dewatered and the tails slurry was detoxified using the INCO (copper sulphate and sodium metabisulphide) process prior to discharge. A portion of the tails was proposed for backfill underground. AMC commented that, with the inclusion of gravity recovery of gold, a fine grind in the mill circuit was not necessary. An indicated direct capital cost for the process plant of US\$7 million was presented at a processing cost of around US\$16/t processed.

A detailed feasibility study was compiled by AMEC, based on in-house design work and input from other consultants. Specifically, the plant design and costing were undertaken by Summit Valley Equipment and Engineering Inc (Summit Valley). Summit Valley selected a design that included two-stage milling (SAG and ball), with cyanide added to the milling circuit. The mill product stream was thickened with the overflow treated for the recovery of gold in a carbon in column (CIC) circuit. Thickener underflow was routed to five stages of leach, followed by 7 stages of CIP. CIP tails were thickened and the slurry treated for cyanide detoxification using the INCO process. The slurry was again thickened after tailing treatment, prior to discharge, and the recovered water reused. Carbon from both the CIC and CIP circuits was treated through a conventional Zadra elution circuit with the gold recovered by electrowinning and smelting.

The indicated direct plant cost from the AMEC study was US\$13 million and the process operating cost US\$19.4/t processed.

A further detailed study was undertaken by VNIPI in 2003, in an attempt to reduce the capital and operating costs by applying Russian design features and applicable equipment and fabrication costs, and also with the aim of providing sufficient information in the required format for



permitting to be obtained. The flowsheet adopted by VNIPI was based on a typical Russian flowsheet and is different in almost all areas to those proposed by AMC and AMEC. Single stage run-of-mine (RoM) milling was selected using two parallel streams. Mill product was thickened in two large thickeners and the underflow passed to three air agitated leach tanks and ten counter-current Resin-in-Leach (RIL) tanks. Tails slurry from the RIL circuit was not dewatered and was detoxified using calcium hypochlorite.

VNIPI presented a direct capital cost for the plant of US\$9.8 million at a process operating cost of US\$16.94/t processed. The design approach adopted by VNIPI is seen to be relatively conservative, in that a certain amount of overdesign or redundancy has been incorporated.

The Company is currently combining the best features of the three proposed designs into a revised design and final feasibility study. This would include:

- primary and secondary crushing followed by ball milling;
- inclusion of a gravity gold recovery circuit and coarsening the mill grind to 80 per cent. <75 micron;
- reduced leach retention time;
- CIP for gold recovery; and
- tailings detoxification using the more environmentally acceptable INCO process.

It is recommended that confirmatory testwork is undertaken, where required, to verify plant performance for the revised plant configuration and design parameters.

#### *2.7.4 Anticipated Plant Performance and Recovery*

A preliminary review of the alternative flowsheets currently available indicates that all the plants should be capable of processing the design throughput of 200,000 tpa. Details of the final design being considered by the Company are still to be advised.

AMC forecast recoveries of 94 per cent. for Au and 80 per cent. for Ag. Summit Valley predicted gold recovery at 95 per cent., which was further adjusted by AMEC to 94 per cent., based on the uncertain variability of the ore body. VNIPI proposed a gold recovery of 97.2 per cent., although this is considered to be optimistic based on the data presented.

Mineralogical data and diagnostic analysis indicate that the ore is highly amenable to cyanidation, with less than 2 per cent. of the gold locked in sulphides and other minerals. The metallurgical testwork indicated recoveries of between 94 and 97 per cent. are achievable provided the necessary grind, cyanide addition and leach residence time are achieved.

SRK recommend that this predicted gold recovery figure should be resolved. This work should include an assessment of the variability of material from different areas of the ore body. The previous testwork data need to be reviewed, including details on the source of the samples tested and an assessment of how representative the samples tested are of the overall ore body. The impact of recovering a gravity concentrate in the milling circuit and the effect of grind after recovery of the coarse gold should also be assessed.

#### *2.7.5 Capital and Operating Costs Estimates*

Detailed capital cost estimates have been prepared by AMEC and VNIPI. These indicate the direct cost of a suitable process plant to be in the region of US\$10 million to US\$13 million, excluding design (EPCM) costs, VAT and contingency. As detailed previously, AMEC and VNIPI have selected different processing routes for the treatment of the Asacha ores, although both plant designs are considered to be acceptable for treating the Asacha feed.

The re-design exercise currently being undertaken by the Company is anticipated to result in a direct capital cost below US\$10 million, if the flowsheets presented by AMEC and VNIPI are rationalised and an optimised circuit is developed using advantages of Western technology (CIP, high efficiency gravity recovery of gold) and Russian equipment fabrication and supply. This estimate is subject to confirmation.



Detailed operating costs have been prepared by VNIPI and AMEC. These indicate process operating costs in the region of US\$17-US\$20/t processed, which appear realistic. Following a review of the available cost data, SRK considers a processing cost of some US\$19/t should be assumed at present.

#### *2.7.6 Infrastructure*

The proposed plant infrastructure and services are generally similar in the three studies presented and includes:

- electric power generated on site using diesel generators;
- plant residue retained in a tailings storage facility (TSF) with recovered water stored along with mine drainage in a storage pond;
- fresh water provided from groundwater wells;
- provision of a 58 km mine access road from the turn off from the metalled road to the Mutnovskaya geothermal power station; and
- necessary support facilities including accommodation camp, workshops, reagent and consumable storage, mobile equipment and ancillary requirements.

It is difficult to extract an accurate cost for the infrastructure, as costs for project execution, taxes (including VAT) and contingency are presented on the whole project in the cost build-ups presented. Major infrastructure and support costs are related to the supply of power, access and area roads, support camp and other site services and it is expected that the overall project cost for the plant and infrastructure (excluding mining and taxes) will be in the order of US\$45-50 million.

#### *2.7.7 SRK Comments*

The work undertaken in the AMEC definitive study was sufficient for the study to be considered for financing. A combination, however, of considering the reserve available only at Asacha, and the assumption of the importation of major equipment items and sections of the plant, materially affected the project economics.

The design approach adopted by VNIPI is seen to be relatively conservative, in that a certain amount of overdesign or redundancy has been incorporated. While VNIPI's experience in operations and in the reliability and availability of Russia manufactured equipment is indeed relevant, it is felt that potential cost savings are available by rationalising the proposed design. Conversely, the plant, as designed, could be capable of increased throughput when plant availability is high.

It is, therefore, considered that capital cost savings can be realised in the revised study being undertaken by the Company. Specific issues to be addressed in the Company's study include the optimum location for the processing facility, a detailed investigation into the project execution philosophy and confirmation of the plant configuration and design parameters selected for treating both the Asacha and Rodnikova ores.

### *2.8 Environment and Water Management*

#### *2.8.1 Introduction*

Many parts of the Kamchatka peninsular are considered to be of great ecological and scientific significance. "Volcanoes of Kamchatka" was added to UNESCO's World Heritage List in 1996. This recognizes the international importance of five protected territories on the Kamchatka Peninsula in Russia's Far East: the Kronotsky Nature Reserve, the South-Kamchatsky Park, the Nalichevsky Park, the Tundra Nature Reserve, and the Bystrinsky Park.

Neither Asacha nor Rodnikova are within these Reserves or Parks. Nevertheless, international concern has been expressed about the effect that these proposed mines could have on the peninsular. This is mitigated by the considerable care that has therefore been taken by both the Company and the authorities in assessing the impact of the development and in ensuring that this impact is minimised.

The main environmental concerns are the possible effects on fisheries and wildlife of contaminants released by the mine and plant, and the effect on the wilderness of the infrastructure and the influx of mine staff and others making use of the improved road access.

#### *2.8.2 Prevention of Water Pollution and Protection of Fisheries*

The Asacha mine and plant will operate with zero discharge to the environment, there will be a cyanide destruction plant, and the tailings impoundment will have an HDPE liner. There will be strict control over the transport, storage and usage of cyanide and other process chemicals.

The Vichaevskaya catchment at Asacha has been chosen for the plant site partly as there are environmental objections to Rodnikova, related to fish spawning areas and hot springs. At Asacha, the plant will lie in the valley of a river, which does not have value as spawning grounds because of natural volcanic pollution. Thus, by selection of a plant site outside the catchment of important fisheries and by water management and treatment, the risk of contamination of watercourses will be minimised.

At Rodnikova, the same care in water management will be taken, but, because this is a mining site, there will not be the same range of chemicals and reagents as at the Asacha plant site.

#### *2.8.3 Impact on the Wilderness of Infrastructure and Mine Personnel*

The roadworks for Asacha will be upgrades of an existing road, while at Rodnikova a short section of new road will be required. There will, therefore, not be a large new impact as a result of road building.

There will be no permanent residents at Asacha or Rodnikova. Fifteen-day shifts will be worked, with no recreational time for entering the forestry area, minimising the impact of the work force on the local environment.

#### *2.8.4 Natural Hazards*

There are potential impacts of the environment on the operation of the mines. These include disruption of access or operation by volcanic eruptions, earthquakes, mudslides and avalanches. These events can be associated with rises in river levels.

Gorely and Mutnovsky volcanoes are in the vicinity. Their main potential effect is on the access road rather than on either mine. The road goes around the base of Gorely volcano, and there is a caldera or depressed basin. The volcano has been active twice in the last 20 years, the most recent eruption being in 1984-1985. The Asacha mine site is 29 km south of Gorely and 21 km southwest of Mutnovsky. The main danger posed by these volcanoes to the mine and plant sites themselves is ash falls, and the influence of these is unlikely to be severe.

Earthquakes, avalanches and mudslides are other possible risks. The Mutnovsky volcano is a potential source of avalanches. The risk of earthquakes is of a  $M > 8$  event once in 140 years (9 on Richter scale). Although the Richter Scale has no upper limit, the largest known shocks have had magnitudes in the 8.8 to 8.9 range. There is close monitoring and reporting by the Vulcanology Institute, which gives good warning of most events.

Mudslides do not represent a risk to the mine.

Deep snow drifting will affect access at certain times. The most difficult section of the road will be on the flank of the volcano, where the snow can drift up to 8 m deep. This section will be kept open with a bulldozer as a snow road. It is anticipated that access along this road will be intermittently impacted over a period of two months during the winter, and will also be impacted for a period of approximately one month during the spring melt.

#### *2.8.5 Environmental Permitting*

The Asacha and Rodnikova prospects are at different stages of design. A full Russian permitting study by VNIPI has been prepared and submitted to the authorities, including the Environmental Report. The response has not yet been received. Rodnikova is at the stage of pre-feasibility design, and the Environmental Report has not yet been completed or submitted.

There is a temporary agreement with the local Forestry Department for the present Asacha and Rodnikova exploration activities, but an application has been submitted to change the land categories, which at present are still designated for forestry.

Asacha was in a designated Water Protection Zone, related to the fisheries. Placement of waste and fuel storage are prohibited in Water Protection Zones. This special status has been waived by the authorities.

There has been close contact between VNIPI and the authorities, and significant problems with environmental permitting are not anticipated.

#### *2.8.6 Environmental Management and Monitoring*

There has been a detailed baseline study and environmental impact assessment for Asacha, but not yet for Rodnikova.

In discussion with VNIPI, who are responsible for developing and implementing the environmental management programme, it was clear that a comprehensive system is intended, in accordance with the Russian Regulations. The National Park is not close to the proposed mines, and flows from the plant and tailings areas will not enter the National Park, but all environmental management measures will be to National Park standards.

There will be an environmental manager, who will be on site during construction, operation and closure. There will be reporting to the local authority, and monitoring by two independent experts, who will report to the Department of the Environment.

The five important aspects of the environmental control have been listed as:

- prevention – use of ecologically safe methods, selection of suitable locations and the policy of zero discharge;
- minimisation of impact – protection measures, water treatment, pond liners, etc;
- reclamation of disturbed land;
- compensation for unavoidable impacts – air and river contamination, cutting of forest, damage to land, water usage, damaged habitats and disturbance of wildlife, compensation to licensed hunters; and
- ecological monitoring – comprehensive programme of monitoring from commencement to closure.

The Russian system for permitting and management takes particular care in the assessment and valuation of unavoidable impacts.

It is intended that best international practice will be employed in the environmental management of the mine including the transport, storage and use of hazardous materials. Comprehensive safety training will be provided, Emergency Teams will be established to deal with possible spillages and accidents, and detailed weather predictions will ensure timely planning for weather hazards.

Environmental monitoring and assessment of impacts will be by an independent company employed by the Company. Where specific problems arise these will be resolved by an independent arbitrator. Monitoring will include air quality, surface water quality, mine water quality, water in monitoring boreholes, soil, vegetation, habitats and fish. The programme of monitoring will be developed in consultation with the authorities and approved by them.

Rodnikova is at an earlier stage of development, but the same procedures will apply as for Asacha.

#### *2.8.7 Mine Closure*

There is a conceptual closure plan, which is appropriate at the present stage of development. The requirement of the authorities is that the land must be returned to its previous state as forestry land. All diverted watercourses must be returned to their original channels.

Due to the importance of the area, very great importance is attached to the closure plan and closure implementation.



#### 2.8.8 *Water and Water Treatment*

Water will be supplied to the plant from the tailings impoundment, and make-up water will be from boreholes. Three boreholes have been pump-tested, and the water is of good quality. The boreholes are supplied by an alluvial aquifer.

The process water circuit will have zero discharge, but rainfall will be treated and discharged. Sewage will be treated and discharged. Mine water will be pumped to sumps, de-oiled by filtration and discharged. All discharges will be in accordance with the Regulations and Permits.

Discharges of treated water will be into the catchment of the Vichaevskaya River, which flows into the volcano-polluted Mutnaya River. The intention is that discharge will be by seepage into the ground, thus providing a final filtering effect, rather than by direct discharge into the river. No water will be discharged to the catchment of the Asacha River.

#### 2.8.9 *Tailings Disposal*

The tailings will be pumped as slurry to an impoundment lined with HDPE over 1 m of clay. The HDPE/clay liner is required because the water will not be suitable for discharge and the underlying sand is permeable. There will be two paddocks, each having a capacity of 1 Mm<sup>3</sup>. There will be no discharge of tailings water to the stream, and all supernatant water will be returned to the plant.

The ore contains only small quantities of sulphides, and it is not anticipated that the tailings will generate acid. SRK is informed that calculated seepage quantities are within allowable limits.

#### 2.8.10 *SRK Comments*

The mine and plant will be established in a natural area of high international importance. The studies which have been completed show that the environmental impacts can be reduced to acceptable levels by the application of good environmental management procedures, and that the Company intends to implement such procedures.

### 2.9 *Project Execution Philosophy*

Detailed investigations into the recommended execution philosophy have not been presented in the reports prepared by either AMEC or VNIPI. AMEC have presented the plant costs based on Western design and procurement, with appropriate additional costs for building the plant in Kamchatka. VNIPI have prepared a project cost based on generic or database information, with allowances included for site location, climatic condition, seismic zone and other such factors.

A detailed execution plan is required, such as the logistics of procuring equipment and delivery to site (the maximum load is predicted to be over 60 t), availability of local resources and facilities related to fabrication and construction of the project. This should be investigated in the study currently being undertaken by the Company and any necessary adjustment incorporated into the capital cost budget.

#### 2.10 *SRK Conclusions*

The Asacha-Rodnikova Project is considered by SRK to be advanced and at a pre-development stage. Studies into the development of Asacha are more advanced than Rodnikova, however, work is currently underway to advance the mining, processing and environmental studies there. The Company is currently undertaking a definitive feasibility study, which will draw upon both the Western and Russian technical expertise in order to optimise the project economically. The project is considered to be remote, both in terms of location within Russian and ease of access from the nearest principal city and port of Petropavlosk.

SRK considers the Company and its consultants have a good geological understanding of the deposits, which consist of steeply dipping epithermal quartz veins. The area is geologically active and is considered to be prospective by SRK. In SRK's opinion, the Mineral Resource estimates derived by the Company and its consultants for the Project are based on data of adequate quantity and quality, appropriate methodologies, suitably classified and, therefore, considered to be, as a whole, robust.



The proposed mining methods and production rate are, in SRK's opinion, appropriate, while the current estimates for ore losses and dilution are reasonable. The currently available mineral processing plant designs are considered to be appropriate and based on appropriate testwork, with the ore being demonstrated to be extractable using common mining industry methods. Both the operating and capital expenditure estimates currently available are reasonable, but will be subject to final confirmation upon the finalisation of the definitive feasibility study.

The project is located in an environmental sensitive area of recognised international importance. Notwithstanding this, studies indicate that the environmental impacts associated with the development and operation of the Project can be reduced to acceptable levels by utilising suitable designs and the application of good environmental management procedures.

In summary, SRK considers Asacha-Rodnikova Project to be an advanced pre-development project with a robust resource and good exploration potential amenable to mining and processing. Current studies indicate there is good potential for the development of a short to medium life, high-grade, low-production rate gold mine at Asacha-Rodnikova. Studies are currently ongoing which aim to demonstrate the economic viability of the project.

### **3. Veduga**

#### **3.1 *Introduction***

Veduga constitutes an advanced exploration project on which a considerable amount of exploration work has been completed to date. While not as advanced as the Asacha-Rodnikova project, Veduga has been subject to a number of scoping studies and further investigation and design work is underway. This section of the report comments on the main technical aspects of the Veduga project, including the geological setting and resources, exploration potential, proposed mining and mineral processing methods and costs and also environmental, water management and waste disposal issues. Comment is also made on the access to the project and also existing and required project infrastructure.

#### **3.2 *Status of Ongoing Studies***

The Company is currently undertaking a scoping study of the overall project. This study will incorporate the process plant information generated by MDM and would also incorporate infrastructure issues, such as power and water supply and necessary support services – access roads, support buildings (offices, workshops, etc.). This will form the basis of a subsequent feasibility study.

#### **3.3 *Location and Access***

Veduga is located in the central Siberia area of the Russian Federation, approximately 400 km north of Krasnoyarsk, the regional capital. The Yenisei River, a major navigable waterway, lies some 120 km west of the project site. Access from Krasnoyarsk is currently by 348 km of paved road to the town of Yeniseisk, located on the west bank of the Yenisei River. A regular ferry service crosses the river until the winter months, when it is possible to drive over the ice. Access from the ferry crossing to the project site is via 152 km of unpaved road. Some 60 km north of Veduga, mining operations are currently underway at the Olimpiada gold mine.

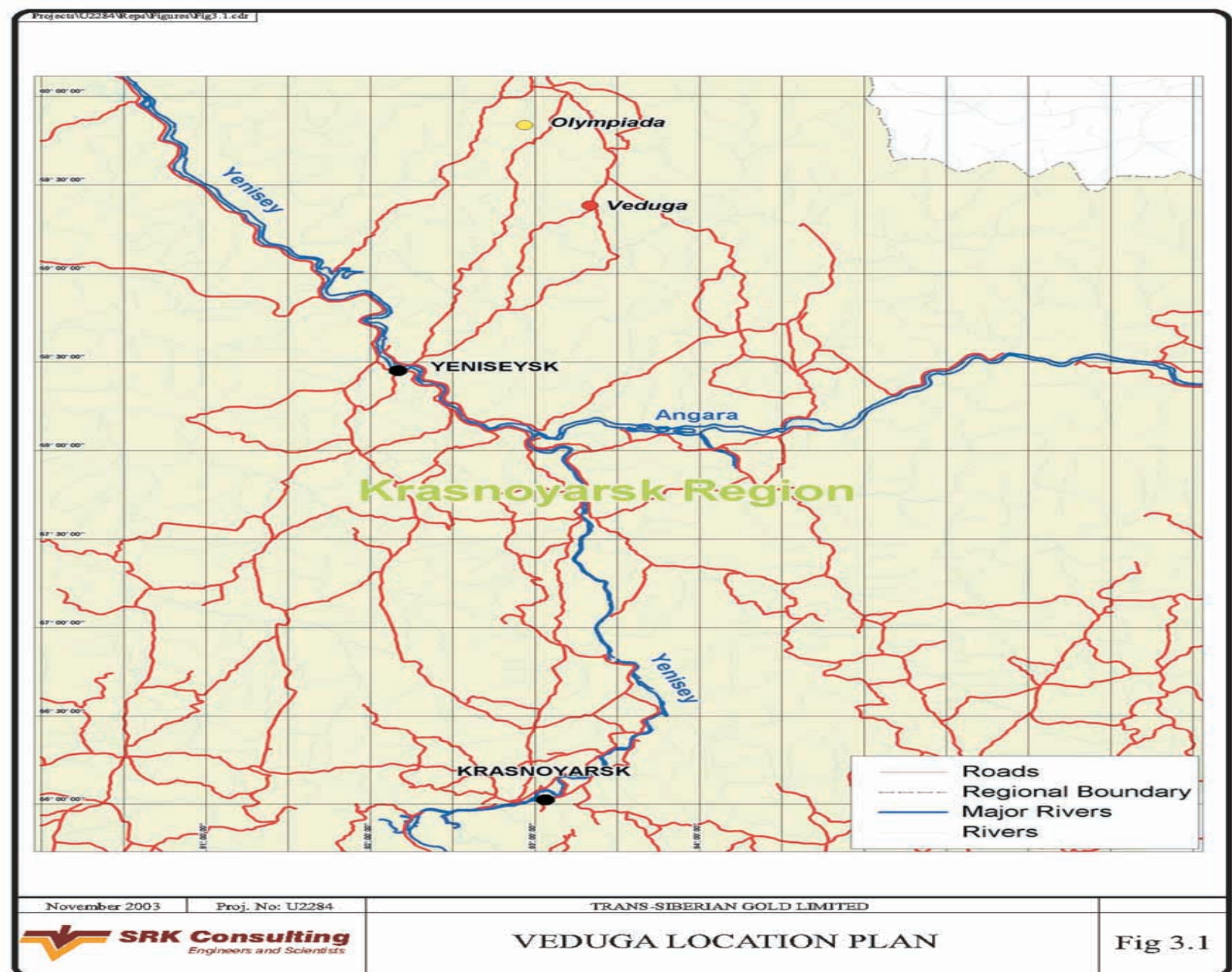
Figure 3.1 presents a location plan of the Veduga deposit relative to Krasnoyarsk, the Yenisei River and Olimpiada gold mine.

The area surrounding the project consists of forested hills incised by river valleys. Locally, the slopes can be quite steep. Climate is strongly continental, with an average annual temperature below freezing. The summers are typically short and warm, while winters are long and very cold, with temperatures dropping below freezing for up to two thirds of the year. Snowfall begins in late September and can persist until early June.

#### **3.4 *Geology***

This section draws upon reports and fieldwork undertaken by Soviet era geological surveys, geological consultants to the Company, and SRK's field observations made during the July site visit.

Figure 3.1 Veduga location plan



#### 3.4.1 Regional Geology

The Veduga deposit is located within the North Yenisei gold district, a belt of mesothermal gold deposits and associated fluvial placer deposits. The district has produced up to 25 Moz of gold to date, mostly from placer deposits, although a number of hard rock mines exist, including the Olimpiada mine. The North Yenisei district is part of a girdle of Proterozoic rocks bordering the Angara Craton of central Siberia. These rocks are considered to be metallogenically fertile and contain a number of large gold occurrences, including the multi-million ounce Sukhoi Log and Olimpiada deposits.

The host rocks of the North Yenisei district consist of a sequence of metamorphosed terrigenous sediments forming part of the Baikallide fold belt. The district can be sub-divided into two distinct belts structurally divided by north-northwest trending regional structures. The eastern belt contains a predominance of gold-quartz vein type deposits, while the western belt, containing both Olimpiada and Veduga, contains a predominance of disseminated gold-sulphide deposits, of which Olimpiada is considered a type example.

Figure 3.2 presents a regional map of the North Yenisei district showing the relative locations of Veduga, Olimpiada and other notable gold occurrences.

#### 3.4.2 Deposit Geology

The Veduga deposit is located in the centre of the Trans-Angaran part of the Yenisei Ridge and is hosted by a mid Upper-Proterozoic sequence of metamorphosed sedimentary rocks intruded by Upper-Proterozoic granites. The area surrounding Veduga has been intersected by a number of faults, including the Tatarsky fault zone which is considered to be a major control on the gold



mineralisation at Veduga, along with some degree of stratigraphic control. Post-mineralisation folding and faulting has modified the original geometry of the ore bodies resulting in the more complicated picture present today.

Figure 3.2 Veduga Regional Geology

Thirteen sub-vertical dipping, lenticular ore bodies have been identified to date. The strike lengths of these ore bodies varies from 90 m to 530 m, while their average widths vary from 2 m to greater than 20 m. Of the 13, Ore Body 1 contains the majority of the resource delineated to date. While the majority of the ore is sulphidic in nature, there is a variable zone of oxidation present near surface occurring down to a depth of between 10 m and 30 m.



### 3.4.3 Exploration Potential

SRK considers there to be excellent exploration potential at Veduga, both in the vicinity of the existing ore bodies and also in the surrounding exploration licence area. The project is located within an established mining district and is in close proximity to Olimpiada, an established operating gold mine whose ore bodies can be considered geologically similar, both in setting and mineralogy, to those at Veduga. Exploration at Veduga has consistently increased the resource base, both through the discovery of additional ore bodies and also through the identification of strike and dip extensions. This is particularly true of Ore Body 1, where down dip drilling has extended the ore body down to depth of 600 m without any decrease in width or grade. By comparison, the resource at Olimpiada is reported to extend to a depth of some 1 km. Exploration work between the existing ore bodies continues to identify new target and potential ore bodies.

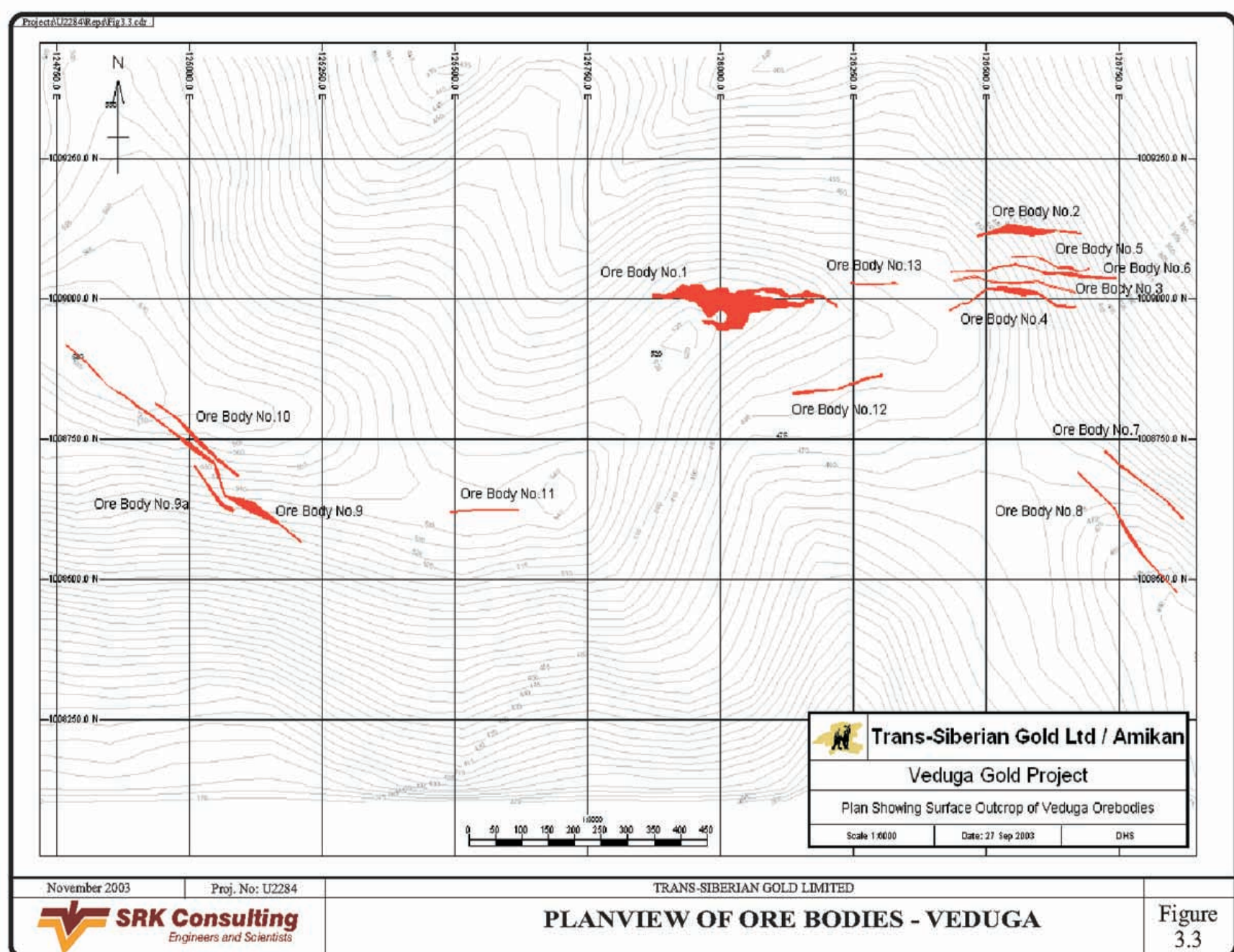
Since SRK's July visit, a new prospect has been identified some 1 km south of the existing ore bodies. It is reported that the results obtained from the excavation of pits, trenches and reconnaissance drilling indicate a promising zone of gold mineralisation. While SRK is unable to comment on the veracity of these results, they are considered indicative of the prospectivity of the Veduga licence area.

In summary, SRK considers the exploration potential at Veduga to be excellent. It is expected that continued exploration expenditure will continue to add to the resource base already delineated and may lead to the discovery of further ore bodies.

### 3.5 Mineral Resources

This section summarises and comments upon the basis of the Mineral Resource estimate presented in Section 3.5.3. These comments are based on SRK's review of the available reports and resource model. The Mineral Resource estimate for Veduga was undertaken by David Stock, Consultant Resource Geologist for the Company.

Figure 3.3 Planview of Veduga Ore Bodies





### 3.5.1 *Quantity and Quality of Available Data*

The data used to estimate the Mineral Resources for the Veduga Project was obtained during two phases of exploration. The first was carried out by AO Krasnoyarskgeologiya (Krasgeo), which conducted exploration work and sampling at Veduga between the discovery of the deposit in 1977 and the cessation of exploration, due to limited funds, in 1996. The second phase of exploration commenced in July 2002, following the Company's acquisition of Amikan. All of the work undertaken by Krasgeo has been re-surveyed using modern techniques, resulting in only minor corrections to the original sample locations.

Krasgeo excavated a total of 15,329 m of trenches at Veduga between 1979 and 1998. These were cut perpendicular to strike and down to a depth of 4 m. The trenches were sampled by channels 10 cm wide and 5 cm deep, with an average sample length of 1 m. Since July 2002, a further 713 m of trenches have been excavated, primarily as infill trenches or extensions to existing trenches. These were sampled using the same methodology employed by Krasgeo.

The underground development at Veduga consists of an 857 m adit from which crosscuts were driven approximately every 100 m. These crosscuts total another 740 m of development. Channel samples, 10 cm wide and 5 cm deep, were taken at the face of the adit as it advanced, as well as along the sidewalls and end faces of the crosscuts. The underground development intersects ore bodies 1 to 6 as well as ore body 13. The adit was stopped shortly after reaching Ore Body 1, which is only intersected by one crosscut.

Between 1987 and 1998, Krasgeo drilled a total of 51 drill holes totalling 12,430 m. All but three of these holes were drilled from surface, while the remaining three were drilled from faces underground. The drill fences were spaced some 100 m apart along strike and intersections were obtained at roughly 50 m intervals down dip. Samples were taken every 1 m and the whole core was sent for analysis. An additional 55 diamond holes have been drilled since the Company's acquisition of the project. Much of this was infill drilling which has resulted in a drill spacing of 40 m along strike and 25 m to 50 m down dip. This phase of drilling has also extended the known ore bodies along strike and especially down dip. The cores were sampled on approximate 1 m intervals, halved using a diamond saw with one half being submitted for analysis and the other half being retained for reference. Core recoveries are reported to be acceptable, with averages of 95 per cent. and 97 per cent. for the Krasgeo and the Company's drilling respectively.

The original Krasgeo samples were prepared and analysed using a fire assay method at two separate Russian laboratories. One of these is no longer operational. Before May 2003, the samples collected by the Company were also prepared at these laboratories. Since May 2003, the samples have been prepared on site at Veduga in a purpose built preparation laboratory. SRK visited this laboratory during the July site visit and considers it to be well equipped, but cramped, with a number of sample preparation stages located within one room. SRK understands that this facility is to be expanded, which will address these issues. All of the samples from the latest exploration campaign have been analysed by the internationally certified Alex Stewart Assayers laboratory in Bishkek, Kyrgyzstan, using fire assay methods with gravimetric finish. Appropriate and thorough quality control procedures have been followed, including third party checks using Genalysis Laboratories in Perth, Australia. Statistical comparisons between the original Krasgeo results and the latest results correlate well thus supporting the veracity of the original work.

In summary, SRK considers that the data available at Veduga is of sufficient quantity and quality to support the estimates of the Mineral Resources presented in Section 3.5.3.

### 3.5.2 *Estimation Methodology*

Three-dimensional geological models have been produced for each of the identified ore bodies using the available trenching, drilling and underground development. These models were developed using lithology, alteration and a 1 g/t Au cut-off grade to determine the boundaries between the ore bodies and the surrounding country rock. The samples within these wireframes were then analysed statistically, which indicated the presence of a statistically robust data set with surprisingly few outliers, leading to the decision not to apply any high-grade cuts to the data. In

order to constrain the extrapolation of high-grade samples, however, the influence of samples greater than 20 g/t Au was restricted to areas within 20 m of the sample. Geostatistical analyses were then performed to determine an appropriate approach to distribute grades into a three-dimensional block model. OK was chosen which used assumptions appropriate to the deposit.

SRK has reviewed the resulting block estimates and considers that the approach used to estimate the Mineral Resources at Veduga to be appropriate and that the estimates, as a whole, are unbiased.

### 3.5.3 Mineral Resource Statement

Table 3.1 below presents an audited Mineral Resource statement for Veduga. This statement is classified according to the JORC code of 1999. In deriving this statement, SRK has not undertaken any check sampling or re-estimation, but has reviewed both the available data and the approach used, and considers these to be of sufficient quality to support this statement. In summary, it is SRK's opinion that the Mineral Resources tabulated below reflect the current status of the Mineral Resources at Veduga and are appropriately classified in accordance with the JORC code of 1999.

**Table 3.1: Veduga Audited Mineral Resource Statement**

<i>Resource Category</i>	<i>Tonnes (Mt)</i>	<i>Au Grade (g/t)</i>	<i>Contained Au (oz)</i>
Measured	2,148,000	5.5	383,000
Indicated	4,524,000	4.9	717,000
<b>Sub-total</b>	<b>6,672,000</b>	<b>5.1</b>	<b>1,100,000</b>
Inferred	6,808,000	4.7	1,029,000
<b>Total</b>	<b>13,480,000</b>	<b>4.9</b>	<b>2,132,000</b>

Note: Based on a cut-off grade of 2.0 g/t Au

Of the total Mineral Resource tabulated above, some 0.9 Mt at 4.3 g/t Au, containing 127,000 oz of gold, consists of Oxide ore. Ore Body 1 is by far the greatest contributor to the total Mineral Resource, with a total contribution of 9.7 Mt at 5.1 g/t Au, containing 1.6 Moz of gold.

### 3.5.4 SRK Comments

SRK considers that sampling of sufficient quantity and quality is available at Veduga to support the classification of the Mineral Resource presented above. The estimation methodology applied is also considered appropriate for both the deposit style and the mining operations currently envisioned. In summary, SRK considers the Mineral Resources presented in section 3.4.3 to be, as a whole, unbiased, with excellent potential for the delineation of additional resources through continued exploration.

## 3.6 Mining

### 3.6.1 Introduction

The Veduga deposit comprises some 12 distinct ore bodies, of which the majority of the Mineral Resource planned for mining is contained within the limits of Ore Body 1. The geometry of the ore bodies, which dip sub-vertically and outcrop at surface, together with the steep terrain, lends itself to open-pit mining from surface, followed by selective underground mining.

The current strategy of the Company is to focus initial open-pit mining at Ore Body 1 and introduce ore from surrounding satellite pits to supplement this production, whilst exploring and defining additional resources. Depending on the success of further exploration, higher production rates than currently considered may be feasible and a phased approach to equipment and treatment plant design is being considered as part of the Company's strategy. It is envisaged that underground mining at Ore Body 1 will commence subsequent to completion of open-pit mining, although only limited scoping study investigations have thus far been undertaken by the Company.

Mineral Resources have been defined following the results of the exploration programmes. The Company has undertaken certain technical and economic investigations of the property that SRK considers to reflect a scoping study level of accuracy. The mining section of this report is based on a review of this work, together with information obtained during the site visit. In this section, SRK provides comment on the reasonableness of the likely mining methods, production rates and costs currently considered by the Company.

### 3.6.2 Mining Methods

#### *Open-Pit*

Open-pit mining is planned to be undertaken by standard truck and shovel mining techniques, using 5 m benches to minimise dilution and mining ore loss. Only limited oxidised ore has been defined at surface and the ore and waste will require drilling and blasting to be conducted from the outset. The ore bodies outcrop along a ridge where the sides fall away at some 15° to 25°. This will positively impact on the relative level (RL) of the upper benches and associated pit wall stability, as well as limit waste pre-stripping. Initial trucking of full loads will also be predominantly down hill or on the level and the topography can also be utilised for the identification of favourable waste dump locations. A valley area to the northeast of Ore Body 1 has been selected for initial mining based on topographical considerations.

The principal earthmoving equipment is planned to comprise off-highway haul trucks coupled with hydraulic excavators. The productivity, operating and capital cost estimates provisionally made by the Company are based on Caterpillar manufactured equipment and sourced from the local Caterpillar supplier in Krasnoyarsk, which also services the Olimpiada Mine some 60 km to the north of the Veduga deposit. A front end loader is planned to re-handle ore from the RoM ore plant stockpile to ensure correct blending of plant feed. Various standard ancillary mining equipment is also included as part of the scoping study estimates.

In terms of geotechnical work, all core from exploration boreholes drilled subsequent to October 2002 has been logged. The surface has been geologically mapped, together with all ore exposures, as well as the underground exploration adit. Visual inspection of boreholes indicates that weathering is limited to the upper 30 m to 40 m of the deposit, with oxidation evident on joints to some 80 m below surface. At a number of local quarries, 30 m faces at a batter angle of some 70° excavated in the 1980s appear in good condition, which augurs well for Veduga. The ore body and country rock are strongly foliated along strike and there is evidence of regional faulting, although there is no information currently available as to the likely presence of more localised faulting. A detailed geotechnical study is required to determine the ultimate pit slope design and likely conditions. For the purposes of the scoping study, the Company has used an overall batter angle of 55° and a final pit depth that is likely to be less than 300 m.

#### *Underground*

Underground mining is likely to commence at the end of the life of the open-pit through the installation of ramps and adits at the lowest elevation possible. Mechanised mining methods utilising open-stoping are being considered as appropriate for the ore body widths (some 5 m to 30 m), relatively shallow depths and anticipated competent ground conditions. It is believed that a reasonable level of selectivity of the ore blocks will be possible and backfill is being considered for placement in old primary stopes necessary to extract thicker ore horizons.

An existing underground adit at the 320 m horizon was developed along the strike of the ore bodies for some 850 m and reaches a maximum depth below surface (due to the topography) of some 190 m. A further 740 m of crosscut development was undertaken to intersect the ore zones and this remains unsupported and visible to inspection. Ground conditions from visible inspection and geotechnical mapping are good and there is only minor ingress of water. A suitable crown pillar is planned to be left between the upper stopes and the old pit floor, which will probably be recovered at the end of the mine life.



### 3.6.3 *Production Rates, Dilution and Mining Losses*

#### *Open-Pit*

An initial Whittle optimisation was conducted on the Ore Body 1 deposit and the ore bodies immediately adjacent to the east and west using the resource block model and a digital terrain model (DTM) of the surveyed topography. The technical inputs for the Whittle optimisation included a pit slope of 55°, dilution of 15 per cent. at 0.0 g/t Au, mining ore losses of 3 per cent., and a plant recovery factor of 90 per cent. for fresh ore. Economic inputs included a gold price of US\$330/oz, an allowance for royalty costs of 6 per cent., and mining costs ranging from US\$0.93/t to US\$2.79/t of material moved for loading, hauling, drilling and blasting dependent on the RL for the hauling costs. For the plant processing costs and general and administration costs, a figure of US\$10.5/t and US\$2/t respectively of ore processed was used.

A series of nested pit shells was created using Whittle optimisation, from which a shell containing some 8.0 Mt of diluted Mineral Resource, at a mill feed grade of 4.3 g/t and a stripping ratio of 6.8 ( $t_{\text{waste}} : t_{\text{ore}}$ ), is the preferred option for further analysis by the Company. Provisional mining rates that consider a vertical advance rate of some 50 m per year suggest that a production rate of some 1.0 Mtpa is appropriate for the deposit. The identification of further resources in the immediate area and the possible earlier introduction of an underground operation could lead to higher production rates of some 1.3-1.5 Mtpa.

#### *Underground*

Little detailed design work has been completed for an underground operation, although the Company considers that a rate of 0.5 Mtpa will be achievable and this will extend the life of operation, based on the current Mineral Resources, by a further four years.

### 3.6.4 *Operating Costs*

Operating costs for the proposed open-pit operation have been developed by the Company and used in the Whittle optimisation as discussed above. Mining costs have been determined according to Caterpillar equipment operating parameters and hourly operating costs have been adjusted to account for local prices; principally fuel and labour. The haul costs have been developed according to the tonnage profile based on the RL of the open-pit at 10 m intervals. As discussed above, operating costs range from some US\$0.93/t near the surface of the deposit to some US\$2.79/t at the bottom of the final planned pit. Drilling and blasting costs are estimated to be some US\$0.35/t. The basis for the determination of the earthmoving costs appears appropriate to SRK for the purposes of the Whittle optimisation and the scoping study.

### 3.6.5 *Capital Costs*

The principal capital costs are for the provision of earthmoving machinery and of mining infrastructure, ancillary equipment, workshops, capital spares and initial consumables. Estimates of the earthmoving equipment costs are based on Caterpillar equipment costs and include shipping and import duty (to Krasnoyarsk), but are exclusive of 20 per cent. VAT which is considered refundable. The initial estimate for earthmoving fleet costs made by the Company is some US\$13 million, whilst that for mining infrastructure and support is some US\$5 million. It is possible that certain of the equipment costs could be deferred, dependent on the eventual stripping schedule, and the initial capital costs could therefore be lower.

### 3.6.6 *SRK Comments*

The mine design and methods proposed by the Company as part of the scoping study investigation are considered by SRK to be appropriate to the deposit and are supported by similar established mining operations in the region, notably the Olimpiada Mine some 60 km to the north. The current quantum of resources suggest a mining rate of at least some 1.0 Mtpa is appropriate in terms of mine life, although, as the area is extremely prospective, higher production rates may be sustainable through the introduction of more satellite pits and/or underground operations following further successful exploration.

It is understood that the Whittle optimisation is particularly sensitive to the pit slope angle, currently 55°, and it is recommended that sufficient geotechnical investigation should be undertaken to confirm the geotechnical design and overall pit slope angle(s). It is understood that the Company is planning to proceed with a full feasibility study during which the geotechnical aspects should be considered in full.

### 3.7 *Mineral Processing*

#### 3.7.1 *Introduction*

The Veduga deposit is at an early stage of investigation regarding potential processing routes. Representative samples have been taken of the primary ore body and preliminary mineralogical and metallurgical investigations have been undertaken. MDM has directed the testwork and have undertaken a scoping study into alternative potential treatment routes.

The main ore body has been shown to contain significant levels of sulphide minerals and the gold to be refractory. Based on the findings of the testwork investigations, MDM has investigated alternative flowsheets to a conceptual level based on parameters established from the testwork and other generic industry standard practices.

Testwork has indicated that the gold can be concentrated into a high grade flotation concentrate and that high gold recoveries can only be achieved by the use of intensive oxidation either by pressure or bacterial oxidation to breakdown the refractory gold minerals.

Although the majority of the ore reserve consists of primary sulphidic ore, a certain amount of the ore can be considered to be oxidised or transitional, containing varying amounts of oxidised and primary ore.

#### 3.7.2 *Mineralogical and Metallurgical Testwork*

A single representative composite sample of primary ore has been prepared, based on information provided by the Company on the primary ore body characteristics. This has been submitted for chemical and mineralogical analysis and for the deportment of gold. The head grade of the sample assayed 8.99 g/t.

Given the relatively small amount of oxidised ore, only limited work has been undertaken on this material. The primary ore is shown to contain appreciable levels of sulphide minerals (pyrite, pyrrhotite, marcasite and arsenopyrite). Gold occurs mainly as metallic gold (44 per cent.) and as aurostibite (56 per cent.), a refractory mineral of gold and antimony (AuSb<sub>2</sub>). The metallic gold is indicated to be generally fine grained. Of the metallic gold, over 85 per cent. is liberated, with 10 per cent. occluded in sulphides and +4 per cent. occluded in silicates/carbonates. The aurostibite is mostly liberated with negligible levels locked in sulphides and only 5 per cent. occluded in silicates/carbonates.

There is some discrepancy related to the detailed deportment of gold in the aurostibite, although, in summary, the ore is indicated to be moderately refractory with less than 50 per cent. of the gold amenable to direct cyanidation.

The composite sample was also used for metallurgical investigations. Gravity separation was unsuccessful in recovering a significant portion of the gold into a high-grade concentrate, with less than 10 per cent. of the gold reporting to a high-grade gravity fraction. This confirms the mineralogical findings of the fine nature of the gold in the ore.

Flotation was successful in recovering the free gold and aurostibite into a concentrate with up to 90 per cent. recovery being achieved. A relatively fine grind was required to effect the necessary liberation of minerals prior to flotation. Some limited variability testwork was undertaken using individual bore hole samples from the different identified ore zones. Flotation recoveries of between 80 and 90 per cent. were achieved, although the level of sulphur in the flotation concentrate varied significantly. This will need further investigation if the down stream treatment circuit for the

concentrate requires oxidation of the sulphides and other minerals to liberate the gold. The main focus of the flotation testwork was on the recovery of gold into a rougher concentrate and only limited effort was expended on cleaning the rougher concentrate into a suitable feed for downstream processing.

Due to the refractory nature of the gold bearing mineral, particularly aurostibite, fine grinding was not effective in pre-treating the concentrate prior to direct cyanidation.

Pressure cyanidation and acid leaching of the gold using thiourea was also unsuccessful in leaching the gold from the concentrate, and low temperature calcination did not succeed in making the gold more amenable to cyanide leaching. It was therefore concluded that an intensive oxidation treatment would be required to make the concentrate amenable to cyanide leaching. Applicable technologies include pressure oxidation, bacterial oxidation, and roasting. Only the first two alternatives were investigated in detail.

Both pressure oxidation and bacterial oxidation were successful in making the concentrate amenable to cyanidation, with gold recoveries of 90 per cent. for bacterial oxidation, and 98 per cent. for pressure oxidation, achieved. Reaction rates for bacterial oxidation were noted to be relatively slow, with a total retention time of 20 days tested in the laboratory, although this can be expected to reduce significantly in a commercial operation. Cyanide consumptions following either route of oxidation were relatively high. Both process routes, however, were indicated to be viable methods of successfully treating the concentrate to give high gold recoveries.

The need to intensively oxidise the concentrate is unfortunate, as it indicates that little of the gold is locked in the sulphide minerals themselves. Intensive oxidation will result in extensive breakdown of the sulphide minerals and the generation of large quantities of acid (and heat), particularly in the bacterial oxidation route, with the associated cost of neutralisation. It may be possible to reduce the oxidation of sulphur in the pressure oxidation autoclave to leave some elemental sulphur after the reaction, but this is unlikely under the oxidation conditions envisaged. In addition, high power consumptions related to the supply of oxygen for pressure oxidation, or air in the case of bacterial oxidation, can be anticipated.

The investigations and testwork undertaken to date appear to have followed a logical path. While the testwork undertaken was of considerable use in providing basic information on the ore response to different potential treatment routes, it can only be considered to be indicative and further detailed testwork and investigations into ore response and variability are still required. This would include further detailed bench scale work and probably pilot scale tests to confirm flotation performance, the effect of cleaning the rougher concentrate, and more detailed testing of the proposed oxidation process.

The treatment of gold ores containing the refractory mineral aurostibite using pressure or bacterial oxidation is not a commonly practiced process and significant further evaluation and testwork is required to confirm the design and operating parameters to be used in the detailed design for the next phase of the investigations. However, both pressure and bacterial oxidation are established processes. It is envisaged that a substantial amount of evaluation and demonstration will be required before any treatment process on the refractory sulphide concentrate can be considered for commercial scale application.

### 3.7.3 *Proposed Plant Designs*

MDM have proposed the following circuit to treat the Veduga material:

- primary jaw crushing to 150mm;
- two stage milling – SAG and ball;
- flotation of a sulphide concentrate;
- thickening of the flotation tails;
- treatment of the flotation tails (or oxide ore) by CIL;



- cyanide destruction of the cyanidation tails using the INCO process;
- concentrate dewatering;
- treatment of the flotation concentrate by Pressure Oxidation (POX) or Bacterial Oxidation;
- thickening and CCD washing of the oxidation circuit product followed by cyanidation of the oxidation product slurry; and
- return of the cyanidation product to CIL.

As the CIL will only really be effective when treating the oxidised material and for treating flotation tails, when treating transitional ore it may be possible to optimise the overall treatment circuit. It is expected that treatment of flotation tails on the primary ore will not be justified, as over 90 per cent. of the gold is expected to have reported to the flotation concentrate stream. It may be possible to include a small CIP plant for the cyanided oxidised flotation concentrate and consider a different process for treating the oxidised portion of the ore body (heap leach or alternative).

A preliminary review of the design has been undertaken by SRK, although it is realised that much of the design regarding flotation performance and sulphide treatment is conceptual at this stage. The envisaged mills appear relatively small for the proposed throughput and the design is based on a ball mill bond work index (BWI) that appears low for a competent primary ore and should be confirmed.

#### 3.7.4 *Capital and Operating Cost Estimates*

In the scoping study prepared by MDM, indicative capital and operating costs are presented for the processing alternatives including a cost for electric power. Rationalisation of the figures presented needs to be undertaken so that the economics of the alternative potential treatment routes can be compared and the overall economics of the proposed project evaluated.

The MDM study indicates the capital cost of a complete plant to treat 1.5 Mtpa through RoM milling and flotation would be some US\$37 million. This would be sufficient to produce a concentrate for toll treatment elsewhere. This figure also includes provision for a CIP circuit to recover non-refractory gold on site through cyanidation of the flotation tails. Should the Company chose to treat the concentrate on site, MDM estimate that an additional US\$25 million will be required for a pressure oxidation or bacterial oxidation plant. The figures exclude the cost of infrastructure and support services but do include a provision for tailings disposal. SRK considers these provisional numbers reasonable given the current status of the project.

The MDM study indicates that relatively high operating costs for treatment of the sulphide concentrate can be expected, primarily due to high power consumption, should the pressure or bacterial oxidation route be adopted. Given this, SRK considers an ore treatment operating cost in the range US\$12–17.50/t treated to be reasonable. The lower end of the range assumes no oxidation on site while the higher end of the range assuming a pressure or bacterial oxidation route. As per the capital estimates, these are only indicative in nature.

#### 3.7.5 *Infrastructure*

The scope of work for the MDM study has only considered the process plant from receipt of ore to discharge of tailings. In the estimate of capital and operating costs, it has been assumed that electric power will be supplied over the fence from diesel powered generation sets. A power line runs through the Veduga property, although SRK has been informed that it does not have sufficient spare available capacity to service the Veduga Project. It is anticipated that the power requirement for the process operation at the envisaged treatment rate will be 10MW, if pressure oxidation of the refractory sulphide concentrate is incorporated.

#### 3.7.6 *SRK Comments*

The recovery of gold into a flotation concentrate has been demonstrated as a feasible process for treating the Veduga primary ore and intensive oxidation a viable method of making the gold amenable to cyanidation. This is subject to further investigations into the proposed treatment route, as well as the derivation of an effective method of processing the oxide and transition materials in the ore body.

The preliminary testwork into the pressure and bacterial oxidation has proved to be successful in treating the Veduga concentrate and both the technologies being considered could be developed for the envisaged application. Given the complexity of the ore, however, additional demonstration is required to progress the project to a “bankable level”.

### 3.8 *Environment and Water Management*

#### 3.8.1 *Introduction*

As the Veduga Project is at an exploration and preliminary planning stage, there is no design layout for environmental review. The environmental issues include the protection of fisheries, related to the choice of the position of the plant and tailings, and the control of potential acid drainage. The rivers in the Veduga area belong to the highest rated category for fisheries, as spawning rivers. It is understood that there are no rare or threatened species in the area, and no nature reserves or special habitats. The environmental baseline study, however, has not yet been completed.

#### 3.8.2 *Prevention of Water Pollution and Protection of Fisheries*

It is probable that the entire development, including the mine, the plant and the tailings impoundment, will be bounded by the Greater and Lesser Veduga Rivers and their confluence. Environmental management will concentrate on the prevention of the discharge of contaminated water or toxic materials to the rivers and the groundwater. This task will include rigorous control of the transportation, storage, usage and disposal of chemicals and oil, and the minimisation and containment of potential acid drainage from the mine, from mine waste rock and from tailings.

#### 3.8.3 *Hydrology and Hydrogeology*

The ore bodies are within a hill, and the Greater Veduga and Lesser Veduga Rivers pass to the north and south of the hill, with the confluence 2 km from the exploration camp. No information on surface water hydrology and flood levels is yet available, but stream gradients and surface topography are favourable.

Since problems were encountered at Olimpiada gold mine with water inflows, in similar geology to Veduga, a groundwater study has been carried out at Veduga at this early stage. Three boreholes have been drilled and tested, and it is understood that the results of the borehole testing have confirmed that Veduga will not have the water inflow problems encountered at Olimpiada.

A borehole has been drilled and tested for water supply, and no difficulties are anticipated.

#### 3.8.4 *Tailings and Mine Rock Waste Disposal*

The proximity of the rivers constricts the choice of locations for waste disposal. The potential for acid drainage is still to be tested, but there are indications of acid drainage from the existing adit spoil, implying that suitable measures will be required in the planning of rock waste and tailings disposal to minimise acid generation and to ensure that there is no escape of acidic water. It is probable that the tailings impoundment will need to be lined with HDPE sheeting to prevent seepage of leachate.

#### 3.8.5 *Environmental Permitting*

A submission is in preparation for the environmental impact and environmental management of the exploration project, including rehabilitation. This report will include water resources, forestry, payments for environmental damage and soil disturbance. It will be submitted to the Ecological Committee of the regional office of the Ministry of Natural Resources. The re-designation of the area from forestry to mining is in progress.

SRK visited the regional offices of the Ministry of Natural Resources, and met the Chairman of the Geological Committee (the Ecological Committee, responsible for environmental permitting, is subordinate to the Geological Committee). It was clear that the authorities are warmly supportive of the Veduga Project, and keen to see it proceed quickly, as an encouragement for future mining developments. No specific environmental concerns were mentioned.

The baseline study has not yet commenced. The Company will use Government Institutions for the baseline studies. Sampling of water will be carried out shortly by the Regional Sanitisation Station.

#### 3.8.6 *SRK Comments*

No environmental problems have been observed which cannot be dealt with by the application of good design and environmental management procedures. The main environmental issues are likely to be (a) the selection of a suitable location for the plant and tailings disposal; (b) the establishment of a monitored system for environmental management; and (c) the control of potential acid drainage from the tailings, and possibly from the mining waste.

The environmental submission for Veduga has not yet been submitted, and the baseline study for the proposed mine has yet to be commenced. However, SRK considers that environmental permitting is unlikely to be an issue.

If Veduga is to be exploited by underground mining rather than open-pit methods, as is presently being considered, there will be significant environmental advantages, including a reduction in the mine waste volumes for disposal.

### 3.9 *SRK Conclusions*

The Veduga Project is considered by SRK to be an advanced exploration project. Exploration is currently ongoing and positive results have increased the resource base. The project is located in an active mining district with established infrastructure and good access.

The ongoing exploration work is continuing to improve the geological understanding of the Veduga deposit, which is hosted in rocks related to those hosting the multi-million ounce gold deposits at Sukhoi Log and Olimpiada. The deposit is considered to be geological similar to that at Olimpiada, which is currently in production. The Mineral Resource estimate for Veduga is considered to be robust in terms of quantity and quality of data, estimation methodology and classification.

Studies to date indicate the potential to develop an open-pit mine at Veduga, with additional potential for the extraction of the ore body using underground techniques. The size of the economic open-pit is, however, sensitive to slope angles that need to be confirmed by additional geotechnical investigations. The deposit is metallurgically complex, but testwork to date indicates that it is amenable to pressure or bacterial leaching followed by direct cyanide leaching. SRK has been informed that similar ore is currently being successfully processed at Olimpiada.

Given the current status of the project, detailed environmental studies have yet to be commissioned. The project, however, is located in an established mining area and SRK is not aware of any environmental issues that cannot be mitigated by good practice and design.

In summary, SRK considers Veduga to be an advanced exploration project with a robust resource and excellent exploration potential that current studies indicate is amenable to mining and processing. There is currently potential for a 1-2 Mtpa mine, with a mine life of approximately ten years, while further exploration may well result in an increase in the mine life and/or production rate. While this has not yet been demonstrated, and is subject to ongoing studies, the results to date are encouraging.

## 4. **Technical Opportunities and Risks**

### 4.1 *Introduction*

In undertaking this review, SRK has identified a number of technical opportunities and risks relating to the development of both the Asacha-Rodnikova and Veduga projects. The more material of these are commented upon below.



## 4.2 *Asacha-Rodnikova*

### 4.2.1 *Opportunities*

The area surrounding the Asacha and Rodnikova deposits is considered to be prospective, with potential for the discovery of additional resources. While additional drilling may extend the currently identified veins, SRK considers the best potential for significant additions to the resource base lie in the discovery of additional vein zones in the surrounding area.

There may be an opportunity to modify the existing proposed production schedule to mine higher-grade earlier at Asacha, possibly through the use of limited open-pit mining. This could improve the project economics by deferring cost and bringing forward revenue.

The plant designs reviewed by SRK, while suitable for the processing of the Asacha ore, are considered to be sub-optimal with scope for rationalisation. The ongoing revision of the process plant design may result in capital cost savings in this area from those presented in this report.

### 4.2.2 *Risks*

The studies at Rodnikova are not as advanced as those at Asacha. There is a risk that the results from continued investigations at Rodnikova might impact on the viability of processing the ore at Asacha's mineral processing facility.

The area surrounding Asacha-Rodnikova is internationally recognised as an environmentally sensitive area. While SRK considers the environmental risks to be manageable, there is a risk that public and official opposition to the mine development may arise.

As is often the case with projects of this nature, there is an element of project implementation risk involved. While this risk is manageable, the currently defined short mine life, difficult access to the project, and the lack of an established mining industry in the area, add to the difficulty in developing a mine in this region.

## 4.3 *Veduga*

### 4.3.1 *Opportunities*

Given the current status of the project, the greatest opportunities at Veduga lie in the potential for the discovery of additional resources. This potential lies in the demonstrated extension of the existing ore bodies, both at depth and along strike, by further exploration work. In addition, the exploration licence area surrounding the identified ore bodies is also considered to be prospective. SRK considers it likely that exploration work planned for the winter months will continue to expand the resource base.

### 4.3.2 *Risks*

While current studies indicate that much of the delineated resource will be mineable through open-pit methods, these studies have also indicated that this is sensitive to the slope angles used. There is therefore a risk that further geotechnical work will result in a reduction in the slope angles and a reduction in the amount of ore exploitable through open-pit methods. While this would impact adversely on the project economics, it may be possible to mine much of the 'lost' ore by underground methods.

Given the current status of the project and the preliminary nature of the studies to date, there is a risk that further investigative and analytical work may highlight technical or economic issues which could adversely affect the successful development of a mine. SRK, however, is not currently aware of any issues that might materially detract from the current projections. It is also worth noting that further work may also result in unforeseen improvements to the economics of the project.

## 5. **Concluding Remarks**

The views expressed in this report are based on SRK's understanding of the status of the Company's assets as of the date of this document and are based on SRK's observations made at site, the documentation reviewed and discussions with the Company's personnel and consultants. Overall, SRK considers the Company to have a good suite of assets, supported by robust Mineral Resource estimates and substantial exploration potential.

SRK considers Asacha-Rodnikova to be an advanced pre-development project, with a robust resource and good exploration potential, that feasibility studies have demonstrated is amenable to mining and processing. Current studies indicate there is good potential for the development of a short to medium life, high-grade, low-production rate gold mine at Asacha-Rodnikova. Studies are currently ongoing which aim to demonstrate the economic viability of the project.

SRK considers Veduga to be an advanced exploration project with a robust resource and excellent exploration potential that current studies indicate is amenable to mining and processing. There is currently potential for a 1-2 Mtpa mine, with a mine life of approximately 10 years, while further exploration may well result in an increase in the mine life or production rate. While this has not yet been demonstrated, and is subject to ongoing studies, the results to date are encouraging.

**For and on behalf of SRK (UK) Ltd**

**Dr Neal Rigby C.Eng.**  
*Director*

**Richard Clayton C.Geol.**  
*Senior Mining Geologist*

## PART 6

### Additional Information

#### 1. Responsibility

The Directors accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

#### 2. The Company

2.1 The Company was incorporated as Signal Trust Properties Limited on 25 August 1972 under the Companies Acts 1948 to 1967 as a private company limited by shares and registered in England and Wales with number 1067991. Signal Trust Properties Limited changed its name to Join Limited on 7 May 1987 and then to Trans-Siberian Gold Limited on 13 December 2000. The company was re-registered under the Act as a public limited company on 17 November 2003 and changed its name to Trans-Siberian Gold plc.

2.2 The liability of the members of the Company is limited.

2.3 The Company's registered office is Unit B1, Church Barn, Old Farm Business Centre, Church Road, Toft, Cambridge CB3 7RF, UK.

#### 3. Share Capital of the Company

3.1 On the date of this document, the authorised share capital of the Company was £5,000,000 divided into 50,000,000 Ordinary Shares and 17,884,112 such shares were issued and fully paid.

3.2 The following changes in share capital have taken place within three years of Admission:

<i>Date of Resolution</i>	<i>Change in share capital</i>	<i>Share Capital following change</i>
2 January 2001	Increase of 499,900 ordinary shares of £1 each.	500,000 ordinary shares of £1 each
18 September 2001	Increase of 4,500,000 ordinary shares of £1 each.	5,000,000 ordinary shares of £1 each
28 March 2002	Sub-division of every 1 authorised and issued and unissued ordinary share of £1 each into 10 Ordinary Shares.	50,000,000 Ordinary Shares

3.3 On 26 September 2003, the Company passed a special resolution to reduce its share premium account by £3,500,000. The reduction was approved by the court on 29 October 2003 and became effective upon registration of the court order at Companies House on 30 October 2003. This reduction of the share premium account was necessary prior to re-registration as a public limited company in order to enable the Company's auditors to provide a statement pursuant to section 43(3)(b) of the Act that the net assets of the Company are not less than the aggregate of its called-up share capital and undistributable reserves. Due to accumulated losses, this test could not be met by the Company without carrying out a reduction of the share premium account. The amount reduced on the share premium account was applied against the deficit on the profit and loss account enabling the auditors to provide the necessary statement.



- 3.4 On 26 September 2003, by resolution passed at the annual general meeting of the Company, it was resolved that, on re-registration as a public company:
- (i) the Directors be generally and unconditionally authorised pursuant to section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of section 80):
    - (a) up to an aggregate nominal amount of £1,500,000 for the purpose of issuing ordinary shares in a proposed placing in connection with Admission, such authority to expire on the earlier of 31 December 2003 and Admission; and
    - (b) otherwise than pursuant to paragraph 3.4(i)(a) above, up to an aggregate nominal amount of £1,500,000 for a period expiring five years after the date on which this resolution is passed, but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of this authority as if this authority had not expired.
  - (ii) the Directors be generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash, pursuant to the authority conferred by the resolution detailed at paragraph 3.4(i) above as if section 89(1) did not apply to the allotment. This power:
    - (a) expires five years after the date on which this resolution is passed, but the Company may make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if this power had not expired; and
    - (b) shall be limited to:
      - (i) the allotment of equity securities in connection with Admission;
      - (ii) the allotment after Admission of equity securities in connection with an issue in favour of holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of ordinary shares, but subject to such exclusions or other arrangements as the directors deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of a regulatory body or stock exchange; and
      - (iii) the allotment of equity securities for cash otherwise than pursuant to paragraphs 3.4(i) or (ii) up to an aggregate nominal amount equal to 5 per cent. of the issued and unconditionally allotted share capital following Admission.
  - (iii) That:
    - (a) the Company's second share option scheme (the "2003 Share Option Scheme"), (the main features of which are summarised in paragraph 9.2 below), be and is hereby approved; and
    - (b) the directors be and are hereby authorised:
      - (i) to do all such acts and things as they may consider necessary or expedient to carry the 2003 Share Option Scheme into effect, including the making of any amendments to the rules of the 2003 Share Option Scheme as they may consider necessary or desirable and the establishment of any related sub-plans to the Scheme, and
      - (ii) to vote and be counted in the quorum, on any matter connected with the 2003 Share Option Scheme, notwithstanding that they may be interested in the same (except that no director may be counted in a quorum or vote in respect of his own participation).

- 3.5 On 26 September 2003, the Company, by ordinary resolution, authorised the directors to capitalise out of the amount standing to the credit of the Company's share premium account the aggregate nominal value of the shares in issue and to apply such amount to paying up in full new Ordinary Shares and to allot such shares as bonus shares, fully paid and ranking equally with the existing Ordinary Shares in issue, to the members of the Company at the proportion of one bonus share for each existing Ordinary Share (the "Bonus Issue"). The Directors carried out the Bonus Issue on 26 September 2003.
- 3.6 Save as disclosed in the foregoing sub-paragraphs of this paragraph 3.6 and paragraphs 8.1 and 9 below:
- (a) no share or loan capital of the Company, or of any other company within the Group, is under option or has been agreed, conditionally or unconditionally, to be put under option;
  - (b) other than for the allotments described in paragraph 3.4 above or upon the exercise of options duly granted pursuant to the Share Option Scheme or upon due exercise of any of the options referred to in paragraph 9 below, there is no present intention to issue any of the authorised but unissued share capital of the Company.
- 3.7 Other than the holdings of the Directors and the persons connected with them in accordance with section 346 of the Act, which are set out in paragraph 7.1 below, the Company is aware of the following direct and indirect 3 per cent. interests in the Company's issued ordinary share capital as at 19 November 2003 (the latest practicable date prior to the publication of this document):

<i>Shareholder</i>	<i>Ordinary Shares</i>	<i>Percentage of the issued share capital immediately before Admission<sup>1</sup></i>	<i>Percentage of the issued share capital immediately after Admission</i>
Firebird Funds	2,105,500	11.77	7.38
L-R Global Partners	1,680,000	9.39	5.88
First Eagle Sogen Funds	840,000	4.70	2.94

<sup>1</sup> Note: Based on an issued share capital of 17,884,112.

- 3.8 The Company has entered into subscription agreements with a number of its shareholders. Amongst these are subscription agreements entered into with the four Firebird funds, LR Global Partners and TCW Americas Development Association which contain certain warranties from the Company as well as "drag along" clauses to the effect that if any shareholder of the Company (other than the subscriber) proposes to sell a majority of the outstanding shares in the Company, then the Company will notify the subscriber of the proposed sale; the subscriber then has the right to sell a pro-rata number of its shares to the proposed transferee on the same terms and conditions. Each of these subscribers has agreed to terminate the relevant subscription agreement upon Admission.
- 3.9 Save as described in paragraph 3.7 above and paragraphs 7.1 and 9 below, the Directors are not aware of any person who has, at the date of this document, or will be, at the date of Admission, directly or indirectly interested in 3 per cent. or more of the issued share capital of the Company or who does or would exercise control over the Company.
- 3.10 All previous share issues by the Company to persons in the UK in the last three years from the date of this document have been issued under one of the exemptions contained in paragraph 7 of the Public Offers of Securities Regulations 1995 and the Company believes that it has complied with all relevant securities regulations in all other jurisdictions where it has issued shares.

#### 4. Subsidiaries

The Company holds 100 per cent. of the issued share capital in the following companies:

<i>Name</i>	<i>Registered Office</i>	<i>Country of Incorporation</i>	<i>Principal activity and place of business</i>
OOO GRK “Amikan”	78 Karl Marx Street, office 404, Krasnoyarsk, Krasnoyarsk Region, Russia	Russia	Gold mining and exploration; Krasnoyarsk Region, Russia
OOO Kompanyia “Svezhiy Veter”	14 Rydzinsky Street, Yakutsk, Yakutia Region, Russia	Russia	Gold exploration; Yakutia Region, Russia

The Company holds 90.05 per cent. of the issued share capital in the following company with an obligation to purchase the other 9.95 per cent. from CJSC “Trevozhnoye Zarevo” for US\$1 million when the decision is made by the Board to proceed with the development of the Asachinskoye Project:

<i>Name</i>	<i>Registered Office</i>	<i>Country of Incorporation</i>	<i>Principal activity and place of business</i>
ZAO “Trevozhnoe Zarevo”	13 Sopochynaya Street, Elizovo, Kamchatka Region, Russia	Russia	Gold mining and exploration; Kamchatka Region, Russia

#### 5. Memorandum and Articles

5.1 The Memorandum of Association of the Company sets out a comprehensive list of principal objects of the Company including to purchase, subscribe for or otherwise acquire, hold and deal with controlling and other interests in the share or loan capital of any company or companies anywhere in the world, and to provide financial, managerial and administrative advice, services and assistance for any company in which the Company is interested, and for any other company.

5.2 The Articles of Association of the Company which were approved by the Company’s Shareholders on 26 September and which will become effective immediately prior to Admission include provisions to the following effect:

##### 5.3 *Voting Rights*

Subject to any rights or restrictions attached to any shares, on a show of hands every member who is present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

##### 5.4 *Share Capital*

- (i) Special Rights – Subject to the provisions of the Act and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the board shall determine.
- (ii) Variation of Rights – Subject to the provisions of the Act, if at any time the capital of the Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of allotment of the shares of that class) be varied or abrogated, whether or not the Company is being wound up, either with the consent of the holders of three-quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class, but not otherwise.
- (iii) Alteration – The Company may by ordinary resolution:
  - (a) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;



- (b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
  - (c) subject to the provisions of the Act, sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum and the resolution may determine that, as between the shares resulting from the sub-division, any of them may have any preference or advantage as compared with the others; and
  - (d) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.
- (iv) **Reduction of Capital** – Subject to the provisions of the Act, the Company may by special resolution reduce its share capital, capital redemption reserve and share premium account in any way.
- (v) **Purchase of Own Shares** – Subject to and in accordance with the provisions of the Act and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class (including without limitation redeemable shares) in any way and at any price (whether at par or above or below par).

### 5.5 *Transfer of Shares*

The instrument of transfer of a certificated share may be in any usual form or in any other form which the board may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal. The board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The board may also refuse to register the transfer of a certificated share unless the instrument of transfer: (a) is lodged, duly stamped (if stampable), at the office or at another place appointed by the board accompanied by the certificate for the share to which it relates and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer; (b) is in respect of only one class of shares; and (c) is in favour of not more than four transferees. In the case of a transfer of a certificated share by a recognised person, the lodging of a share certificate will only be necessary if and to the extent that a certificate has been issued in respect of the share in question. If the board refuses to register a transfer of a share in certificated form, it shall send the transferee notice of its refusal within two months after the date on which the instrument of transfer was lodged with the Company. The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the board may determine, except that the board may not suspend the registration of transfers of any participating security without the consent of the Operator of the relevant system. No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to a share. The Company shall be entitled to retain an instrument of transfer which is registered, but an instrument of transfer which the board refuses to register shall be returned to the person lodging it when notice of the refusal is sent.

### 5.6 *Issue of Shares*

Subject to the provisions of the Articles of Association and the Companies Acts and of any resolution of the Company in general meeting passed pursuant to those provisions (a) all unissued shares for the time being in the capital of the Company shall be at the disposal of the board; and (b) the board may reclassify, allot (with or without conferring a right of renunciation), grant options over, or otherwise dispose of them to such persons on such terms and conditions and at such times as it thinks fit.

### 5.7 *Failure to Disclose Interest in Shares*

If any person interested in shares of the Company fails to comply with a notice given by the Company requiring him to indicate his interest in shares and is in default for the prescribed period in supplying to the Company the information thereby required, or, in purported compliance with

such a notice, has made a statement which is false or inadequate in a material particular, then the board may to such member direct that: (a) in respect of the shares in relation to which the default occurred the member shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll; and that (b) where the default shares represent at least  $\frac{1}{4}$  of one per cent. in nominal value of the issued shares of their class, the direction notice may additionally direct that in respect of the default shares: (i) no payment shall be made by way of dividend and no share shall be allotted; and (ii) no transfer of any default share shall be registered unless: the member is not himself in default as regards supplying the information requested and no other person in default as regards supplying such information is interested in any of the shares the subject of the transfer; or the transfer is an approved transfer; or registration of the transfer is required by the Uncertificated Securities Regulations 2001.

### 5.8 *Dividend*

- (i) Declaration of Dividends – Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the board.
- (ii) Interim Dividends – Subject to the provisions of the Act, the board may pay interim dividends if it appears to the board that they are justified by the profits of the Company available for distribution.
- (iii) Apportionment of Dividends – Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid; but no amount paid on a share in advance of the date on which a call is payable shall be treated for the purpose of this Article as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; but, if any share is allotted or issued on terms providing that it shall rank for dividend as from a particular date, that share shall rank for dividend accordingly.
- (iv) Retention of Dividends – The board may deduct from any dividend or other moneys payable to any member in respect of a share any moneys presently payable by him to the Company in respect of that share. Where a person is entitled by transmission to a share, the board may retain any dividend payable in respect of that share until that person (or that person's transferee) becomes the holder of that share.
- (v) Dividends in Specie – A general meeting declaring a dividend may, on the recommendation of the board, by ordinary resolution direct that it shall be satisfied wholly or partly by the distribution of assets, including without limitation paid up shares or debentures of another body corporate.
- (vi) Scrip Dividends – The board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the board) of all or any dividend specified by such resolution.
- (vii) Unclaimed Dividends – Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the board so resolves, be forfeited and cease to remain owing by the Company.

### 5.9 *Forfeiture and Lien*

- (i) Notice on Failure to Pay a Call – If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the board may give the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. If that notice is not complied with, any share in respect of which it was sent may, at any time before the payment required by the notice has been made, be forfeited by a resolution of the board.

- (ii) **Lien on Partly-Paid Shares** – The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. The board may at any time (generally or in a particular case) waive any lien or declare any share to be wholly or in part exempt from the provisions of this Article. The Company's lien on a share shall extend to any amount (including without limitation dividends) payable in respect of it.
- (iii) **Sale of Shares Subject to Lien** – The Company may sell, in such manner as the board determines, any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share, or to the person entitled to it by transmission, demanding payment and stating that if the notice is not complied with the share may be sold.

#### 5.10 *General Meetings*

- (i) **Quorum** – If a quorum is not present within five minutes (or such longer time not exceeding 30 minutes as the chairman of the meeting may decide to wait) from the time appointed for the meeting, or if during a meeting such a quorum ceases to be present, the meeting, if convened on the requisition of members, shall be dissolved, and in any other case shall stand adjourned to such time and place as the chairman of the meeting may determine. The adjourned meeting shall be dissolved if a quorum is not present within 15 minutes after the time appointed for holding the meeting.
- (ii) **Votes by Poll** – A resolution put to the vote of a general meeting shall be decided on a show of hands unless, before or on the declaration of the result of a vote on the show of hands or on the withdrawal of any other demand for a poll, a poll is duly demanded by either: the chairman of the meeting; at least five members present in person or by proxy having the right to vote at the meeting; any member or members present in person or by proxy representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or any member or members present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. A demand by a person as proxy for a member shall be the same as a demand by the member.

#### 5.11 *Rights on Winding Up*

If the Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Insolvency Act 1986: (a) divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members; (b) vest the whole or any part of the assets in trustees for the benefit of the members; and (c) determine the scope and terms of those trusts, but no member shall be compelled to accept any asset on which there is a liability.

#### 5.12 *Capitalisation of Profits and Reserves*

The board may with the authority of an ordinary resolution of the Company: (a) capitalise any undistributed profits of the Company not required for paying any preferential dividend (whether or not they are available for distribution) or any sum standing to the credit of any reserve or other fund, if any; (b) appropriate the sum resolved to be capitalised to the members or any class of members on the record date specified in the relevant resolution who would have been entitled to it if it were distributed by way of dividend and in the same proportions; (c) apply that sum on their behalf either in or towards paying up the amounts, if any, for the time being unpaid on any shares held by them respectively, or in paying up in full unissued shares, debentures or other obligations of the Company of a nominal amount equal to that sum but the share premium account, the capital redemption reserve, and any profits which are not available for distribution may only be applied in paying up unissued shares to be allotted to members credited as fully paid; (d) allot the shares, debentures or other obligations credited as fully paid to those members, or as they may direct, in



those proportions, or partly in one way and partly in the other; (e) where shares or debentures become, or would otherwise become, distributable in fractions, make such provision as they think fit for any fractional entitlements including without limitation authorising their sale and transfer to any person, resolving that the distribution be made as nearly as practicable in the correct proportion but not exactly so, ignoring fractions altogether or resolving that cash payments be made to any members in order to adjust the rights of all parties; (f) authorise any person to enter into an agreement with the Company on behalf of all the members concerned providing for either: (i) the allotment to the members respectively, credited as fully paid, of any shares, debentures or other obligations to which they are entitled on the capitalisation; or (ii) the payment up by the Company on behalf of the members of the amounts, or any part of the amounts, remaining unpaid on their existing shares by the application of their respective proportions of the sum resolved to be capitalised, and any agreement made under that authority shall be binding on all such members; and (g) generally do all acts and things required to give effect to the ordinary resolution.

### 5.13 *Borrowing Powers*

The board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The board shall restrict the borrowings of the Company so as to secure that, save with the previous sanction of an ordinary resolution and subject to the Company's Articles of Association, no money shall be borrowed if the principal amount outstanding of all Moneys Borrowed (as defined by the Articles of Association) by the Company and its subsidiaries, excluding amounts borrowed from the Company or any of its wholly owned subsidiaries, then exceeds, or would as a result of such borrowing exceed, an amount equal to 2.5 times the Adjusted Capital and Reserves (as defined by the Articles of Association).

### 5.14 *Accounts*

No member shall (as such) have any right to inspect any accounting records or other book or document of the Company except as conferred by statute or authorised by the board or by ordinary resolution of the Company or order of a court of competent jurisdiction.

### 5.15 *Directors*

- (i) **Powers** – Subject to the provisions of the Act, the Company's Memorandum of Association and the Company's Articles of Association and to any directions given by special resolution, the business of the Company shall be managed by the board which may pay all expenses incurred in re-registering the Company and may exercise all the powers of the Company. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the board which would have been valid if that alteration had not been made or that direction had not been given. The powers given to the board shall not be limited by any special power given to the board by the Company's Articles of Association. A meeting of the board at which a quorum is present may exercise all powers exercisable by the board
- (ii) **Number** – Unless otherwise determined by ordinary resolution, the number of directors (other than alternate directors) shall be not less than four nor more than fifteen in number.
- (iii) **Fees and Benefits** – The emoluments of any director holding executive office for his services as such shall be determined by the board, and may be of any description, including without limitation admission to, or continuance of, membership of any scheme (including any share acquisition scheme) or fund instituted or established or financed or contributed to by the Company for the provision of pensions, life assurance or other benefits for employees or their dependants, or the payment of a pension or other benefits to him or his dependants on or after retirement or death, apart from membership of any such scheme or fund.
- (iv) **Expenses** – The directors may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the board or committees of the board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties;

- (v) Age Limit – No person shall be disqualified from being appointed or re-appointed a director, and no director shall be required to vacate that office, by reason only of the fact that he has attained the age of 70 years or any other age nor shall it be necessary by reason of his age to give special notice under the Companies Acts of any resolution. Where the board convenes any general meeting of the Company at which (to the knowledge of the board) a director will be proposed for appointment or re-appointment who at the date for which the meeting is convened will have attained the age of 70 or more, the board shall give notice of his age in years in the notice convening the meeting or in any document sent with the notice, but the accidental omission to do so shall not invalidate any proceedings, or any appointment or re-appointment of that director, at that meeting.
- (vi) Restrictions on voting – Except as otherwise provided by these Articles, a director shall not vote at a meeting of the board or a committee of the board on any resolution of the board concerning a matter in which he has an interest (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company) which (together with any interest of any person connected with him) is to his knowledge material unless his interest arises only because the resolution concerns one or more of the following matters:
  - (a) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings;
  - (b) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
  - (c) a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
  - (d) a contract, arrangement, transaction or proposal concerning any other body corporate in which he or any person connected with him is interested, directly or indirectly, whether as an officer, shareholder, creditor or otherwise, if he and any persons connected with him do not to his knowledge hold an interest (as that term is used in sections 198 to 211 of the Act) representing one per cent. or more of either any class of the equity share capital of such body corporate (or any other body corporate through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);
  - (e) a contract, arrangement, transaction or proposal for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and
  - (f) a contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any directors of the Company or for persons who include directors of the Company.
- (vii) Retirement by Rotation – At each annual general meeting one-third of the directors or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office; but if any director has at the start of the annual general meeting been in office for three years or more since his last appointment or re-appointment, he shall retire at that annual general meeting. A retiring director shall be eligible for re-election.

- (viii) Share Qualification – A director shall not be required to hold any shares in the capital of the Company by way of qualification.

## 6. Directors

- 6.1 Save as set out below, or as disclosed elsewhere in this document, no directorships of any company, other than the Company, have been held or occupied over the previous five years by any of the Directors, nor over that period has any of the Directors been a partner in a partnership:

Where the company/partnership is non-UK, the country of incorporation is indicated in brackets.

<i>Director</i>	<i>Current Directorships and Partnerships</i>	<i>Former Directorships and Partnerships</i>
Jeremy Marshall	Seymour Joy Limited The Design Museum 31 Lower Belgrave Street Limited	Perfect Property Partners Limited Invensys International Holdings Limited Premier Foods (Holdings) Limited
Jocelyn Waller	The UK Bali Bombing Victims' Group Limited The UK Bali Bombing Victims' Fund De Warrenne Pictures Limited Shannon Sailing Limited (Irish)	Avocet Gold Limited Avocet Mining plc Waller Metals Limited
Charles Dickson	Eastern Cross Promotions Limited (HK) Christian Solidarity Worldwide HK Limited (HK) Alpha Tech Production Company Limited (HK) Horwath Financial Services Limited (HK) GPT Holdings Limited (British Virgin Islands) Lexis Financial Corporation (British Virgin Islands) Golden Power Manufacturing Limited (HK) MAS Limited (HK) PYA Limited (HK) International Sports Sponsors Limited (HK) Horwath HK Group Limited (HK) Asia-Pacific Consulting Services Limited (HK) Gericom Far East Limited (HK) Claydon Group Limited (Western Samoan)	Horwath HK CPA Limited (HK) Horwath & Company (HK) Hi Line Distributors Limited (HK) JDS Limited (HK) Panurgy Limited (HK)
Philip Bowring	None	None
Peter Burnell	F&C Latin American Investment Trust PLC AB Management 2000 Limited	Anmercosa Sales Limited Cleveland Potash Limited Firecrest Investments Limited



<i>Director</i>	<i>Current Directorships</i>	<i>Former Directorships</i>
Peter Burnell (continued)		Anglo American Finance (UK) PLC Anglo American Services (UK) Ltd Anglo American Corporation of South Africa Limited (South Africa) Resolute Limited (Australian) Ivernia West plc (Irish) Minorco SA (Luxembourg)
Alexander Ivanov	OAo CFT Holding (Russia)	None
Vadim Nikolaitchouk	OAo “DMIRP” (Russia) OAo “SIGMA” (Russia)	None
Nirmal Sethia	N. Sethia Group Limited Sethia London Limited N. Sethia Holdings Limited Afro Impex Limited Anamika Corporation Limited Intracs Limited	N. Sethia Properties Limited Newby Teas Limited Everett Trading and Manufacturing Limited (Nigeria) Progress Industries Limited

6.2 None of the Directors has any unspent convictions in respect of indictable offences. None of the Directors has been a bankrupt or entered into an individual voluntary arrangement. None of the Directors was a partner of any partnership at the time of or within 12 months of any compulsory liquidation, administration or partnership voluntary arrangement. None of the Directors has owned an asset over which a receiver has been appointed nor has any of the Directors been a partner of any partnership at the time of or within 12 months of receivership of any assets of the partnership.

6.3 There have been no public criticisms of any of the Directors by any statutory or regulatory authority (including recognised professional bodies) and none of the Directors has ever been disqualified by a court from acting in the management or conduct of the affairs of any company.

6.4 None of the Directors was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangements with its creditors generally or any class of its creditors save as disclosed below:

<i>Director</i>	<i>Company</i>	<i>Status</i>
Peter Burnell	Navan Mining PLC	In Administrative Receivership

## 7. Directors and other interests

- 7.1 The interests of the Directors, and of persons connected with them in accordance with section 346 of the Act, in the Ordinary Shares as at 22 October 2003 (the latest practicable date prior to the publication of this document), which have been notified to the Company and are shown in the register of Directors' interests, are as follows:

<i>Director</i>	<i>Ordinary Shares</i>	<i>Percentage of the issued share capital immediately before Admission<sup>1</sup></i>	<i>Percentage of the issued share capital immediately after Admission</i>
Jeremy Marshall	82,000	0.46	0.29
Jocelyn Waller	915,100 <sup>2</sup>	5.68	3.21
Charles Dickson	150,000 <sup>3</sup>	0.84	0.53
Philip Bowring	424,000	2.37	1.49
Peter Burnell	171,100	0.96	0.60
Vadim Nikolaitchouk	220,000	1.23	0.77
Nirmal Sethia	900,000 <sup>4</sup>	5.03	3.15

<sup>1</sup> Based on an issued share capital of 17,884,112.

<sup>2</sup> Includes 35,100 Ordinary Shares held by Nilawan Waller and 340,000 Ordinary Shares held by James Hay Pension Trustees Limited and Jocelyn Waller for the Jocelyn Waller Executive Pension Scheme.

<sup>3</sup> All shares held in the name of Lexis Financial Corporation.

<sup>4</sup> All shares held in the name of Sethia London Limited.

- 7.2 The Company has two share option schemes in place, see paragraph 9 below.

- 7.3 All of the interests of the Directors are or will be beneficial.

## 8. Directors' Service Agreements and Remuneration

- 8.1 New service contracts have been entered into with the directors and certain key employees. A summary of the main terms of the service contracts with the Managing Director, Finance Director, Non-executive directors and Chairman are set out below:

### *Managing Director and Chief Executive Officer*

12 months' notice of termination of employment is required from either the Company or the Managing Director.

Approval of the board of directors is required for any item of expenditure or offer of employment of over \$100,000 that has not been included in budgets previously approved by the board.

The rate of remuneration is £110,000 per year.

As soon as it is permissible under ABI guidelines, the Managing Director shall be granted further share options over 400,000 shares.

The Managing Director may be entitled to a special cash bonus of up to £500,000 within 180 days of the Asachinskoye/Rodnikovoye project coming into production provided that certain criteria are met: £250,000 will be payable upon the mine achieving throughput, recovery and gold production levels as specified in the final Bankable Feasibility Study; a further £125,000 will be payable if the share price at the relevant time is 25 per cent. above the share price at Admission and a further £125,000 if the share price is 50 per cent. above the share price at Admission. This criteria also applies to a further bonus of £500,000 which may be payable upon the Veduginskoye project coming into production. Such bonuses are payable even in the event of termination of employment (except in the event of termination for gross default,

breach of the service contract or resignation within 2 years of the date of the contract) and by any successor company in the event of a takeover or merger.

30 days holiday entitlement plus the usual public and bank holidays.

The Managing Director is entitled to up to 26 weeks sick pay in any 52 consecutive weeks of employment and thereafter shall be paid salary only at the discretion of the Company. If the Managing Director is absent for more than 26 weeks in any 52 consecutive weeks then the Company may terminate his employment.

The Managing Director is required to devote his working time and attention to the business of the Company and shall not, without the prior written consent of the Company, engage in any other business or have any interest (other than shares) in any competitor of the Company or its subsidiaries.

The Managing Director will be provided with life insurance, travel insurance and any director's and officer's liability insurance taken out by the Company.

The Managing Director is subject to a contractual duty of confidentiality to the Company.

The Managing Director's employment may be terminated by the Company without notice or payment in lieu of notice in certain circumstances and terminates automatically upon him ceasing to be a director of the Company.

Non-solicitation clause for a period of 6 months after termination of employment of the Managing Director relating to all persons who have been employed by the Company for a period of 12 months prior to such termination.

Non-compete clause relating to any competitive mining business in Russia for a period of 6 months after termination of employment of the Managing Director.

#### *Finance Director*

3 months' notice of termination of employment is required from either the Company or the Finance Director.

The rate of remuneration is £90,000 per year commencing on 1 January 2004.

A bonus of £10,000 is payable on successful completion of the Company listing on AIM.

£25,000 is payable in respect of the 6 month's employment ending on 31 December 2003.

30 days holiday entitlement plus the usual public and bank holidays.

The Finance Director is entitled to up to 26 weeks sick pay in any 52 consecutive weeks of employment and thereafter shall be paid salary only at the discretion of the Company. If the Finance Director is absent for more than 26 weeks in any 52 consecutive weeks then the Company may terminate his employment.

The Finance Director is required to devote his working time and attention to the business of the Company and shall not, without the prior written consent of the Company, engage in any other business or have any interest (other than shares) in any competitor of the Company or its subsidiaries.

The Finance Director is subject to a contractual duty of confidentiality to the Company.

The Finance Director will be provided with travel insurance and any director's and officer's liability insurance taken out by the Company.

The Finance Director's employment may be terminated by the Company without notice or payment in lieu of notice in certain circumstances and terminates automatically upon him ceasing to be a director of the Company.

Non-solicitation clause for a period of 6 months after termination of employment of the Finance Director relating to all persons who have been employed by the Company for a period of 12 months prior to such termination.



Non-compete clause relating to any competitive mining business in Russia for a period of 6 months after termination of employment of the Finance Director.

#### *Non-executive directors*

The non-executive director will be eligible for any director's and officer's liability insurance taken out by the Company.

Employment is terminable upon the director's resignation or removal from office or upon the director not being re-elected upon retirement by rotation or being removed by shareholders resolution, or at the AGM following the director's 70th birthday.

The rate of remuneration is £12,000 per year payable in four equal quarterly instalments plus reimbursement of all out of pocket expenses performed in the performance of duties, additional payment may be made to the director at the discretion of the Board for any significant extra periods of time engaged on Company business.

#### *Chairman*

The Chairman will be eligible for any director's and officer's liability insurance taken out by the Company.

Employment is terminable upon the director's resignation or removal from office or upon the director not being re-elected upon retirement by rotation or being removed by shareholders resolution, or at the AGM following the director's 70th birthday.

The rate of remuneration is £15,000 per year payable quarterly in arrears with effect from 1 January 2004, plus reimbursement of all out of pocket expenses performed in the performance of duties, additional payment may be made to the director at the discretion of the Board for any significant extra periods of time engaged on Company business.

- 8.2 There are no loans or guarantees provided by any member of the Group for the benefit of any Director.
- 8.3 Save as disclosed in this document, no Director has or has had any interest in any transaction which is of an unusual nature, contains unusual terms or is significant in relation to the business of the Group and which was effected during the current or immediately preceding financial year and remains in any respect outstanding or underperformed.

## **9. Share option schemes and share warrants**

- 9.1 The following is a summary of the share option scheme approved by a special resolution of the Company on 28 March 2002 and operated by the Company in favour of those employees listed below:
- (i) the directors were given authority to grant share options in their absolute discretion to employees and directors for a period of five years following the authorisation of the scheme by the Company i.e. five years from 28 March 2002;
  - (ii) option may be granted over up to a maximum of 1,000,000 Ordinary Shares (2,000,000 Ordinary Shares following the bonus issue) of 10 pence each in the Company at the current issuing price of the shares or the market price of the shares at the date of grant of the option;
  - (iii) the option is exercisable in whole or in part, but, if in part, over at least 25 per cent. of the shares subject to the option;
  - (iv) the shares allotted in respect of which an option has been validly exercised shall rank *pari passu* and as one class with the other issued shares of the Company;
  - (v) the option will be personal to the director or employee and not transferable assignable or chargeable;

- (vi) the right to exercise the option will terminate upon the director or employee being adjudicated bankrupt;
- (vii) the option may be exercised only whilst the grantee is an employee (or for three months following the termination of employment in respect of options issued after February 2003), except where the employment terminates in the event of death, injury or disability, redundancy, retirement or any other circumstances in which the directors decide, at their discretion, that the option may be exercised;
- (viii) in the event of a takeover, merger or winding up the option will be exercisable for the period of one month and will thereafter lapse if unexercised;
- (ix) in the event of any capitalisation, consolidation, sub-division or reduction of the share capital of the Company or any rights issue or other variation of capital the number of shares comprised in the option and the option price may be varied in such manner as the directors shall determine and (save in the event of a capitalisation) the auditors shall confirm to be fair and reasonable;
- (x) the scheme is not approved by the Inland Revenue.

The Company has granted the following options to employees under the above share option scheme<sup>1</sup>:

<i>Name</i>	<i>Date of Grant</i>	<i>Type of Share</i>	<i>Number of Shares</i>	<i>Price of Shares</i>	<i>Date by which the option must be exercised</i>
Jocelyn Waller	2 April 2002	Ordinary	400,000	£0.45	30 September 2007
John Thomas	2 April 2002	Ordinary	200,000	£0.45	30 September 2007
Jeremy Marshall	2 April 2002	Ordinary	200,000	£0.45	30 September 2007
Nirmal Sethia	2 April 2002	Ordinary	150,000	£0.45	30 September 2007
Phillip Bowring	2 April 2002	Ordinary	150,000	£0.45	30 September 2007
Peter Burnell	2 April 2002	Ordinary	150,000	£0.45	30 September 2007
Vadim Nikolaitchouk	2 April 2002	Ordinary	110,000 <sup>2</sup>	£0.45	30 September 2007
Marcel Nally	2 April 2002	Ordinary	100,000	£0.45	30 September 2007
Alexander Ivanov	2 April 2002	Ordinary	100,000	£0.45	30 September 2007
Andrew Dinning	26 February 2003	Ordinary	50,000	£1.00	30 September 2007
Andrew Dinning	15 May 2003	Ordinary	50,000	£1.00	30 September 2007
Mikhail Gorlov	1 June 2003	Ordinary	30,000	£1.00	30 September 2007
Sergey Ikrin	15 May 2003	Ordinary	30,000	£1.00	30 September 2007
Vladimir Rukusuyev	1 June 2003	Ordinary	20,000	£1.00	30 September 2007
E B Freestone	15 May 2003	Ordinary	10,000	£1.00	30 September 2007

1 In line with the Bonus Issue and under the term of the share option scheme described at 9.1(ix) above, the Directors resolved to double the number of shares and halve the option price of each option. The table reflects the past Bonus Issue figures.

2 Grant to Vadim Nikolaitchouk was originally over 75,000 shares pre-Bonus Issue but has been exercised in respect of 20,000 of these shares as on 12 May 2003.

Options have been granted in respect of 1,790,000 Ordinary Shares under the above share option scheme.

- 9.2 The Company has further granted options under the powers under its memorandum and articles of association to grant options to Greatex employees, on substantially similar terms as described in paragraph 9.1 above, These options may only be exercised while the grantee is employed by Greatex. Details of these options are as follows<sup>1</sup>:

<i>Name</i>	<i>Date of Grant</i>	<i>Type of Share</i>	<i>Number of Shares</i>	<i>Price of Shares</i>	<i>Date by which the option must be exercised</i>
Marsha Whyte	2 April 2002	Ordinary	100,000	£0.45	30 September 2007
Boris Guzman	2 April 2002	Ordinary	50,000	£0.45	30 September 2007
Yulia Pekareva	1 June 2003	Ordinary	30,000	£1.00	30 September 2007
Yaroslavna Maeva	1 June 2003	Ordinary	30,000	£1.00	30 September 2007

1 In line with the Bonus Issue and the terms of the scheme described at 9.1(ix) above, the Directors have resolved to double the number of shares and halve the option price of each option. The table reflects the past Bonus Issue figures.

9.3 The following is a summary of the share option scheme approved by a special resolution of the Company on 26 September 2003:

- (i) the directors were given authority to grant share options in their absolute discretion to employees and directors of the Company or any company in the Group for the period of three years from the date of the resolution i.e. three years from 26 September 2003;
- (ii) the total number of options to be issued under this scheme and the Company's existing option scheme is limited to a maximum of 10 per cent. of the nominal value of the ordinary shares issued by the Company from time to time;
- (iii) the option price shall be not less than the last price at which shares were issued prior to Admission or after such listing, not less than the average price of shares over the thirty days immediately preceding the grant of the option;
- (iv) any option granted will not be exercisable until the later of eighteen months from the date of grant of the option or the commencement of the production of gold by any member of the Group;
- (v) The option shall lapse on the earliest of the following dates:
  - (a) five years from the date of the grant of the option.
  - (b) three months from the date on which the director or employee ceases to be a director or an employee of the Company or any company in the Group.
  - (c) the date on which a resolution is passed or an order is made by the Court for the compulsory winding up of the Company.
  - (d) the date on which the director or employee does or omits to do anything as a result of which he ceases to be the legal and beneficial owner of the option.
- (vi) the option may be exercised in whole or in part;
- (vii) the shares allotted in respect of which an option has been validly exercised shall rank *pari passu* and as one class with the other issued shares of the Company;
- (viii) the option will be personal to the director or employee and not transferable assignable or chargeable;
- (ix) the right to exercise the option will terminate upon the director or employee being adjudicated bankrupt;
- (x) in the event of any capitalisation, consolidation, sub-division or reduction of the share capital of the Company or any rights issue or other variation of capital the number of shares comprised in the option and the option price may be varied in such manner as the directors shall determine and, as appropriate, the auditors shall confirm to be fair and reasonable;
- (xi) in the event of a takeover, merger or winding up the option will be exercisable for the period of one month and will thereafter lapse if unexercised;
- (xii) the scheme is not approved by the Inland Revenue.



9.4 As part of a private placing completed on 18 September 2003, the Company issued share warrants to all those participating in the placing as follows<sup>1</sup>:

<i>Name</i>	<i>Date of Grant</i>	<i>Type of Shares</i>	<i>Subscription Price</i>	<i>Number of Warrants</i>
Strathbogie Trust Company	22.8.03	Ordinary	US\$2.50	250,000
Credit Suisse Trust Limited as Trustee of the Beauchamp Trust	19.9.03	Ordinary	US\$2.50	250,000
Lombard Odier Darier Hentsch & Cie	19.9.03	Ordinary	US\$2.50	125,000
ABD Capital	19.9.03	Ordinary	US\$2.50	207,500
Numis Securities Limited	19.9.03	Ordinary	US\$2.50	50,000
Amd Wolpers – CMW GMBH	19.9.03	Ordinary	US\$2.50	25,000
Bordier & Cie	19.9.03	Ordinary	US\$2.50	75,000
Richard Lloyd	18.9.03	Ordinary	US\$2.50	2,000
Bronnerlehe Group Limited	19.9.03	Ordinary	US\$2.50	25,000

<sup>1</sup> In line with the Bonus Issue and under the terms of the warrants described below, the Directors resolved to double the number of shares and halve the warrant price of each warrant. The table reflects the post Bonus Issue figures.

- (i) All warrants must be exercised within two years of the date of grant.
- (ii) In the event of a general offer to acquire all the shares in the Company the warrants may be exercised within one month of the time when the person making the offer has obtained control of the Company and after this time will lapse.
- (iii) If, under section 425 of the Act, the court sanctions a compromise or arrangement proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the warrants may be exercised within one month of the court sanctioning the compromise or arrangement and after this time will lapse.
- (iv) If any person becomes bound or entitled to acquire shares in the Company under sections 428-430F of the Act the warrants may be exercised at any time when that person remains so bound or entitled and after this time will lapse.
- (v) If the Company passes a resolution for voluntary winding up the warrants may be exercised within one month of the passing of the resolution and after this time will lapse.
- (vi) In the event of any capitalisation, consolidation, sub-division or reduction of the share capital of the Company or any rights issue or other variation of capital taking place after the date of this agreement the number of Shares comprised in each warrant and the subscription price may be varied in such manner as the directors of the Company shall determine and as (save in the event of a capitalisation) the auditors shall confirm in writing to be in their opinion fair and reasonable.
- (vii) The Company has undertaken at all times to keep available sufficient authorised and unissued Ordinary Shares to satisfy the exercise to the full extent still possible of the warrants, taking account of any other obligations of the Company to issue shares.

## 10. Material Contracts

10.1 The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by a member of the Group, within 12 months prior to the date hereof, or contain obligations on the Company which are outstanding, and are, or may be, material:

10.2 Agreement, dated 14 January 2003 between the Company and Mr Yakovlev for the acquisition of his entire participation interest in Svezhiy Veter for RUR 10,000.

- 10.3 Agreements, dated 5 May 2001, between the Company and each of Mr. Kovalenkov and ZAO Sirius-Mik, each regarding the acquisition of 50 per cent. of Zarevo's issued share capital, with the intention of replacing the original agreements. As referred to in the Asachinskoye and Rodnikovoye section in Part 1 of this document, the consideration for the remaining 9.95 per cent. of Zarevo's issued share capital, constituting in aggregate US\$1,000,000, is still outstanding. The transfer of the remaining 9.95 per cent. of the issued share capital and the payment of the consideration will be made when a decision is made by the Board to proceed with the development of a mine at Asacha.
- 10.4 Loan agreement, dated 2 July 2002 between Zarevo and Greatex by which Zarevo provided Greatex with an interest free loan for RUR 1,280,000 payable in equal monthly instalments. Greatex have repaid RUR 148,000 with the remainder to be repaid before the end of 2003.
- 10.5 Pursuant to a Placing Agreement dated 20 November 2003 between the Company, Collins Stewart and each of the Directors:
- (a) Collins Stewart has agreed to procure subscribers for, or failing which to subscribe itself for, the Placing Shares at the Placing Price;
  - (b) the Company has agreed to pay Collins Stewart, conditional on Admission, an advisory fee of £175,000 and a commission equal to 5 per cent. of the Placing Price multiplied by the number of Placing Shares allotted to placees. The Company has also granted Collins Stewart an option to subscribe for 2 per cent. of the Ordinary Shares immediately following Admission, which is exercisable for three years following Admission;
  - (c) the obligations of the Company to issue Placing Shares and the obligations of Collins Stewart to procure subscribers for, or failing which to subscribe itself for, the Placing Shares will be subject to certain conditions, including amongst others that Admission becomes effective by 9.00 a.m. on 25 November 2003. Collins Stewart may terminate the Placing Agreement in certain circumstances prior to Admission. These circumstances include the occurrence of certain material changes affecting the business, general affairs, management, financial conditions, prospects of the Group, and certain material changes in financial, political or economic conditions (as more fully set out in the Placing Agreement);
  - (d) the Company has agreed to pay (together with any value added tax) certain costs, fees and expenses relating to the Placing and Admission;
  - (e) the Company and the Directors have given certain warranties and undertakings to Collins Stewart and the Company has also given certain indemnities to Collins Stewart. The liabilities of the Company under the Placing Agreement are not limited in time or amount, except its liabilities in respect of the warranties, which are limited in time. The liabilities of the Directors under the Placing Agreement are limited in time and amount.
- 10.6 Pursuant to an agreement dated 17 July 2003 with Loeb Aron & Company Limited ("Loeb Aron") Loeb Aron agreed to advise the Company in relation to the Placing. The Company has granted Loeb Aron an option to subscribe for 1 per cent. of the Ordinary Shares immediately following Admission, which is exercisable for three years following Admission.
- 10.7 The Company is a party to an agreement dated 31 July 2003 with City Capital Corporation Limited ("City Capital"), pursuant to which:
- (a) City Capital has agreed to procure investors for the purposes of the Placing; and
  - (b) the Company has agreed to pay City Capital, conditional on Admission, a commission equal to 0.5 per cent. of the Placing Price multiplied by the number of Placing Shares allotted to investors that it has procured. The Company has also granted an option to subscribe for 1 per cent. of the Ordinary Shares immediately following Admission provided that the Placing raises over US\$20 million. If granted, the option will be exercisable for two years following Admission.

10.8 The Company has entered into a Nominated Adviser and Broker Agreement with Collins Stewart, dated 20 November 2003, whereby Collins Stewart will act as the Company's nominated adviser and broker for the purposes of Admission and thereafter for the purposes of the AIM Rules and the London Stock Exchange. The Company will pay Collins Stewart an annual fee of £40,000 plus VAT.

## 11. Premises

Details of the principal properties occupied by the Group are as follows:

### 11.1 Trans-Siberian Gold Plc/Limited

<i>Location</i>	<i>Tenure</i>	<i>Principal use</i>	<i>Rent</i>	<i>Lease expiry date</i>
Unit B1, Church Barn, Old Farm Business Centre, Church Road, Toft, Cambridgeshire CB3 7RF, UK	Leasehold <sup>4</sup>	Office premises	£14,500 per annum (payable quarterly)	9 September 2005

### 11.2 OOO GRK Amikan

<i>Location</i>	<i>Tenure</i>	<i>Principal use</i>	<i>Rent</i>	<i>Lease expiry date</i>
78 Karl Mark street, Krasnoyarsk, Krasnoyarsk region, Russia	Leasehold	Office premises	61,715 RUR (US\$2,023) monthly	10 December 2003
1 Perenson street, flat 43, Krasnoyarsk, Krasnoyarsk Region, Russia	Leasehold	Residential	US\$18,000 for the entire 24-month period	1 September 2004
1-st kilometer of the Enisey road, Krasnoyarsk, Krasnoyarsk Region, Russia.	Leasehold	Warehouse	5,000 RUR (US\$164) monthly	31 December 2003
3B Michurin Street, Krasnoyarsk, Krasnoyarsk Territory, Russia	Lease	Office premises	59,500 RUR (US\$2,000) monthly	30 September 2004

### 11.3 ZAO Trevozhnoye Zarevo<sup>5</sup>

<i>Location</i>	<i>Tenure</i>	<i>Principal use</i>	<i>Rent</i>	<i>Lease expiry date</i>
104A Bering street, Petropavlovsk-Kamchatsky, Kamchatka Region, Russia	Leasehold	Office premises	2,514 RUR (US\$82) monthly	31 December 2003
4 Piipa avenue, flat 58, Petropavlovsk-Kamchatsky, Kamchatka Region, Russia	Leasehold	Residential	7,232 RUR (US\$240) monthly	1 December 2003

<sup>4</sup> The lease for the Company's offices has not yet been entered into and is conditional upon the landlord entering into a head lease

<sup>5</sup> Zarevo intends to lease office premises located at 10 Toporkovka Street, Petropavlovsk-Kamchatsky Region, Russia for a term of 11 months at approximately 100,277 RUR (US\$3,342) per month. However, this lease has not yet been entered into



## **12. Litigation and arbitration**

There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had, during the twelve months prior to the publication of this document, a significant effect on the financial position of the Group.

## **13. Working capital**

In the opinion of the Company, taking into account the Group's bank facilities and the net proceeds of the Placing receivable by the Company, the working capital available to the Group is sufficient for its present requirements, being twelve months from the date of Admission.

## **14. Issue arrangements**

14.1 The provisions of section 89(1) of the Act, which confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash (other than by way of allotment to employees under an employee's share scheme, as defined in section 743 of the Act), apply to the authorised but unissued share capital of the Company to the extent not disapplied as set out in 3.3(c) above.

14.2 The issue price of the Placing Shares will be at a premium of 140p over the nominal value of such shares.

14.3 No admission to listing or trading of the Placing Shares is being sought on any stock exchange other than AIM.

14.4 Details of the placing agreement are set out in paragraph 10 above.

## **15. Taxation**

The following statements are intended only as a general guide to the current tax position under UK taxation law and the current practice of the UK Inland Revenue. They are intended to apply only to shareholders who are resident or ordinarily resident in the UK for UK tax purposes (except where expressly stated otherwise) in relation to the payment of dividends, capital gains tax, inheritance tax, stamp duty and stamp duty reserve tax who hold the Ordinary Shares as investments and who are the beneficial owners of the Ordinary Shares. The statements may not apply to certain classes of shareholders, such as dealers in securities, or to shareholders who are not absolute beneficial owners of their shares. Prospective subscribers who are in any doubt as to their tax position or who are subject to tax in any jurisdiction other than the UK should consult their own professional adviser without delay.

### **15.1 Dividends**

Under current UK legislation, no tax is withheld at source from dividend payments by the Company.

A UK resident individual shareholder will be entitled to a tax credit in respect of any dividend received from the Company equal to one ninth of the amount of the dividend. The tax credit therefore equals 10 per cent. of the aggregate amount of the dividend and tax credit. Liability to UK income tax is calculated on the sum of the dividend and the tax credit. The tax credit will be available to offset such a shareholder's liability to income tax on the dividend.

Individual UK resident shareholders whose income is within the starting rate or basic rate tax bands are subject to income tax at the rate of 10 per cent. in 2003-2004 on their dividend income, so that the tax credit will satisfy in full such shareholders liability to income tax on the dividend. The higher rate of income tax is 32.5 per cent. in 2003-2004 in respect of dividend income, so that an individual UK resident shareholder whose income is subject to higher rate income tax will, after allowing for the 10 per cent. tax credit, be liable to pay further income tax equal to 22.5 per cent. of the amount of the dividend and the tax credit which is equal to 25 per cent. of the dividend actually received, before the addition of the tax credit. An individual UK resident shareholder who is not liable to income tax on the dividend (or any part of it) is not able to claim payment of the tax credit (or part of it) in cash from the Inland Revenue, save where the dividend is paid on or before 5 April 2004 in respect of shares held in a personal equity plan or an individual savings account.

UK resident corporate shareholders (including authorised unit trusts and open-ended investment companies) and pension funds will not normally be liable to UK taxation on any dividend received from the Company and are not entitled to claim repayment of the tax credit attaching to any dividend paid by the Company.

Registered UK charities may reclaim tax credits on a reducing basis until 5 April 2004.

Shareholders who are not resident in the UK for UK tax purposes will not generally be entitled to recover payment from the Inland Revenue in respect of the tax credit attaching to any dividend paid by the Company.

### *15.2 Capital Gains Tax*

A disposal of ordinary shares by a shareholder who is resident or ordinarily resident for UK tax purposes in the UK may, depending upon their individual circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purpose of the taxation of chargeable gains.

A shareholder who is not resident or ordinarily resident for UK tax purposes in the UK will not be liable to UK taxation on chargeable gains unless the shareholder carries on a trade, profession or vocation in the UK through a branch or agency or, in the case of a non-resident company, permanent establishment in the UK and the shares are, or have been, used, held or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency or, in the case of a non-resident company, permanent establishment. A disposal of Ordinary Shares by such a shareholder may, depending on their individual circumstances and subject to any available exemptions or relief, give rise to a chargeable gain or an allowable loss for the purpose of the taxation of chargeable gains.

A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident in the UK for tax purposes for a period of less than 5 years of assessment and who disposes of the Ordinary Shares during that period may also be liable on his return to the UK to tax on any capital gain realised (subject to any available exemption or relief).

### *15.3 Inheritance Tax*

The Ordinary Shares are assets situated in the UK for the purposes of UK inheritance tax. A gift of shares by, or the death of, an individual shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the shareholder is neither domiciled nor deemed to be domiciled in the UK under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift.

### *15.4 Stamp Duty and Stamp Duty Reserve Tax*

No stamp duty or stamp duty reserve tax (“SDRT”) will be payable on the issue of the Ordinary Shares, save where the Ordinary Shares are issued or transferred to a person who issues depositary receipts or provides clearance services in respect of such shares or to a nominee or agent for such person, in which case SDRT will be payable at the rate of 1.5 per cent. of the issue price of the Ordinary Shares, or, in the case of a transfer to such persons, stamp duty will be payable at the rate of 1.5 per cent. of the amount or value of the consideration payable, or, in certain circumstances, the value of the Ordinary Shares. The Company will not meet such SDRT or stamp duty liability. Clearance service providers may get, under certain circumstances, for the normal roles of SDRT and stamp duty to apply to an issue (i.e. no SDRT or stamp duty) or transfer (i.e. 0.5 per cent. of the consideration paid for such shares) of the Ordinary Shares into, and to transactions within (i.e. also 0.5 per cent.) the service instead of the higher rate applying to an issue or transfer of the Ordinary Shares into the clearance system and the exemptions for dealing in the Ordinary Shares whilst in the system.

Where shares are held in certificated form, no stamp duty or SDRT will arise on a transfer of such shares into CREST unless such transfer is made for a consideration in money or money’s worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise. Transfers of the Ordinary Shares within CREST generally will be liable to SDRT rather than stamp duty at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT from the purchaser of the Ordinary Shares on relevant transactions settled within the system.

Any unconditional agreement to transfer the Ordinary Shares outside CREST made for a consideration in money or money's worth will give rise to a liability to SDRT usually at the rate of 0.5 per cent. of the amount or value of the consideration paid. SDRT is not normally the liability of the purchaser or transferee of the Ordinary Shares. The conveyance or transfer on sale of the Ordinary Shares outside the CREST system will generally be subject to *ad valorem* stamp duty on the instrument of transfer at the amount of 0.5 per cent. of the amount or value of the consideration given, rounded up to the nearest £5. Stamp duty is normally the liability of the transferee or purchaser of the Ordinary Shares. Where, within six years of the date of an unconditional agreement, an instrument of transfer is executed and duly stamped, the SDRT liability will be cancelled and any SDRT which has been paid will be repaid.

Special rules apply to market makers, broker-dealers and certain other persons. Agreements to transfer shares to charities will not give rise to SDRT or stamp duty.

## 16. General

16.1 Collins Stewart, which is regulated by the Financial Services Authority, has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which they appear.

16.2 Save as disclosed in this document there has been no significant change in the trading or financial position of the Company since 30 June 2003.

16.3 The expenses of and incidental to the Placing and Admission, including commissions which are payable by the Company, are estimated to amount to £1.7 million (excluding VAT).

16.4 Monies received from applicants pursuant to the Placing will be held in escrow/by Collins Stewart until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 25 November 2003 (or such later date as Collins Stewart and the Company may agree, not being later than 9 December 2003) application monies will be returned to applicants at their risk without interest prior to delivery of the shares.

16.5 The Placing Price represents a premium of 140p over the nominal value of 10p per share. The share premium arising on the Placing, assuming full subscription, amounts to approximately £16 million in aggregate.

16.6 In the Directors' opinion, the minimum amount to be raised pursuant to the Placing for the purposes set out in paragraph 21(a) of Schedule 1 to the POS Regulations is £16 million, which will be applied as follows:

- |  |               |
|--|---------------|
| (i) purchase price of property;  | nil           |
| (ii) commissions and preliminary expenses payable in respect of the Placing; | £1.7 million  |
| (iii) repayment of monies borrowed in respect of (i) and (ii) above; and     | nil           |
| (iv) working capital   | £14.3 million |

There are no amounts to be provided in respect of the matters mentioned above otherwise than out of the Placing or the Company's existing resources.

16.7 There are no patents or other intellectual property rights, licences or particular contracts, where any of these are of fundamental importance to the Group's business.

16.8 As at the date of this document, no statutory accounts for the period ending June 2003 have been delivered to the Registrar of Companies by the Company. The financial information given in Part 4 of this document does not constitute statutory accounts within the meaning of section 240 of the Act.

16.9 The articles of association of the Company allow the holding and transfer of Ordinary Shares through the CREST system. The Directors have applied for the Ordinary Shares to be admitted to CREST following Admission. However, CREST is a voluntary system and holders of Ordinary Shares who wish to receive share certificates will be able to do so even after admission to the CREST system.



16.10 Temporary documents of title will not be issued on the completion of the Placing. It is expected that share certificates will be despatched by post to those shareholders whose entitlements are to be dealt with outside CREST at the risk of the persons entitled thereto on or before 1 December 2003 and that the CREST accounts of those shareholders who have requested that their entitlements be dealt with inside CREST will be credited on or before 25 November 2003.

16.11 Except as detailed in this document, no person (excluding professional advisers as stated in this document) has received, directly or indirectly, from the Company within the twelve months preceding the Company's application for Admission, and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:

- (i) fees totalling £10,000 or more;
- (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- (iii) any other benefit with a value of £10,000 or more at the date of Admission.

## **17. Documents on display**

Copies of the following documents will be available for inspection at the offices of Freshfields, 65 Fleet Street, London EC4Y 1HS during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) from the date of this document until a date one month following Admission:

- (A) the memorandum and articles of association of the Company;
- (B) the report produced by the Reporting Accountants set out in Part 4 of this document;
- (C) the material contracts referred to in paragraph 10 above including the Placing Agreement referred to in paragraph 10.8 above;
- (D) the executive directors' service agreements and non-executive directors' agreements referred to in paragraph 8.1 above;
- (E) the Share Option Schemes;
- (F) the consent letter referred to in paragraph 16.1 above; and
- (G) this document.

Dated: 20 November 2003

