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AIM Gold Sector
Metal and Equity Review

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Contents

All prices in this document are as of 16 November 2007

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Executive Summary: Metal and Equity Interplay

Value still remains in unhedged producers and developers — M&A action is heating up

As we go to press the gold price is coming off a 20-year high — at these levels investors must be looking toward profit taking. We argue here that there is still value in unhedged producers, particularly those with the ability to increase production, as well as emerging explorers and developers, especially in Africa. On top of this, we believe the highly fragmented UK mid- and small-cap market is well overdue for consolidation, and serious M&A activity is on the horizon. It's not all one way for equities, with winners and losers defined by speed to production, ability to maintain that production, and, of course, long-term growth. We review 14 AIM gold companies in this report, with our recommendations below. Other notable AIM gold companies not reviewed here include Tianshan Goldfields (TGF) and Central African Gold (CAG), with a full list of AIM gold peers and their metrics presented on page five.

Companies Reviewed in this Report

Company	Ticker	Recommendation	Target price (p)	Share price (p)	Market cap (£m)
PRODUCERS					
Allied Gold	AGLD	HOLD	-	34.0	124.0
Avocet Mining	AVM	BUY	219	178.0	213.5
Medusa Mining*	MML	HOLD	-	65.5	93.0
Mercator	MCR	-	-	88.5	55.3
Pan African Resources*	PAF	BUY	10.7	7.8	83.6
Peter Hambro	POG	-	-	1451	1,177.6
Serabi Mining	SRB	HOLD	-	26.5	37.1
DEVELOPERS					
Centamin Egypt*	CEY	BUY	79	63.3	478.9
Cluff Gold	CLF	BUY	-	90.5	62.4
Leyshon	LRL	BUY	32	26.0	56.1
PRE-FEASIBILITY					
African Consolidated Res.*	AFCR	SPECULATIVE BUY	-	12.3	27.1
Archipelago**	AR.	BUY	71	25.0	42.9
Metals Exploration	MTL	BUY	45	32.8	30.0
Moto Goldmines	MOE	BUY	262	165.0	103.7

*Ambrian acts as Broker and Nomad; **Ambrian acts as Broker; Source: Company data, Ambrian estimates

Despite a rising gold price, a falling US dollar is holding back AIM gold equities

On a simplified 'metal in the ground basis', pure gold explorers on AIM are trading at US$36/oz, pre-producers at US$59/oz, and producers at US$2,283/oz of 2008F production. The average for all pre-producers is US$55/oz, almost unchanged from a year ago (US$54/oz) despite the 30% increase in the gold price. This is driven, in part, by the lowering of the Euro/US$ exchange rate, and is compounded by the credit crunch flight-to-quality driving investors away from more speculative pre-production companies.

In this stage of the growth cycle, NPV multiples are ticking up

There is no denying we are in a commodity boom, and this flows through to equity valuations in the form of increasing NPV multiples. For post-feasibility study companies, we use a multiple of discount cashflow (DCF), with a risk-adjusted discount rate. What we are now seeing is an increase in the implied equity market multiples as market value detaches from book value.

We think a short-term correction will proceed medium-term strength in the gold price

In the short term, we expect a downward correction in the gold price to the US$750/oz level, driven by the fall off in positive momentum from light sales at the start of a new Central Bank selling year (October) and the end of Diwali (November). This may be compounded by opportunistic selling, an increase in oil production, or further weakening of the US dollar exchange rate.

However, beyond this we expect gold investment to be driven by increasing financial volatility and geopolitical instability, while supply is not yet reacting to higher prices — the annualised 2Q07 supply-demand balances leaves the market firmly in deficit. In combination, this should sustain prices above US$800 for 2008.

Supply still lags the price as gold majors back away from emerging economies…

Looking at supply in more detail, development of new resources is still hampered by the lack of serious exploration expenditure in previous years. Many of the gold majors (and, by extension, their exploration via direct or joint-venture investment) are uncomfortable in the rich hunting ground of the emerging African and Latin American countries. Barrick Gold CEO Gregory Wilkins went as far as saying that "we won't build a mine where we won't go on holiday." This is quite unlike base metals trader Glencore, which takes a more aggressive "we aren't afraid of bullets" stance. Commissioning of new discoveries is also being slowed by difficulties in the procurement of mining staff and equipment, as well as escalating cash costs.

… as market volatility, a weakening US dollar and increasing affluence drive demand

On the demand side, the first waves of urbanisation and industrialisation of China and India are fuelling base metal prices, producing a following wave of wealth generation and increasing affluence is driving strong growth in jewellery and coin/bullion investment. Investment in Exchange Traded Funds (ETFs) was up 30% in 3Q07 as they penetrated new markets where investors grow increasingly nervous not just of geopolitical tensions, but of the increasingly volatile debt and equity markets.

Long-term memory fades as profits rack up

As for the future price of gold, the only consistent in price forecasting seems to be inconsistency. In the media, the bulls are outnumbering the bears with what appears to be a loss of long-term memory common to bull markets. A year ago, those pointing to US$1,000/oz were firmly in the minority, but forecasters are increasingly comfortable with that number, and the large mining houses are, perhaps unsurprisingly, pushing the same point. The possibility of China, or any of the other large emerging economies, converting their US dollar reserves either into other currencies or gold certainly fuels the fire for the bull story.

We retain a bullish view for the gold price in 2008

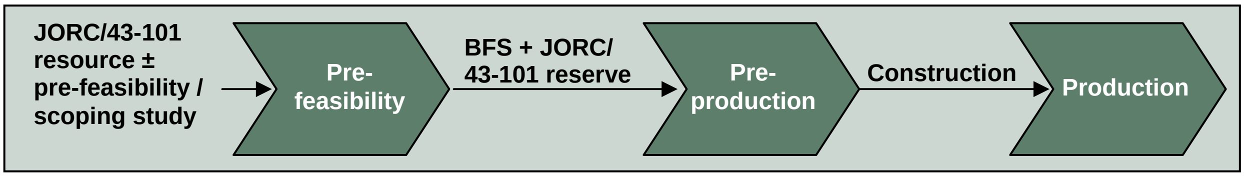
In the last month, the cut in US interest rates sent the US dollar to new lows against the Euro, fuelling gold's surge to US$842/oz. However, during November we saw the close out of Long Positions, with open interest contracts reducing — this was matched with Short Covering and the establishment of New Shorts as the market drew back from the US dollar's oversold position.

In addition, we view the absence of new forward selling by producers and the unwinding of old hedges as a key indicator. It now appears that producers are sufficiently bullish to believe that they will be able to realise gains in the spot market greater than the aggregate of the current 12-month forward contango and the spot price.

Gold equities are valued on the size of the resource defined, development, and the rate and production margin

Gold Equity Valuations

Gold equities are valued primarily on the size of the resource defined, the stage of the company's development, and — once in production — the rate and production margin. In turn, this is related to the value chain for mining companies, which we have categorised below as broadly pre-feasibility, pre-production and production.



Valuation Benchmarks

For comparability, below and overleaf we have presented US$ Enterprise Value/production ounce for producers, and US$EV/resource ounce for pre-BFS companies based on Measured, Indicated and Inferred resource.

AIM Gold Companies

	Ticker	Enterprise Value (£m)	Resource (Moz)*	EV/Resource (US$/oz)	Production (2008F oz)	2008F production/ EV (US$/oz)
Pre-feasibility						
Moto Goldmines	MOE	107	11,116,800	20	-	-
Greystar Resources	GSL	142	12,561,400	23	-	-
Metals Exploration	MTL	28	2,050,000	28	-	-
Shanta Gold	SHG	11	741,000	31	-	-
Kryso Resources	KYS	9.3	596,000	32	-	-
Tianshan Goldfields	TGF	44	2,558,700	35	-	-
China Goldmines	CGM	41	1,830,000	46	-	-
Medoro Resources	MRL	19	817,000	47	-	-
Ariana Resources	AAU	3.4	135,000	52	-	-
Hidefield Gold	HIF	15	478,400	63	-	-
Glencar Mining	GEX	20	520,000	79	-	-
			Median	**36**		
Pre-production						
Aurum Mining	AUR	21	1,176,766	36	-	-
Hambledon Mining	HMB	75	2,767,831	55	-	-
Cluff Gold	CLF	45	1,596,600	57	-	-
Archipelago Res.	AR.	42.8	1,505,665	58	-	-
Peninsular Gold	PGL	28	958,400	60	-	-
Centamin Egypt	CEY	378	10,450,000	74	-	-
Leyshon Resources	LRL	48	1,199,461	82	-	-
Allied Gold	AGLD	123	2,390,000	105	-	-
			Median	**59**		
Producers						
Mercator Gold	MCR	55	2,324,000	49	120,000	943
Central African Gold	CAN	38	3,730,749	21	81,175	948
Serabi Mining	SRM	26	561,636	93	47,500	1,099
Pan African Mining	PAF	83	2,886,722	59	100,000	1,704
Avocet Mining	AVM	159	1,664,536	195	160,000	2,029
Frontier Mining	FML	22	380,051	120	20,000	2,283
Highland Gold	HGM	291	14,728,173	40	208,750	2,853
Medusa Mining	MML	89.0	713,000	255	40,000	4,550
Peter Hambro Mining	POG	1,231	16,683,220	151	400,000	6,294
GMA Resources	GMA	49	1,026,933	98	12,188	8,248
Kirkland Lake Gold	KGI	384	3,048,210	258	68,000	11,556
			Median	**98**		**2,283**

*Measured, indicated and inferred; gold equivalent calculated for companies with subsidiary non-gold resources; Source: Company data, Ambrian

Explorers

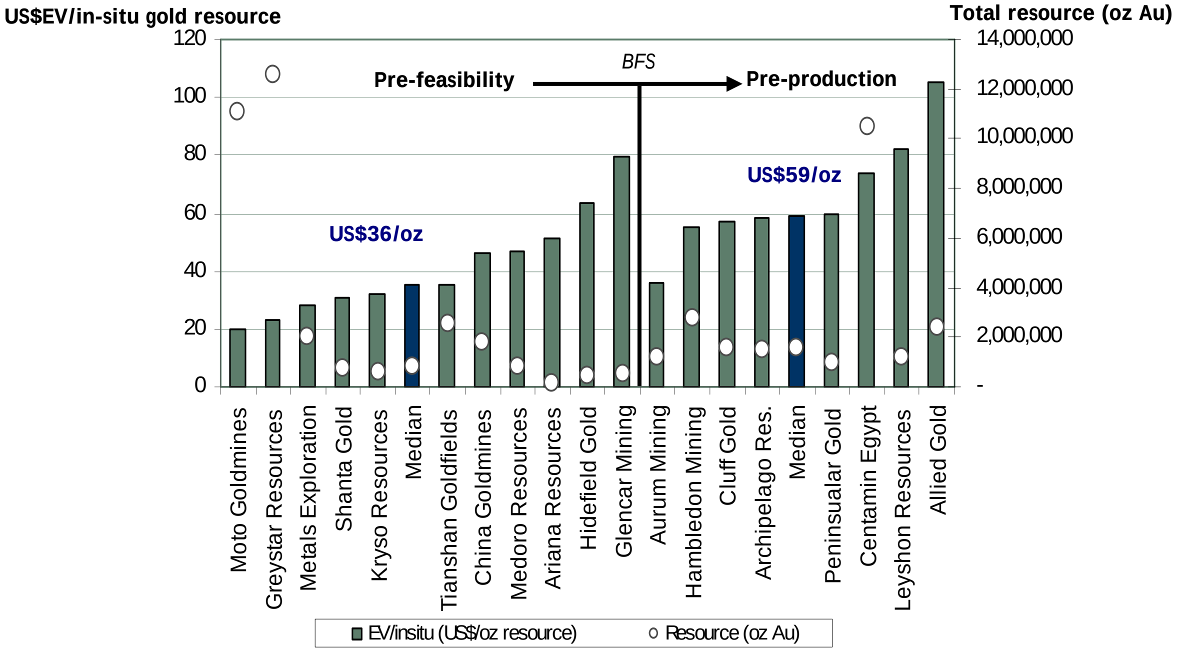
When an exploration company has a defined resource but no feasibility study, the absence of key metrics such as mine grade, gold recovery, capital and operating expenditure lead valuations to be driven from an enterprise value/in-situ basis. This can only be considered a rough valuation metric, as the value of 'gold in the ground' is strongly dependent on the following:

- **Grade** — This affects cost per ounce mined; the higher the grade, the more gold per tonne mined and processed, hence lower production costs per ounce.
- **Location** — Assets close to existing infrastructure typically enjoy lower capital costs than remote projects, and thus higher value; this also affects political/sovereign risk, as well as labour costs.
- **Geology** — Where significant potential exists to expand resources, especially where management has a track record of this, resource upgrades are more likely and a higher value is ascribed.
- **Size** — The 1Moz resource hurdle is typical for junior gold companies; smaller resources may not justify production unless grade, location and geology are favourable.
- **Reserve vs. Resource** — Reserves are economically viable to be mined, and thus have a higher value rating than resources.

For pre-producers on AIM, key outputs are a median EV/resource for pre-feasibility companies of US$36/oz and a median EV/resource for pre-production companies of US$59/oz.

Key outliers are Moto Goldmines and Greystar Resources, both of which are associated with sovereign risk (DRC and Colombia, respectively). At the other end of the valuation spectrum are Allied Gold, valued based on production expectations (ie, the assumption that it will migrate to the 'Production' category), and Glencar Mining, for which the market has priced in likely resource expansions on its prospective Mali properties.

Enterprise Value/Resource Ounce for Pre-production Gold Companies on AIM



*Gold equivalent calculated for companies with subsidiary non-gold resources; **Source**: Company data, Ambrian

In our view the most accurate way to value a gold mining company is through a DCF model

Producers

In our view the most accurate way to value a gold mining company is through the use of a discount cashflow (DCF) model at an appropriate discount rate, supported by earnings metrics such as P/E or EBITDA multiples. Gold producers typically trade at somewhere between 1.2-1.8x NPV on the basis that the company will extend the mine life through successful near-mine exploration and/or acquisitions.

A simple method of valuing producers is on the basis of EV/production ounce. As for EV/in-situ calculation, this can only be considered an approximation, as profitability and longevity are not taken into consideration. Key dependencies of EV/production oz are:

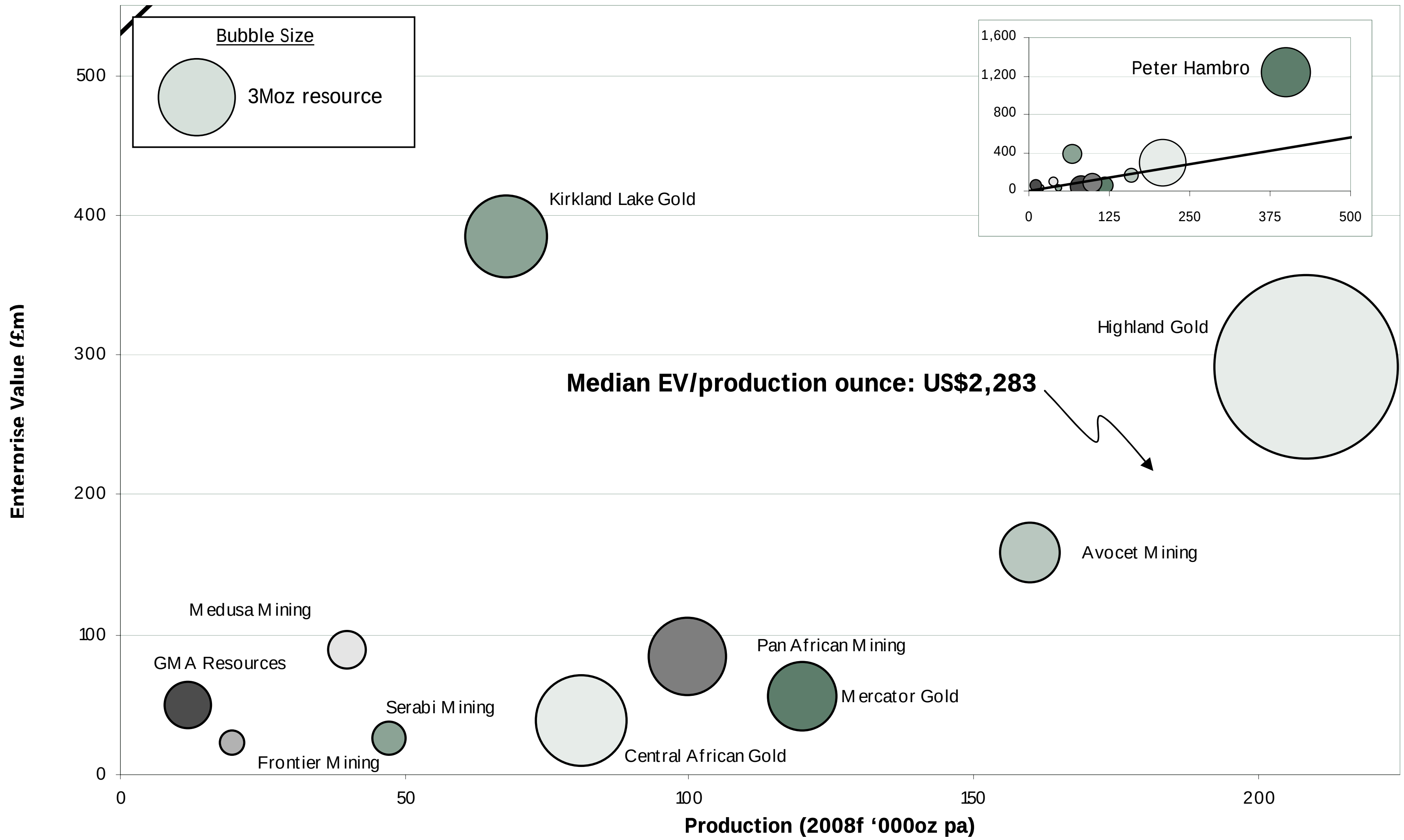
- **Grade** — Higher grade deposits have lower costs per ounce produced, and are thus more likely to be profitable, so EV/production ounce should be higher.
- **Life of Mine** — Commonly measured as life of reserve, companies with low reserves should trade at a discount.
- **Costs** — Capital, mining and processing costs all have a major impact; lower costs mean higher EV/production ounce.
- **Financial Regime** — Tax and royalties affect profitability.
- **Ownership** — Although integrated into EV/production (which is attributable), a premium/discount may be factored in for JVs.
- **Geology** — Refractory ore, complex orebodies or geotechnically difficult conditions attract discounts.
- **Expansion** — Companies ramping to steady-state production will have abnormally high EV/production ounce figures.

Key outputs from these comparables are a median EV/production ounce for producers of US$2,283/oz.

Outliers above the line (highly valued) are Peter Hambro and Kirkland Lake. Lying above the line infers that it is expensive based on production; for Peter Hambro this is because next year's forecast production of around 450,000oz is well beneath its target of 1Moz+ annual production, which the market has priced in to a degree. For Kirkland Lake, exceptionally high grades are likely to drive future expansions.

Outliers beneath the line (potentially undervalued) are Central African Gold and Mercator. Mercator has low reserves, which is holding back its valuation, and as a mine restart Central African Gold is still ramping up and is yet to build market confidence.

Enterprise Value vs. Production for AIM Gold Producers



*Gold equivalent calculated for companies with subsidiary non-gold resources; **Source**: Company data, Ambrian;

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Supply and Demand

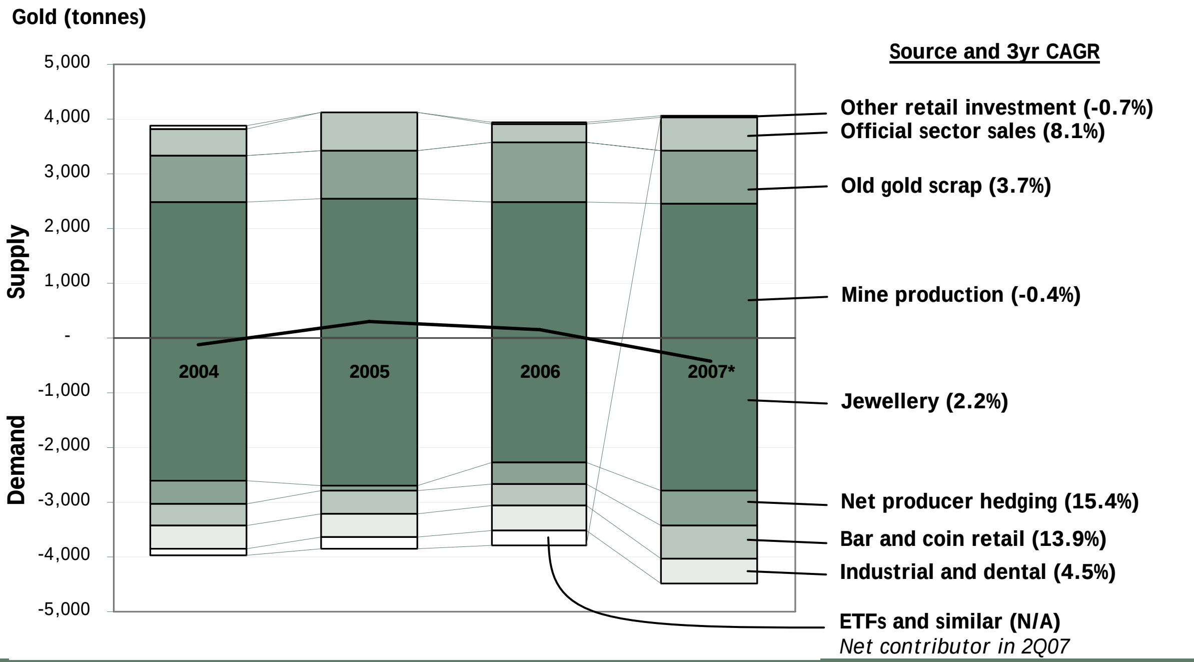
Overview

The gold price is driven by a complex interaction of market forces

The gold price is driven by a complex interaction of market forces that are sometimes interdependent (eg, currency exchange rates, inflation and interest rates). The key factors are summarised below:

- **Physical Supply** — With nearly 40% of supply coming from elastic sources such as official sector sales and scrap supply, price movements can be dampened as these sources come on or off the market. Scrap sales volumes tend to increase as the price rises.
- **Physical Demand** — Primarily for jewellery (~75% of total demand), dentistry, industrial applications in electronics and technology.
- **Investment Demand** — From Central Banks, bullion investors, Exchange Traded Funds (ETFs) and retail hoarders.
- **Producer Hedging/De-hedging** — In a finely balanced market this can make the difference between an overall surplus or deficit in the market, as it did in 2004 when the collapse of Sons of Gwalia (an Australian gold mining company) led to the closing out of its hedge book, taking physical gold off the market and pushing it into deficit.
- **Investment Hedging** — Gold attracts investment as a hedge against currency devaluation and inflation. Gold has a long-term relationship that is proportional to the US CPI.
- **Geopolitical Factors** — Gold's attraction as a safe haven extends to periods of political tension, military conflict, terrorist actions or natural disasters.

Gold Supply and Demand with Net Balance



*2Q07 figures annualised; **Source**: World Gold Council/GFMS

Supply

Key sources of supply are mine production (including producer hedging), official sector sales (eg, Central Banks) and scrap.

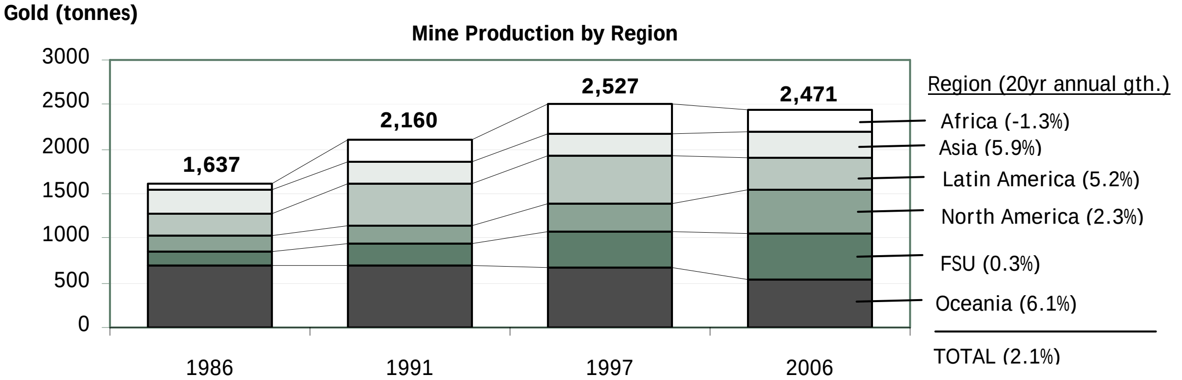
Mine supply is well balanced between Australia, Canada, the US and South Africa

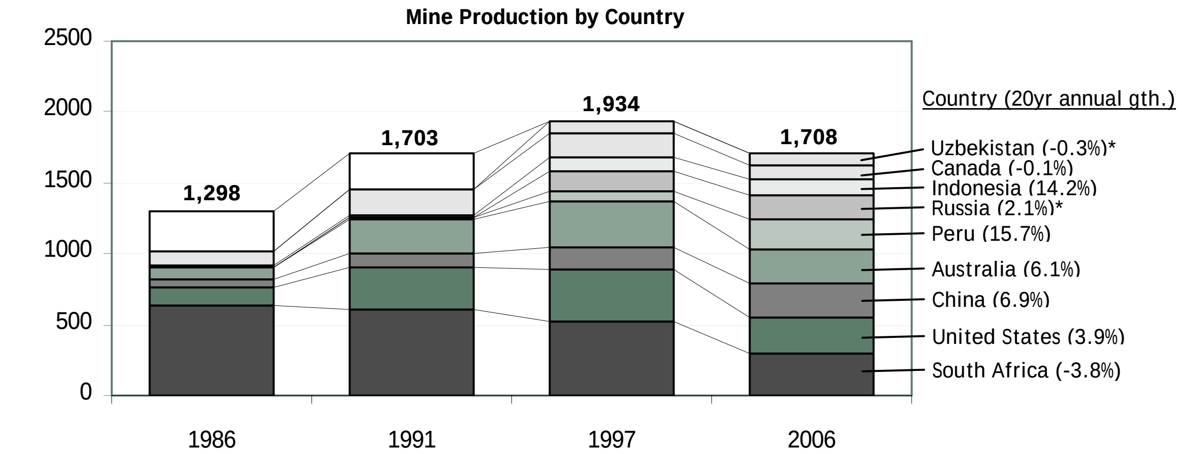
Mine supply (61%) is relatively well balanced between Australia, Canada, the US and South Africa. In 2008 mine supply is forecast to increase marginally. Rising prices don't necessarily increase supply, as companies lower cut-off grades and extend mine life, but retain broadly similar production. We are still seeing the hangover of cutbacks in exploration in the late-1990s and early-2000s, with long lead times exacerbated by difficulties in recruitment and availability of mining and exploration equipment. South African production levels have dropped to their lowest levels in over 80 years, and rising cash costs are dampening growth.

Despite the lower barriers to entry for gold mining that exist compared to some other types of mining, in the frenzy of new mining projects over the last 2-3 years gold lay in the shadow of base metals until the recent rally in the gold price. With fresh equity and exploration efforts only starting to kick in firmly this year, it may be several years until rewards are seen in the form of production.

Regions we think are poised for most growth are West Africa (Ghana, Burkina Faso, Ivory Coast) and the islands of Southeast Asia (Philippines, Indonesia), both of which are under-explored and well mineralised.

Global Gold Supply by Region and Country





*Since 1997; **Source**: GFMS gold survey

Scrap sales tend to increase with upward price movements

Scrap (23%) sales tend to increase with upward price movements, but then stabilise. The upward tracking of the gold price over the last five years drove a surge in scrap supply. With this largely behind us, scrap supply has now stabilised, and on a YoY basis is actually falling as a contributor.

Central Bank sales should remain steady

Central Bank sales (15%) are expected to remain steady in accordance with the second Central Bank Gold Agreement (CBGA2) signed in 2004. Under the agreement, signatories (including 15 European Central Banks) are limited to annual sales of 500t until September 2009. Commentators indicate that even this quota may not be reached in 2008-09. Including informal signatories (the US, Australia, Japan and the Bank for International Settlements), 85% of refined world gold stocks are covered by this agreement. Key Central Banks not aligned with CBGA2 include those of China and Russia.

The largest seller in 1H07 was Spain, which sold 110t from March to May. As CBGA2 renews annually on 26 September, gold prices are typically depressed in September from 'last minute' sales. The October bounce-back is usually then compounded by Indian buying for the November Diwali festival.

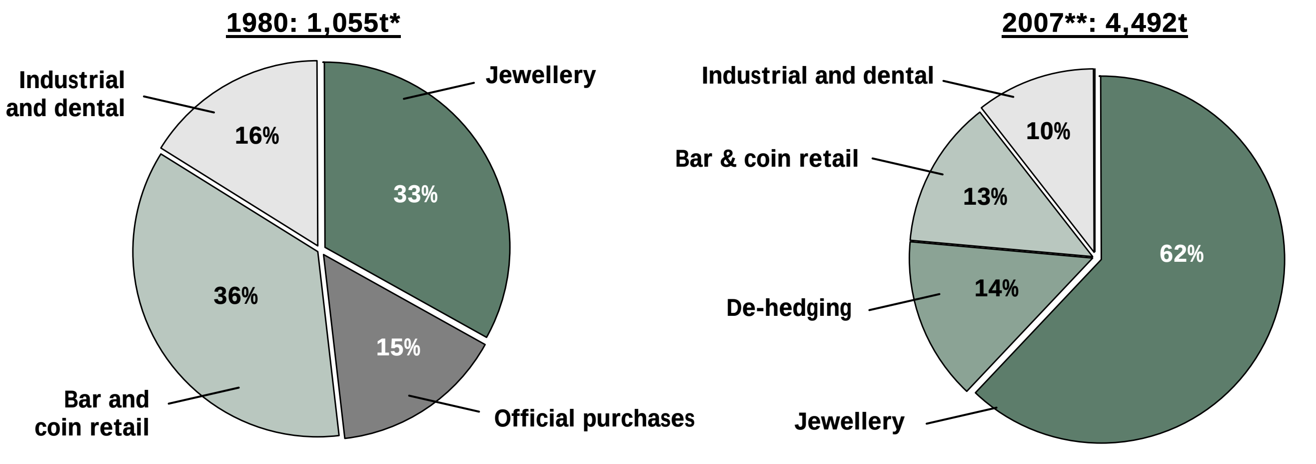
Outside the CBGA2, China has recently been reported to be considering taking up gold as part of its reserves, which would have a major positive impact on the price of gold. Gold currently only accounts for 1% of China's reserves, as opposed to 75% of the US and 51% of CBGA2 countries.

Demand

Jewellery is the mainstay of gold demand

Jewellery is now the mainstay of gold demand. From 1980 to 2007, it has risen from 33% to 62% of all demand. Investment (coin and bar), industrial use (dental, electronics) and de-hedging are the other main components of demand.

Gold Demand

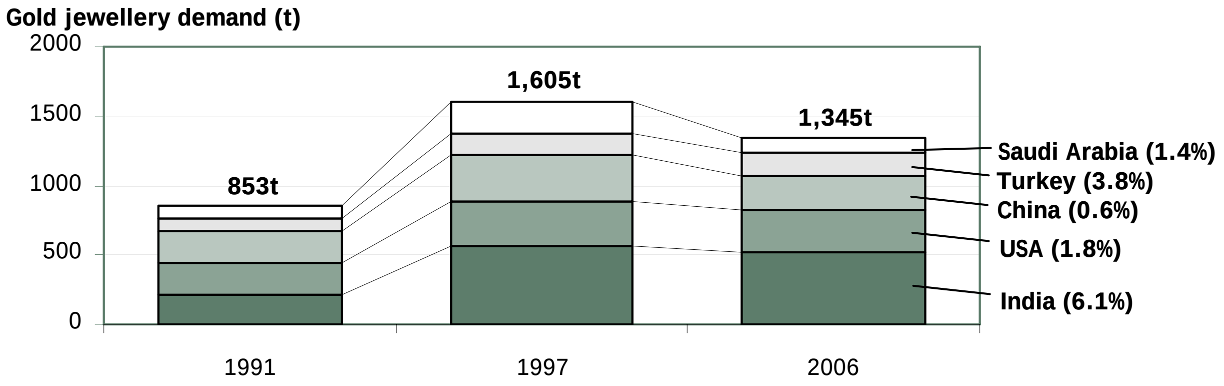


*Western world only; **2Q07 annualised; **Source**: GFMS

Jewellery (62%) demand is the largest end-use. Even small changes can have a significant impact on the market. It is both elastic and seasonal. The largest consumer of gold jewellery in the world is India (21.6%), followed by the US (12.9%) and China (9.4%). Demand tends to be price sensitive and is also driven by the capacity for discretionary consumer spending in those economies. Demand peaked in 1997, falling back until

2006, has since turned upward, with global fabrication up 19% YoY in 1H07, driven largely by India (a 78% YoY increase).

Gold Demand by Leading Countries

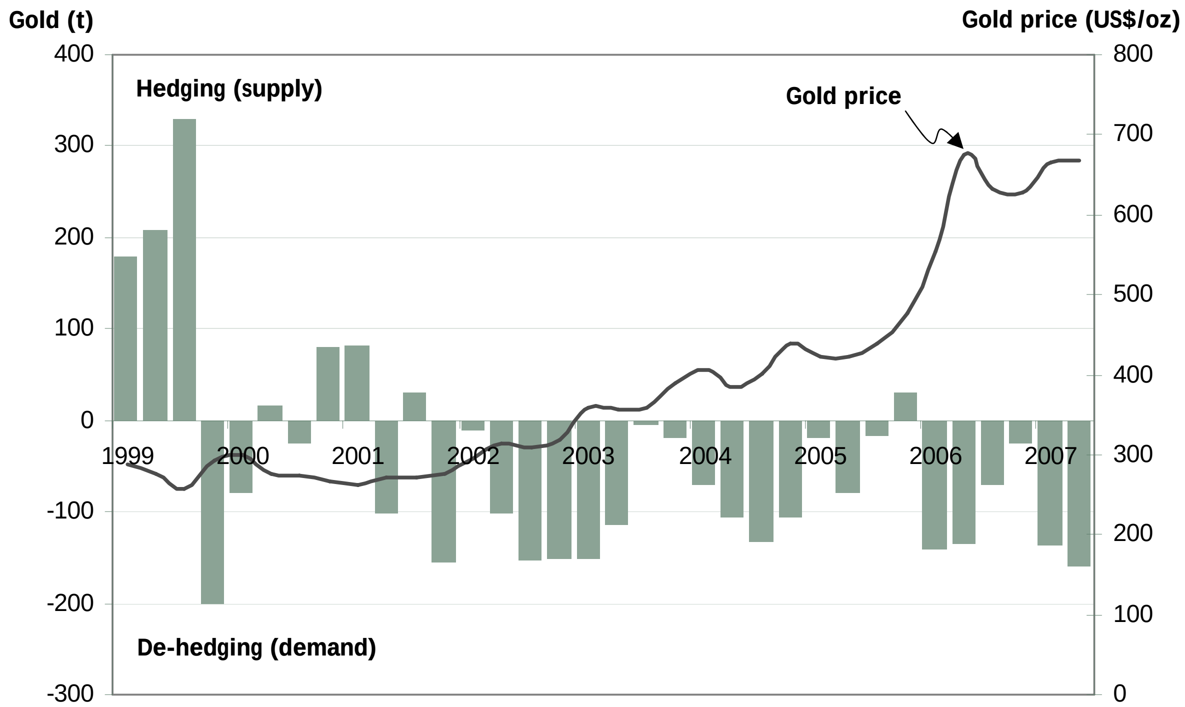


Source: GFMS

De-hedging was low in 2005, but 2006 and 2007 have seen massive increases

De-hedging (14%), which effectively creates demand, was low in 2005 (131t vs. 430t in 2004), but 2006 and 2007 have seen massive increases as miners seek exposure to a rising gold price. The global hedge book stood at +1,161t at the end of 1H07 (year-end 2005: +1,673t, 2006: 1,364t), and we expect de-hedging to continue as a steady force, reducing effective supply to the market. With a few exceptions, we think all but new producers (who usually have to hedge future production under project financing commitments) will continue reducing hedging positions — albeit at a slower pace — in 2H07. Leading de-hedgers in 1H07 were Barrick (-78t, +295t remaining), Newmont (-58t, hedge book closed), Lihir (-47t, hedge book closed) and AngloGold Ashanti (-44t, +272t remaining).

Producer Hedging/De-hedging vs. Gold Price



Source: GFMS, World Gold Council

Until recently industrial and dental demand has exhibited relatively inelastic behaviour

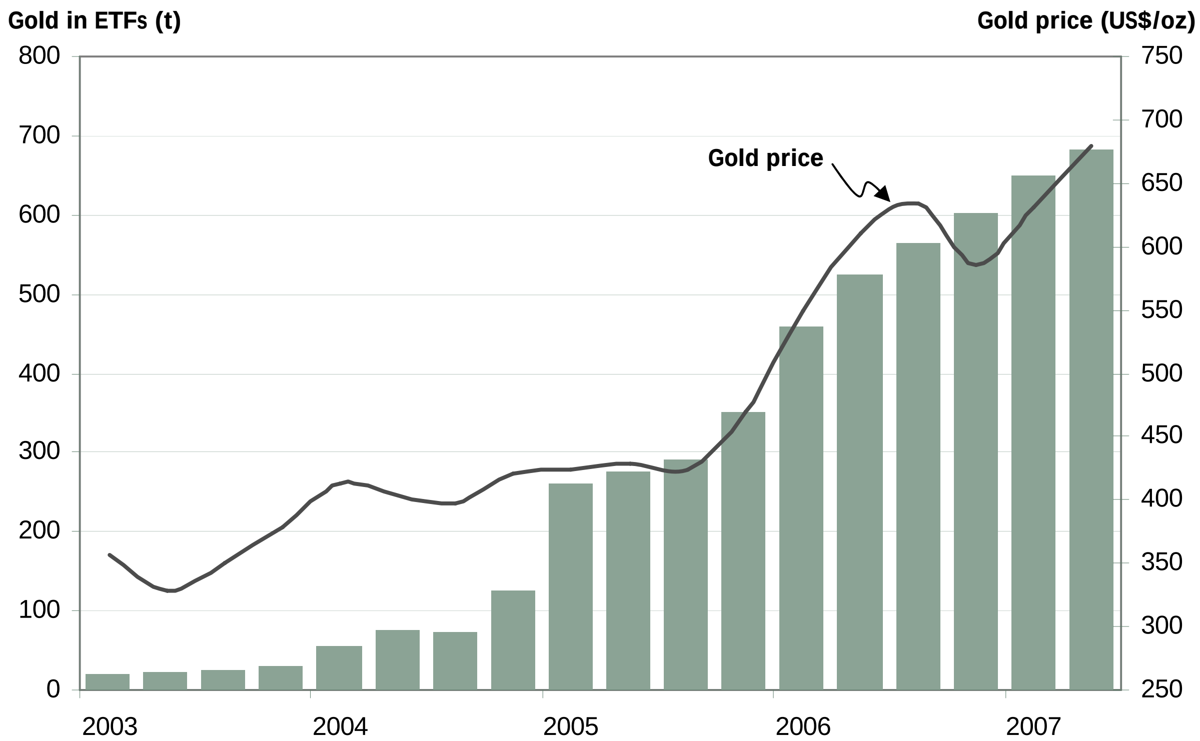
Industrial and dental demand (10%) has, until recently, exhibited relatively inelastic behaviour. However, in 1H07 demand was up nearly 3% as a result of strong growth from both the electronics sector, almost 50% of which came from Southeast Asia, and Indian jari (thread), which outstripped the 4% fall seen in dental usage.

Exchange Traded Funds currently stand at 681t

Exchange Traded Funds currently stand at 681t — these funds underwent phenomenal growth of 57% YoY in 2005, although this slowed to just 7.5% growth from end-2006 to September 2007.

According to a World Gold Council survey of ETFs, from 1Q03 — when they were introduced — holdings increased from nothing to approximately 75t in 2004, 250t in 2005 and 496t at the end of 1Q06. Growth has subsequently slowed, although penetration of ETFs into countries where they have not previously been introduced should support ongoing growth. More recently, increased market volatility has led to a resurgence in EFT growth, with gold in ETFs up 30% in 3Q07compared with the same period last year.

Gold Held in ETFs and Similar vs. Gold Price



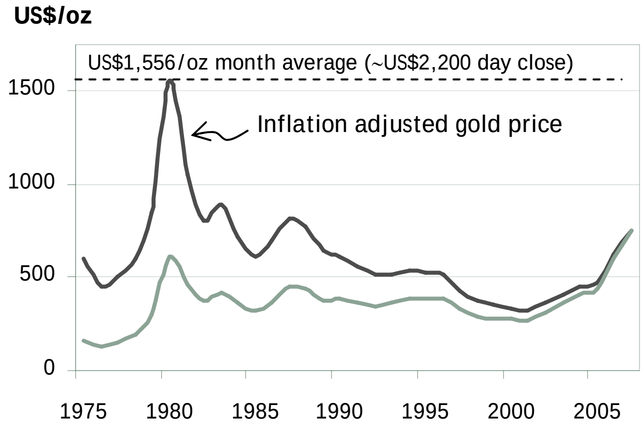
Source: GFMS, World Gold Council

Gold Price Drivers

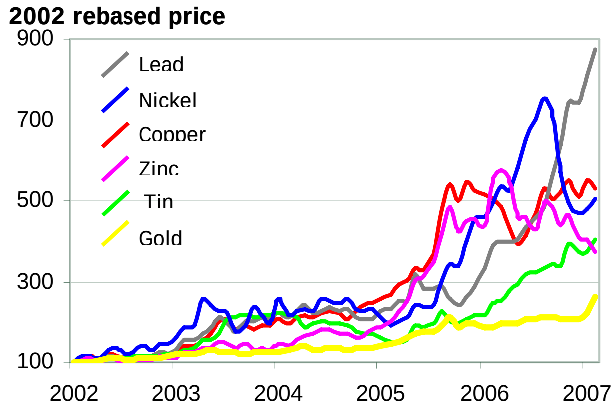
There are arguments for both a further rise in the gold price and a sharp correction

There are arguments for both a further rise in the gold price and a sharp correction. The long-term price of gold is difficult to predict as it is related to global events that may or may not materialise. We describe major price-driving scenarios below, and present the historic price of gold against both the inflation-adjusted price and base metals.

Real vs. Nominal Gold Price



Base Metal Prices Rebased from 2002



*Year average US$615/oz (US$1,556/oz inflation adjusted), day close US$850, intraday spot US$875; **Source**: Ambrian, World Gold Council, LME, US Department of Labor Statistics

US Dollar

As the US dollar strengthens, the price of gold falls, and vice versa. The key drivers of US dollar movement in the medium term are:

- **China** has around US$1.43tn of forex reserves, with only around 1% of these in gold. A recent statement by Cheng Siwei, Vice-chairman of China's National People's Congress, led to media speculation that China may consider moving these reserves into stronger currencies. This would weaken the US dollar and strengthen the gold price.
- **Support** for the US dollar; if indicated by major global economies, the gold price would be expected to fall as the US dollar strengthens. However, with the US economic situation worsening over the last year, a full-scale recession would have the reverse effect.

Oil Price

Recent price rises have dragged gold along somewhat, so any decisions by OPEC that would lead to oil production increases would be expected to have a negative impact on the gold price.

Central Banks

Central Banks must be watching the gold price closely, with any move to take profits likely to lower the gold price in the short term, although in the medium term this would be buffered by the CBGA2.

Geopolitical Tensions

In times of geopolitical tension, gold is traditionally a safe-haven. In the short term the Iraq-US situation would appear to be the main arena in which such tensions may escalate.

Gold Price Review — A Crisis of Confidence

Commodity Futures Trading Commission

In taking a forward view on the gold market, we have reviewed the gold price from June–November 2007 and analysed the main drivers of the recent rally in the gold price.

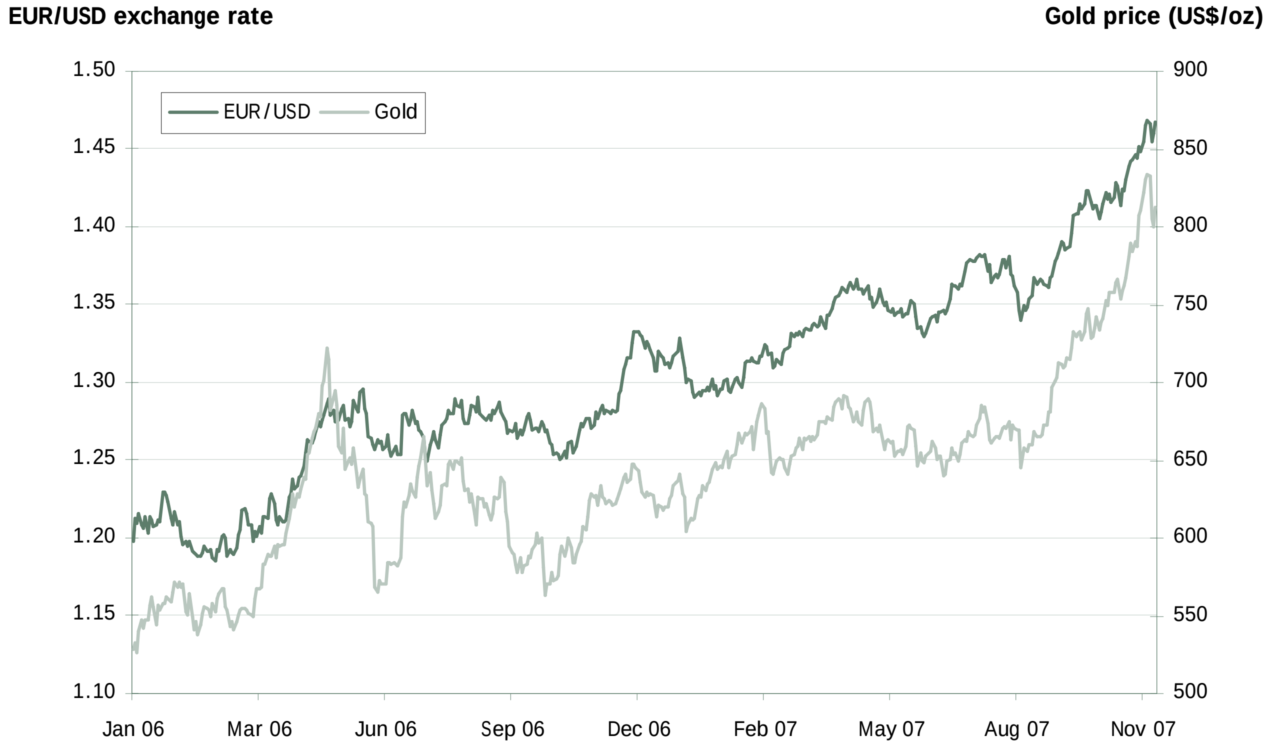
At a high level, we believe that this rally has been speculatively driven by major hedge funds looking to maximise a return on their capital in the least possible time as a result of ‘flight-to-quality’ assets. The resulting fallout in the sub-prime lending market has led these funds to seek refuge in gold from the falling dollar and, in our view, a possible recession in the US.

In reviewing the market we have looked at the Washington-based Commodity Futures Trading Commission’s (CFTC) Non-Commercial Positions for Comex 100oz Gold Futures Contract, focusing our analysis on the most liquid, near-dated GCZ7 December Futures contract.

The Non-Commercial Traders are the speculators and hedge funds within the market who, under CFTC rules, have to disclose their outstanding positions every Tuesday on a weekly basis.

Throughout 2006 and 2007 the gold price has correlated closely with the devaluation of the US dollar against the Euro. This crisis of confidence in the US currency has been exacerbated by the sub-prime fallout and tight liquidity within the US lending markets.

Dollar Devaluation Against the Euro

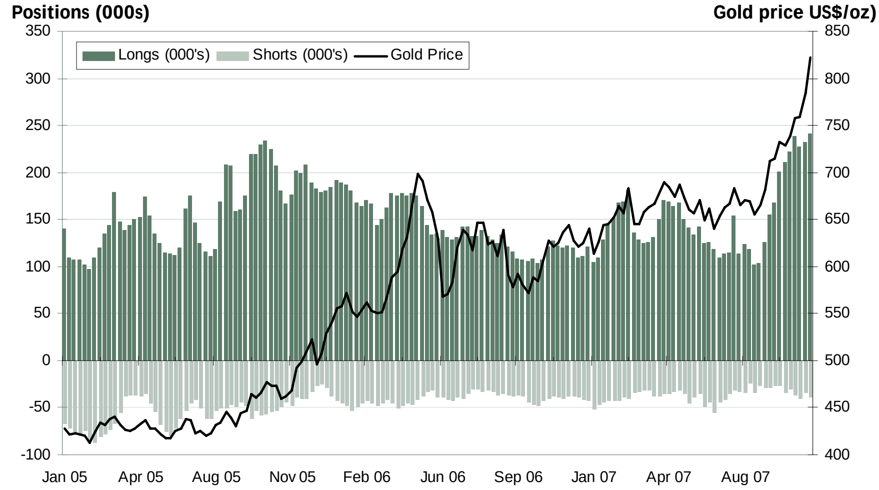


Source: Ambrian

New York Mercantile Exchange

The New York Commodities Exchange (COMEX) is a division of the New York Mercantile Exchange (NYMEX), which is the world's largest physical futures commodity exchange. Contracts in energy products and metals are traded on both an open outcry trading floor and via overnight screen trading. We show long vs. short positions:

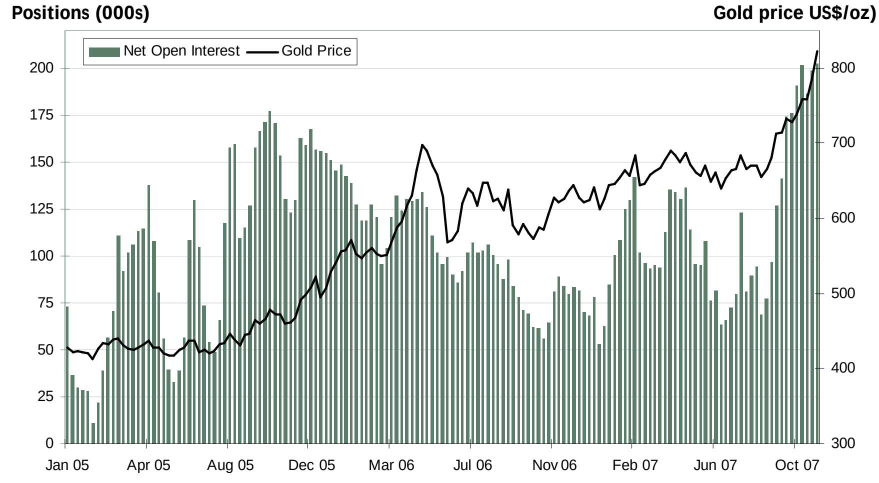
COMEX — CFTC CMX Non-commercial Positions



Source: Bloomberg, Ambrian

Unsurprisingly, we note the market's propensity to remain overwhelmingly long from 2005 through to 2007. Additionally, a reduction in short positions can clearly be seen from April 2007 as the market became increasingly confident on building up a net long position. The number of contracts increased to over 200,000 from September 2007 as the yellow metal broke through US$750/oz.

COMEX — CFTC CMX Net Non-commercial Positions



Source: Bloomberg, Ambrian

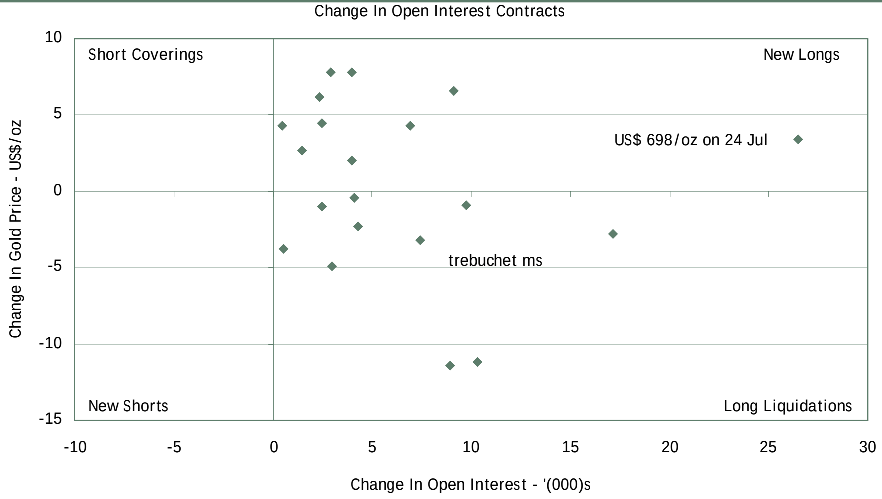
Comex 100oz Futures Contract

Our analysis on the liquid, near-dated Comex GCZ7 December 2007 100oz Gold Contract is detailed below.

July: New Longs Dominate

During July we saw the GCZ7 open interest position grow by 187% to 196,000 contracts, up from 68,000 at the beginning of the month.

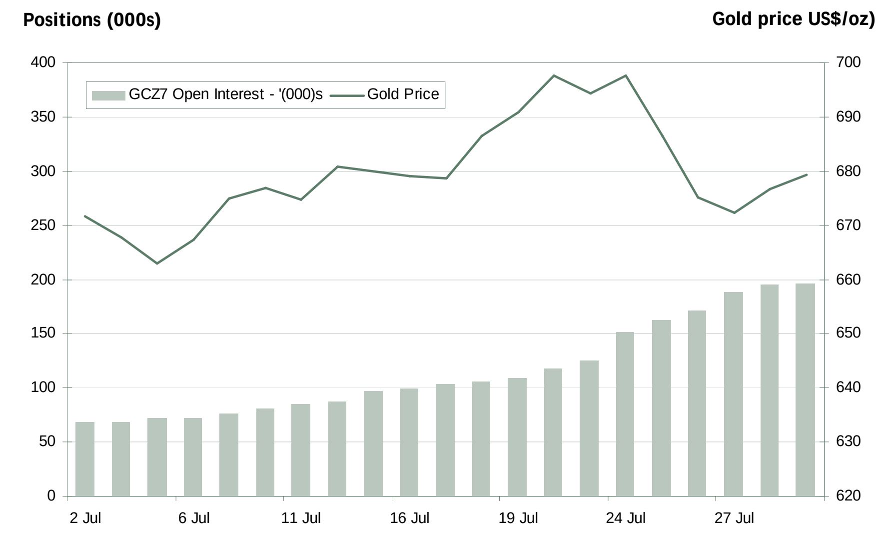
Market Position of GCZ7 (July 2007)



Source: Bloomberg, Ambrian

New Long positions tested the all-important US$700/oz psychological barrier on both 22 and 24 July, with gold reaching US$698/oz before Long Liquidations saw prices retreat below US$680/oz.

Breakdown of Open Interest Positions Against the Gold Price

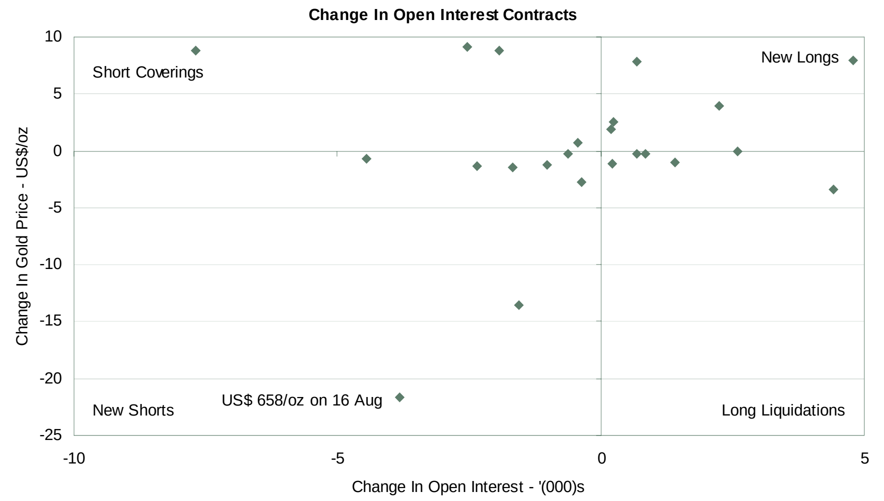


Source: Bloomberg, Ambrian

August: Toxic MBS Securitisations and Chapter 11

Prices became range-bound within a range of US$675-685/oz for the first few weeks of August as it sought new direction. Major New Short positions broke through, sending prices down to a low of US$658/oz on 16 August as the market ran for Short Cover.

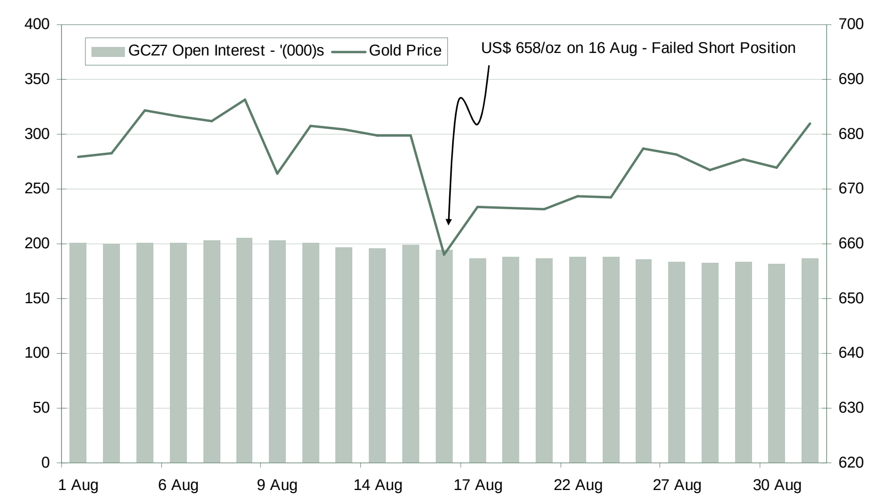
Market Position of GCZ7 (August 2007)



Source: Bloomberg, Ambrian

This short position rapidly evaporated as news of the sub-prime fallout began to hit the market. A growing realisation that major banks were exposed to mortgage-backed securitisations and credit lending institutions filing for Chapter 11 drove hedge funds to lift weakened open-interest positions as the gold price rose above US$680/oz.

Breakdown of Open Interest Positions Against the Gold Price

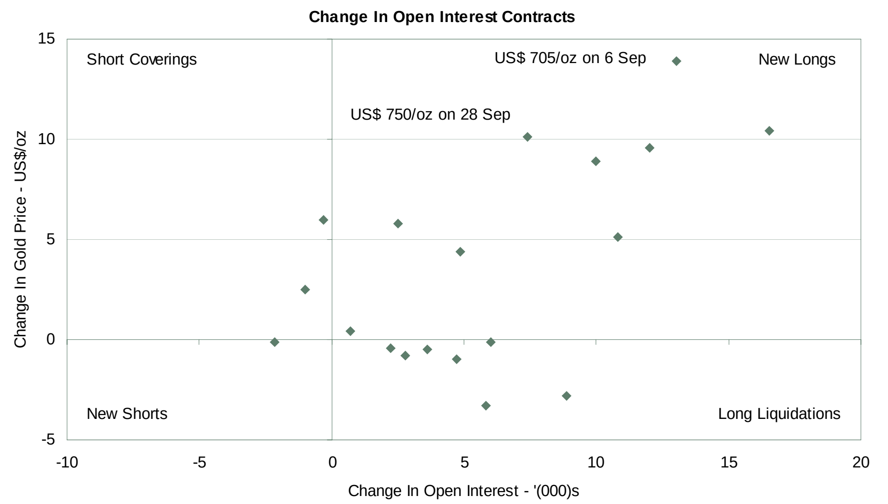


Source: Bloomberg, Ambrian

September: Bernanke Cuts Rates

On 6 September the market traded at a 26-year high as the gold price broke through the US$700/oz psychological barrier, reaching US$705/oz. Weak US job market data helped prices consolidate above the US$710/oz mark. Increasing pressure on Federal Reserve Chairman Ben Bernanke forced a 50bp cut in the Federal Funds Rate to 4.75%, which saw prices move upwards through US$750/oz on 18 September. This rate cut sent the US currency to a new low against the Euro (€1.4275/US$).

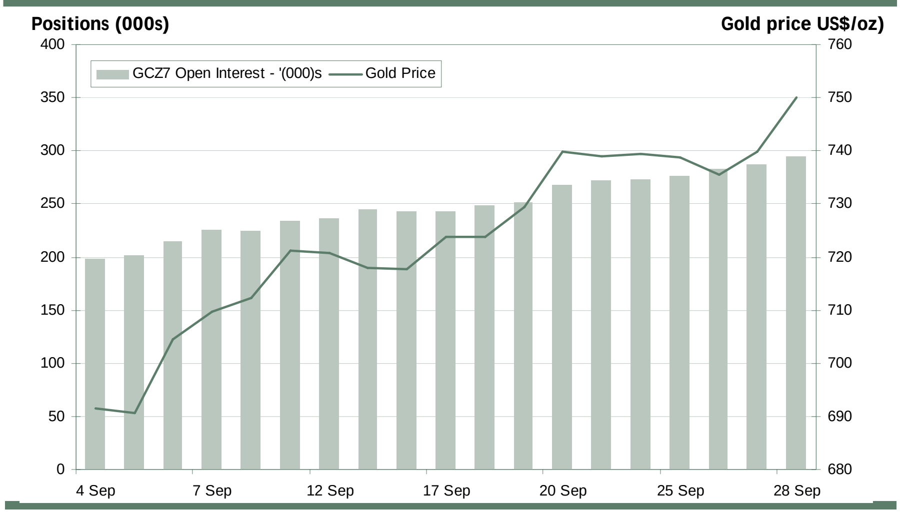
Market Position of GCZ7 (September 2007)



Source: Bloomberg, Ambrian

The cut, which was aimed at relieving tight liquidity in the short-term money market and stimulating the US economy, was the first in four years. The Federal Fund Rate, at which banks lend to each other, had stood unchanged at 5.25% since June 2006 after a two-year period of increases from a four-decade low of 1% in 2003 (as banks became increasingly reluctant to lend to each other). By the end of the month open interest positions had climbed towards 295,000 contracts as the gold price reached US$750/oz.

Breakdown of Open Interest Positions Against the Gold Price

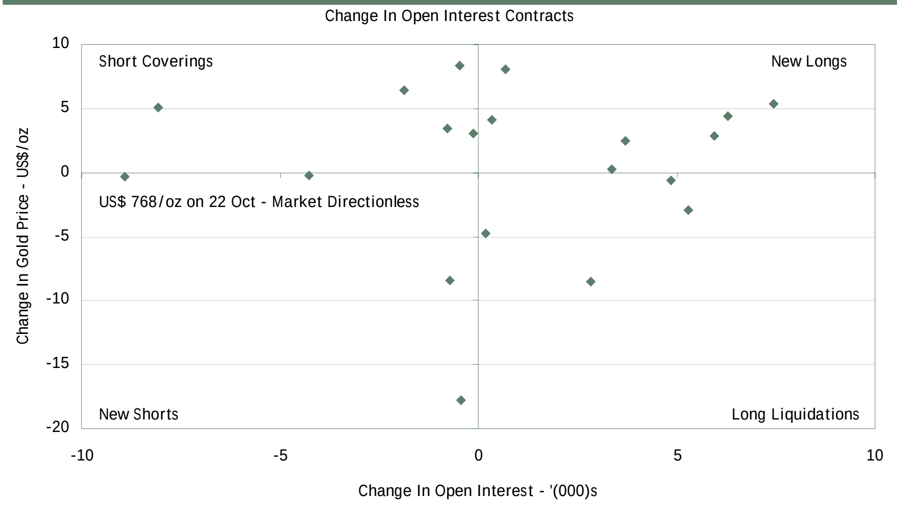


Source: Bloomberg, Ambrian

October: The US Real Estate Bubble Bursts

The move above US$750/oz from US$700/oz was achieved within a 21-day trading period. Almost immediately the speculators scrambled for Short Covering positions with New Shorts driving the price below the US$740/oz mark.

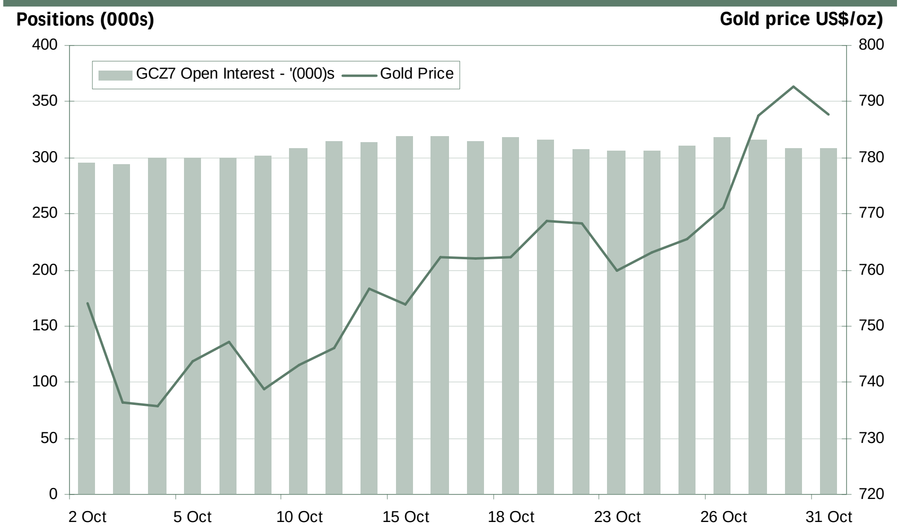
Market Position of GCZ7 (October 2007)



Source: Bloomberg, Ambrian

A further 25bp cut in the Federal Funds Rate to 4.5% on 31 October sent prices above US$790/oz, with the release of a statement citing that the pace of economic expansion would slow reflecting the intensification of the crisis in the US real estate bubble.

Breakdown of Open Interest Positions Against the Gold Price

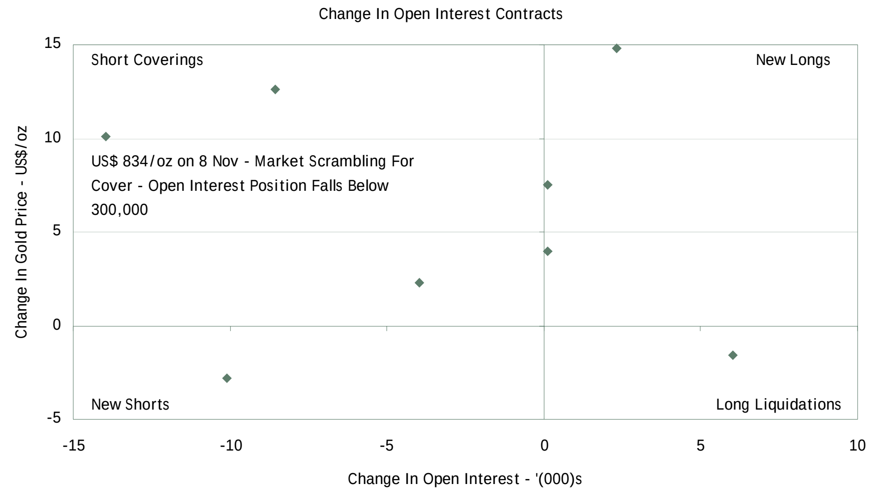


Source: Bloomberg, Ambrian

November: A Short Pause for Breath

This cut in the Federal Funds Rate sent the US dollar to new lows against the Euro (€1.4713 and €1.4740 on 8 and 9 November respectively) as prices charged to US$842/oz. During this period we saw the close out of Long Positions, with open interest contracts reducing to 266,000, matched with Short Covering and the establishment of New Shorts as the market drew back from the US dollar's oversold position.

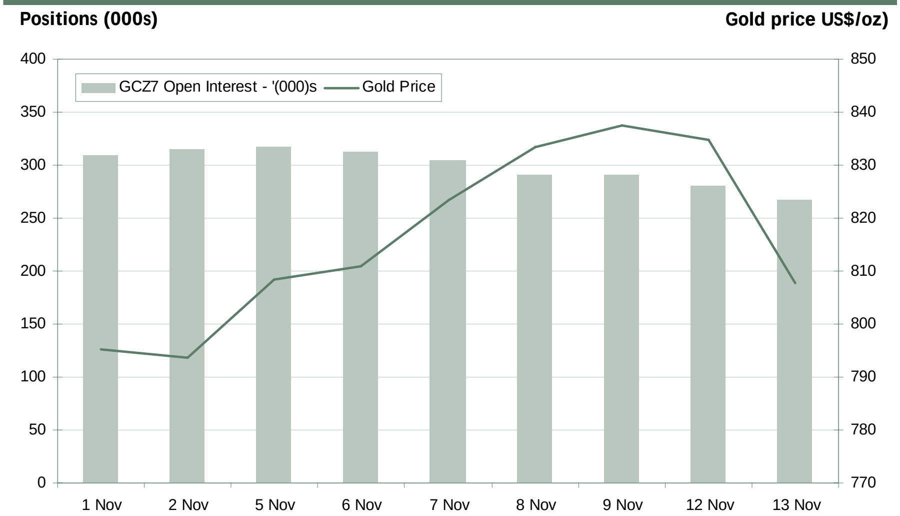
Market Position of GCZ7 (November 2007)



Source: Bloomberg, Ambrian

Currently the gold price sits just below the US$800/oz level, appearing to take a breather before testing US$800/oz again.

Breakdown of Open Interest Positions Against the Gold Price



Source: Bloomberg, Ambrian

Looking Forward: Momentum Overdrive

20-day Momentum

Source: Ambrian

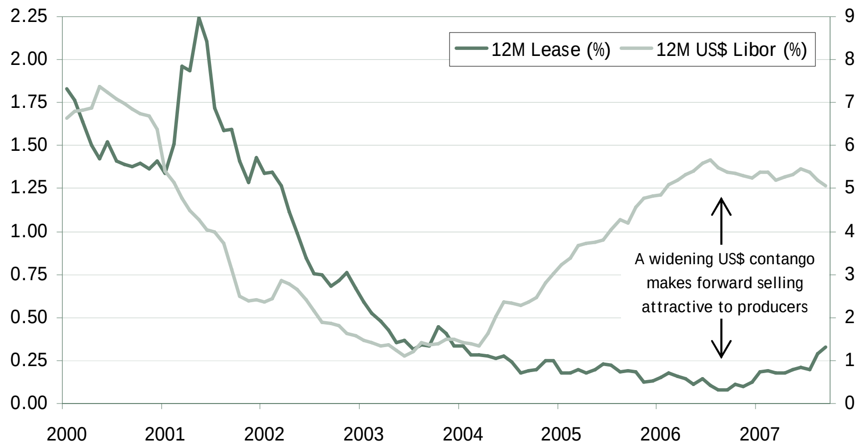
Our 20-Day Momentum Graphic (close less close 20 days ago) shows that prices oscillated within a range of plus US$40/oz and minus US$20/oz during 1H07. The breakout above US$40/oz during late-August and September was a clear signal of the strength of the coming rally in October, as momentum was reinforced by the downward crossing trough of early October, which remained above US$20/oz.

A further rise of US$92/oz occurred as prices peaked at US$841/oz before finding current support at US$810/oz as the momentum signal moves above US$40/oz in anticipation of further negative US economic news.

Gold Lease Rates

Gold lease rates have remained at historically low levels whilst a widening contango, the difference between 12-month US$ Libor and 12-month lease rates, has not been attractive enough to prompt producers into a new round of forward selling. This reluctance can be best explained with the calculation of the 12-month forward contango.

12-month Gold Borrowing Costs vs. 12-month US$ Libor



Source: The London Bullion Market Association

For example, a current gold price of around US$817/oz and a 12-month GOFO rate of 4.1683 would realise a 12-month forward contango of US$34.53/oz.

Calculation 12-month Forward Contango

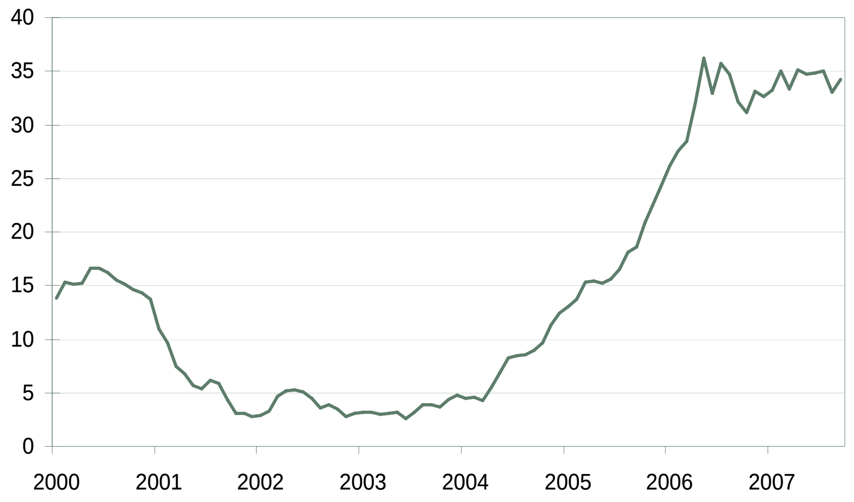
$$\Rightarrow \frac{(\text{US\$817/oz} \; * \; 4.1683)}{100} \; * \; \frac{1}{360} \; * \; 365$$

$$= \text{US\$34.53/oz}$$

Source: Ambrian

The 12-month forward contango is presented graphically below, along with the 12-month forward curve against the spot gold price.

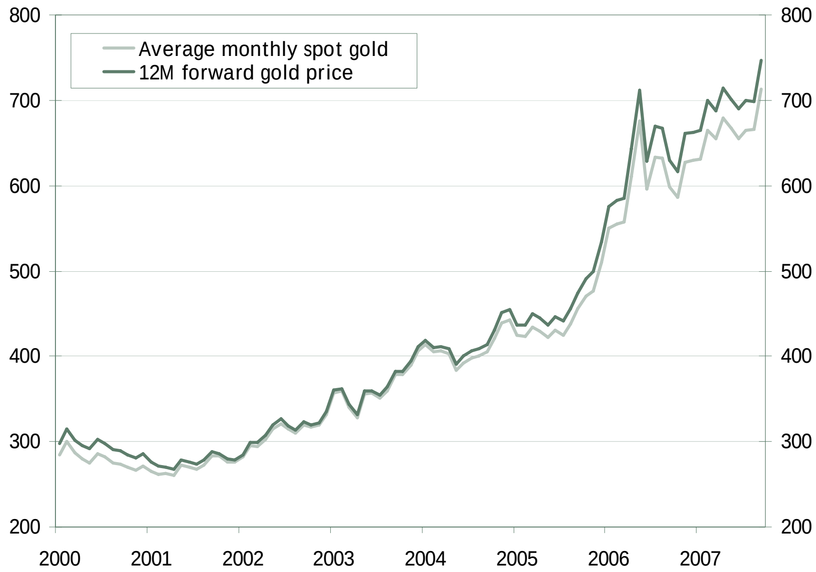
12-month US$ Contango



Source: The London Bullion Market Association, Ambrian

We deduce that the absence of new producer forward selling activity and the unwinding of old hedges is such that the market is sufficiently bullish to believe that they will be able to realise gains in the spot market which will be greater than the aggregate of the current 12-month forward contango and the spot price in a year's time.

12-month Forward Gold Price



Source: Ambrian

Further shareholder pressure on producing companies is now such that investors wish to be exposed solely to the risk of the spot gold price and enjoy fully the benefits of the current rally. We caution investors that any sign of a recovery in the US economy will drive the gold price lower. However, we think it likely that the crisis of confidence after the sub-prime fallout is such that we will see continual pressure on the dollar and consolidation of the gold price on any future shocks.

Ambrian Gold Forecast

We do not believe the gold price will fall to lows seen 7-10 years ago, but do maintain a conservative stance on the gold price. Our equity analysis is based on our forecasts below, where we have forecast the gold price dropping from a 2008 value of US$700/oz to a long-term price of US$475/oz from 2012.

However, we are conscious of the market's current position well into positive territory of the growth cycle, and for equity valuations reflect this in larger NPV multiples rather than a more bullish long-term gold price.

Ambrian Gold Price Forecast (US$/oz)

2008F	2009F	2010F	2011F	2012F+
700	644	588	531	475

Source: Ambrian

Gold Companies on AIM

16 November 2007

African Consolidated Resources

Price: 12.3p SPECULATIVE BUY

Upcoming Events:
2007 results reported (Feb 2008)
Mozambique/Zambia expansion (2008)
Marenge court resolution (ongoing)

Market cap	**£28.7m**
Ticker	**AFCR LN**
US$EV/Resource oz	**13**
Cash in hand (£m)	**5.6**
52-week (p)	
High	**27.5**
Low	**8.5**
3M-avg. daily vol. (000s)	**44.9**
3M-avg. daily val. (£000)	**7.1**
Shares	
Basic	**221.0m**
Fully diluted	**256.3m**
Top shareholders	
GLG Partners	**13.1%**
RAB Capital	**8.8%**
Henderson Global	**7.1%**
Lehman Brothers	**6.3%**
Total	**35.3%**

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Resources (Moz)	Interest	Stage
Pickstone-Peerless	0.51	100%	Evaluation
Giant	0.30	100%	Evaluation
One-Step	-	100%	Evaluation

Source: Company data

Company Description

Focus and Strategy: African Consolidated Resources listed on AIM in June 2006 with a business model focused on the acquisition of mining assets in Zimbabwe at a discount based on the political risk. Flagship projects are the Giant and Pickstone-Peerless mines, which historically produced ~1Moz and currently have a 0.8Moz resource. The company also has a brownfield platinum project and a former nickel mine. Shortly after listing, the Marenge diamond deposit was discovered by the company, although the licence is currently being contested in the High Court. On listing, £4m was raised at 12p, with another £4.5m raised in July 2007 to cover a shortfall in the IPO fundraising.

Management: Key to the business model, management has a long history of operating in Zimbabwe. CEO Andrew Cranswick is Zimbabwean by birth, and has previously worked in both the mining industry and as founder of an internet service provider (sold in 2000). Operationally, technical director Michael Kellow is an exploration geologist with over 25 years' experience, recently as founder of Australian e-geology firm Intierra.

Project Summary

Pickstone-Peerless (100%) is a Zimbabwean gold deposit with an inferred resource of 10.6Mt @ 1.5 g/t for 513,000oz gold, based on a 2006 SRK study. This includes an inferred resource of 450,000oz for Pickstone and Peerless, and a measured resource of 83,000oz at 1.7 g/t in old waste dumps. The company is targeting 2-3Moz through near-mine exploration.

The **Giant Mine** (100%), also in Zimbabwe, historically produced 560,000oz @ 8.2 g/t gold. Based on 13,500m of drilling since 2006, SRK delineated a resource of 4.9Mt @ 2.1 g/t for 336,000oz. Waste dumps are yet to be added to the resource.

One-Step (100%) is a gold project formerly drilled by Rio Tinto in the 1990s. Historic drilling includes 24m @ 2.6 g/t and 30m @ 1.7 g/t. Ore zones occur under shallow open-pit workings with further drilling planned.

Snakes Head (100%) is a Zimbabwean Great Dyke platinum prospect with a non-JORC resource of 825Mt @ 1.37 2E g/t (Pt+Pd) for 23-30Moz 2E. Low grades are potentially economic with emerging smelting technology being investigated in South Africa, and near-mine exploration continues.

Perseverance (100%) is an old nickel mine that produced 4,657t of nickel at 1.0% nickel and 0.4% copper. The company is undertaking near-mine exploration through geochemistry, geophysics and mapping.

Marenge (disputed) is a diamond discovery by the company, with diamonds hosted in an ancient buried alluvial layer. The Ministry of Mines gave notice to cancel the company's title in late-2006. The company has disputed the decision in the High Court, with hearings ongoing. Best estimates indicate around 5,000-15,000 artisinal miners were producing a very large volume of diamonds at the height of the diamond rush last year, with estimates of carats mined running into multiple millions.

Global Resource Statement

Category	Tonnes (Mt)	Grade (g/t Au)	Contained (oz)	Attributable (oz)
Measured	116,600	1.7	63,000	63,000
Indicated	-	-	-	-
Inferred	9,444,000	2.5	750,000	750,000
Total	**14,966,000**	**2.4**	**813,000**	**813,000**

Source: African Consolidate Resources resource statement August 2007

Key Developments and Price Drivers

Key issues and events to drive share price: The major price driver for the company is two-fold: continue first-mover advantage in Zimbabwe through acquisition of new assets at discounted prices; and stabilisation of the political and economic situation in Zimbabwe following any change in leadership. Any resolution on the Marenge title will also be very material. Growth would also be supported by expansion outside Zimbabwe.

Recommendation

Investment Case: The road for ACR is not going to be easy, as seen at the disputed Marenge diamond deposit. There are also broader issues, such as operating in an environment of political and economic uncertainty, shown by the recent indigenisation bill in which the government proposed majority indigenous ownership, followed by comments that this would be done on a selective basis, with little transparency.

However, ACR represents a pure Zimbabwean asset play for those who hold the view that the situation in the country cannot get any worse before it gets better. Believing that change is inevitable in this once prosperous and productive country, ACR is consolidating its advantage in Zimbabwe, taking a contrarian view and building a portfolio of attractive mining and exploration assets with an intended expansion into Mozambique and then Zambia.

It must be reiterated that Zimbabwe hosts some of the most prospective geological belts globally. Although the company stands to realise significant uplift when the situation stabilises, it is also important to note that, although slowed, value-added exploration work is ongoing.

Recommendation: With the political situation difficult to predict, but clear upside on stabilisation and further acquisitions, we initiate coverage of African Consolidated with a **SPECULATIVE BUY** recommendation.

16 November 2007

Allied Gold

Metals & Mining Price: 36.3p HOLD

Upcoming Events:
Simberi production (Dec 2007)
Fourth quarter results (Jan 2008)
Full-year results (March 2008)

Market cap	**£124.0m**
Ticker	**AGLD LN**
	ALD AX
US$EV/resource oz	**105**
US$EV/12MF prod'n oz	**2,832**
Cash in hand (£m)	**5.6**
52-week (p)	
High	**46.3**
Low	**12.2**
5-day volume (000s)	**891**
5-day volume (£m)	
Shares	
Basic	**342**
Fully diluted	**346**
Top shareholders	
M&G	**16.65%**
Fidelity	**7.83%**
Mineral Commodities	**5.75%**
L-R Global	**5.61%**

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Resources (Moz)	Interest	Stage
Simberi Oxide Project	Reserve: 0.67	100%	Development
Simberi sulphides	0.70	100%	Evaluation
Tabar Island Group	-	100%	Evaluation

Source: Company data

Company Description

Focus and Strategy: Allied Gold's principal assets are located in Papua New Guinea on an archipelago of three adjacent islands: Tabar, Simberi and Tatau (approximately 70km west of the Lihir gold mine). The company's first objective is to commission the Simberi oxide gold mine before the end of 2007, followed by increasing oxide reserves as plant feed and adding resources at the other known gold projects in the 'Tabar Island Group'. The company also owns the Mapimi polymetallic deposit in Mexico. Allied last raised equity finance in March 2007 (40,800,000 shares at A$0.32/share to raise A$13,056,000) to fast track its exploration effort, prior to which it raised A$13,080,000 at A$0.60/share at the time of its admission to AIM in May 2006; this was in addition to approximately A$50m in cash and a debt finance facility from RMB Resources of US$25m to pay for the construction of the Simberi project.

Management: Mark Caruso, Chairman and Managing Director, has a successful record of corporate management, contract negotiation, acquisitions and asset building (primarily as a contractor). His 'can do' attitude drives the company. The Chief Operating Officer, Grant Brock, is a mining engineer and is supported on site by a team of engineers and geologists. The rest of the five-man board comprises Jeff Moore and Greg Steemson, geologists, and Anthony Lowrie, currently Managing Director of ABN Amro in London.

Project Summary

Simberi Oxide is a low-risk mine employing conventional CIL gold recovery. The deposit has a reserve of 14.9Mt @ 1.4 g/t for 673,000oz of gold. The initial mine plan gives a life of just over eight years at an average of 84,000oz pa and a cash cost of approximately US$306/oz. The project's capital cost is expected to be A$87m. Allied expects to pour the first gold in December 2007, with the aerial ropeway (replacing trucks for delivery to the process plant) commissioned in February 2008. At a gold price of US$700/oz and an 8% discount rate, the project has an NPV of US$119m. Allied believes that it can increase the oxide reserve in the vicinity of the Simberi project to over 1Moz and raise throughput to 115,000oz pa.

Simberi Oxide — In-pit Reserve and Resource				
Category	**Tonnes (Mt)**	**Grade (g/t Au)**	**Contained (Moz)**	**Attributable (Moz)**
Proven	9.70	1.38	0.43	0.43
Probable	5.17	1.46	0.24	0.24
Inferred	2.90	1.20	0.11	0.11
Total	**17.77**	**1.37**	**0.78**	**0.78**

Source: Company; calculated by Golder Associates, July 2006

Key Developments and Price Drivers

Update since September 2006: Allied Gold has not given shareholders a smooth ride. In June 2006, one month after dual-listing on AIM (initially ASX listed), the company revised its capital cost estimate up as a larger plant was decided on, and as a result the then Managing Director was asked to leave. This was followed by Zijin, China's largest gold producer, electing not to take a 10% stake in the company after it had completed its due diligence, the reasons for which have never been made public. The combined effect was, unsurprisingly, an all-time low in the share price of 13p. Since then, new board appointments, a further round of financing (March 2007) and a steely resolve and no-nonsense attitude to the development of the Simberi oxide project — not to mention the gold price — have seen it climb to the current level.

Key issues and events to drive share price: The Simberi oxide project is fully permitted and the next milestone will be the mine's first gold pour. Once in production, focus will shift to production rates and, in this part of the world, any wayward sign of environmental damage (deep sea tailings placement (DSTP) being one potential contentious area, although it is employed successfully by the nearby Lihir gold mine). Thereafter, the exceptional exploration potential of the islands and a possible joint venture with a large gold producer are the obvious share price drivers, as is M&A activity in the region.

Recommendation

Despite the ups and downs, Allied should get into production no more than a few months late. Although over-budget, much of this relates to increase in capex for a larger 2.2Mtpa plant (rather than 2.0Mtpa plant as originally planned), as well other upgrades such as scrubbers to break down clay ores and an upgraded conveyor system. The exploration upside at Simberi for oxide feed and in the Tabar Island archipelago as a whole gives investors plenty of upside, and in the current frenzied environment for gold producers and exploration ounces we consider Allied to be a good play. However, the market cap does appear to have got ahead of itself based on the NPV of the initial mine plan, the initial production rate and the current resource base. The company is now trading at roughly 2x NPV, and at US$2,832/2008F production — roughly in line with peers.

We therefore have a **HOLD** recommendation on the stock until such time as production is completely de-risked and expansion clarified.

16 November 2007

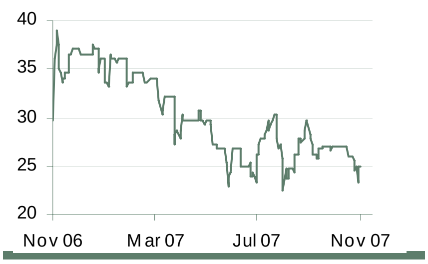
Archipelago Resources

Price: 25p BUY — Target price 71p

Upcoming Events:
Environmental Permitting (pending)
Toka Tindung mining (1H08)
Full-year results (Jun 08)

Market cap	**£42.9m**
Ticker	**AR. LN**
Price Target (p)	**71**
US$EV/Resource oz	**58**
US$EV/Reserve oz	**107**
Cash in hand (£m)	**4.1**
52 week (p)	
High	**39.0**
Low	**22.5**
3M-avg. daily vol. (000s)	**196.8**
3M-avg. daily val. (£000)	**54.0**
Shares	
Basic	**171.8m**
Fully diluted	**185.7m**
Top shareholders	
Ocean Resources	**19.3%**
Baker Steel	**9.7%**
JP Morgan	**6.6%**
RAB Capital	**4.8%**
Total	**40.4%**

Share Price Performance (p)



Source: Fidessa

Main Assets

Project	Resources (Moz AuEq*)	Interest	Stage
Toka Tindung, Indonesia	1.77	85%	Development
Cam Thuy – Ba Thuoc, gold, Vietnam		Majority**	Evaluation
Pac Lang, gold, Vietnam		65%	Evaluation
Than Hoa Province, chrome, Vietnam		Minority**	Evaluation
Corplex, gold, Philippines		100%	Evaluation

*Au/Ag based on spot 56:1 ratio; **Currently being negotiated; **Source**: Company data

Company Description

Focus and Strategy: AIM-listed Archipelago Resources is currently focused on bringing its 85%-owned Toka Tindung gold-molybdenum deposit in Indonesia into production, and development of exploration projects in Vietnam and the Philippines.

Acquired in 2002 from the financially distressed Australian mining company Aurora Gold, pre-construction at Toka Tindung started in July 2005. Targeting 2007 production, the company hit troubles in early-2007 as its Environmental Permitting (AMDAL) was delayed — construction was halted in May 2007. Based on advice in early-2006 from the relevant authorities, the company changed from Submarine Tailings Placement to land-based tailings storage. In the latest guidance (September) mining is scheduled to begin in 1Q08.

Given the delay to AMDAL approval, the company was unable to draw on project finance, and arranged a US$10m working capital facility in March 2007. Repayments have been financed by further equity raises of £2.5m at 20p in July 2007, and £5.5m at 25p in September 2007.

Management: An experienced management team is led by MD Colin Loosemore, a geologist with 34 years' exploration and management experience in AIM and ASX mining companies. Chief Operating Officer Dave Morrison has extensive technical experience in Southeast Asia, including mine manager positions.

Project Summary

Toka Tindung has mineable reserves of 960,000oz and an indicated resource of 1.77Moz gold equivalent. Once permitted, the company aims to ramp up to peak annualised production of 160,000oz. Current reserves are sufficient for six years of production, although the potential exists for this to be increased significantly, with considerable exploration potential around planned open pits. The company has a large exploration landholding around Toka Tindung.

Corplex (right to acquire 100%) is a Philippine company with large landholdings on the northern part of Mindanao.

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Ambrian acts as Broker to this company

Vietnam is Archipelago's other focus area, where three projects have been formed through JVs with state mining company VINACOMIN. The Pac Lang gold project (65%) was granted in September 2007, the Than Hoa chromite project is being finalised after approval was granted to form a JV, and licences have been applied for at Cam Thuy-Ba Thuoc (gold).

Toka Tindung					
Category	Tonnes (Mt)	Grade (g/t Ag)	Grade (g/t Au)	Contained (Moz)	Attributable (Moz Au Eq.)
Measured	2.20	8.0	3.6	0.26	0.26
Indicated	11.04	8.0	3.2	1.19	1.19
Inferred	2.23	8.0	4.3	0.32	0.32
Total	**15.46**	**8.0**	**3.4**	**1.77**	**1.50**
In-pit reserve	**7.70**	**9.2**	**3.7**	**0.96**	**0.81**

Source: Toka Tindung CPR (Snowdens), Company presentations, Ambrian

Key Developments and Price Drivers

Update since September 2006: Since our last report progress at Toka Tindung has been minimal as the company awaits AMDAL approval. The project remains valued at a fraction of its worth, but each equity raising dilutes current shareholders. On the flipside, the recent investment by Baker Steel should be seen as a positive signal, and over US$50m of value may be locked in given that the company did not hedge at US$660/oz.

Key issues and events to drive share price: Visibility on permitting remains low, and approval could occur at any time. We maintain the view that the commercial and economic benefits of the project, together with the strict levels of environmental compliance that it meets (Indonesian, World Bank and Australian National Park Standards), will eventually win through and the AMDAL will be issued.

Recommendation

Investment Case: An investment in Archipelago at this stage needs to be carefully considered as risk of further delays should enter the equation. However, the upside remains strong and a significant and rapid re-rating would occur upon approval for the project. In the event of AMDAL approval we would expect the share price to recover quickly towards 50p before then tracking higher in the following 6-9 months.

Recommendation: BUY, target price 71p per share — With an upside of approximately 3x the current share price, our view is that the project will eventually win approval. In July 2007 we valued the Toka Tindung project on a post-tax DCF basis at US$252m. We maintain this valuation and maintain our **BUY** recommendation with a 1x NPV target of 71p.

Once the AMDAL is approved, Archipelago should be in a position to consolidate and grow, justifying the multiples we observe in the sector for profitable gold producers of 1.25-1.75x NPV and P/E ratios of around 15-20x (a range around 100p). Other multiples to consider for gold producers are Enterprise Value to annual production ounce, for which we have a current median of US$2,283/oz, equating to £1.04. This must be balanced with the risks, including further dilution and debt repayment issues resulting from further delays.

16 November 2007

Avocet Mining

Price: 178p BUY — Target price 219p

Upcoming Events:
December quarterly (Jan 08)
North Lanut resource update (4Q08)
Bakan feasibility (4Q08)

Market cap	**£235.1m**
Ticker	**AVM LN**
Price Target (p)	**219**
US$/Resource oz	**195**
US$ EV/Reserve oz	**517**
US$EV/12MF prod'n oz	**2029**
Cash costs (US$/oz)	**268**
Est. cash in hand (£m)	**54.8**
52-week (p)	
High	**190.8**
Low	**90.0**
3M-avg. daily vol. (000s)	**458**
3M-avg. daily val. (£000)	**705**
Shares	
Basic	**121.6m**
Fully diluted	**127.8m**
Top shareholders	
Elliott Associates	**16.1%**
Artemis	**13.3%**
AXA	**7.6%**
JP Morgan	**7.6%**
Total	**44.6%**

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Production	Interest	Stage
Penjom, Malaysia	97,500oz pa	100%	Production
North Lanut, Indonesia	50,000oz pa	80%	Production
Bakan	0.5Moz resource	80%	Development

Source: Company data

Company Description

Focus and Strategy: Avocet Mining is an emerging gold producer, with two producing mines and one pre-production asset in Southeast Asia, and a US$112m war chest set aside for development and acquisitions. Following disappointing production of only 36,000oz at US$634/oz from the company's Tajikistan gold operation in FY07, the mine was sold for US$55.1m in July 2007. The company is looking to grow production through near-mine exploration, new mine commissioning in Southeast Asia, and — eventually — expansion outside Southeast Asia.

Management: Since a reshuffle in July 2006, Avocet management has ably demonstrated its abilities. Under CEO Jonathan Henry the assets in Tajikistan were divested and the company's gold collar restructured. Operationally, COO Eric Vesel has driven cash costs down through the introduction of efficiencies in the mines.

Project Summary

Penjom (100%), in Malaysia, is an open-pit operation with a proprietary resin-in-leach processing plant producing 88,000oz pa at US$320/oz cash cost, based on the June and September quarters in 2007. FY08 capex of US$19m is planned to increase mill throughput by 30%. Current resources may increase as a result of the 42,000m drill programme currently underway. The resource, excluding reserves, is currently 532,300oz @ 3.33 g/t Au, with additional reserves of 449,000oz @ 3.77 g/t Au.

North Lanut (80%), in Indonesia, produced 78,000oz annualised in the June and September quarters from an open-pit dump leach operation at US$265/oz. The mine has an attributable resource, excluding reserves, of 255,440oz @ 1.04 g/t Au, with reserves of 182,000oz @ 1.62 g/t Au. Recent drilling at North Lanut returned positive results, including 53m @ 8.0 g/t Au at Riska, which will lead to an updated resource in 4Q08.

Bakan (80%) is a development project in Indonesia located close to North Lanut with a resource of 519,100oz @ 0.96 g/t. A feasibility study is due in 4QFY08; capex is estimated at below US$25m, and drilling is ongoing.

Banda (75%) is the company's most promising exploration property with a 2.2Moz non-JORC resource. Drilling is underway at two of the Banda properties and also at **South Sulawesi** (90%), another exploration prospect. **Investments** include a 25% stake in TSX-V-listed Dynasty Gold (C$8m mkt cap) and a 19.4% stake in Monument Mining (C$58m mkt cap).

Avocet Mining Attributable Resources and Reserves			
Category	**Tonne (Mt)**	**Grade (g/t Au)**	**Contained gold (000oz)**
Measured	4.7	1.24	187
Indicated*	11.9	1.47	563
Inferred*	16.4	1.74	914
Total	**33.0**	**1.57**	**1,665**
Proven	3.2	2.47	250
Probable	4.0	2.96	377
Total	**7.1**	**2.74**	**627**

*Includes 276,000oz in minority-owned Monument Mining and Dynasty Gold Corp; **Source**: Company Reports

Key Developments and Price Drivers

Last year we highlighted three major concerns: high operating costs in Tajikistan, low reserves at Penjom and restrictive hedging commitments. Since then the company has remedied or improved on all three, with divestment of ZGC, a 15% increase in resource net of depletion in December 2006, and the renegotiation of the gold collar, which allows the greater of the gold spot price or US$600/oz until January 2010. Key price drivers will be M&A activity, maintaining production levels and cash costs in the medium-term, and commissioning of Bakan.

Valuation and Forecast

Our valuation is based on a ramping up at Bakan during 2009, with a 1.75x NPV multiplier on a 9% discount DCF equating to £2.19 per share.

Avocet Mining Operational and Financial Summary				
	2008F	**2009F**	**2010F**	**2011F**
Tonnes mined	2,180,000	3,300,000	3,700,000	3,700,000
Head grade	4.0	3.2	3.0	3.0
Gold produced (000oz)	151	202	222	213
PAT (US$m)	33.6	23.4	29.5	28.5
EPS	0.27	0.17	0.21	0.20

Source: Ambrian

Recommendation

Investment Case: Key attractions are decreasing cash costs, exposure to spot gold until at least January 2010, and the opportunity of near-term acquisitions in Southeast Asia, including Australia or China. Also, being a mid-cap pure gold producer makes Avocet a takeover target. Management has expressed a preference for immediate pre-producing assets given its commissioning experience, or possibly a producing asset. We support this as an additional 100,000oz pa of gold production would make Avocet one of the largest pure-gold producers on AIM.

Recommendation: BUY, target price 219p per share — Avocet is our Top Pick in the sector for 2H07. We value projects at £118.8m, and using a 1.75x NPV multiplier to reflect the established nature of production, M&A speculation and corporate transaction potential, add cash to arrive at our target price of 219p , maintaining our **BUY** recommendation.

16 November 2006

Centamin Egypt

Price: 63.5p BUY — Target price 79p

Upcoming Events:
Full-year results (Jul 08)
Resource upgrades (ongoing)
Mill commissioning (4Q08)

Market cap	**£471m**
Ticker	**CEY LN**
	CEE CN
	CNT AX
Price target (p)	**79**
US$EV / resource oz	**73**
Est. cash in hand (£m)*	**101**
52-week (p)	
High	**69.0**
Low	**27.0**
3M-avg. daily vol. (000s)	**1,610**
3M-avg. daily val. (£000)	**884**
Shares	
Basic*	**840.5m**
Fully diluted	**861.7m**
Top shareholders	
CDS & Co	**21.7%**
El-Raghy Kriewaldt	**7.3%**
Chase Noms.	**5.4%**
Pershing Keen Noms.	**5.3%**
Total	**39.7%**

**Post C$100m raise for 83.3m shares*

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Resources (Moz)	Interest	Stage
Sukari	10.45	100%	Development

Source: Company data (September 2007)

Company Description

Focus and Strategy: With the resource at its world-class Sukari gold deposit in Egypt now standing at 10.45Moz gold, Centamin Egypt is an emerging gold company that expanded on its initial ASX listing with an AIM listing, and more recently a TSX listing. Construction is underway, with first production scheduled for 4Q08. Having raised C$140.7m (£62.4m) at C$0.86 (£0.38) in April 2007 as part of a TSX listing, and a further C$100m in November 2007, the company is well positioned to bring Sukari into production.

A BFS was completed as part of the Canadian listing in 1H07 — this provides a base case on which to build expansion as the resource has expanded considerably since then.

Management: At the centre of the management team is the El-Raghy family. The company's chairman and founder is Sami El-Raghy, who came to Centamin with significant experience in discovering deposits and bringing them into development. CEO Joseph El-Raghy's experience as a corporate financier and broker has been a great asset during the company's fund raising and in dealing with investors. Josef has driven a very systematic and logical approach to project development to date.

Project Summary

Sukari is located approximately 700km south of Cairo and 25km west of Marsa Alam on the Red Sea. Drilling at the porphyry gold deposit is ongoing, with the resource having increased in size by 50% in the last 12 months alone. In tandem, the company is moving into construction for the first phase of mining and processing, with 4Q08 production scheduled.

The Sukari deposit is hosted by a large porphyry body, which is located on a regional shear zone. The body has provided a competency contract and favourable conditions for shallow-dipping ore zones to form, although the entire body is mineralised.

Ore is hosted in four different zones along a steep hill: Amun, Ra, Gazelle and Pharaoh. The open pit is based on the Main and Hapi ore zones, which have been well drilled in the Amun and Ra/Gazelle areas. The initial open pit was optimised to 300m depth, but subsequent drilling has intersected the deeper Hapi ore zones beneath the Ra/Gazelle area, so we expect the pit to be re-optimised to include additional reserves. Underneath the Amun zone at Amun Deeps drilling has been extremely successful, intersecting thicker higher-grade zones, and the resource now goes to 950m depth. In addition to infilling and Amun Deeps drilling, the company is now drilling the less accessible Pharaoh zone where the Amun Deeps ore is expected to continue. Initial drilling at Pharaoh intersected 1-2 g/t ore zones shallower than 500m, but higher grades at depths, including 53m @ 3.2 g/t Au from 711m.

Based on the BFS, completed in March 2007, the mining will initially be undertaken at 5Mtpa, with processing at 4Mtpa to build up a low-grade stockpile, with annual production of 215,000oz gold.

Sukari

Category	Tonnes (Mt)	Grade (g/t Au)	Contained (Moz)	Attributable (Moz)
Measured	57.43	1.40	2.60	2.6
Indicated	91.02	1.45	4.20	4.20
Inferred	64.4	1.7	3.60	3.60
Total	**296.90**	**1.53**	**10.45**	**10.45**

Source: Company reports, Ambrian

Key Developments and Price Drivers

Update since September 2006: Since our last gold report Centamin has completed a BFS for Sukari, and to finance construction raised C$140.7m (£62.4m) equity from North American investors as part of a TSX listing, as well as a C$100m equity raise in November 2007. In parallel, the resource has expanded from 6.8Moz to 10.5Moz, with the progress reflected in the market cap — up over 150%.

A second-hand CIL process plant, including a crushing and grinding circuit, was secured from Newmont Bolivia for US$11m in October 2006 and is currently being unpacked at Sukari. In February 2007 a second-hand 28MW heavy fuel oil power plant was acquired, which arrived in Egypt in October.

In preparation for plant construction, over 40,000m of sterilisation drilling is now complete. Grade control drilling commenced in 4Q07 on benches prepared in the Amun Zone.

Key issues and events to drive share price: The company has been in discussion with Barclays Bank to arrange debt finance of up to US$100m, but the November 2007 equity raising has likely replaced this. However, as the company ramps up drilling and development at Amun Deeps, and seeks expansions in the future, we expect debt financing will be put in place at some point.

Looking ahead, the company commenced site works this quarter, with pre-strip in 1Q08 ahead of commissioning and production in 4Q08. With the mining fleet now ordered, including five 150t trucks and a 260t excavator already on site, we believe all major obstacles have now been overcome with the exception of recruitment — a major issue in the mining industry at the moment. It should be acknowledged that projects such as this are often delayed in commissioning.

Short-term price drivers will be increases in the resource and re-optimisation of the open pit. We believe the resource will reach 15Moz, driven by Amun Deeps and Amun/Ra/Gazelle infill drilling, and argue below that pit re-optimisation should significantly increase ‘in-pit’ reserves.

Recommendation

Investment Case: Since listing on the TSX earlier this year, Centamin has performed strongly as the Sukari resource increases. The DCF presented by the company values Phase 1 (4Moz gold production over 22 years) at US$248m based on an 8% discount rate, gold at US$600/oz and capex of US$216m, including a 10% contingency. However, since then the resource has moved well past this, and the deposit clearly supports a much larger operation.

What is clear, though, is that the market expects substantial expansions, and we certainly believe that the orebody will support this. The precise path to expansion will be clarified in the medium term as resource drilling continues, with the scenarios we think most likely outlined below:

- **Phase 1** — Current open-pit and processing operation as outlined in the BFS, mining at 5Mtpa and processing at 4Mtpa.
- **Phase 2** — *Amun Deeps*: Drilling has intersected thick higher-grade zones at depth beneath Amun, and we are confident that this will support an underground operation to operate in tandem with the open pit.
- **Phase 3** — *Open-pit expansion*: The current open pit doesn't capture the deeper Hapi ore zone in the Ra/Gazelle area. There is a strong chance the open pit will be re-optimised deeper in Ra/Gazelle, and the mining and milling rate expanded beyond the current plan of 4Mtpa.
- **Phase 4** — *Pharaoh Deeps*: Initial results from <500m are not immediately encouraging, although drilling is only at an early stage. At depth though, higher-grade thicker intersections support continuation of the Main and Hapi ore zones to the north and are extremely encouraging. We do not have the same confidence as for Amun Deeps, but certainly see potential for a Pharaoh Deeps operation in the future.

There are two other key areas of value: takeover premium and first-mover advantage. In the medium term several gold majors will have commissioned their latest gold deposits, and sovereign risk should largely be behind Centamin, making it an ideal acquisition target at that time.

Centamin also has a significant first-mover advantage. Having weathered the storm in Egypt, with previously difficult relations behind it, the company now holds the country's first mining lease and is ideally positioned to capitalise on its first-mover advantage through acquisition of other mining licences in this well-endowed gold belt.

Recommendation: BUY, target price 79p — Looking at the resource size, it is clear that Sukari offers upside to the current operation, but the question is, of course, how much. There are two key points to look at here: expansion of Sukari as described above; and valuation multiples for a long-term gold producer, especially one with a truly world-class deposit such as Sukari.

In addition, we believe a number of factors place Centamin ahead of the pack:

- **The size of the resource is phenomenal** — Combining the company's demonstrated ability to increase the resource with the prospectivity of Amun Deeps and Pharaoh, with ten drill rigs currently in place, we believe the resource should approach 15Moz and has the potential to go beyond this.
- **The location and setting of the deposit is highly amenable to low-cost mining methods** — Low stripping ratio early in the mine life, low-cost labour, diesel costs US$0.10/litre and sound existing infrastructure.

We believe that it is too early to build credible bottom-up valuations for Phase 2 and 3 as described above. However, based on Phase 1 costs, we prepared a model whereby production doubles after three years, for 10.4Moz mined gold over 26 years, arriving at an NPV of US$521m using the same discount rate of 8% and a fixed gold price of US$600/oz. However, this is difficult to quantify without a better understanding of surface and underground scheduling and costs.

Additionally, the recent Canadian listing and capital raising have created a degree of excitement and momentum. We are now seeing a migration of shareholders to North America as investors take profits at different stages of the company's growth cycle, similar to the migration of shareholders from Australia to the UK as the company matured from explorer to developer. This should support positive momentum in the short term.

Looking to a valuation, applying a 1.5x multiple to the above NPV to represent underground expansion opportunities gives a NAV of US$780m. Applying a 1.5x NAV multiplier — lower than most producers with deposits of this size but incorporating commissioning risk — and adding the current cash position, leads to an NAV of US$1,171m, or 79p per share (post-C$100m raise). We have a **BUY** recommendation on Centamin with a target price of 79p. In the short term, risks to positive momentum involve commissioning delays, which come with a negative impact on all projects, although the scale of future growth should offset this risk.

16 November 2007

Cluff Gold

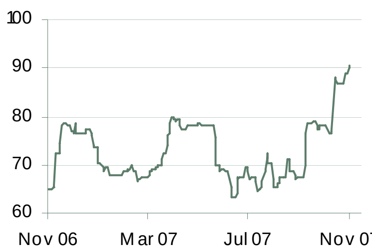
Price: 90.5p

BUY

Upcoming Events:
Angovia first production (1Q08)
Kalsaka first production (1Q08)

Market cap	**£62.4m**
Ticker	**CLF LN**
US$EV/resource oz	**57**
US$EV/reserve oz	**401**
Cash in hand (£m)	**17.8**
52-week (p)	
High	**90.0**
Low	**63.5**
3M-avg. daily vol. (000s)	**57.7**
3M-avg. daily val. (£000)	**43.0**
Shares	
Basic	**68.9m**
Fully diluted	**73.0m**
Top shareholders	
JP Morgan	**10.0%**
Libra Advisors	**8.1%**
Africa Emerging Markets	**7.6%**
Ingalls and Snyder	**6.7%**
Total	**32.4%**

Share Price Performance (p)



Source: Fidessa

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Main Assets

Project	Resources (Moz)	Interest	Stage
Baomahun, Sierra Leone	1.16	60%	Evaluation
Kalsaka, Burkina Faso	0.60	78%	Development
Angovia, Cote d'Ivoire	0.43	90%	Development
Yako, Burkina Faso	0.15	90%	Development

Source: Company data

Company Description

Focus and Strategy: Cluff Gold is an exploration/development company focused on West Africa, with a strategy to target deposits exploitable via open pits and low-cost processing techniques. The short-term objective is to bring two operations into production over the next six months. In the medium term, resource expansion and feasibility studies are planned at the flagship Baomahun project in Sierra Leone. The company is also planning a Canadian listing in 2H08. With US$36.4m cash in June 2007, and the prospect of near-term cash flow, we remain positive on Cluff.

Management: Company management has strong industry and local knowledge. Chairman and CEO Algy Cluff was the founder and chairman of Cluff Resources, which targeted the acquisition of African assets until its own acquisition by Ashanti Goldfields in 1996. Technical Director Douglas Chikohora has over 25 years' experience in the mining industry.

Project Summary

Sierra Leone: The Baomahun deposit (60%) has a resource of 11.1Mt @ 3.2 g/t for 1.16Moz gold. A scoping study based on the current resource indicates production of 140-200,000oz pa from a 1.0-1.5Mtpa carbon-in-leach plant. A pre-feasibility study is in progress, and another 25,000m of drilling is scheduled to be completed from now to 1H08.

Burkina Faso: The Kalsaka project (78%) has an oxide resource of 13.7Mt @ 1.4 g/t for 600,000oz gold amenable to heap leaching. Based on a 2005 BFS, production is scheduled for March 2008 at an average of 50,000oz pa for five years. Reserves of only 290,000oz will restrict mine life, but the 150,000oz resource at the nearby Yako project may extend this. Capex is US$24m, and life-of-mine operating costs are forecast at US$350/oz.

Ivory Coast: Angovia (90%), a mine formerly owned by Cogema, has a resource of 10.1Mt @ 1.5 g/t for 496,000oz gold, with 452,000oz in the measured and indicated category. The company aims to commence heap-leach production at 40,000oz pa in 1Q08. Near-mine exploration will continue — consultants SRK estimated a potential resource of 800,000oz.

Mali: (80%) exploration JV formed in 2005.

Cluff Gold Global Resource				
Category	Tonnes (Mt)	Grade (g/t Au)	Contained (Moz)	Attributable (Moz)
Measured	10.1	1.52	0.49	0.45
Indicated	8.9	1.65	0.47	0.37
Inferred	18.1	2.48	1.44	0.97
Total	**37.5**	**2.0**	**2.41**	**1.75**

Source: Company reports, Ambrian

Key Developments and Price Drivers

Update since September 2006: When we last wrote we expressed concerns about infrastructure and power in Sierra Leone for the Baomahun project — the company now indicates that these issues have been addressed (and also increased the resource). Development at Angovia and Kalsaka has moved ahead as it approaches first production.

Key issues and events to drive share price: Commissioning Angovia and Kalsaka will be positive for the company, although we would expect some delays given the overstretched nature of the mining industry currently. At Baomahun, assays from recent drilling are outstanding, so a further resource upgrade should be expected. In the medium term we await to see when the company draws a line under the resource and moves to production, which we believe will be around 2010.

Recommendation

Investment Case: Near-term cashflow at two smaller operations with downstream development for a third larger operation supports the upside in Cluff. Baomahun offers exposure as a resource growth story in the short term, moving to a development/production story as feasibility studies continue. Furthermore, we think the restructuring of Baomahun ownership — to increase it beyond 60% — is logical and may well offer upside in the short term.

Geographically, we believe West Africa to be one of the most promising regions for gold exploration and mining globally. It has the key ingredients of well-endowed, under-explored greenstone belts and a relatively stable operating condition. Ghana is especially attractive because of the excellent access to infrastructure and the long mining history in the country.

Recommendation: BUY — Cluff's share price appreciation over the last 18 months has been hampered by commissioning delays for Angovia and Baomahun. However, many of these delays are behind them, with upcoming production and significant resource upside likely to offer growth. Given the current EV/resource ounce of US$57/oz, we expect continued growth as Baomahun crystallises over the coming year. As such, we maintain our **BUY** recommendation on Cluff Gold.

16 November 2007

Leyshon Resources

Price: 26p BUY — Target price 32p

Upcoming Events:

December quarterly report (Jan 08)
Half yearly financial report (Mar 08)
Mining licence (2Q08)

Market cap	**£56.1m**
Ticker	**LRL LN**
Price Target (p)	**32**
US$EV/resource oz	**82**
Cash in hand (£m)	**7.9**
52-week (p)	
High	**33.3**
Low	**20.2**
3M-avg. daily vol. (000s)	**583**
3M-avg. daily val. (£000)	**156**
Shares	
Basic	**215.7m**
Fully diluted	**220.0m**
Top shareholders	
Ian Middlemas	**7.0%**
Baker Steel	**6.7%**
Newmont Mining	**5.8%**
JP Morgan	**5.0%**
Total	**24.5%**

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Resources (Moz, gold eq.)	Interest	Stage
Zheng Guang	1.71	70%	Development

Source: Company data

Company Description

Focus and Strategy: Originally formed in the 1980s to mine its namesake Mt Leyshon Gold Mine in Queensland, Leyshon Resources divested the Australian assets in 2004 and is now focused on developing the Zheng Guang mine in north-east China. The company's strategy is based on a 70-30 sino-foreign JV with the Heilongjiang Bureau of Geology and Mineral Resources (HGBMR). Leyshon funds all projects to BFS to earn-in 70%, with funding recovered on a priority basis once in production.

Under the JV Leyshon has access to local skilled labour, as well as mineral rights for existing and future projects held by the HGBMR. Politically the company has demonstrated its ability to build a knowledge base and relationships that belie its relatively recent move to China. This has been aided by the chairman, MD and COO all being based in-country. Development has been funded by raisings of £2.8m at 14p in 2004, £2.6m at 15p in June 2006 and £8.3m at 22p in December 2006.

Management: Now placed to bring its flagship project into operation only three and a half years after forming the JV, management has ably demonstrated its ability. Managing Director Paul Atherley, a mining engineer, is the driving force behind the success of Leyshon, along with ex-Newmont operations manager Vic Mclaglen — they are both Chinese residents. A long-time advocate of opportunities in China, Atherley has experience in both investment banking with HSBC and as director of AIM- and ASX-listed mining companies. Hong Kong-based Non-executive Chairman John Fletcher, CBE, also has extensive experience in senior advisory positions working alongside Chinese officials.

Project Summary

Project Description: Zheng Guang, in the Heilongjiang region, was identified as an exploration-development target. Discovered by the HGBMR in 2000, the current resource of 1.71Moz gold equivalent is based on 30,000m of drilling undertaken between 2Q04 and 4Q06.

The development decision was made in late-2006, with planned capex of US$30m, production costs of US$225/oz, and production ramping up to 100,000oz gold and 200,000oz silver annually. A mining licence is expected in 2Q08, development of a carbon-in-leach (CIL) circuit should commence in 2008, and a flotation circuit should be added in 2009 to recover zinc from sulphides and increase gold recovery.

Project development is now progressing, with an engineering firm working on the design while metallurgical consultants have developed

(CIL) and flotation process flow sheets. Already in an infrastructure-rich area, further benefits are expected from a recently-announced US$8bn of planned infrastructure investment in the province.

Zheng Guang						
Category	Tonnes (Mt)	Grade (g/t Au)	Grade (% Zn)	Grade (g/t Ag)	Gold equiv. (Moz)	Attributable (eq. Moz)
Measured	-	-	-	-	-	-
Indicated	9.6	1.95	0.60	6.3	0.88	0.61
Inferred	14.0	1.40	0.30	4.0	0.84	0.59
Total	**23.6**	**1.62**	**0.42**	**4.9**	**1.7***	**1.2**

*Gold equivalent calculated using spot silver and zinc prices; **Source**: Company reports, Ambrian

Key Developments and Price Drivers

Key issues and events to drive share price: Speed to commissioning is a key price driver. Leyshon is well placed in this respect, with the region having excellent infrastructure, including mainline power and rail access, good labour supply and availability of mining equipment. A further bonus is the Cooperating Agreement released in June 2006, under which Zheng Guang has been ranked a top priority by the Municipal Government, which should speed commissioning.

In the short term upside should come from resource upgrades. However, capital raising for construction may be an issue because the company has decided to expedite the process by not completing an Australian BFS and has instead engaged the highly experienced Changchun Design Institute to complete a detailed engineering design for the project, scheduled for completion early-2008 — immediately ahead of development.

Recommendation

Investment Case: Leyshon's strengths lie in its ability to marry its geological expertise with the local Chinese construction and development skills in an extremely prospective geological terrain. With investors into AIM gold exploration companies increasingly frustrated by slow drilling and commissioning delays, invariably caused by lack of skilled staff and equipment, Leyshon is clearly ahead of the pack, as demonstrated by the recent 43,700m drill programme (completed ahead of schedule).

Managing Director Paul Atherley is fond of saying that an ounce of gold is worth more in the ground in China than elsewhere because of the low operating costs and good infrastructure — we agree. Although no BFS has been released, near-term production places Leyshon in the developer peer-group. Based on planned 70,000oz pa attributable production, the company is currently trading at ~US$1,400/production ounce. This is low compared with peers, but adequately reflects the commissioning risk ahead of the company.

Recommendation: BUY, target price 32p — We have faith that management, supported by an excellent local workforce, will bring this deposit into production, and expect a re-rating over the next 12-18 months as the company moves to production. As such, we initiate coverage with a **BUY** recommendation, and believe the company should move toward US$2,000/production ounce, with our 12-month target price of 32p based on an US$1,800/production ounce metric.

16 November 2007

Medusa Mining

Price: 66.5p HOLD

Upcoming Events:
Interim results (Jan 08)
Full-year results (Jul 08)
Lingig drilling results (1Q08)
First New Catto ore (mid-2008)

Market cap	**£94.4m**
Ticker	**MML LN**
US$EV/Resource oz	**255**
US$EV/Reserve oz	**746**
US$EV/12Mf prod'n oz	**4,550**
Cash costs (US$/oz)	**248**
Cash in hand (£m)	**4.0**
52-week (p)	
High	**69.0**
Low	**30.0**
3M-avg. daily vol. (000s)	**216**
3M-avg. daily val. (£000)	**126.4**
Shares	
Basic	**142.0m**
Fully diluted	**155.9m**
Top shareholders	
Citicorp Nominees	**15.7%**
Gallagher Holdings	**12.3%**
Advance Concepts	**10.3%**
Forty Traders	**6.3%**
Total	**43.6%**

Share Price Performance (p)

Source: Fidessa

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Ambrian acts as Broker and Nomad to this company

Main Assets

Project	Production	Interest	Stage
Co-O	20,200oz annualised	100%	Production

Source: Jul-Sep 2007 quarterly production

Company Description

Focus and Strategy: Medusa is an AIM- and ASX-listed gold producer, with its key asset, the 100%-owned producing Co-O mine, in the Philippines on the southern island of Mindanao. Combined with a surrounding tenement package of over 800km^2, the region is highly prospective for satellite high-grade gold vein systems, as well as copper-gold porphyry targets.

Medusa's strategy is to ramp up production at Co-O to 60,000oz in 2008, and then target 100,000oz pa by addition of satellite operations, initially at Anoling. Ore from satellites will be processed at the central Co-O Carbon-in-Pulp (CIP) processing plant, which has significant spare capacity. Production at Co-O has proceeded on development ore since late-2005, ramping up to 32,500oz annualised in 2Q07, but now producing at 20,000oz pa as expansion to allow 60,000oz pa proceeds.

Management: Medusa is led by founding director and MD Geoffrey Davis, a geologist with extensive experience, with time at both BHP and as exploration manager for junior companies, and more recently as director at exploration and mining companies. FD Roy Daniel was appointed in April 2006, and has over 25 years' experience in the resource and mining industry.

Project Summary

Project Description: Co-O is a high-grade narrow-vein epithermal gold mine in the eastern part of Mindanao Island. Production of 40,000oz pa was initially targeted, but following the discovery of high-grade New Catto veins, the company is now targeting 60,000oz pa. Currently producing at 20,000oz pa as development continues, the first New Catto ore is expected in 2Q08, ramping up to full production of 400tpd in the following quarters. The current reserve of 255,000oz will support a five-year mine life, but we are confident that near-mine extensions should extend this, and an upgrade to 1,000tpd is planned in the 2008 financial year. Cash costs are low (US$200/oz planned), supported by the high grades — New Catto 1 contains 29,000oz at a phenomenal 50 g/t.

Regional projects include **Anoling**, a potential source of ore for Co-O as it is 8km from the Co-O plant. Ongoing drilling returned previous highlights of 4m @ 17 g/t; **Tambis-Bananghilig**, 20km from Co-O, where an underground horizontal hole intersected 99m @ 4.2 g/t, an interpreted 15-18m wide blanket ore zone; and **Lingig**, a copper-porphyry target with historic drill results of 152m @ 0.4% copper, ending in 2m @ 4.9% copper, 0.4 g/t gold and 10 g/t silver from 250m — drilling is scheduled for 1Q08.

Medusa Global Resources and Reserves				
Category	**Tonnes (Mt)**	**Grade (g/t Au)**	**Contained (Moz)**	**Attributable (Moz)**
Indicated	928,000	12.6	375,932	375,932
Inferred	1,106,000	9.5	337,808	337,808
Total	**2,034,000**	**10.9**	**713,000**	**713,000**
Probable	717,000	11.1	255,000	255,000
Total	**717,000**	**11.1**	**256,000**	**256,000**

Source: 2007 annual report

Key Developments and Price Drivers

Update since September 2006: Over the last 12 months the company increased its stake in the Co-O mine and tenements from 74% to 100% for A$12m, and secured additional assets on a 70% earn-in JV. At Co-O, a major resource upgrade from 292,000oz to 713,000oz was booked and production peaked at 32,500oz annualised in 2Q07. The company also received a positive and final court decision on the PICOP tenement case.

Key issues and events to drive share price: Quarterly ounces produced and reserve upgrades are the key share price drivers. For Medusa, this translates to three objectives: (1) ramp Co-O up to 60,000oz annual production; (2) develop satellite resources to enable an expansion of production; and (3) convert blue-sky exploration value with drilling.

In October 2007 Medusa announced diversion of mining staff to development to improve long-term mill throughput, but lower short-term production. We expect this to be offset by the exceptional grades encountered in the New Catto veins once they are accessed, with existing reserves of 74,000oz @ 37 g/t Au, and resources of 241,000oz @ 45 g/t.

Valuation and Forecast

We have presented our operational projections for Medusa below. Although we see production ramping up to 100,000oz pa by 4Q09, there are several geological and logistical hurdles to overcome before then. These risks are balanced by regional upside offered from Tambis-Bananghilig, which may support a standalone operation, copper-porphyry target Lingig, and exploration underway on the large landholding that the company has put together north and south of Co-O.

Operational Projections for Medusa Mining					
Category	**2008F**	**2009F**	**2010F**	**2011F**	**2012F+**
Daily processing rate (t)	193	777	930	930	930
Head grade (g/t Au)	11.3	10.0	9.2	9.2	9.2
Gold (000oz)	25	75	100	100	100
Cash costs/oz (US$)	230	200	200	200	200

Source: Ambrian estimates

Recommendation

We believe delays in ramping up Co-O are balanced by potential growth and upside, both in terms of near-mine and regional expansion, but maintain our **HOLD** recommendation awaiting progress of the ramp up at Co-O and regional drilling results.

16 November 2007

Mercator Gold

Price: 88.5p

Upcoming Events:
Full-year results (Nov 07)
Interim results (Mar 08)

Market cap	**£54.7m**
Ticker	**MCR LN**
US$/resource oz	**49**
US$/reserve oz	**262**
US$EV/12MF prod'n oz	**943**
Est cash in hand (£m)	**2.6**
52-week (p)	
High	**96.0**
Low	**64.5**
3M-avg. daily vol. (000s)	**308**
3M-avg. daily val. (£000)	**255**
Shares	
Basic	**62.5m**
Fully diluted	**71.2m**
Top shareholders	
Rahji Holdings	**8.7%**
First State Investments	**6.2%**
Majedie Asset Mgmt	**4.8%**
Chasm Lake Mgmt	**4.7%**
Total	**24.4%**

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	2008f Production	Interest	Stage
Bluebird	120,000oz pa	100%	Production

Source: Company data

Company Description

Focus and Strategy: Mercator Gold listed on AIM in October 2004 with a suite of mature near-mine exploration assets in Meekathara, Western Australia. The company acquired mining tenements and a carbon-in-leach mill from St Barbara Mines in December 2005. Through near-mine drilling, the resource now stands at 2.3Moz: Yaloginda (0.74Moz — existing mill); Paddy's Flat (1.2Moz), 15km north of Yaloginda next to the Meekathara town site; and Reedy (0.34Moz), some 50km south of Yaloginda.

Raising £4.5m at 65p in March 2007, the company refurbished the 1.25-3.0Mtpa Bluebird mill, and released a pre-production reserve of 3.9Mt @ 3.45 g/t for 432,000oz. Reserves comprise 182,000oz of open pittable ore at Yaloginda, and 432,000oz of underground ore at Paddy's Flat.

First production commenced in September 2007, with ore from the Surprise pit feeding the Bluebird mill. The mill is now operating at 1.3Mtpa, with annual production of 120,000oz targeted. Having built up a 430,000oz reserve in 18 months, the company is now targeting a 1Moz reserve, largely from underground drilling, which should enable it to ramp up production to 200,000oz pa in the medium term.

Management: The management team is led by MD Patrick Harford, a geologist with over 30 years' experience. His background is in gold mining, with several managing director positions covering mine operation and construction. COO Denis Geldard is a mining engineer, recruited in 2006, with experience including management of gold operations in Western Australia.

Project Summary

Yaloginda comprises three discrete ore resources: Bluebird (0.49Moz @ 2.1 g/t), Bluebird South (0.12Moz @ 1.3 g/t) and Surprise (0.13Moz @ 0.9 g/t). For the first 18-20 months, mining will focus on Bluebird and Surprise, with open-pit reserves of 133,000oz and 63,000oz respectively, at an average grade of 2.41 g/t.

Paddy's Flat has a resource of 1.2Moz, mainly in the Prohibition (0.34Moz @ 4 g/t) and Mickey Doolan (0.61Moz @ 0.9 g/t) orebodies. Once mining is completed at Bluebird and Surprise, production is scheduled to switch to the Prohibition and Vivian-Consols (0.19Moz @ 8.5 g/t) underground mines with a reserve of 308,000oz @ 4.84 g/t. The majority of resource lies 100-

350m below ground, and is open to depth, providing excellent potential upside to the project.

Reedy is located 50km from the Yaloginda mill, but resources at Reedy have less favourable economics. Most of the resource is in the Rand orebody (0.18Moz @ 2.4 g/t), with subsidiary resource at South Emu (0.078Moz @ 3.4 g/t) and Jack Ryan (0.083Moz @ 1.9 g/t).

Mercator Gold — Global Resource and Reserve Statement

Category	Tonnes (Mt)	Grade (g/t Au)	Contained (Moz)	Attributable (Moz)
Indicated	30.2	1.60	1.60	1.60
Inferred	14.6	1.50	0.72	0.72
Total	**44.8**	**1.6**	**2.32**	**2.32**
Probable	4.5	3.5	0.50	0.50
Total	**4.5**	**3.5**	**0.50**	**0.50**

Source: April 2007 resource and reserve statements

Key Developments and Price Drivers

Key issues and events to drive share price: With production commencing three months behind schedule, key drivers of the share price will be the processing rate plus cash costs, followed by reserve increases. Processing rates should be above the current 1.3Mtpa given the oxides being treated. First production comes from the lower-grade Surprise and Bluebird resources (2.4 g/t gold), with the cutback at Surprise increasing the strip ratio, with an anticipated increase in cash costs. Once the company shifts deeper sections of these open pits, and then to Prohibition and Vivian-Consols underground orebodies, higher grades are likely to come with lower cash costs and improved profits.

Valuation

Although we have not initiated coverage on Mercator, the company is trading at only US$945/forecast production ounce, well beneath its peer group at around US$2,000-2,500. On an EV/in-situ basis, the company trades at US$49/oz.

Recommendation

A key concern is the low reserve base, which supports a 3.5 year mine life. With such a large relative resource, we would view a 5-7 year reserve to give investors the confidence they need to ascribe the P/E ratios of ~15-20x or NPV/NAV multiples of 1.25-1.75 held by established producers, and this is what the company is looking to do. There is an active exploration programme at Paddy's Flat, where some 2Moz have been mined historically, most of which was shallower than 250m. Once development drives are in place at Paddy's Flat, Mercator should be well placed to drill out the Prohibition and Vivian-Consols orebodies to increase their reserve base.

With a significant tax asset, and no hedging or debt, this would facilitate a re-rating, and potential debt-funded expansion. As such, we are positive on the company's medium-term growth prospects.

16 November 2007

Metals Exploration

Price: 32.7p BUY — Target price 45p

Upcoming Events:
Runruno drill results (1Q08)
Waigeo Island drill results (1Q08)
Runruno metallurgy (1Q08)
Full-year Results (Mar 08)

Market cap	**£30.0m**
Ticker	**MTL**
Price Target (p)	**45**
US$EV/Resource oz	**28***
Est. cash in hand (£m)	**4.0**
52-week (p)	
High	**46.0**
Low	**22.7**
3M-avg. daily vol. (000s)	**464**
3M-avg. daily val. (£000)	**172**
Shares	
Basic	**91.6m**
Fully diluted**	**97.0m**
Top shareholders	
Allianz	**10.7%**
Williams de Broe	**8.1%**
Axis Framlington	**7.6%**
Baker Steel	**7.1%**
Total	**33.5%**

**Gold only, excluding molybdenum*
***116,144,949 on convertible conversion*

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Resources (Moz)	Interest	Stage
Runruno Gold Project	2.03	100%	Evaluation
Waigeo Island (Ni)	-	100%*	Evaluation

*85% with option to acquire 15%, subject to 10% royalty; **Source**: Company data

Company Description

Focus and Strategy: AIM-listed Metals Exploration is an exploration and development company focused on the development of its flagship Runruno gold-molybdenum deposit in the Philippines. Acquired in 2005, the company rapidly defined a resource, which now stands at 2.03Moz gold and 34.4Mlbs molybdenum. Ongoing exploration is aimed at proving up a significant multi-million ounce gold resource. In July 2007 the company completed a fundraising of £4.3m in a placement at 40p, with an additional £2m convertible note. The funds are being utilised to buy out the remaining 15% minority interest in Runruno, increase exploration activity there and pursue regional corporate opportunities.

Management: Jonathan Beardsworth (CEO) is a former corporate financier with nearly 15 years' experience in mining and metals, primarily building Standard Bank's mining business in Europe and China. Gary Powell (Technical Director) is a geologist with 23 years' experience in mineral exploration, development & mining in Australia, Southeast Asia and Central Asia, as well as operational and directorship experience. Brian Lueck (Consulting Geologist) is the senior geologist on the Runruno project; he is a porphyry specialist with over 20 years of geological and corporate experience, including over ten years in the Philippines.

Project Summary

Runruno is a gold-molybdenum deposit 300km by road north of Manila. The deposit is hosted in a circular volcanic complex, analogous to the Cripple Creek complex in the US (~23Moz gold production). The resource already stands at 2Moz gold and 40Mlbs molybdenum, with significant scope for expansions. Initial metallurgical test work has been completed, with gold recovery of 94.7% achieved by gravity from pressure oxidation tests. Molybdenum is proving more problematic, but a number of promising options are being investigated. The metallurgical results will form the basis of a scoping study on a 200,000oz pa gold mine, work on which is set to commence in the new year.

Waigeo Island is a recently acquired laterite nickel deposit in Indonesia, purchased for US$100,000 cash. The deposit has a non-JORC resource of 35Mt @ 1.5% Ni, 0.13% Co and 37% Fe. The objective is to conduct a small-scale drilling programme and commence direct shipping of ore, probably to China, in order to generate short-term cash flow, as is being done with comparable deposits in the region managed by Rusina Mining (£38m mkt cap) and Toledo Mining (£77m mkt cap). The obvious attraction here is that cashflow should lower dilution associated with capital raising to bring Runruno into production in the future.

Runruno Gold Project

Category	Tonnes (Mt)	Grade (g/t Au)	Grade (% Mo)	Gold (Moz)	Moly. (Mlbs)	Gold eq. (Moz)*
Indicated	5.4	2.33	0.09	0.4	10.0	0.68
Inferred	28.3	2.23	0.06	1.6	29.5	2.44
Total	**28.3**	**2.3**	**0.06**	**2.05**	**39.5**	**3.1**

*Based on US$550/oz gold and US$15/lb molybdenum; **Source**: Company data

The remainder of the company's assets are early-stage exploration projects on the island of Luzon: Puray, a copper-zinc-silver gold deposit; the Worldwide copper-gold porphyry prospect; and the Dupax zinc-copper-gold massive sulphide deposit.

Key Developments and Price Drivers

Since our review last year, the main developments have been resource upgrades in December 2006 and November 2007, increased ownership of Runruno (to 100%), encouraging metallurgical results, and the recent acquisition of the Waigeo Island laterite nickel deposit. The completion of the acquisition of rights to 100% of Runruno we view as particularly important; completion of a feasibility study and payment of US$6m is required, but timing of this is at the company's discretion.

Looking forward, we see key price drivers as: (1) Runruno resource upgrades; (2) metallurgical test results, especially on molybdenum which is currently priced at over US$30/lb compared with long-term prices of <US$5/lb; (3) drill results from Waigeo Island; and (4) drill results from near-mine targets in the Runruno volcanic complex. In the medium term a further prime objective will be progress feasibility studies for both gold and nickel operations. We estimate the current cash position to be of the order of £4m, such that further funding will likely be required in 1H08.

Recommendation

We are extremely positive on Runruno because news over the next six months will likely address all four of the price drivers outlined above. Resource increases are the typical mainstay of share price appreciation; with control of 100% of Runruno, Metals Ex can now focus heavily on expanding the size of the resource, which may take it over the 3Moz mark. The beauty of the assets now though is that a major re-rating is on the cards if the company can prove up metallurgical methods to capture molybdenum (1Moz gold-equivalent at US$15/lb), or prove up the economics of the Waigeo Island project.

With so much potential upside, we believe the company's current capitalisation of US$28/oz undervalues the assets. As such, we retain our **BUY** recommendation, and place a target price of 45p based on an EV/in-situ value of US$40/oz. We believe a share price in excess of 55p is achievable by the end of 2008, but await results from the events discussed above.

AMBRIAN

16 November 2007

Moto Goldmines

Price: 165p   BUY — Target price 262p

Upcoming Events:
Year-end: December
DRC Mining Review (ongoing)
Bankable Feasibility Study (4Q07)
Full-year results (Apr 08)

Market cap	**£103m**
Ticker	**MOE LN MGO CN**
Price Target (p)	**262**
US$ EV/Resource oz	**19**
Cash in hand (£m)	**18.5**
52-week (p)	
High	**342.5**
Low	**127.5**
3M-avg. daily vol. (000s)	**2.6**
3M-avg. daily val. (£000)	**2.4**
Shares	
Basic	**62.9m**
Fully diluted	**69.4m**
Top shareholders	
Mackenzie Financial	**10.5%**
Fidelity	**5.8%**
JP Morgan	**3.5%**
Total	**19.8%**

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Resources (Moz)	Interest	Stage
Moto Gold Project	18.5	60%	Evaluation

Source: Company data

Company Description

Moto Goldmines is a gold exploration and development company, listed on AIM and the TSX, whose primary objective is the development of the Moto Gold Project in the DRC, one of the largest gold discoveries of recent times. The project is a joint venture between Moto (60%), the state-owned mining company Okimo (30% non-dilutable) and Orgaman (10%), a private company. Moto last raised money through the issue of 5.5m shares at C$7.65 (£3.75) in March 2006 for C$42m (£20.6m). Moto has had excellent success in defining the resource, which has increased to 18.5Moz from 11Moz in 2005.

Management: Chairman Sir Sam Jonah is recognised as one of Africa's leading businessmen. He is Non-executive President of AngloGold Ashanti and former CEO of Ashanti Goldfields, and currently sits on the International Investment Advisory Councils of President Thabo Mbeki (South Africa), President Kufuor (Ghana) and President Obasanjo (Nigeria). President Klaus Eckhoff is a qualified geologist who previously worked for Mount Edon Gold Mines in Australia, Asia and Africa, and for the last 12 years he managed his own geological consultancy. COO Andrew Dinning is a mining engineer with over 18 years' industry experience, including 12 years with WMC, managing some of its principal gold assets.

Project Summary

Project Description: The Moto Gold Project is an Achaean greenstone-hosted deposit in the north-east DRC, 560km north-east of Kisangani. The project comprises 14 discrete resources hosted in a volcano-sedimentary package immediately north of a large magmatic dome. Prior to November 2006 the project was fragmented between the three partners across numerous leases with varying shares of ownership. At this time a protocol was agreed for a simplified structure that consolidated the leases and provided for consistent holdings of 60%, 30% and 10% (Moto, Okimo and Orgaman, respectively). This remains the objective, but its ratification is dependent on the outcome of the current review of the 60 licences (including Moto's) by a Special Commission of the DRC.

In August 2006 Moto released a pre-feasibility study based on the then 5.1Moz indicated resource. This study suggested that, based on a 2.8Moz open-pit mined reserve and nominal production of 290,000oz pa, cash costs of US$274/oz could be achieved. Capex of US$296m was outlined, with annual pre-tax cash flow of US$90m.

Moto Gold Project Resources

Category	Tonnes (Mt)	Grade (g/t Au)	Contained (Moz)	Attributable (Moz)
Indicated	65.49	2.9	6.2	3.7
Inferred	97.22	4.0	12.5	7.4
Total	**162.7**	**3.6**	**18.7**	**11.2**

Source: Company data

Key Developments and Price Drivers

Resource growth, title and a BFS have been the focus of the last 12 months at Moto. Given that the most recent resource upgrade was in November 2006 and drilling has been almost continuous since then, it is likely that a significant upgrade can be expected with the BFS. A BFS is in progress, with the pre-feasibility report based on open-pit production of 290,000oz gold pa. A positive result is expected, but with licensing issues pending it is impractical to release the findings of the study at the moment.

Based on the resource, the company is clearly undervalued — at US$21/oz 'in the ground' Moto is at a fraction of its peers. The most recent development was in early November, when draft outcomes of the Licence Review Commission were leaked. A media article stated that 37 contracts could be renegotiated whilst 24 were in danger of being cancelled. On the one hand the call to renegotiate contracts will create difficulties, but on the other we appear to be on the cusp of forward progress for at least 37 contracts, and believe that there is no valid basis for any revocation or revision of the licences of Moto Gold.

The DRC Minister of Mines Martin Kabwelula responded quickly to the leak, stating that "after all irregularities have been corrected, the great majority of companies currently in the DRC will remain in the country for the long term." In our view this clarification is positive news. Specifically, two points are noteworthy: the government has indicated that, yes, there are irregularities to be 'corrected'; and beyond this there is an underlying commitment to mining by the government.

State-owned Okimo also has 30% of the project, more than in most other DRC projects. This is important because in the report on the leaked draft licence revocations were reported to be related to a lack of state benefit from some licences.

Recommendation

Bearing licensing in mind, as well as the quality and experience of both senior and operational management, it is our view that Moto will acquit itself well through the licence review process. Whilst many factors remain intangible, the opportunity is here to invest in one of the world's premier gold projects at a fraction of its worth. We retain our **BUY** recommendation, and use US$30/oz 'in ground' to derive our target price of £2.62. Deposits of this size typically command higher multiples— for instance, Centamin's (10.4Moz Au) capitalisation of US$74/oz would equate to £6.45/share for Moto — but our target builds in licence risk.

16 November 2007

Pan African Resources

Price: 7.75p BUY — Target price 10.7p

Upcoming Events:
1H production results (Feb 08)
Full-year results (Nov 07)
Manica pre-feasibility study (1Q08)
Manica BFS (3Q08)
27,600m drill programme in CAR (2008)

Market cap	**£83.6m**
Ticker	**PAF LN PAN JO**
US$ EV/Resource oz	**59**
US$ EV/Reserve oz	**591**
US$ EV/12MF prod'n oz	**1,704**
Cash costs (US$/oz)*	**459***
Est cash in hand (£m)	**1.0**
52-week (p)	
High	**9.8**
Low	**4.9**
5-day volume (000s)	**735.5**
5-day volume (£m)	**58.9**
Shares	
Basic	**1,079m**
Fully diluted	**1,130m**
Top shareholders	
Metorex	**55.4%**
Brait S.A.	**6.4%**
Pangea	**6.2%**
Resource Capital Group	**3.0%**
Total	**71.0%**

**From Metorex — PAF forecast US$390/oz*

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Production	Interest	Stage
Barberton Gold Mines (South Africa)	100,000oz pa	74%	Production
Manica gold project (Mozambique)	-	100%	Development
Bogoin/Dekoa (CAR)	-	50%*	Evaluation
Akrokerri (Ghana)	-	90%	Evaluation

*68% on completion of BFS; **Source**: Company data

Company Description

Focus and Strategy: Pan African is an integrated gold mining and exploration company with assets in Africa. The acquisition of 74% of Barberton Mines from Metorex, completed in 2007 in a reverse takeover, transformed Pan African into a 75,000oz pa producer. The company is undertaking feasibility studies at the Manica deposit in Mozambique (1.5Moz resource), and holds exploration licences in both the Central African Republic (CAR) and in Ghana (next to the 42Moz Obuasi mine).

As a mid-tier gold producer, the company's strategy is to generate a pipeline of projects from grassroots through to production, funded internally by existing mines. To this end, over the next 12 months the company intends to complete a BFS at Manica, exploration drilling in the CAR, soil sampling in Ghana, as well as consider new acquisitions.

Management: CEO Jan Nelson and CFO Nathan Steinberg lead an integrated team, with technical staff to manage regional growth, experienced operations staff at Barberton Mines, and a strong corporate team to add an entrepreneurial dimension through potential future acquisitions. After the acquisition of Barberton Mines, non-executive directorships are held by Charles Needham and Simon Malone, CEO and Chairman of Metorex, who provide 'big-company' strength and guidance.

Project Summary

Barberton Mines (74%) was acquired in an all-share deal for 56% of the share capital of Pan African in a reverse takeover worth £35.6m — Pan African re-listed in July 2007 after a suspension of six months. Barberton Mines comprises three mines (New Consort, Sheba, Fairview), each with a concentrator plant — the refractory concentrates are processed at a central BIOX plant. FY06 production was 100,000oz at 9.8 g/t with an operating cost of US$428/oz. The mine has reserves of 485,000oz @ 8.2 g/t gold, and a resource of 1,845,000oz @ 6.2 g/t. A mine life of 15 years is targeted as reserves are defined on an ongoing basis due to the geological complexity.

Manica (100%), in Mozambique, is a historic mining area with a Samrec-compliant resource of 1.55Moz @ 3.0 g/t Au in four deposits. The Fair Bride

Prospect contains some 1Moz, of which 36% is measured and indicated. Fair Bride is the subject of the ongoing pre-feasibility study (planned for 1Q08), with indicative production of 84,000oz pa for 8.5 years.

Bogoin/Dekoa (90%) licences cover 4,000km^2 in the CAR over two highly prospective greenstone belts. Neighbouring greenstones host Moto (18Moz) in the Congo Shield, and to the south-east host the Geita (18M0z) and Bulyanhulu (13Moz) gold deposits in the Tanzania Craton. So far, US$1.2m has been spent, with 27,600m of drilling planned. **Akrokerri (90%)** comprises a 46km^2 exploration licence adjacent to the AngloGold Ashanti's Obuasi mine (42Moz) in Ghana.

Barberton Mines and Manica Project Resource and Reserves

Category	Tonnes (Mt)	Grade (g/t Au)	Contained (Moz)	Attributable (Moz)
Measured	5,874,000	5.53	1,043,573	849,964
Indicated	6,811,000	4.06	888,194	744,682
Inferred	12,133,000	3.75	1,463,049	1,292,076
Total	**24,818,000**	**4.25**	**3,394,816**	**2,886,722**
Proven	1,157,000	7.53	280,000	207,000
Probable	691,000	9.23	205,000	152,000
Total	**1,848,000**	**8.17**	**485,000**	**359,000**

Source: Company data, Ambrian

Key Developments and Price Drivers

Update since September 2006: The key recent achievement is the acquisition of Barberton Mines. The company also increased its stake in Manica from 80% to 100% though the issue of 60m shares, increased the resource by 18% there, and acquired 90% of the Akrokerri project in Ghana.

Key issues and events to drive share price: Two essential valuation drivers are coming up for Pan African: first results from Barberton and the outcome of the Manica pre-feasibility. Keeping costs under control at Barberton will be key, as will production ounces. In the medium term we will look for reserve increases also.

Valuation

We value Pan African on an 11-year mine life at Barberton at ZAR934m (£67.9m) based on a DCF, and apply a 1.6x NPV multiplier to the company's 74% share of that to represent future growth expansion. This is supported by management's recent commitments to near-mine exploration. For Manica, we use US$45/oz, appropriate for mature exploration projects, to value the asset at £34.2m. With £1m estimated net cash, the sum-of-the-parts valuation then equates to £115.6m.

Recommendation

As an unhedged producer with a development pipeline, we expect to see considerable growth over the coming years. Importantly, little value in the current market cap is ascribed to exploration, but in our view the CAR assets (in particular) are exciting — few explorers globally have such a large greenstone landholding. We maintain our **BUY** recommendation, with a target price of 10.7p based on the above valuation.

16 November 2007

Peter Hambro Mining

Price: 1451p

Upcoming Events:
Full-year results (Jul 08)
Pioneer production (1H09)

Market cap	**£1,1165m**
Ticker	**POG LN**
US$/resource oz	**151**
US$/reserve oz	**1,860**
US$EV/12MF prod'n oz	**6,294**
Est cash in hand (£m)	**100**
Cash costs (US$/oz)	**250**
52-week (p)	
High	**1,640**
Low	**822**
3M-avg. daily vol. (000s)	**602**
3M-avg. daily val. (£000)	**7,503**
Shares	
Basic	**81.1m**
Fully diluted	**81.1m**
Top shareholders	
Pavel Mazlovskiy Assoc.	**21.2%**
Eastbourne Capital Mgmt	**11.0%**
Blackrock	**10.4%**
Lansdowne Partners	**8.5%**
Total	**51.1%**

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	Production	Interest	Stage
Pokrovskiy	283,000oz	100%	Production
Pioneer	Development	100%	Development
Malomir	Development	100%	Evaluation

Source: Company data

Company Description

Focus and Strategy: Peter Hambro is the largest gold producer with a primary listing on AIM. In the financial year ended 31 December 2006 it achieved attributable gold production of 261,000oz. This is forecast to rise to 283,000oz in 2007. The company's strengths are its low total cash operating costs of US$174/oz, its unhedged status and large reserves (7.8Moz) and resources (8.8Moz).

The strategy of the company is to ramp up production to over 1Moz pa through the addition of three new ore bodies — Pokrovskiy Flanks, Pioneer and Malomir. Beyond that, the company has a suite of both owned and joint venture exploration and development projects in Russia which form a long pipeline of resource and reserve replacement.

Project Summary

Pokrovskiy is an open-pit operation in the Amur Region of eastern Russia. The mine has been producing for some seven years, and is set to maintain production at current levels (~185,000oz pa). Ore is processed using heap leaching and resin-in-leach processing. A major upgrade is planned as the Pokrovskiy Flanks orebody comes on line, with additional production of 330,000oz pa planned by 2009 for a combined 500,000oz pa target. The current reserve (A+B+C1) is 1.0Moz at 0.95 g/t, with a resource (C2+P1) of 0.84Moz at 1.64 g/t gold.

Pioneer, near Pokrovskiy, is a heap leach and resin-in-pulp operation originally scheduled for 1H08 production. Initial processing of 40-60,000oz pa is scheduled, rising to 395,000oz pa in 2009. Mining operations have been undertaken at a trial level over the last two years, so access to the orebody is already established. Stacking of heap-leach pads commenced in September 2007. Currently there is a resource of 5.0Moz at 1.65 g/t gold with no reserve.

Malomir is to be the largest standalone contributor to 2009 production, with a scheduled 430,000oz pa production rate planned to commence in 2H08. It comprises what are essentially three mid-to-late-stage deposits: Malomir, Quartzite and Ozhidaemoye. Malomir is the most advanced of the three, with plans initially for exploration to be completed to the equivalent of feasibility stage by the end of 2007. The current resource stands at 4.5Moz at 1.7 g/t gold.

Omchak JV: In 2003 Peter Hambro formed a 50:50 JV with CJSC Susumanzoloto and JSC Shkolnoye to develop new operations, as well as continue production from mines owned by subsidiaries of the JV. Project acquisition is ongoing, with more than ten assets acquired so far. Production has declined from 60,000oz in 2005 to the current rate of 45,000oz pa, which is expected to continue into the future.

Peter Hambro Mining Global Resources and Reserves

Category	Tonnes (Mt)	Grade (g/t Au)	Contained (Moz)	Attributable (Moz)
A+B+C1	18.9	2.4	1.44	1.44
C2	117.4	1.7	6.53	6.53
P1	137.0	2.0	8.94	8.94
Total	**273.3**	**1.9**	**16.9**	**16.9**

Source: Company reports

Key Developments and Price Drivers

The bugbear for Peter Hambro is the aggressive growth target to increase production to over 1Moz in 2009, and the valuation that the market has already given the company on the back of this. Surging back from lows of 822p in December 2006 after threatened licence cancellations from Rosprirodnadzor (Russian environmental protection agency), investors appear to have shrugged off the sovereign risks of operating in Russia. However, commissioning an additional 750,000oz of annualised production by 2009 will certainly come with risks of its own.

Valuation and Forecast

We view Malomir as very exciting from an exploration perspective and believe it will be a significant production asset. However, at Pioneer, given the two years initially allowed for construction and commissioning (which we would see as achievable), it now appears less than one year is available, creating a major concern for us.

While we stand ready to review our expectations based on progress in the coming months, particularly at Pioneer, our current view is that production targets are at least a year behind schedule. This has to be balanced by the fact that, in the larger scheme of things, Peter Hambro is set to remain one of the largest and lowest cost miners on AIM, and with rising gold prices this offers significant leverage.

Recommendation

It is our view that the market has underestimated the difficulties of commissioning multiple world-class projects simultaneously. We take this position with the following caveat: if there was one theme that came through on a recent site visit by Ambrian, it was a sense of belief and resourcefulness that these new mines will be developed on time. As such, we await progress reports as the company proceeds through a period of major change.

16 November 2007

Serabi Mining

Price: 26.5p HOLD

Upcoming Events:
4Q07 investor update (Jan 08)
Delivery of mining equipment (4Q07)

Market cap	**£37.1m**
Ticker	**SRB LN**
US$EV/resource oz*	**93**
ES$/EV/12MF prod'n oz*	**1,099**
Cash costs (US$/oz)	**442**
Cash in hand (£m)	**12.3**
52-week (p)	
High	**46.5**
Low	**26.3**
3M-avg daily vol (000s)	**205.4**
3M-avg daily val (£000)	**68.3**
Shares	
Basic	**140.1**
Fully diluted	**152.5**
Top shareholders	
Clough and related	**27.0%**
F&C Asset management	**10.3%**
JP Morgan	**8.1%**
Blackrock	**7.9%**
Total	**53.0%**

**Using gold equivalent*

Share Price Performance (p)

Source: Fidessa

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Main Assets

Project	2007F Production	Interest	Stage
Palito	36,000	100%	Production

Source: Company data, Ambrian

Company Description

Focus and Strategy: Serabi Mining is a gold miner with producing assets in Brazil. The flagship project is the 100%-owned Palito mine in the Tapajos region in the north of Brazil. Producing since 2003, Serabi intends to ramp this operation to up to 50,000oz pa in 2008, then hopes to increase this to 100,000oz pa from 2010 through the development of near-mine resources. The current exploration portfolio contains some 273,000ha, which the company believes contains several other important deposits, most notably in the Palito near-mine area, which has previously been a significant site of artisinal mining. The company has recently experienced some setbacks as a shift in mining methods increased dilution, but is now putting in place processes to remedy this.

Management: Chairman Graham Roberts has over 30 years' experience within the industry, as well as a period at BMO Nesbitt Burns within its Corporate Banking arm. CEO Michael Hodgson has over 20 years' mining experience, and was appointed in August 2007 from a former position as technical director. Former CEO Bill Clough, now an executive director, is a founding partner and also Non-executive Chairman of Mirabela Nickel.

Project Summary

Palito, the company's flagship mine, ramped up from production of 9,000oz pa in 2005 to a forecast 36,000oz for 2007, producing at a record annualised rate of 47,000oz gold equivalent in 4Q06. Mining is undertaken using cut and fill methods, after trial long-hole stoping in 1H07 incurred unexpectedly high dilution, although the company is currently investigating hybrid methods to increase production. Ore is processed with a flotation circuit to produce copper-gold concentrate, with tailings treated using a carbon-in-pulp cyanidation circuit to produce bullion. Cash costs were US$442/oz in 1H07, significantly higher than the US$252/oz reported for 4Q06 as a result of increased grade dilution associated with mine development widths and the effects of long-hole stoping.

Exploration is focused on near-mine targets, with Ruari's Ridge, Chico da Santa and Palito West the most advanced. The company is now using cash from Palito and a US$25m raise (June 2007) to develop these projects, with an exploration adit underway ahead of planned production next year. Regionally, exploration licences are held over 273,000ha, with geophysical surveys underway to aid discovery of new deposits.

Palito Resource Statement

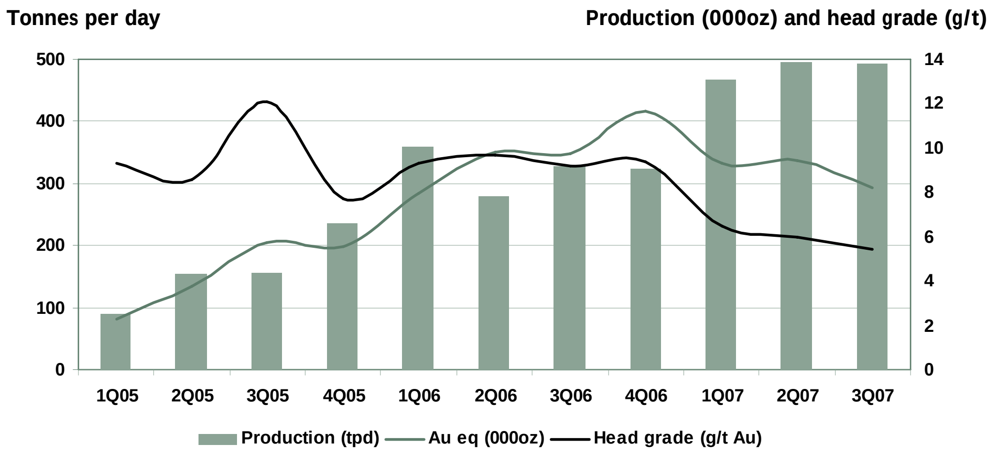
Category	Tonnes (Mt)	Grade (g/t Au)	Grade (Cu %)	Contained (000oz Au eq.)	Attributable (000oz Au eq.)
Indicated	3.86	5.27	0.25	739	739
Inferred	0.78	3.2	0.08	87	87
Total	**4.64**	**4.92**	**0.22**	**826***	**826***

*561,600oz after depletion; **Source**: Company reports - January 2006 resources at 0 g/t cut-off

Key Developments and Price Drivers

To understand Serabi's current situation, historic production results are shown below. Until 2007 the company successfully ramped up tonnes and ounces, but in 1H07 the production expansion and shift to fully mechanised operations had the effect of increased dilution and resulted in lower head-grade and production, and higher cash costs per ounce.

Palito Production Summary (2005-07)



Source: Company data

To ramp production up to 50,000oz pa by 2008, the company is taking a two-pronged approach; first, 'mini-scoops' have been ordered to decrease development dilution, and are due to be delivered at the end of the year; and second, variations on stoping methods are being investigated with the goal of using a hybrid approach to increase tonnes mined without lowering head grade. In the medium term, exploration adits are proceeding at Ruari's Ridge, where mining is planned in 2008 after mining equipment is delivered in 4Q07. In the longer term, following orientation studies of electro-magnetic geophysical surveys (EM) over Palito, drilling is planned to follow up on a regional EM survey being flown over 5,000ha.

Recommendation

Expecting a slowdown in share price growth in March 2007, we recommended a Switch to Medusa Mining (MML). However, with the share price down 40% from highs of May–July, the company now has an US$ EV/12-month forecast production ounce of only US$1,112, much lower than peers (US$2,000–3,000). As such, we are changing our recommendation to a **HOLD** pending a successful ramping up of production.

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