AMBRIAN

The Gold Sector
Still Stacking Up

Ambrian Partners Limited
2nd Floor
8 Angel Court
London
EC2R 7HP
United Kingdom

info@ambrian.com
Tel +44 (0)20 7776 6400
Fax +44 (0)20 7776 6470

Table of Contents

Highlights 2
Executive Summary 4
The Gold Market 4
AIM Gold Companies 7
Introduction 13
Gold Market Overview 14
Supply and Demand 14
Gold De-Couples from the Dollar 19
Gold as a Store of Value 20
As a Commodity 21
Gold is Undervalued 23
Analysts' Forecasts 24
Sector Overview 26
Gold Exploration & Development Companies 31
Archipelago Resources 32
Ariana 34
Ballarat Goldfields 36
Centamin Egypt 38
Cluff Gold 40
GMA Resources 42
Medusa Mining 44
Metals Exploration 46
Moto Gold Mines 48
Pan African 50
VANE Minerals 52
Gold Production Companies 55
Avocet Mining 56
Metorex 58
Oxus Gold 62
Peter Hambro Mining 64
Serabi Mining 68
Appendix 1 — Glossary 70
Appendix 2 — Gold Companies' Management 72

Analysts
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Richard Chase
Director of Metals & Mining
+44 (0)20 7776 6461
richard.chase@ambrian.com

Acknowledgements:
Anthony Nathan — *Analyst*
Quentin Puckridge — *Editor*

Gold has been a shining investment over the last 12 months...

Highlights

In the last 12 months gold has been a shining investment — the monthly average price has appreciated 42% since August 2005. This has been driven by a huge increase in investment into gold ETFs (Exchange Traded Funds), the search for an inflation hedge in an environment of rising interest rates and a weak US dollar. In addition, gold is underpinned by strong supply-demand fundamentals and a finely balanced market which we expect to slip back into supply deficit for 2006. All of this has occurred in what is one of the strongest commodity bull markets ever seen and gold has recently been carried along with this sentiment.

... and remains an attractive investment in our view

But is it still a worthwhile investment? Is there room for growth or has gold had its run? Are gold stocks attractive at these price levels and, if so, which companies look good value? Our view is that gold remains an attractive investment and still has significant growth potential because:

- Investment into ETFs increased 57% last year and we are expecting this to continue as investors seek an inflation hedge and currency diversification.
- We expect gold to be in up to a 2-3% supply deficit at end-2006, strengthening its market fundamentals.
- Gold has appreciated only 14% on long-run inflation-adjusted averages, leaving room for further growth.
- As such, gold has lower downside risk as it is less removed from fundamentals, making it a safer investment.

On this basis we have researched several gold **exploration** companies from across the AIM spectrum and make the following recommendations:

Exploration & Development Recommendations

Company	Recommendation	Production Planned
Archipelago*	BUY	3Q07
Ariana*	SPECULATIVE BUY	N/A
Ballarat Gold	HOLD	4Q06
Centamin**	BUY	4Q07
Cluff Gold	BUY	1H07
GMA Resources	SELL	1Q07
Medusa***	BUY	4Q06
Metals Exploration	BUY	2009
Moto Gold Mines	BUY	2009
Vane Minerals***	HOLD	N/A

*Ambrian is engaged as corporate broker or joint-broker to this company; **Ambrian acts as Financial Advisor to this company; ***Ambrian acts as Nomad and is engaged as corporate broker or joint-broker to this company; Source: Ambrian Research

We have also researched and reviewed the following AIM-listed gold **mining** companies and make the following recommendations:

Producer Recommendations

Company	Recommendation	Production (oz)
Avocet	BUY	209,000
Metorex*	BUY	129,000
Oxus Gold	SELL	162,000
Peter Hambro Mining	SELL	249,000
Serabi*	BUY	17,000

*Ambrian is engaged as corporate broker or joint-broker to this company; Source: Ambrian Research

The Nominal Monthly Average Gold Price, 1971-July 2006 (US$/oz)

Source: Bloomberg, Ambrian Research

AMBRIAN

Executive Summary

This report provides an overview of the gold market

This report reviews the gold market in the context of the current commodities boom, looks at the fundamentals underpinning the market, determines the potential for further growth and clarifies the implications for selected gold stocks from across the spectrum of the AIM market.

The Gold Market

We expect the market to be in a supply deficit of 2-3% for 2006

Our research shows that the supply and demand fundamentals of the gold market are strong and we are expecting the market to be in equilibrium or pushed back into a deficit of 2-3% for 2006 (following a 4.7% surplus in 2005). This will support an already strong gold price which we expect to rise further, driven by the following:

- net investment in the metal, particularly into Exchange Traded Funds (ETFs), which grew 57% YoY in 2005 vs. 2004, inflows into which we expect to remain high or grow further following the de-coupling of gold from the US dollar;
- ETF demand of 109t in 1Q06 was 30% above that of 4Q05 (84t) and equivalent to 52% of total demand for 2005 (208t);
- low growth in mine production (which we expect to add less than 2% to total supply in 2006);
- increased producer de-hedging (the 160t in 1Q06 has already exceeded the total of 131t for all of 2005);
- lower official sector sales from Central Banks (partly driven by Central Banks diversifying away from the US dollar) and controlled sales from Central Banks aligned to the second Central Bank Gold Agreement (CBGA 2); and
- geopolitical factors, such as increased tension in the Middle East, leading to 'safe haven' investment in gold over the remainder of the year;
- however, these positive factors will be offset by price-sensitive jewellery demand dropping in 2006 (possibly to levels not seen since 2003).

De-coupling

The 'de-coupling' of gold from the US dollar has been a driver of growth in gold ETFs

ETFs have become a favoured instrument for investors to gain exposure to gold. A preview to higher gold prices and one of the drivers of growth in gold ETFs has been the 'de-coupling' of gold from the US dollar. This has occurred on four occasions since the abolition of the gold standard in 1971 and usually signals an extended period of high gold prices.

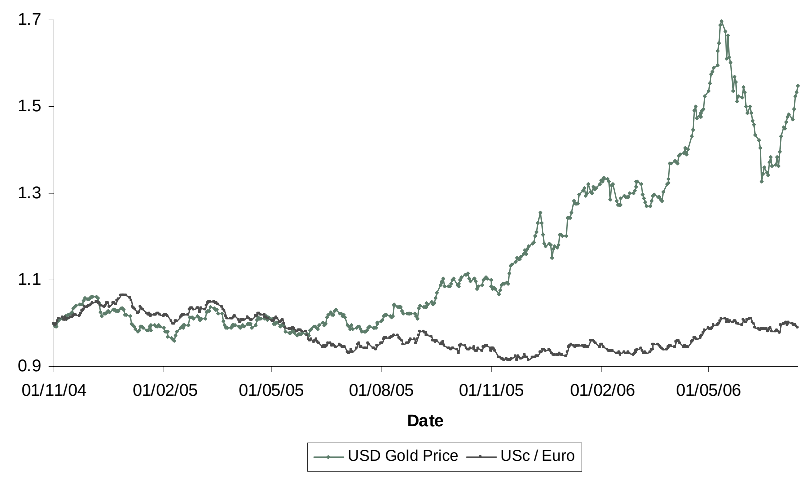
Gold has historically displayed an inverse relationship with the US dollar, where it will devalue and remain in equilibrium with other currencies against a strong US dollar. De-coupling traditionally refers to gold appreciating against the US dollar and all other major currencies.

De-coupling is characterised by investors using gold as an inflation hedge

Such periods are characterised by investors seeking an inflation hedge preceding an anticipated fall in the value of the US dollar based on high inflation, a large current account deficit and other economic weaknesses in the US. Since the end of April 2005, the US dollar has remained stable with other currencies but the gold price has appreciated significantly.

The graph below illustrates the current de-coupling period.

Gold De-Couples from the US Dollar



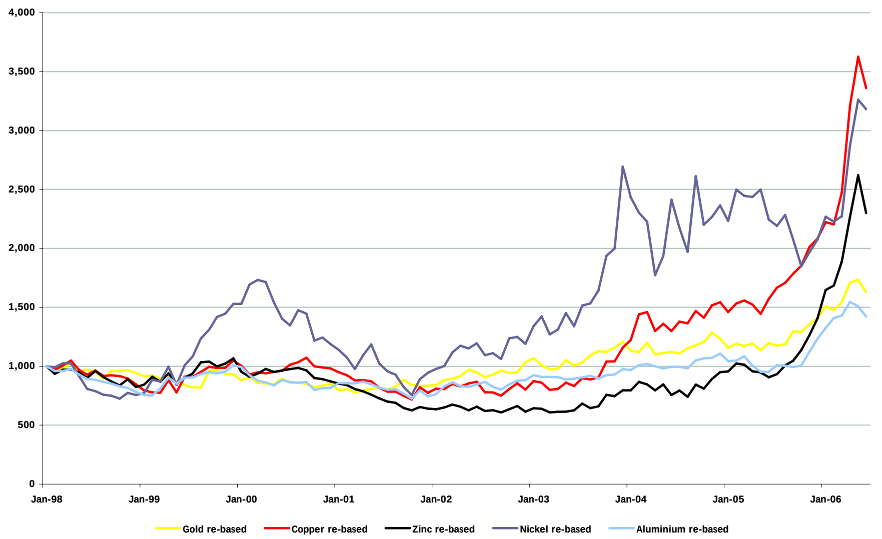
Source: Bloomberg, Ambrian Research

Undervalued

We view gold as cheap in both relation to other metals and real pricing terms

We also view gold as being relatively cheap, both in relation to other metals and in real pricing terms. Gold has followed the price appreciation of base and other precious metals over the last 24 months and, although it is trading at 25-year highs, has appreciated less than copper, zinc, nickel and aluminium, which are also finely balanced markets. The graph below shows those four commodities (and gold) re-based from 1998, covering the lead up to the resources boom and its take-off in 2001.

Re-based Metal Prices



Source: Bloomberg, Ambrian Research

Looking at gold's price appreciation in real pricing terms (inflation adjusted to 2006 dollars), we see that in a longer-run historical context the price has appreciated much less than these metals as well. The table below shows the long-run average price of each metal in 2006 dollars, the current price and the relative premium.

Metal Prices (US$/t apart from Gold - US$/oz))	Long-Run Average Price	Current Price	Premium
Gold	551	630	14%
Copper	2,917	7,600	161%
Zinc	1,455	3,300	127%
Nickel	10,696	25,900	142%
Aluminium	1,627	2,500	54%

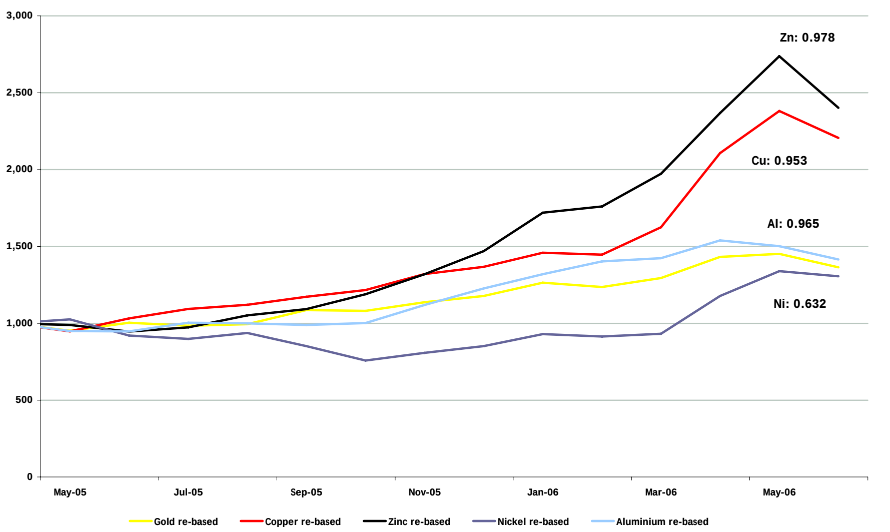
Source: Bloomberg, Ambrian Research

As a Commodity

In the medium term gold is set to benefit from commodity-style characteristics

We believe that in the medium term gold is also set to benefit from commodity-style characteristics, as well as its traditional currency-like properties. Since the de-coupling of gold from the dollar in the middle of 2005 we have observed strong positive correlations between the gold price and base metals with narrow supply-deficit balances. The graph below illustrates the correlation coefficient between gold and each metal. Prior to de-coupling this could not have been demonstrated.

Correlation Coefficient Between Gold and Other Metals Since De-coupling



Source: Ambrian Research

Price Forecasts

There are clear signs of bullish sentiment towards gold in the market

In addition to the fundamental and technical factors outlined above, we are also observing a clear sign of bullish sentiment towards gold in the market. Recent surveys of specialist gold market analysts are all forecasting higher prices for 2006 and 2007. The London Bullion Market Association (LBMA) survey of 25 analysts conducted in January 2006 forecast an average gold price of US$535/oz for the year. A similar survey of 31 analysts conducted by Reuters in July forecast an average gold price of US$627/oz for the year and of US$695/oz for 2007.

Gold Price Survey Forecasts (US$/oz)

Survey	Low	High	Avg
LBMA 2006 (Jan)	425	760	535
Reuters 2006 (Jul)	580	743	627
Reuters 2007	510	1,000	695

Source: LBMA, Reuters

The current gold price is well supported and has the potential for further appreciation

Overall, we believe that the current gold price is well supported and has the potential for further appreciation. We see strong support at US$580/oz (around the 200-day moving average), seeing anything below this as a buying opportunity. We forecast the price to remain above US$600/oz for the remainder of the year, with potential for upside spikes again breaking through the US$700/oz level into 2007 and testing US$800/oz in the next 24 months.

AIM Gold Companies

There are two valuation metrics in the market — one for gold producers and one for gold explorers

As part of our analysis of the entire sector, we looked at how gold companies are valued on AIM. A key finding of our analysis is that there are two distinct valuation metrics in the market — one for gold producers and one for gold explorers.

Benchmarks

An explorer is valued primarily on its defined resources…

As an explorer, a company is valued primarily on its defined resources. Taking an average of all the exploration and development companies listed on AIM we found that this was £19.6 of enterprise value per JORC-classified ounce of gold defined.

… but as it moves from explorer to miner the valuation changes to reflect production ounces

As a company makes the transition from explorer to miner, the valuation changes to reflect the production ounces and much less is attributed to the company's resources. We found that the median valuation attributable to the enterprise value of a company is £2,181 per production ounce.

A premium or discount reflects company- or project-specific circumstances

There are many other considerations to be made in the valuation of a company, but these can be applied as a quick benchmark of value. A premium or discount reflects company- or project-specific circumstances, such as quality of resources/production, quality of management, political and sovereign risk, location operating costs, etc.

Obviously these are just a couple of many valuation benchmarks and methods available and are simply a guide. At Ambrian we would place much more emphasis on more comprehensive calculations of Net Present Value (NPV), cashflow and forecast EBITDA in the valuation of a specific company.

The following chart shows all thirteen AIM-listed gold producers graphed Enterprise Value against Production Ounce — the size of the bubble represents the resource base of the company. The implication is that gold producers below the line are undervalued and producers above the line are overvalued. In the case of the two main outliers, Bema and Yamana, both these are in transitional phases, each with a number of large operations in the late stages of development and due to come on stream in the near term.

Our analysis of all AIM-listed gold explorers (following), graphs Enterprise Value against Resource Ounce. Due to the variable quality of non-JORC-classified resources (some are of excellent reliability and others not so) we have excluded companies without JORC-classified resources.

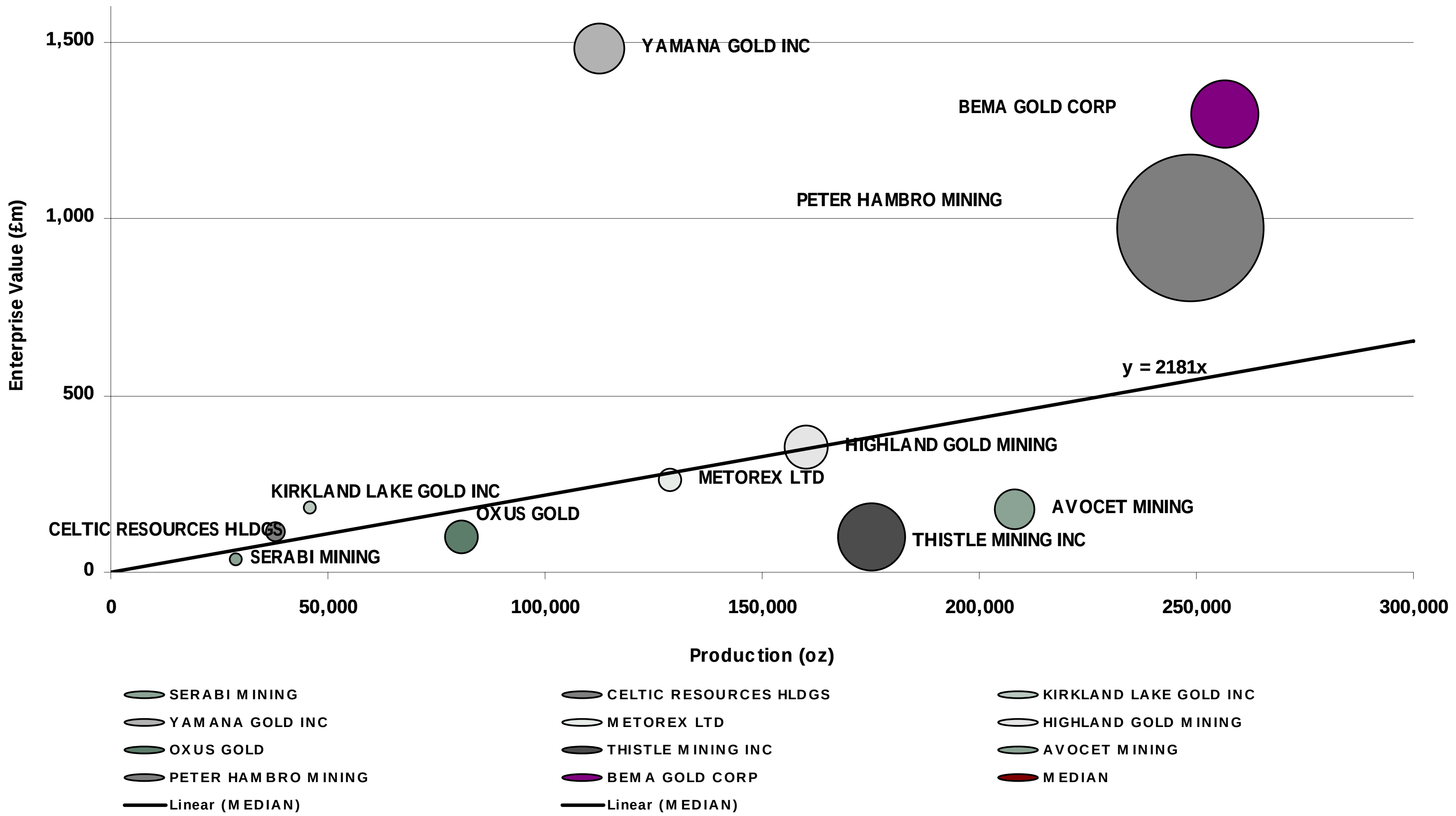
Once again, the implication is that those companies below the line are undervalued and those above the line are overvalued.

Enterprise Value vs. Production vs. Resources

Company	Ticker	Resources (oz)	EV (£)	Production (oz)	EV/Production oz (GB£)	(US$)
SERABI MINING	SRB	825,900	33,402,550	28,994	1,152	2,131
CELTIC RESOURCES HLDGS	CER	1,955,000	112,813,600	37,991	2,969	5,494
KIRKLAND LAKE GOLD INC	KGI	927,000	178,550,108	45,865	3,893	7,202
YAMANA GOLD INC	YAU	11,600,000	1,479,310,450	112,500	13,149	24,326
METOREX LTD	MTX	2,638,612	257,470,940	129,083	1,995	3,690
HIGHLAND GOLD MINING	HGM	9,003,500	349,431,300	160,216	2,181	4,035
OXUS GOLD	OXS	5,374,000	97,068,760	80,808	1,201	2,222
THISTLE MINING INC	TMG	20,670,000	99,315,200	175,490	566	1,047
AVOCET MINING	AVM	7,570,300	176,377,100	208,526	846	1,565
PETER HAMBRO MINING	POG	93,240,000	969,043,990	249,000	3,892	7,200
BEMA GOLD CORP	BAU	19,721,708	1,294,246,000	256,668	5,042	9,329
MEDIAN		-	654,300,382	300,000	2,181	4,035

Source: Company data, Ambrian Research

Enterprise Value vs. Production vs. Resources



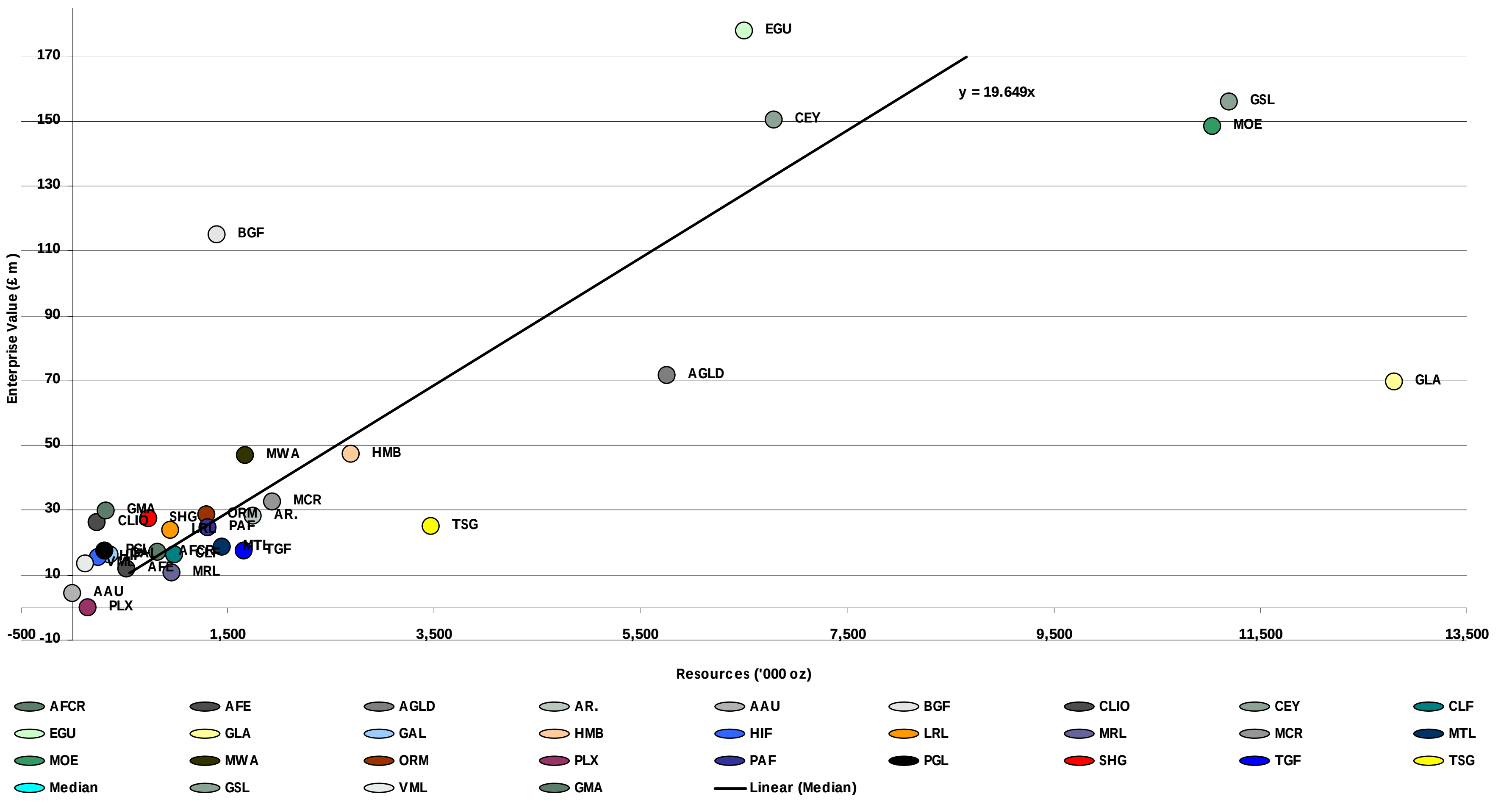
Source: Company data, Ambrian Research

Enterprise Value vs. Resources

Company	Ticker	Resources (oz)	EV (£)	EV/Resources (GB£)	EV/Resources (US$)
AFRICAN CONSOLIDATED RESOURCES	AFCR	820,500	16,897,210	20.6	38.1
AFRICAN EAGLE RESOURCES	AFE	520,000	11,733,409	22.6	41.7
ALLIED GOLD LTD	AGLD	5,760,000	71,428,120	12.4	22.9
ARCHIPELAGO RESOURCES	AR.	1,750,000	28,092,210	16.1	29.7
ARIANA RESOURCES	AAU	0	4,168,690	-	-
BALLARAT GOLDFIELDS*	BGF	1,400,000	114,792,778	82.0	151.7
CAPE LAMBERT IRON ORE	CLIO	233,650	26,141,925	111.9	207.0
CENTAMIN EGYPT	CEY	6,790,000	150,438,169	22.2	41.0
CLUFF GOLD	CLF	980,800	16,105,720	16.4	30.4
EUROPEAN GOLDFIELDS	EGU	6,500,000	177,779,800	27.4	50.6
GALAHAD GOLD	GLA	12,800,000	69,572,000	5.4	10.1
GALANTAS GOLD CORP	GAL	358,590	16,307,380	45.5	84.1
GMA RESOURCES*	GMA	319,280	29,941,010	93.8	173.5
GREYSTAR RESOURCES	GSL	11,200,000	155,823,625	13.9	25.7
HAMBLEDON MINING	HMB	2,700,000	47,467,480	17.6	32.5
HIDEFIELD	HIF	253,000	15,315,148	60.5	112.0
LEYSHON RESOURCES	LRL	944,000	23,665,928	25.1	46.4
MEDORO RESOURCES	MRL	963,000	10,498,925	10.9	20.2
MERCATOR GOLD	MCR	1,940,000	32,424,638	16.7	30.9
METALS EXPLORATION	MTL	1,445,000	18,541,275	12.8	23.7
MOTO GOLDMINES LTD	MOE	11,034,665	148,520,359	13.5	24.9
MWANA AFRICA	MWA	1,676,500	46,822,720	27.9	51.7
ORMONDE MINING	ORM	1,300,000	28,618,000	22.0	40.7
PALLADEX	PLX	153,000	74,710	0.5	0.9
PAN AFRICAN RESOURCES	PAF	1,311,000	24,520,270	18.7	34.6
PENINSULAR GOLD	PGL	315,000	17,323,652	55.0	101.7
SHANTA GOLD	SHG	741,000	27,483,240	37.1	68.6
TIANSHAN GOLDFIELDS	TGF	1,660,000	17,348,201	10.5	19.3
TRANS-SIBERIAN GOLD	TSG	3,466,160	25,208,500	7.3	13.5
VANE HOLDINGS*	VML	123,800	13,673,746	110.5	204.3
Average		**5,762,332**	**170,000,000**	**29.5**	**54.6**
Median		**8,651,998**	**170,000,000**	**19.6**	**36.3**

***Companies with small-scale development/production; Source**: Company data, Ambrian Research

Enterprise Value vs. Resources

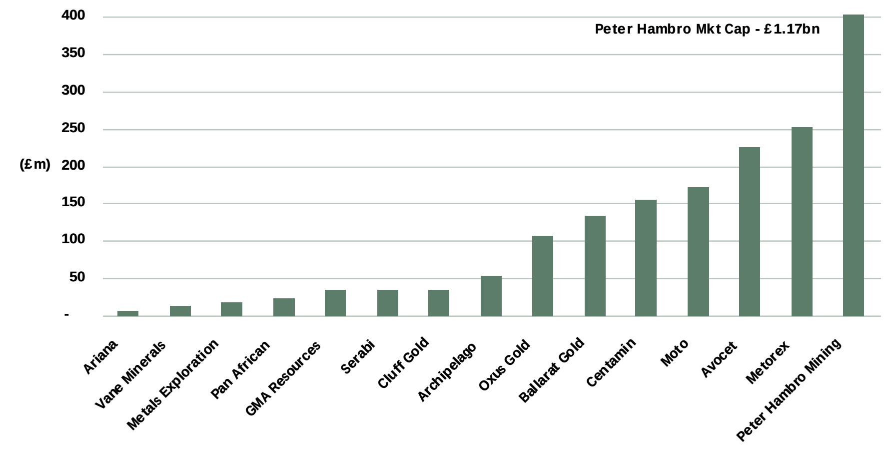


Source: Company data, Ambrian Research

We have reviewed all the gold mining and exploration companies on AIM and chosen a representative group

With this strong outlook for the gold price in mind, we have reviewed all the gold mining and exploration companies listed on AIM and chosen a representative group of companies, from explorers to developers to producers. Each of these has been researched in greater detail (see individual company pieces following our review of the gold market). Our selections are graphed below by market capitalisation.

AIM Gold Companies' Market Caps (£m)



Source: Bloomberg

Introduction

In the last 12 months gold has appreciated approximately 57%

This report reviews the gold market in the context of the current commodities boom and looks at what this means for selected AIM-listed gold producers and explorers. In the last 12 months gold has appreciated approximately 42% in one of its most dramatic rises since the abandonment of the Bretton Woods Gold Standard in 1971, which linked the US dollar to a fixed gold price (US$35/oz at the time). This appreciation in the gold price and the profitability of mining companies has driven investor interest in the sector. Twelve months down the track, we ask: how much higher and how much longer can this last and can investors still get good returns from this market?

Our review will look at the fundamental drivers underpinning the gold market…

Our review of the gold market will look at the fundamental drivers underpinning the gold market, including supply and demand, investment trends and traditional indicators of gold price performance, in order to assess the potential for further growth in the gold price. This will include an analysis of historical real gold and commodity prices, growth in investment inflows, the de-coupling of gold from the US dollar and recent analysts' forecasts. These will show that the current gold price is well supported and has the potential for further appreciation. We believe that that there is strong support for gold above US$580/oz in the near term, with the potential for this to exceed US$800/oz in the next 24 months.

… and we will look at the implications of price strength for the gold producers and explorers currently listed on AIM

In this context we will look at the implications of this for the gold producers and explorers currently listed on AIM. In a strong gold price environment our investment focus turns to gold companies that are in production or close to production, having a low level of gold reserves hedged, and those with substantial ore reserves. Moderate- to high-cost producers exhibit the most valuation upside in a rising gold price environment; however, operational risk can outweigh this benefit in many cases.

We will take an overview of explorers and producers and focus on selected companies from both groups. A description and analysis of each company will look at the investment case for each, key developments and upcoming events that will be key to a company's performance over the next 12 months.

Gold Market 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), but the key factors are summarised below:

- **Physical Demand:** primarily for jewellery (71% of total demand), dentistry and industrial applications in electronics, aerospace and high technology.
- **Investment Demand:** from Central Banks, bullion investors, Exchange Traded Funds (ETFs), retail hoarders.
- **Investment Hedging:** gold attracts investment as a hedge against currency devaluation and inflation. Gold has a long-term relationship that is proportional to US CPI.
- **Geopolitical Factors:** gold's attraction as a safe haven also extends to periods of political tension, military conflict, terrorist actions or natural disasters.
- **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.
- **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.

... which are not always straightforward to interpret

These relationships are not always straightforward to interpret and their interdependence may sometimes cause short-term anomalies in the way we expect the gold price to behave. Taking a recent example, at the end of June 2006 we saw the US Federal Reserve lift its target rate from 5.0% to 5.25% on fears of inflation; we might expect the gold price to increase on the overriding fears of inflation. However, the rise in interest rates attracted funds to the US dollar, lifting its value and *decreasing* the US dollar-denominated gold price.

Supply and Demand

Global supply of gold in 2005 was 3,911t

Global supply of gold in 2005 from mine production, Central Bank sales and gold scrap was 3,911t, up 16% from 2004 (3,360t). Total demand from fabrication, retail investment and ETF investment was 3,727t, up 7% from 2004 (3,496t), resulting in a net surplus of 184t (vs. a 2004 supply deficit of 136t). This represents a supply surplus of 4.7%, showing a finely balanced gold market.

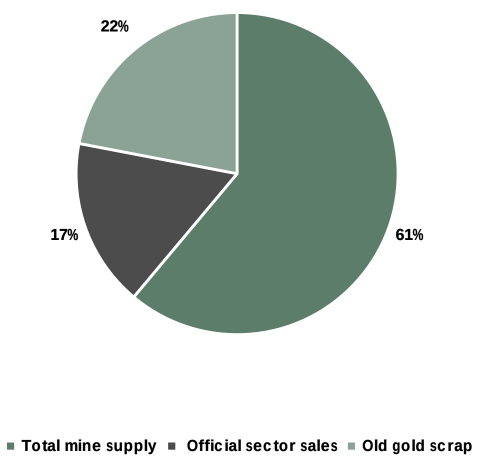
Global Gold Supply (t)

	2003	2004	2005	% ch 2005 vs. 2004
Supply				
Mine production	2,593.0	2,469.0	2,520.3	2
Net producer hedging	-270.0	-426.5	-131.1	N/A
Total mine supply	2,323.0	2,042.5	2,389.2	17
Official sector sales	617.0	469.4	660.6	41
Old gold scrap	939.0	847.7	860.9	2
Total supply	**3,879.0**	**3,359.7**	**3,910.7**	**16**
Fabrication				
Jewellery	2,477.0	2,612.8	2,711.8	4
Industrial & dental	380.0	409.7	420.1	3
Bar & coin retail investment	N/A	397.1	409.2	3
Other retail investment	292.0	-56.8	-22.5	N/A
ETFs & similar	39.0	132.6	208.1	57
Total demand	**3,188.0**	**3,495.5**	**3,726.6**	**7**
Balance	**691.0**	**-135.8**	**184.0**	**N/A**
Surplus (deficit)	**17.8%**	**-4.0%**	**4.7%**	
London PM fix (US$/oz)	**363.32**	**409.17**	**444.45**	**9**

Source: World Gold Council

The three prime sources of global gold supply are shown in the pie graph below. The key point to note here is that mine production alone cannot supply global gold demand — nearly 40% of total supply comes from existing gold stocks held by Central Banks or from gold scrap.

Gold Supply

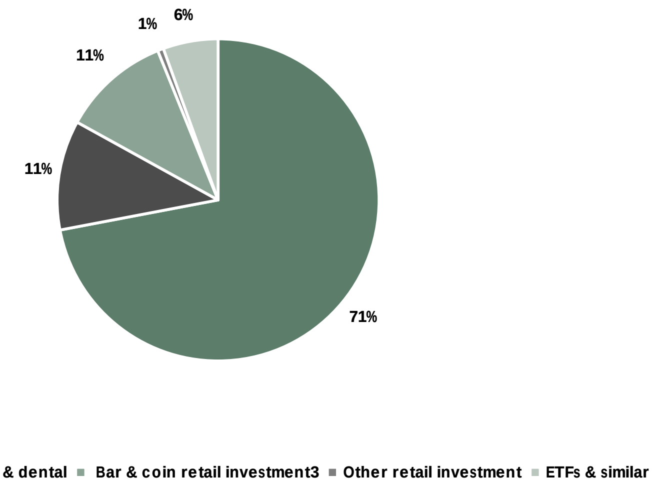


Source: World Gold Council

Gold demand is overwhelmingly from the jewellery market

Gold demand overwhelmingly comes from the jewellery market, which creates 71% of global demand. This is followed by various forms of investment, totalling 16%. Of total global demand, India is the largest single consumer, making up 23.3%, followed by the US on 12.2% and China on 8.6%.

Gold Demand (for End-use)



Source: World Gold Council

Supply Outlook

We believe supply growth will remain steady or decrease over the rest of 2006

Mine supply is expected to increase moderately in 2006 as new supply comes on line and production ramps up from capacity expansions. In the first quarter of 2006, primary supply increased by 5% over the same period last year. It is our view that this growth rate will, at best, remain steady or decrease over the remainder of the year as new projects inevitably ramp up (or come on line) more slowly than previously anticipated. South African production levels have dropped to their lowest levels in 82 years, and in global terms no major new mines are coming on line. The world's two largest mines, Grasberg in Indonesia and Yanacocha in Peru, are both predicting significant falls in output for 2006.

Our review of Reuters' 2006 survey of the major global gold mines indicates a net increase in gold production of 86t, or between 3-4%, over the year and we see this as an optimistic forecast.

Despite the lower barriers to entry for gold mining that exist compared to some other types of mining, we are yet to see the frenzy of new projects that could be expected to result if prices are sustained above US$600/oz.

We expect scrap supply to remain strong, but only in conjunction with rising prices

Scrap sales tend to increase with upward price movements, but then stabilise. Gold has now been trading at monthly average prices above US$550/oz for seven continuous months and at prices of near US$600/oz or above for the last four of those. This has led to a surge in scrap supply and — in line with our bullish outlook on the gold price — we expect scrap supply to remain strong, but only in conjunction with rising prices.

Net official sector sales are expected to remain steady or decline

Official sector sales are expected to remain steady in accord with the second Central Bank Gold Agreement (CBGA2). This is an agreement ratified by 15 European Central Banks (the Eurozone plus Sweden and Switzerland, not including BoE) limiting official sector sales to 500t pa until September 2009. Together with informal signatories (the US, Australia, Japan and the Bank for International Settlements), this agreement accounts for 85% of refined world gold stocks. Key Central Banks not aligned with CBGA2 include those of China and Russia.

If China allocated just 2.5% of its US dollar reserves to gold, this would create nearly 1,200t of demand at current prices

Russia has not changed its gold reserve position significantly this year, but in the market it is thought to be more likely to purchase than to sell. It holds approximately 3% of its reserves in gold. China has not released Reserve Bank gold holdings since 2004, at which time it held 600t. People's Bank of China (PBC) officials have, however, gone on record stating the Bank needs to diversify from its US dollar reserves, which have more than doubled from US$415bn at the start of 2004 to US$875bn in March 2006. If just 2.5% of this was to be allocated to gold, this would create nearly 1,200t of demand at current prices.

Producer de-hedging was low last year

Producer de-hedging (which effectively creates demand) was low last year (131t vs. 430t in 2004), but 1Q06 saw more gold de-hedged (160t) than in all of 2005. Industry sentiment remains negative to hedging as miners seek exposure to a rising gold price. With a few exceptions we are expecting that all but new producers (who usually have to hedge future production under project financing commitments) to continue reducing hedging positions. With the global hedge book at +1,673t at year-end 2005, this will be a steady force reducing effective supply to the market and has the power to tip the market back into supply deficit for 2006.

Demand Outlook

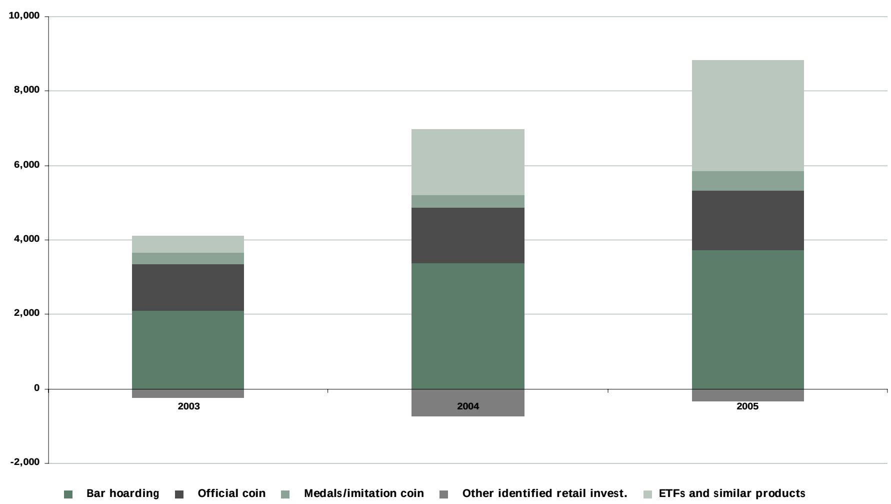
Bar and coin investment grew marginally in 2005 and fell significantly in the last two quarters

Various forms of investment have performed strongly in 2006. Bar and coin investment grew only marginally in 2005 and dropped significantly in the last two quarters, perhaps due to a degree of price sensitivity, but potentially also due to cannibalisation from ETFs. These demonstrated phenomenal growth of 57% YoY in 2005 and have been one of the key drivers of recent increases in the gold price. It is this rapid growth of ETFs which has created the fastest growing source of demand.

ETF holdings increased from nothing to approximately 75t in 2004, jumped to 250t in 2005 and at the end of 1Q06 stood at 496t

According to a World Gold Council survey of ETFs, from 1Q03 — when they were introduced — holdings increased from nothing to approximately 75t in 2004, jumped to 250t in 2005 and at the end of 1Q06 stood at 496t, effectively doubling in the last 12 months. This trend has continued in the first quarter of 2006, during which 108t of demand has been created, representing a 30% increase on 4Q05 and 52% of total demand for all of 2005. Overall investment demand has grown 26% over the year and we expect this trend to continue.

Gold Investment (US$m)



Source: World Gold Council

Even small changes in jewellery demand can have a significant impact on the market

Jewellery demand, however, is far and away the largest end-use and cannot be ignored. Even small changes can have a significant impact on the market. It is highly elastic and, after strong growth in consumption through to the middle of 2005, demand has dropped off dramatically as gold lifted from a sub-US$430/oz trading range to above US$500/oz. In 1Q06 demand dramatically fell by 25% off the final quarter of 2005 to its lowest level in two years. However, we expect this to recover over the remainder of 2006 as consumers adjust to higher prices. The elasticity of jewellery demand should also give support to the gold price in the event of softening prices.

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 also driven by the capacity for discretionary consumer spending in those economies.

Industrial and dental demand exhibits relatively inelastic behaviour. Global levels of consumption have remained within a 10% band over the last two years, increasing overall by 5% YoY in 2005 vs. 2004. We expect a similar increase in 2006.

Conclusion

We think increasing mine supply will be offset by reduced official sector sales and continued producer de-hedging

While mine supply will be increasing marginally and scrap sales are expected to continue as a softening force, we think that this will be offset by reduced official sector sales and continued producer de-hedging to keep the supply side tight. Though jewellery demand may not be as strong as 2005, we expect that growth in its major consuming economies will act against lower demand resulting from price sensitivity. We expect that investment demand will continue to grow, particularly in ETFs, and that gold will be an attractive risk hedge against fears of a devaluing US dollar and that the current tensions in the Middle East will have a noticeable impact on the market for the remainder of the year. As such we offer the following forecast for the remainder of 2006.

Gold Supply and Demand (t)

	2003	2004	2005	2006F
Supply				
Mine production	2,593.0	2,469.0	2,520.3	2,606
Net producer hedging	-270.0	-426.5	-131.1	-520
Total mine supply	2,323.0	2,042.5	2,389.2	2,086
Official sector sales	617.0	469.4	660.6	500
Old gold scrap	939.0	847.7	860.9	860
Total supply	**3,879.0**	**3,359.7**	**3,910.7**	**3,446**
Fabrication				
Jewellery	2,477.0	2,612.8	2,711.8	2,570
Industrial & dental	380.0	409.7	420.1	440
Bar & coin retail investment	N/A	397.1	409.2	340
Other retail investment	292.0	-56.8	-22.5	-30
ETFs & similar	39.0	132.6	208.1	220
Total demand	**3,188.0**	**3,495.5**	**3,726.6**	**3,540**
Balance	**691.0**	**-135.8**	**184.0**	**-94**
Surplus (deficit)	**17.8%**	**-4.0%**	**4.7%**	**-2.7%**

Source: World Gold Council

We see strong support at US$580/oz

In an environment of strong fundamental demand we see strong support at US$580/oz (the 200-day moving average as at the end of July 2006), seeing anything below this as a buying opportunity, expecting the price to remain above US$600/oz for the remainder of the year, with potential for upside spikes again breaking through the US$700/oz level.

Gold Price 200-day Moving Average (US$/oz)

Source: Reuters

Gold De-Couples from the Dollar

There have been four notable periods of ‘de-coupling’ since the abolition of the gold standard

Gold has displayed an inverse relationship with the US dollar since 1978 when it equilibrated with global currencies following the abolition of the gold standard (1971). Since this time there have been four notable periods of ‘de-coupling’ between the gold price and the dollar, where gold has appreciated against the dollar and all other major currencies.

Such periods are punctuated by investors seeking an inflation hedge preceding an anticipated fall in the value of the US dollar based on high inflation, a large current account deficit and other economic weaknesses in the US.

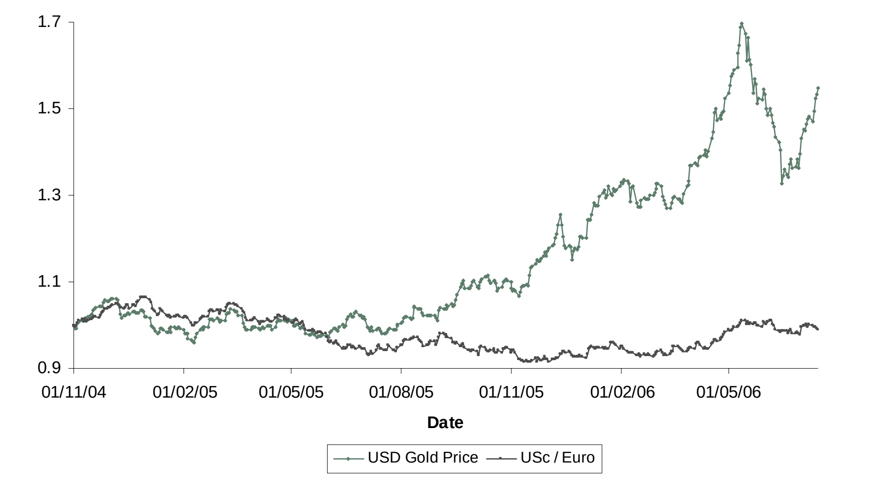
Phases of a stable/strong dollar and rising gold price last 18 to 24 months and are generally followed by US dollar depreciation

Historically phases of a stable/strong dollar and rising gold price (ie, de-coupling) last 18 to 24 months and are followed by US dollar depreciation, restoring gold prices (in global currency terms) closer to long-term levels. However the intervening period (prior to US dollar depreciation) creates a window of high to very high gold prices and tends to create anomalies in the valuations of many gold equities.

Between April and November 2005, the US dollar index (indicator of the international value of the US dollar) appreciated by 11.5%, with the price of gold also rising by 16.8%. A three-month congruent movement of the dollar and gold price has occurred less than five times in the last 35 years and suggested the commencement of a de-coupling period.

We note that the gold price traded in line with the US dollar index for the first nine months of CY2005. Inflation concerns brought about by a rising oil price following the impacts of Hurricane Katrina in early September saw the gold price sharply de-couple from the US dollar and begin rising against all major currencies.

Gold De-Couples from the US Dollar



Source: Bloomberg, Ambrian Research

Gold as a Store of Value

We believe de-coupling primarily reflects a flight to invest in gold as a hedge

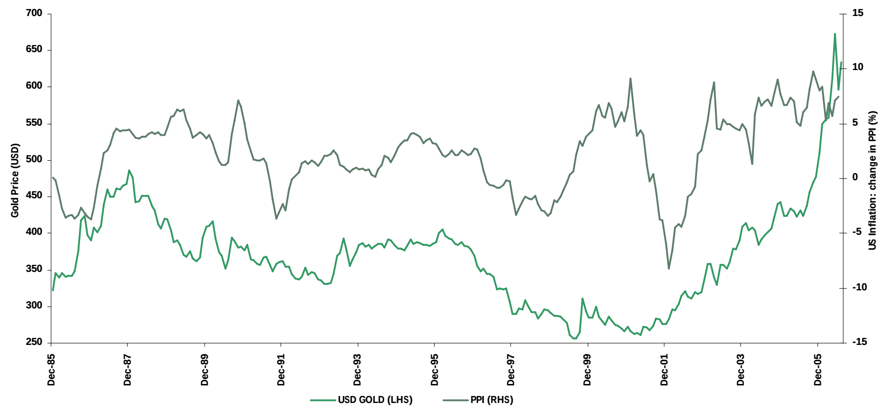
Ambrian believes this de-coupling primarily reflects a flight to invest in gold as a hedge against inflation prior to US dollar depreciation and as a 'safe haven' store of value.

The relationship between US inflation measured by the Producer Price Index (PPI) and gold price is remarkably clear. Far from being a coincidence, the relative value and monetary qualities of gold position it as an excellent store of value during times of high inflation.

US PPI and the gold price have moved in unison for the past 20 years. A notable divergence did occur between December 1998 and December 2001 when strong currency appreciation and high inflation were driven by buoyant economic growth in new technologies.

As inflation in the US continues to rise with an expanding money supply, large government deficits, large trade imbalances and currency competition, we believe the current trend is for both higher inflation and higher gold prices. This has driven the de-coupling of gold from the US dollar and we can now see the de-coupling of gold from US inflation as well.

Link Between Gold and the Change in US PPI



Source: Bloomberg, Ambrian Research

As a Commodity

In the current market there is an argument to support the premise that gold is set to benefit from commodity characteristics

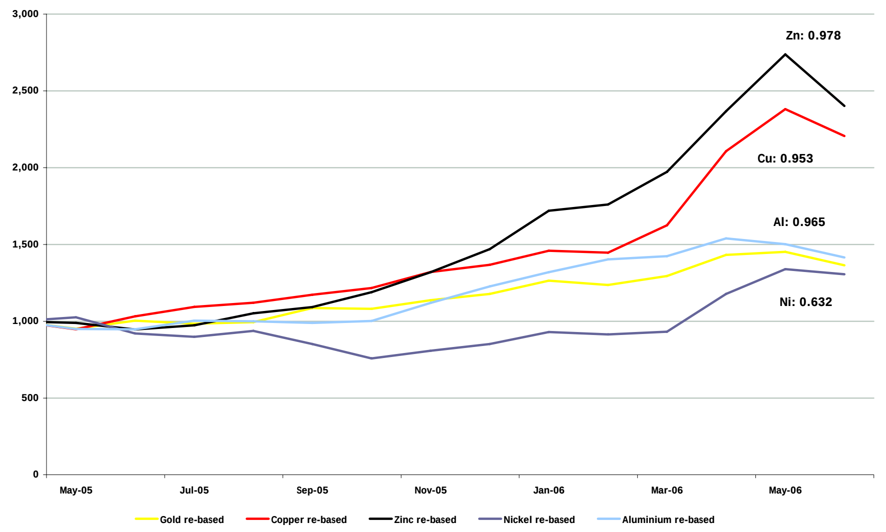
Gold traditionally does not exhibit commodity-style behaviour. However, we believe that in the current market there is an argument to support the premise that gold is set to benefit from commodity characteristics in the medium term. Consumer- and industry-based end-uses now make up 82% of gold demand. This adds to the commoditised characteristics of the gold market and introduces traditional commodity drivers — consumer spending and economic growth.

Gold has customarily shown demonstrable relationships with the US dollar, inflation rates, interest rates, mine production and producer hedging, Central Bank selling and other metrics. However, there are often extended deviations from the conventional wisdom (such as the current de-coupling from the US dollar and US inflation). During these periods other relationships gain weight in the market.

Since de-coupling we have seen positive correlations between the gold price and base metals with tight supply-deficit balances…

Since the de-coupling of gold from the US dollar in the middle of 2005 we have observed strong positive correlations between the gold price and those base metals with narrow supply-deficit balances. The graph below shows gold and selected base metal prices re-based since de-coupling.

Correlation Coefficient Between Gold and Other Metals Since De-coupling



Source: Ambrian Research

... and the correlation between the gold price and these base metal prices has become much stronger

The correlation between the gold price and these base metal prices has become much stronger and the correlation coefficient between gold and each of the metals graphed is shown. Prior to de-coupling these relationships could not be demonstrated. The equivalent analysis and correlation coefficients were calculated between 1998, when the commodity market started to turn, and 2005 when dollar de-coupling commenced. The correlations were found to be much weaker and less consistent.

Correlation Coefficients with Gold

Metal	1998 - De-Coupling	De-Coupling - Present
Aluminium	0.598	0.965
Copper	0.525	0.953
Nickel	0.618	0.632
Zinc	-0.158	0.978

Source: Ambrian Research

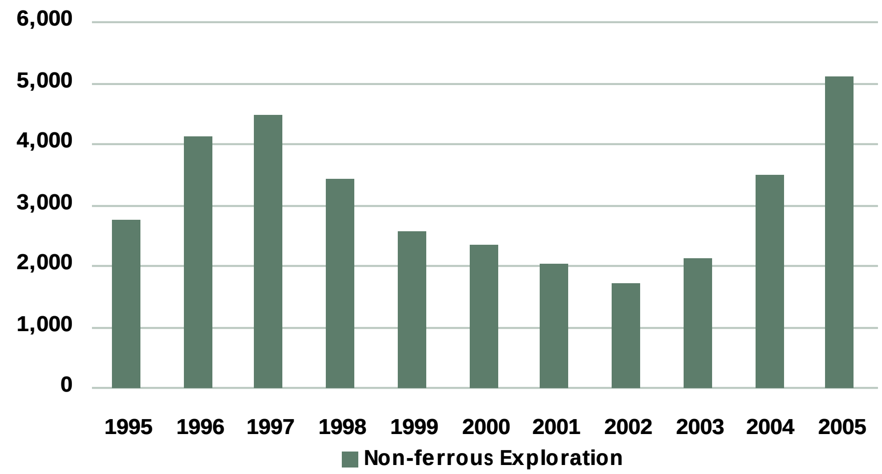
Gold appears to be lagging the market and still has room to run

Gold will never exhibit true ‘commodity-style’ characteristics, but there is an argument that in the last year it has been benefiting from similar investment drivers. In light of this, gold appears to be lagging the market and still has room to run.

Supply-side tightening is perhaps a driver of the commodity characteristics of gold, becoming a more crucial part of the pricing. Global gold output in 2004 showed the largest decline in 55 years. We note that supply-side constraints exist, with major producers having difficulty replacing depleting ore reserves and maintaining current production.

New gold production is constrained by the lack of new discoveries (and conversion to ore reserves) in recent years following a period of declining exploration expenditure worldwide. While headline exploration expenditure has increased from a low in 2002, we highlight that much of this has come from the base metals sector, the low overall success rate of exploration projects (approximately 1/10) and the long lead times for new mines.

Global Non-ferrous Exploration Expenditure (US$m)



Source: Metals Economics Group

Gold is Undervalued

We expect gold to behave like most other mineral commodity prices

At current price levels of between US$600-650/oz, gold is trading at levels last seen in December 1980. Trading at a 26-year high makes gold sound expensive, but our view is that while it has certainly appreciated there is still room for further growth. In this respect we expect gold to behave like most other mineral commodity prices and trade for the foreseeable future at a premium to historical average levels.

There are a number of factors that give us the opinion that gold is still looking relatively cheap. While gold is trading at a 26-year high in nominal terms, when the price is considered in real terms (2006 dollars) gold last traded at these levels in September 1990. The real gold price (in 2006 dollars) since 1971 is plotted below.

Real Gold Price, US$/oz (London pm fix)

Source: Bloomberg, Ambrian Research

The long-run average gold price (since 1971) is US$551/oz. That means that the current price (US$630/oz) is at a premium of just 14% to the long-run average price. We have compared gold to other commoditised metals selected on the basis of them also being in a fine supply-demand balance.

In the table below we compare the current long-run premium of gold against the equivalent premiums currently being enjoyed by the other metals:

Long-run Metal Prices (US$/t Apart from Gold - US$/oz)

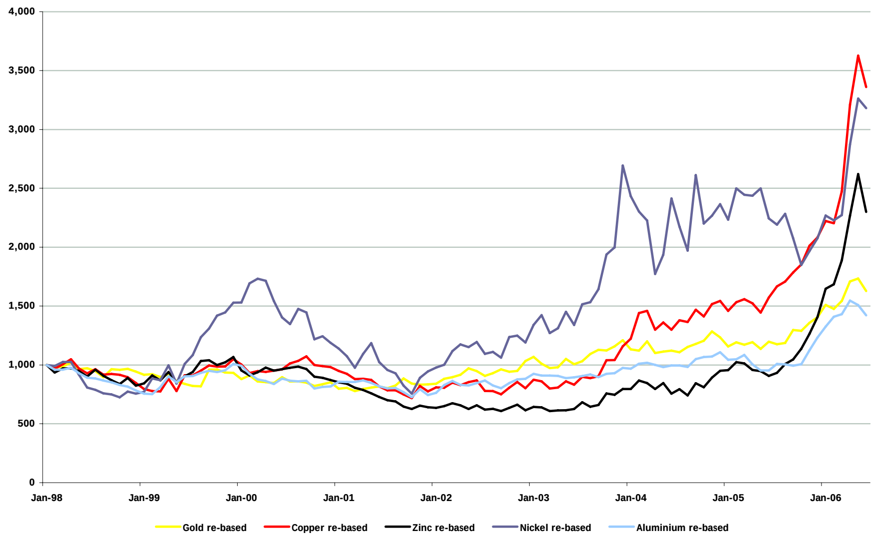
	Long Run Average	Current Price	Premium
Gold	551	630	14%
Copper	2,917	7,600	161%
Zinc	1,455	3,300	127%
Nickel	10,696	25,900	142%
Aluminium	1,627	2,500	54%

Source: Ambrian Research

If we consider recent commodity price appreciation, the weakness of gold is shown

If we consider commodity price appreciation in a more recent context, the relatively weak appreciation of gold is demonstrated again. Re-basing the same metals to 1998, prior to the start of the current commodities boom, we can see that gold has lagged all but aluminium.

Re-based Metal Prices



Source: Bloomberg, Ambrian Research

The more recent timeframe of this graph reflects the influence of factors seen in commodity markets, such as increased inflow from investment funds and the growth of demand in China and India.

These graphs and comparisons show that in both long- and short-term contexts gold is looking undervalued.

Analysts' Forecasts

Recent surveys are bullish on the gold price and support further strength in the gold price

A number of industry and press organisations have conducted surveys of specialist gold market analysts over the last 12 months, asking for their price predictions for 2006 and 2007. The first of these, conducted by the London Bullion Market Association (LBMA), was published in January 2006. The survey polled the opinions of 25 analysts in nine countries, taking in most of the major banks and research consultancies. The average forecast gold price predicted by this survey was US$535/oz.

In July 2006 Reuters published a similar survey of 31 analysts. During the intervening six months the monthly average gold price appreciated 15% from US$549/oz in January to US$634/oz in July. The results from the survey reflected the more bullish sentiment in the market and an average price of US$627/oz was predicted for 2006. Looking further ahead to 2007, even higher average prices were forecast (US$695/oz).

Gold Price Survey Forecasts (US$/oz)

Survey	Low	High	Avg
LBMA 2006 (Jan)	425	760	535
Reuters 2006 (Jul)	580	743	627
Reuters 2007	510	1,000	695

Source: LBMA, Reuters

We believe that the current gold price is well supported and has the potential for further appreciation

Overall, we believe that the current gold price is well supported and has the potential for further appreciation. We see strong support at US$580/oz (around the 200-day moving average), seeing anything below this as a buying opportunity. We forecast the price to remain above US$600/oz for the remainder of the year, with potential for upside spikes again breaking through the US$700/oz level into 2007 and testing US$800/oz in the next 24 months.

Sector Overview

We have outlined the case for the gold price remaining between US$600-700/oz over the next 12 months

We have outlined our positive case for the gold price remaining between US$600/oz and US$700/oz over the next 12 months, citing substantially increased investment demand as investors seek currency diversification, a safe haven from inflation, a store of value, and exposure to resources/commodities. This will be supported by tight supply fundamentals as gold mine production lifts incrementally, jewellery demand recovers, industrial demand remains stable, Central Bank sales plateau or decline, and scrap supplies stabilise after an initial surge.

Being bullish on gold, what investments do we then recommend?

Does one simply purchase bullion or ETFs for exposure to the metal?

Does one simply purchase bullion or ETFs for exposure to the metal? This is appropriate if you are looking for the inflation hedge described above, but if you are looking to gain exposure to a strong performing natural resources investment we would argue that these are inefficient media through which to gain exposure.

In that case, what about the major gold mining companies? Barrick, Newmont and AngloGold all offer significant gold price exposure through their production assets. They also offer leverage to the gold price through debt capital invested, which implies that their returns should outperform the gold price.

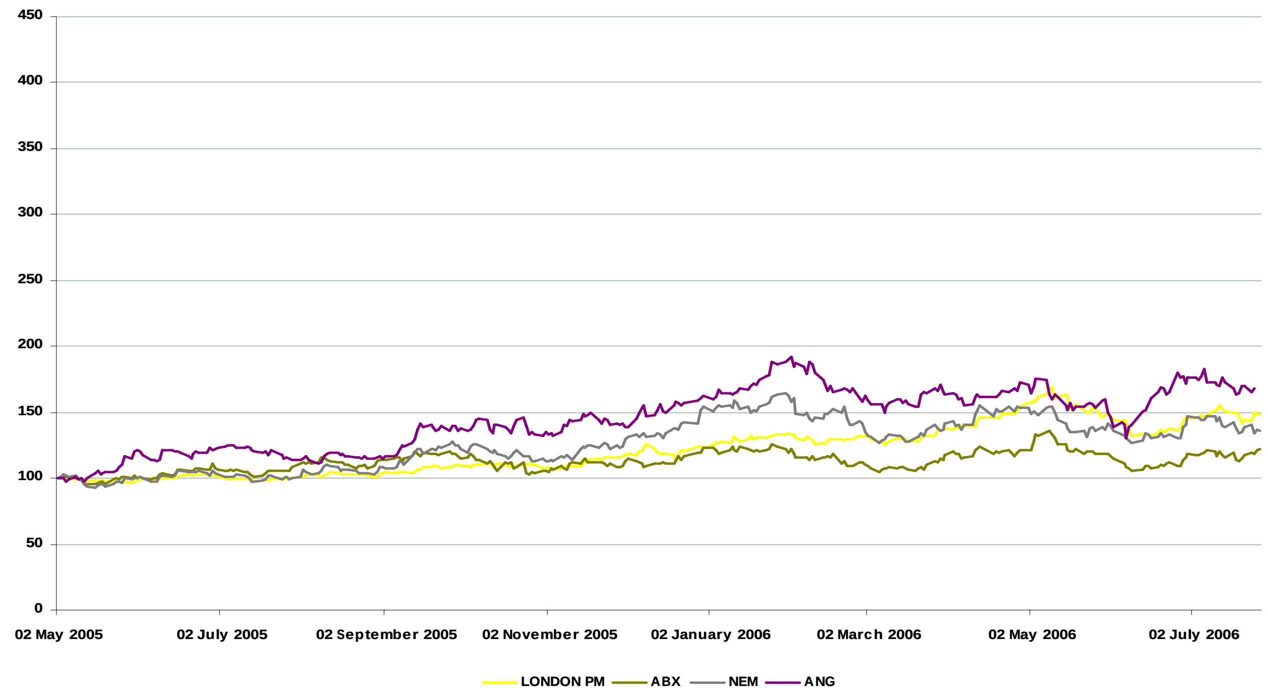
In reality, the major mining companies have not outperformed the gold price over the last 12 months…

The reality of the last 12 months is that this has not necessarily been the case. This may be a function of the size asset portfolio which, although primarily in gold, creates a diversification effect that insulates share price movements due to the relative over- and underperformance of each asset. The average return of these three stocks is very similar to that of the gold price.

… so we advise looking at companies with smaller market capitalisations as they provide greater leverage to the gold price

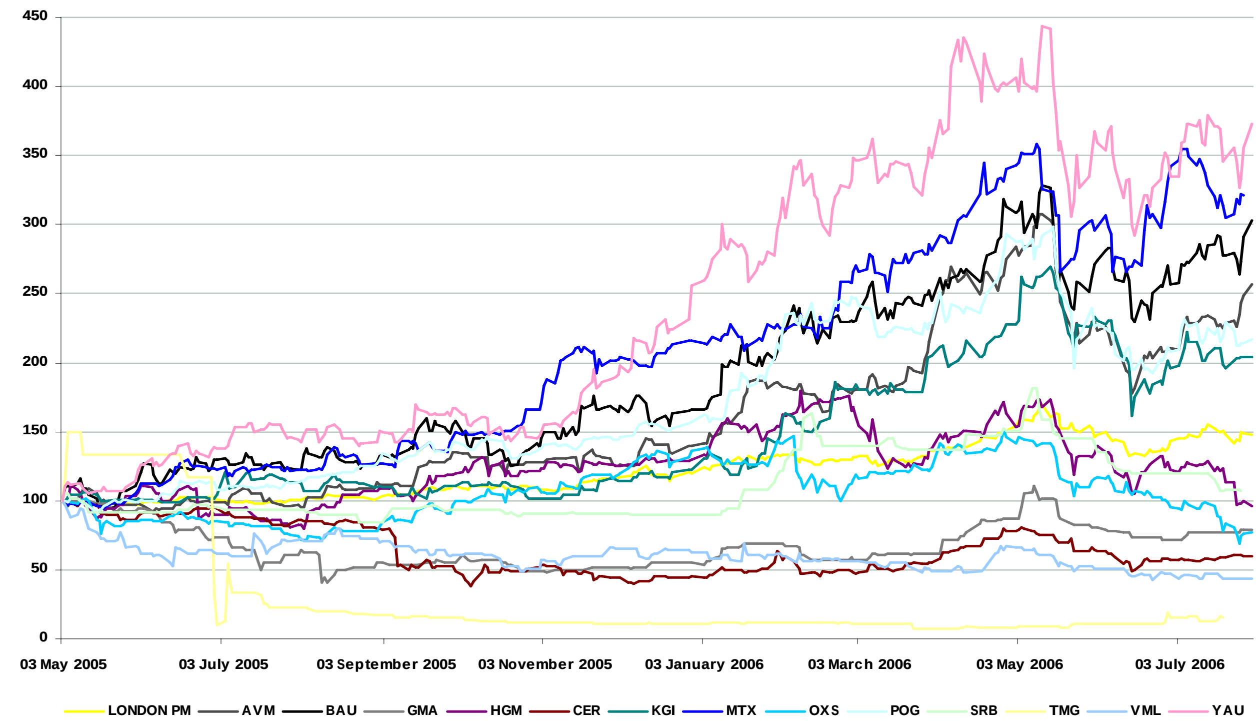
So how do we gain our bullish gold price exposure and leverage our upside to it? Let's look to companies with smaller market capitalisations, such as those listed on AIM, because they provide greater leverage to the gold price. This happens in two ways. Firstly, funds invested by smaller companies increase their resource or production bases to a greater degree than larger producers and they have greater exposure to discovery upside potential. While large companies increase their leverage to the gold price through debt, this also has the converse effect of diluting returns from discoveries and expansions. Small companies are fully exposed to these returns. This can be seen in the following graphs (re-based to the same scale) in which AIM-listed gold producers show a clear correlation to the gold price, but greater leverage.

Majors vs. Gold Price (Re-based)



Source: Bloomberg

AIM-listed Companies vs. Gold Price (Re-based)



Source: Bloomberg

This adds greater volatility to the stock but — in a bullish market — that is the point. Small companies are also more heavily affected by the fortunes of individual projects, adding additional risk. However, by choosing quality stocks in this sector, the greatest returns can be achieved.

The highest individual returns come from the small caps...

The table below shows the relative returns of AIM-listed gold producers, a number of mid-cap gold miners and the three majors discussed earlier.

Gold Company Relative Performance (Re-based to May 2005 — May 2005 = 100)

Investment	Ticker	Perf (%)	Mkt Cap (£m)
Gold Price	**N/A**	**147.8**	**N/A**
Majors			
Barrick	ABX	122.1	14,508.6
Newmont	NEM	135.8	11,748.2
AngloGold Ashanti	ANG	168.0	7,364.6
Mid-Caps			
Goldcorp	G.	206.0	6,687.7
Gold Fields	GFI	239.0	5,633.8
Harmony	HAR	262.8	2,895.2
Newcrest	NCM	127.6	2,657.7
Lihir Gold	LHG	271.6	1,518.9
AIM Producers			
Yamana Gold	YAU	367.3	1,615.0
Bema Gold	BAU	296.0	1,355.0
Peter Hambro	POG	227.2	1,052.6
Highland Gold	HGM	97.8	301.1
Metorex	MTX	321.0	247.7
Avocet Mining	AVM	244.1	216.7
Kirkland Lake	KGI	205.9	170.4
Celtic Resources	CER	59.8	116.9
Oxus	OXS	76.0	91.3
Thistle Mining	TMG	15.7	80.8
Serabi	SRB	106.7	35.9
GMA Resources	GMA	78.6	34.9
Vane Minerals	VML	41.6	14.2

Source: Bloomberg, Ambrian Research

... but sector expertise is the best way to pick them

But don't just buy any small company; there is much more to consider, as can be seen by the high variability of returns for the sector. Important attributes include:

- **Reserve and Resource Base:** sufficient quantity and quality to sustain the project.

GFMS global average total cash costs of US$269/oz

- **Operating Costs:** drive profitability but are also another (albeit risky) source of leverage. The profits of a producer with US$450/oz operating costs will increase in relative terms more than a producer at US$250/oz. According to GFMS the average global total cash operating costs for gold producers in 2005 was US$269/oz.

- **Quality of Management:** do they have the ability to bring a project to production or progress it to required milestones?
- **Technical Risk:** what are the technical challenges of the project, is it feasible, what are the logistical, geological, mining and metallurgical hurdles?
- **Other Risk Factors:** political risk, sovereign risk, tenure risk environmental risks, etc, all need to be considered.

The best explorers' investments will be realised directly in an increase in resource base

Exploration companies are leveraged to an even greater degree as they are often coming off a small or non-existent base. A good exploration company will spend the majority of its funds on exploration and the best explorers' investments will be realised directly in an increase in resource base, which is attributed a value by the market (approximately £19/oz according to our research). Our favoured exploration companies are those that have been able to add consistently to their resource base and have projects that in the longer term are likely to go into production. Excellent examples of these are Centamin of Egypt and Moto Goldmines. Both have rapidly expanding resource bases which they are increasing at low cost. The companies claim discovery costs of US$3.60/oz and US$1.34/oz, respectively — a strong illustration of the potential leverage of exploration companies.

Some explorers share prices bear no correlation to the gold price at all until they have a resource base (which then gets valued according to the gold price). Until then they are like an R&D company and much more affected by news of individual discoveries.

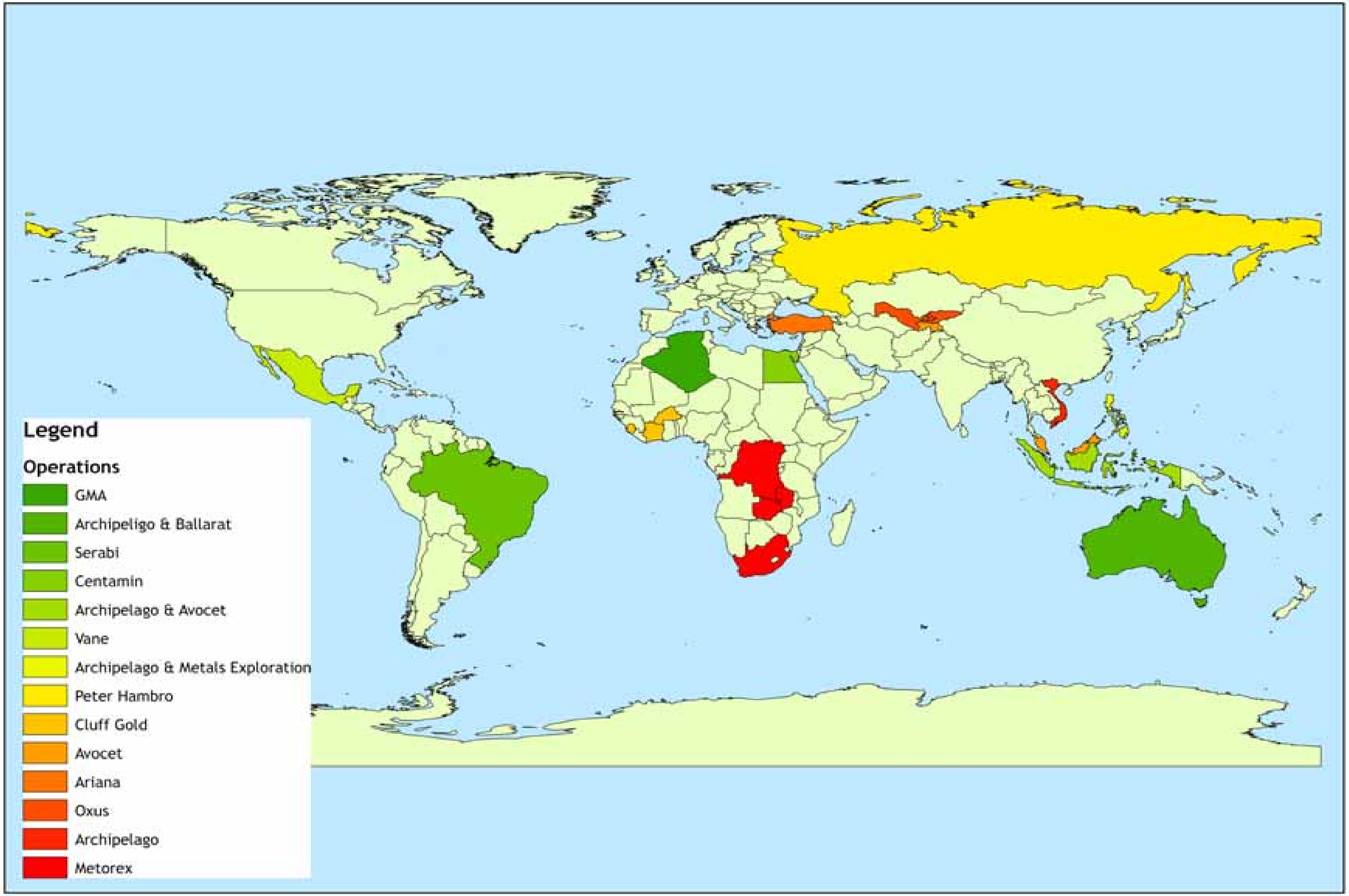
We have selected a range of gold mining and exploration companies from AIM for further research and made our recommendations.

Recommendations

Company	Producer/Explorer	Recommendation	Production
Archipelago*	Explorer	HOLD	3Q07
Ariana*	Explorer	SPECULATIVE BUY	N/A
Ballarat Gold	Explorer	HOLD	4Q06
Centamin**	Explorer	BUY	4Q07
Cluff Gold	Explorer	BUY	1H07
GMA Resources	Explorer	SELL	1Q07
Medusa***	Explorer	BUY	4Q06
Metals Exploration	Explorer	BUY	2009
Moto Gold Mines	Explorer	BUY	2009
Vane Minerals***	Producer	HOLD	N/A
Avocet	Producer	BUY	209,000oz
Metorex*	Producer	BUY	129,000oz
Oxus Gold	Producer	SELL	162,000oz
Peter Hambro Mining	Producer	SELL	249,000oz
Serabi*	Producer	BUY	17,000oz

*Ambrian is engaged as corporate broker or joint-broker to this company; **Ambrian acts as Financial Advisor to this company; ***Ambrian acts as Nomad and is engaged as corporate broker or joint-broker to this company; Source: Ambrian Research

Global Gold Mining Locations



Source: Ambrian Data

Gold Exploration & Development Companies

24th August 2006

Archipelago Resources

Metals & Mining

Price: 34p

Buy

Upcoming Events:
FY ends - December
Permitting and Approvals (Sep 2006)
Construction Updates (4Q06)
Interim Results (Nov 2006)
Exploration Results (1Q07)

Market cap	**£42.1m**
Bloomberg ticker	**AR/**
Shares	
Basic	**136,419,284**
Fully diluted	**138,964,284**
5 day volume (000s)	**107.4**
5 day volume (£000s)	**46.4**
(3-month avg)	
52 week	
High	**49p**
Low	**30p**
EV (£)/Resource oz	**16**
Cash in hand (£m)	**15.1m**
Top shareholders	
Ocean Resources Capital Holdings	**24.3%**
Goldman Sachs & Co	**7.9%**
Jennison Natural Resources Fund	**5.9%**
CSFB Client Nominees	**5.1%**
Lando Pty Ltd	**4.6%**
Total	**47.7%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Ambrian is engaged as corporate broker to this company

Main Interests

Project	Interest	Stage
Toka Tindung gold, Indonesia	85%	Construction
Corplex, gold Philippines	100%	Early exploration
Cam Thuy – Ba Thuoc JV, gold, Vietnam	N/A	Early exploration

Source: Company data, Ambrian

Summary

Archipelago Resources' main activity is gold mining and exploration in South East Asia. It owns 85% of the Toka Tindung Gold Project in Indonesia and also has gold exploration activities in Vietnam and the Philippines. The company was incorporated in England in April 2002, its shares were admitted to AIM in September 2003 and the company is based in Perth, Western Australia.

In 2002 Archipelago acquired properties in Indonesia through the acquisition of an 85% interest in PT Meares Soputan Mining (MSM) and PT Tambang Tondano Nusajaya (TTN) from financially distressed Australian mining company Aurora Gold Ltd. These CoWs together comprise the Toka Tindung Gold Project. Archipelago did not pay any cash for this; there is a 0.375% uncapped royalty payable to Aurora on 85% (ie, Archipelago's share) of all gold and silver produced from the CoWs.

Investment Case

Archipelago's prime asset, the Toka Tindung Gold Project, has recently received votes of confidence in the securing in March 2006 of a US$38.5m debt facility through a syndicate of four banks (led by N.M. Rothschild Australia) and the raising of approximately £15.1m (net) through a share placement on AIM completed at the end of May 2006. This is a far cry from when the project was mothballed in 1999 by previous owners Aurora, following a collapse in the gold price to US$255/oz and political uncertainty in Indonesia at the end of the Suharto regime. This gave rise to the opportunity for Archipelago to acquire the project for the 0.375% royalty that will be payable to Aurora.

The market has currently paused the rise in price we were observing earlier in the year as Archipelago commenced its transition from explorer to producer. Our metrics now show that the market has reverted to valuing Archipelago as an explorer at £16/oz. This follows the announcement that production will be delayed a further six months and is now planned to commence from Toka Tindung at a rate of 140,000–160,000oz pa in 3Q07. While this drop in the share price is temporarily justified, we still see considerable upside as production approaches. Based on our recently published note on Archipelago we maintain a revised (following the dilution of the recent equity raising) 12-month price target of 106p, reflecting commencement of production.

While the risk remains of production and commissioning delays (pressure will in particular be on gaining environmental approvals and the assembly of the El Tambo processing plant to be shipped from Chile), the share price is valued at the lower end of our range. We therefore expect it to track upwards from here towards our price target as the year progresses.

Archipelago remains exposed to the gold price at this stage, with no hedging in place. With a mid-range operating cost of US$305/oz the project NPV is highly sensitive to the gold price. We view the technical and political risks to Toka Tindung as relatively low and exploration upside remains in near-mine exploration budgeted for 2007 and the Philippine and Vietnam tenements. Despite the company disappointing the market we see it as a relatively low-risk stock offering highly leveraged exposure to the gold price and retain our **BUY** recommendation.

Project Overview

Archipelago's primary asset is its 85%-owned Toka Tindung Gold Project in Indonesia, with mineable reserves of 960,000oz and indicated resources of 1.75Moz. The company expects to pour the first gold from this project in 3Q07; from when it aims to ramp up to peak annualised production in excess of 160,000oz. It is estimated that current reserves are sufficient for six years of production, although the potential exists for this to be increased significantly. There is considerable exploration potential within the planned open pits and the adjacent areas.

Archipelago also has exploration interests in northern Vietnam and the Philippines. In Vietnam it is the majority party in both the Pac Lang and Cam Thuy-Ba Thuoc gold exploration joint ventures with the state-controlled Minerals Corporation (VIMICO). Pac Lang was the site of an old French gold mine, more recently mined on a small scale by the provincial state mining company and is considered by the company to have the potential to be its second mining development.

In the Philippines Archipelago holds an option over a 100% interest in the Corplex gold exploration tenements in north-eastern Mindanao. Both the Cam Thuy-Ba Thuoc and the Corplex prospects are very early stage exploration plays.

Key Developments

The market will be keenly awaiting news on permitting approvals and construction and commissioning of the processing plant purchased from Barrick's El Tambo gold mine in Chile. This is now very much on the critical path to commercial production and cash generation for Archipelago.

Prior to the production delay announced in June, Archipelago released a number of items of good news in relation to Toka Tindung. The project finance of US$38.5m with a US$4m overrun facility was arranged through N.M. Rothschild (Australia), ANZ Bank, Societe Generale and West LB in order to bring the mine into production. Following this, £15.1m was raised through an equity placing, putting Archipelago in a strong cash position to complete the development of the mine.

While some of the cash raised has also been earmarked for advancing exploration in Vietnam and the Philippines, this will for the present be a secondary issue for investors focused on progress at Toka Tindung.

24th August 2006

Ariana

Metals & Mining | Price: 13p | Speculative Buy

Upcoming Events:
FY ends - December
Sindirgi Drilling Results (Nov 2006)
Kinik Drilling Update (2H06)
JORC Resource at Sindirgi (1H07)

Market cap	**£6.1m**
Bloomberg ticker	**AAU**
Shares	
Basic	**46,851,482**
Fully diluted	**49,992,482**
5 day volume (000s)	**381.5**
5 day volume (£000s) (3-month avg)	**49.7**
52 week	
High	**17p**
Low	**8p**
EV (£)/Resource oz	**N/A**
Cash in hand (£m)	**2.0**
Top shareholders	
CSFB Client Nominees	**9.9%**
Pershing Keen Nominees	**9.6%**
HSBC Global Custody Noms	**7.2%**
SJ Poulton	**5.8%**
AK Sener	**4.9%**
Total	**37.5%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Ambrian is engaged as corporate broker to this company

Main Interests

Project	Interest	Stage
Sindirgi Gold Project (incl Kiziltepe, Kepez)	100%	Exploration
Ivrindi Gold Project (incl Kinik)	100%	Exploration

Source: Company data, Ambrian

Summary

Ariana was incorporated in 2003 to explore for, acquire and develop gold and other mineral deposits exclusively in Turkey. It listed on AIM in July 2005 and has built a promising portfolio, primarily focused on gold. Regional targeting, licence acquisition and reconnaissance powered by an in-house remote sensing database are key to its cost effective and successful exploration formula. Ariana's flagship asset is the Sindirgi gold Project in western Turkey, which shows several hallmarks of a major epithermal gold system.

As an exploration destination, Turkey is markedly under-explored, while offering positively developing political and investment environments as it progresses through the admission process to the EU.

Investment Case

Ariana was one of the first exploration companies to enter Turkey after its Mining Laws were overhauled in 2004 and has established itself there as a first-mover. This, in combination with its low-cost, modern, systematic approach to exploration, gives Ariana a competitive advantage in a geologically prospective country that has long suffered from under-exploration and investment.

Application of satellite-borne remote-sensing technology (LandSat & ASTER) and a comprehensive GIS (Geological Information System) database have brought exploration successes at Sindirgi (Kiziltepe and Kepez) and at Kinik, with promising drilling results released in April 2006 proving the validity of its low-cost, high turnover approach. Kiziltepe in particular holds considerable upside at this point. A non-JORC model compiled by consultants SRK suggests a resource of 150,000oz. Ariana is preparing a programme that will prove this up to a JORC-compliant resource and exploration is generating results that indicate the eventual resource may be much larger than this. Such an outcome would deliver a multiple re-rating of the stock.

Ariana is an investment in true grassroots exploration, but its approach and track record to date make it one of the most justifiable exploration opportunities on AIM. Coming off a zero resource base Ariana is fully exposed to the upside of any discovery it makes and given the location in a stable, low-risk country we would expect any resource to be valued at or above the AIM benchmark. We rate Ariana's chances of exploration success highly and make a **SPECUALTIVE BUY** recommendation.

Project Overview

Through its 100%-owned Turkish subsidiary Galata, Ariana acquired a number of licences in Western Turkey. Ariana's priority targets are the flagship Sindirgi Gold Project (comprising the more advanced Kepez and Kiziltepe prospects) and the Kinik Gold Prospect.

Sindirgi was acquired in January 2005, along with historical data, from Newmont Mining Corporation for US$0.4m. Newmont retains a 2.5% royalty on the project. The previous exploration spend at Sindirgi, including drilling, is estimated to be US$1m. Sindirgi comprises three operations and eight exploration licences covering approximately 23,500 hectares ($235km^2$). The company has identified five separate prospect areas within the project so far. A geological model of 150,000oz (non-JORC) has been prepared for 600m of strike on the Arzu vein at Kiziltepe within the project based on the drilling results of the previous owners. The company believes potential for a bulk tonnage style stockwork gold deposit is now being defined and drill testing will be undertaken after a programme of systematic trenching to bedrock.

The Kinik Gold Prospect in the Ivrindi district was discovered by Ariana in late 2004 from its generative exploration programme. Initial exploration included a reconnaissance channel that demonstrated higher grade zones of 3.21 g/t over 10m, 3.09 g/t over 5m and 1.4 g/t over 13m. Subsequently Ariana completed a soil survey which demonstrated the continuation of the strike of the zone for approximately 750m. Ariana plans to drill the Kinik Prospect within the next twelve months.

Key Developments

Ariana has had success at the Sindirgi Project; in April 2006 it announced the discovery of a significant zone of high-grade (up to 9.7 g/t) gold mineralisation at the Kepez Prospect (one of the five identified prospects within the licence area). Ariana also announced further confirmation of a potential bulk tonnage gold target at its Kiziltepe Prospect (again within the Sindirgi Project). With over 45km of gold-silver bearing epithermal quartz veins from just 50% of the project area, and with new zones constantly being located, this significant new gold zone is encouraging and will be the focus of market attention. Definition of a JORC-compliant resource at this project and the results of a scoping study planned to commence in November 2006 will be key drivers of the share price.

In May 2006 the company announced that following a £2.0m equity raising (15.3m shares at 13p) a drilling programme would be commencing at Sindirgi with the objective of defining a JORC-compliant resource in the next 12 months. The company believes this has potential to be in excess of 1Moz.

24th August 2006

Ballarat Goldfields

Metals & Mining

Price: 10p

Hold

Upcoming Events:
FY ends - June
Annual Report (Aug 2006)
Commercial production (4Q06)
Resource Upgrade (4Q06)
Full-year Results (Nov 2006)

Market cap	**£122.6m**
Bloomberg ticker	**BGF**
Shares	
Basic	**1,196,153,935**
Fully diluted	**1,213,403,935**
5 day volume (000s)	**1,641.0**
5 day volume (£000s)	**186.9**
(3-month avg)	
52 week	
High	**22p**
Low	**10p**
EV (£)/Resource oz	**82**
Cash in hand (£m)	**10.8**
Top shareholders	
National Nominees	**15.1%**
Westpac Nominees	**11.2%**
JP Morgan Australia	**9.0%**
ANZ Nominees	**5.7%**
HSBC Custody Nom's	**4.8%**
Total	**45.8%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Main Interests

Project	Interest	Stage
Ballarat East	100%	Pre-production
Berringa	100%	Exploration
Ballarat West	100%	Exploration
Ballarat South	100%	Exploration

Source: Company data, Ambrian

Summary

Ballarat Goldfields is a mid-sized Australian gold project developer. Its principal activity is investment in and the development of surface and underground gold exploration projects. BGF has commenced mining operations at Ballarat East but not yet commenced commercial gold production. Ballarat is north-west of Melbourne, Australia. These goldfields produced over 12Moz of gold between 1851 and 1917. However, since that time the field has been not been fully exploited and still has high gold production potential. Ballarat aims to redefine and develop remaining reserves of historically mined high-grade deposits and re-appraise those that were previously uneconomic.

Investment Case

One of the key attractions of Ballarat lies in the location of its assets in a stable country utilising world class mining practices, close to an experienced, proficient (though admittedly expensive) labour force. In contrast to other companies reviewed in this note, Ballarat represents an investment with low political and country risks, though project-specific risks obviously still remain.

Gold production from the mine is also expected in the near term and a target of 250,000oz pa is expected to be reached by 2008. Underground mining has already commenced and ore processed through the first stage of the plant during its commissioning phase. Concentrate is now stockpiled ready for the completion of the second stage of the plant, currently under construction. Management concedes that due to development difficulties underground production may ramp up slower than expected, but given the tangible progress achieved in the last 18 months we see this as a temporary setback for a project that has the makings of a long-life operation.

Good news has continued to come from exploration and we expect the resource to increase significantly in the near term. In 2005 the resource was increased by 60% to 1.1Moz and drilling results have continued to be positive.

However, much of this is already priced in. If we consider potential annual production of 100,000oz, the market has already valued this at £1,100/oz. Given the status of the project we think that this is approaching fair value for a stock that has not yet commenced commercial production and make a **HOLD** recommendation.

Project Overview

Ballarat was incorporated in 1985 after the consolidation of the Eastern Victorian Goldfields. The company's main project is the development of the Ballarat East Gold Project. As of July 2006, the indicated and inferred resource at Ballarat East was 1.4Moz, comprising 3.9Mt @11.3 g/t for 1.4Moz and 0.6Mt @ 13.4 g/t for 240,000oz. Grade estimation is difficult due to the presence of coarse gold, which can cause wide variations in resource calculations — the reported resources use conservative estimates. The company estimates further exploration potential from the other project areas at 10Moz. While the company is currently concentrating on Ballarat East, the potential from the other developments are clearly significant.

Commercial production from Ballarat East is planned to commence before the end of 2006 at a rate of 100,000oz pa, rising to 250,000oz pa by 2008. Underground development and access to the orebody has been established and trial production commenced with ore being processed through a pilot plant. During this stage difficulties were encountered with ground conditions and mining through historical workings. This is potentially a long-term headache for Ballarat although its latest interpretation of the orebody around the Blue Whale Fault has it targeting deeper mineralisation, which may mean future development avoids these areas.

In addition, there are three other fields in which the company now operates: Ballarat West, Berringa (both consolidated in 1998) and Ballarat South (2004). In 2004, for the first time following the discovery of gold at Ballarat in the 1850s, the leases for the entire field were consolidated under the sole ownership of one company (BGF).

Ballarat is advantageously positioned in a regional centre, allowing the company access to both a stable workforce and local services (eg, electricity grid). This should provide the company with a stable cost environment as it pursues further developments.

Key Developments

In April 2006, Ballarat Goldfields announced that it has achieved a significant breakthrough in its understanding of the higher grade gold mineralisation located at Ballarat East. This was after the discovery of a large fault system, the Blue Whale Fault.

Over the prior two years, BGF had consistently observed that some of the deeper fault zones (from 500m to 650m below the surface) contained higher concentrations of gold than the shallower faults. Often the gold grades were much higher than the historical mined grade.

24th August 2006

Centamin Egypt

Metals & Mining

Price: 30p

Buy

Upcoming Events:
FY ends – June
Annual Report (Sep 2006)
Drilling Results (ongoing)
Resource Upgrade (2H06)
Bankable Feasibility Study (end 2006)

Market cap	**£170.7m**
Bloomberg ticker	**CEY**
Shares	
Basic	**578,668,369**
Fully diluted	**586,135,369**
5 day volume (000s)	**7,308.7**
5 day volume (£000s) (3-month avg)	**2,034.5**
52 week	
High	**37p**
Low	**13p**
EV (£)/Resource oz	**22**
Cash in hand (£m)	**20.6**
Top shareholders	
El-Raghy Kriewaldt	**9.6%**
Willbro Nominees	**9.5%**
BBHISL Nominees	**8.0%**
Chase Nominees	**6.3%**
Euroclear Nominees	**5.6%**
Total	**39.0%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Ambrian acts as Financial Advisor to this company

Main Interests

Project	Interest	Stage
Sukari Gold Mine, Egypt	100%	Evaluation

Source: Company data, Ambrian

Summary

Centamin Egypt is an Australian- and UK-listed gold explorer based in Australia with assets in Egypt. Having originally been listed on the ASX in 1970, the company initially had interests in gold, diamonds and base metal projects within Australia. In 1999, the company acquired Pharaoh Gold Mines which had previously signed agreements with the Egyptian government to explore for gold and base metals in the Eastern Desert of Egypt.

Upon the acquisition, the company elected to change its name to Centamin Egypt in order to reflect its new geographic focus. The company listed on AIM in 2001, and in April 2005 resolved an ongoing issue with the Egyptian government over mineral rights which allowed it to progress properly with the development of its principal project.

The company's management has been key to it bringing the project this far, and 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 the company with significant experience in discovering deposits and bringing them into development. The company's CEO is Josef El-Raghy, whose experience as a corporate financier and broker has been a great asset during the company's handling of fund raising and dealing with investors.

Investment Case

Centamin has weathered the storm in Egypt, with previously difficult relations behind it. It holds the country's first mining lease and is ideally positioned to capitalise on its first-mover advantage. A strong management team is in place that has developed and operated mines like this one before. Its track record at Sukari demonstrates a willingness to develop the project in a systematic and robust manner (over 116,000m of diamond and RC drilling has gone into proving up the current resource) and it has the capability to implement proven efficient mining methods and exploit the resource effectively.

The company has performed strongly since listing on AIM, with its share price and trading volumes increasing in tandem with the identification and expansion of the Sukari resource, currently standing at 6.79Moz Au. On our comparative metric analysis Centamin is currently valued at around the £20/oz benchmark. We see this as a low-ball valuation as there are a couple of factors that place Centamin ahead of the pack: firstly, there is the quality of the resource, which as it is will support a significant mining operation (>250,000oz pa) for 20 years plus. Secondly, the location and setting of the deposit offer the potential for low-cost mining methods with low-cost labour, diesel costs of US$0.10/litre and sound existing infrastructure. There is a challenge to be overcome in finding the optimal mining sequence to minimise the stripping ratio early in the mine life to accelerate payback, but we believe this will be resolved and the result is likely to be a low-cost operation with strong cashflow.

Further upside potential lies in the expansion of the resource. Exploration results to date demonstrate an understanding of the orebody and drilling is meeting with continued success at an efficient rate. The company quotes a cost per ounce discovered of US$3.60/oz, which is currently valued at £21/oz by the market — a nice return. The resource has the potential to be expanded to 10Moz, at which point Sukari would be on track to become a genuine world-class operation. On these factors we retain our **BUY** recommendation.

Project Overview & Figures

The company's principal asset is its Sukari Gold Project, located approximately 700km south-east of Cairo and 25km west of Marsa Alam on the Red Sea. The porphyry gold deposit is currently still in development, and recent drilling has considerably improved management's understanding of the deposit, and the company has been able to upgrade its JORC-compliant resources to 6.79Moz. This has continued a consistent string of exploration successes since drilling was re-commenced in April 2005 on a resource base of 2.94Moz. A recent fundraising was executed in order to fast-track development, with the aim being to bring the project into production by the end of 2007.

The site has a planned production rate of 200,000-250,000oz pa of Au, using a 4-5m tpa processing plant, which is currently the subject of a Bankable Feasibility Study (BFS) on a large, open-pit operation.

The Sukari project consists of four different zones (Amun, Ra, Gazelle and Pharaoh), with Amun being the first to be extensively drilled, although the other zones have also been significantly sampled at surface and initial drilling has now begun. The company aims to develop and mine the Amun zone, with the intention of proving up its resources, and then move on to the other three simultaneously. Eventually, the entire deposit will be an open-pit mine, to depths of approximately 300m below the wadi floor.

Key Developments

Centamin has overcome a rocky relationship with the Ministry of Mines in Egypt. In April 2003, the Ministry halted all exploration activity at Sukari. Work only recommenced when the incumbent Minister was forced from office in 2Q05, but since then progress has been more rapid and the company has been eagerly increasing its drilling activity. There are currently nine drill rigs on site.

Major technical elements of the Bankable Feasibility Study have been completed. Though some delay is now expected — a recently arisen opportunity to purchase a second-hand processing plant is being evaluated — we still expect it by year end.

The company raised £20.6m via a placement in April 2006, the proceeds of which it intends to put towards long lead-time items and pre-mining costs at the Sukari site.

24th August 2006

Cluff Gold

Metals & Mining

Price: 69p

Buy

Upcoming Events:
FY ends - December
Baomahun Drilling Results (ongoing)
Angovia Drilling Results (ongoing)
Kalsaka Operational Update (4Q06)
Baomahun Resource Upgrade (4Q06)

Market cap	**£31.2m**
Bloomberg ticker	**CLF**
Shares	
Basic	**45,533,564**
Fully diluted	**50,662,348**
5 day volume (000s)	**191.3**
5 day volume (£000s)	**129.0**
(3 month avg.)	
52 week	
High	**83p**
Low	**44p**
EV (£)/Resource oz	**16**
Cash in hand (£m)	**15.8**
Top shareholders	
Woolwich Int'l Holdings	**9.0%**
Emerging Markets	
Management	**7.5%**
Wexford Capital	**7.5%**
Ingalls and Snyder	**6.6%**
NW Berry esq.	**6.1%**
Total	**36.6%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Main Interests

Project	Interest	Stage
Baomahun, Sierra Leone*	60%	Exploration
Kalsaka, Burkina Faso	78%	Feasibility
Yako, Burkina Faso	90%	Exploration
Mount Yaoure, Cote d'Ivoire	90%	Exploration
Karbasso, Mali	80%	Exploration

*On the earlier of spending US$5m or production of a bankable feasibility study; Source: Company data, Ambrian

Summary

Cluff Gold is a gold exploration/development company focused on West Africa. The company seeks to obtain deposits which can be exploited via open pits and low cost processing techniques. The company's corporate objective is to build the capacity to produce 300,000oz of gold annually by 2008.

The company was founded in 2004, from the gold assets of Ridge Mining, by Chairman and CEO Algy Cluff. With the aim of becoming a specialist West African gold mining company, he built a management team with strong industry and local knowledge. Mr Cluff is the former founder and chairman of Cluff Resources, which through the 1980s built a portfolio of assets eventually acquired by Ashanti Goldfields in 1996. Technical director Douglas Chikohora has over 20 years experience in the mining industry with Cluff and Rio Tinto. Jamie Alpen, Finance Director, also has ten years mining industry experience, much of it in Africa.

Investment Case

Cluff's investment case is underpinned by three key factors: the growth potential of the Baomahun mine in Sierra Leone; the near-term production potential of the Kalsaka deposit; and, in a more general sense, exposure to the emerging mining industry in West Africa.

The Baomahun Project has returned nothing but positive exploration results since the increased resource was announced in November 2005. By end-2006 a resource potentially double in size can be expected and this provides the greatest growth potential for the company. In addition to this the Kalsaka project should be contributing production by mid-2007, building to a rate of 60,000oz pa, which alone would support much of the current market capitalisation. The development of Angovia and continued progress at Baomahun would see Cluff making good progress to achieving its stated goal of 300,000oz pa of production from 2008 and, on this basis, we rate Cluff a **BUY**.

The West African exposure should not be underestimated. Due to the difficult history of the region it has been neglected for at least the last decade. Cluff's presence in the region has enabled it to pick up such prospective properties as the former Angovia mining project. Ambrian visited the region earlier this year and found an active mining sector, filling rapidly with dynamic companies which appear set for growth, and Cluff is in a strong position to benefit from this.

Project Overview & Figures

Cluff's prime assets are in Sierra Leone, Burkina Faso and the Ivory Coast.

Sierra Leone

Cluff is earning a 60% stake in the Baomahun Gold Project in the east of the country through the spending of US$5m or the completion of a Bankable Feasibility Study, whichever is the earlier. The project lies within five different zones of mineralisation along a strike length of 3.4km. The current JORC-compliant resource stands at 4.54Mt @ 3.6 g/t for 518,00oz Au contained. This resource has been defined from less than a quarter of the strike-length and to only 150m depth, at which the resource is open. Based on this and other data released by the company we estimate the total resource for the deposit could exceed 1.0Moz Au. Drilling is ongoing with the aim of expanding the current resource and providing the foundation for a Bankable Feasibility Study on an open-pit operation. Four similar anomalies remain to be targeted.

Burkina Faso

The Kalsaka Project is a gold deposit which has been deemed viable for open-pit mining and heap leaching. Consultants SRK have estimated that it contains a resource of 13.7Mt @ 1.4 g/t Au for 600,000oz and a reserve of 5.1Mt @ 1.8 g/t for 290,000oz. The company is currently undertaking a review of the project economics in conjunction with consultants RSG in Perth. The Yako deposit to the south-west of Kalsaka has an inferred mineral resource of 150,000oz. At its AGM in May 2006 Cluff announced that development of this project was to go ahead, with plans to produce 60,000oz pa. Project finance is currently being arranged and production is expected in the first half of 2007.

Ivory Coast

The Mt Yaoure permit covers the Angovia Gold Project, formerly owned by Cogema, which produced 180,000oz over a five-year period to 2003 (36,000 oz pa average). It has an inferred and indicated mineral resource of 3.1Mt @ 1.9 g/t Au for 190,000oz. The company has also purchased the residual plant and equipment from Cogema. A drilling programme is ongoing at Angovia and results to date indicate that Cluff will be able to issue a significantly upgraded resource before the end of 2006.

Key Developments

Key developments over the next 12 months will be the completion of the drilling programme and upgrade of the resource at the flagship Baomahun Project, construction and commissioning of the Kalsaka Project and news from drilling at Angovia. Cluff faces challenges, including a lack of appropriate infrastructure, particularly roads and power. Sierra Leone has less than 1,000km of paved roads and access to Baomahun is an issue, as is the lack of reliable power to support the project. The political and economic situation of all three countries is delicate but represents particular challenges in the Ivory Coast. However, Cluff has management with long-standing experience of the African continent and a strong line up of local staff on the ground at each site to address these challenges.

24th August 2006

GMA Resources

Metals & Mining

Price: 11p

Sell

Upcoming Events:
FY ends - December
Interim Results (Oct 2006)
Construction Update (4Q06)
Resource Upgrade (4Q06)
Production Commencement (1Q07)

Market cap	**£34.9m**
Bloomberg ticker	**GMA**
Shares	
Basic	**317,145,493**
Fully diluted	**351,522,493**
5 day volume (000s)	**1,272.2**
5 day volume (£000s)	**137.3**
(3 month avg.)	
52 week	
High	**16p**
Low	**6p**
EV (£)/Resource oz	**94**
Cash in hand (£m)	**5.9**
Top shareholders	
Rubicon Master Fund	**8.9%**
CCM Master Funds	**8.9%**
Fidelity Small Cap	**7.8%**
HSBC	**7.6%**
Majedie Funds	**5.8%**
Total	**38.9%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Main Interests

Project	Interest	Stage
Tirek-Amesmessa Mine, Algeria	52%	Development

Source: Company data, Ambrian

Summary

GMA Resources is a London-based gold mining and exploration company with assets exclusively in Algeria. In 2003 GMA acquired the right to earn-in 52% of Algerian-based ENOR Spa, the owner and operator of the Tirek-Amesmessa Gold Project in southern Algeria. In 2006 GMA completed its obligations and ownership was ratified in May. GMA now operates and manages the mine, which in calendar-year 2005 achieved small-scale production of 20,506oz. The company plans to expand and develop this mine in financial partnership with the 48% shareholder Sonatrach, the state-owned oil company.

The company underwent a significant restructuring of senior management at the end of 2005, bringing it new focus. Chairman Richard Linnell is a seasoned South African geologist who formerly worked at BHP Billiton. The company's new CEO, Douglas Perkins, is Canadian and a qualified accountant with experience in mining and mining finance in Africa and Central America. David Netherway has recently joined the Board, bringing experience of mine construction and development in Africa and Asia.

Investment Case

GMA already has production, currently 20,000oz pa. While this is providing cash flow, the cash operating costs are at present too high (our estimate is US$550/oz). This will have been heavily impacted by the low availability of both mining and processing plant and equipment, which has plagued the life of the project. This seems due to its small size, lack of suitable personnel and location away from established mining industry supply lines. The current management is putting in place a number of measures to remedy this, such as a new plant hire agreement with Caterpillar including full-time, qualified, expatriate personnel.

The investment climate in Algeria has been improving as the country consolidates its transition from military to civilian rule. Relatively transparent elections in 2004 re-elected President Bouteflika with an 85% majority for a second five-year term. The main positives of this are political stability and continued economic reform, with oil revenues fuelling development of infrastructure and communication networks. In broad terms economic policy is encouraging foreign investment, with tax relief for new projects and conditional availability of a 10% premium over the spot price for gold sales.

The foundation of an investment case in GMA is the planned production expansion to 100,000oz for 2007 and the ability of management to turn performance around. The expansion is to come from a heap-leach operation at Amesmessa (60,000oz) and an expanded CIL plant at Tirek (40,000oz). Normally, realisation of such an expansion would result in a significant re-rating of the stock. However, GMA's low 52% ownership weighs heavily on any valuation. On an estimated EBITDA from the project of £7.8m we would value it initially around £70.1m (9x EBITDA), but GMA's share of this is £36.4m. On an NPV basis GMA sees only £11.6m of value. Despite the turnaround potential we see in the project, the limits on the upside lead us to believe better exposure can be achieved through other stocks and make a **SELL** recommendation.

Project Overview & Figures

The company's principal asset is the Tirek-Amesmessa gold project, contained within the 1,417km^2 ZITA mining lease in southern Algeria near the border with Mali. The licence covers numerous high-grade, near-surface vein systems from which ore is mined by selective open-pit methods at Tirek in the north and at Amesmessa, 60km to the south. A pilot processing plant constructed in 2001 is now producing at a rate of approximately 20,000oz pa from the two deposits.

Current JORC-compliant resources at Amesmessa are 1.854Mt @ 10.3 g/t Au for 614,000oz. A Russian classified resource of 1.055Mt @ 17.0 g/t Au for 576,225oz has been estimated at Tirek, from which mining has been underway since 2001. Based on this, a Bankable Feasibility Study was completed in September 2005. It examined options for the expansion of production to 100,000oz pa through increased mining rates, upgrading the milling capacity to 300,000tpa and the addition of a heap-leach circuit for lower grade ores. The latest optimisation of this project delivers an NPV of US$41.4m at a 10% discount rate on capital expenditure of US$36.2m and a gold price of US$440/oz to produce 100,000oz pa at an operating cost of US$258/oz over 4.5 years from 1Q07.

The other prospective high-grade targets, whilst untested, are located at shallow depth and are potentially amenable to low-cost open-pit mining. These will be the subject of an exploration programme commencing 4Q06.

Key Developments

GMA raised £8.6m in November 2005 through a placing of 127m new shares @ 7p, and a private placing in April 2006 of 56m shares raised £5.1m @ 9p. This has resulted in a consolidation of the shareholder base, with key investors now including Rubicon, Fidelity and HSBC.

Key to the success of GMA will be increasing production to 40,000oz pa from the existing CIL plant, which should be upgraded with a new ball mill by year end, lifting throughput to 300tpd. Achievement of this production rate would also imply that equipment availability has improved. For progress on this we will be looking to production rates achieved through 2006.

Heap-leach pads are currently under construction to mine and process approximately 470,000tpa at 5 g/t for 60,000oz Au pa. These grades would normally justify the additional capex for the higher gold recoveries of a CIL plant. However, GMA has done a lot of work on metallurgical testing and believes the recoveries it can achieve from its leach pads vindicate the choice. If it succeeds, production should reach 100,000oz pa by 1Q07.

24th August 2006

Medusa Mining

Metals & Mining

Price: A$0.63 Buy

Upcoming Events:
FY ends – June
Full-year Results (Sep 2006)
MPSA Decision (pending)
Production Ramp-up (3Q06)

Market cap	**£15.8m**
Bloomberg ticker	**MML.AU**
Shares	
Basic	**59,656,676**
Fully diluted	**87,122,074**
5 day volume (000s)	**326.3**
5 day volume (£000s) (3-month avg)	**79.8**
52 week	
High	**AUD0.94**
Low	**AUD0.48**
EV (£)/Resource oz	**49**
Cash in hand (£m)	**2.0**
Top shareholders	
National Nominees Ltd	**7.8%**
Forty Traders Ltd	**4.3%**
Mr W D Goodfellow	**4.3%**
Yarandi Investments	**4.0%**
Skiptan Pty Ltd	**3.7%**
Total	**24.2%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Ambrian acts as Nomad and is engaged as corporate broker to this company

Main Interests

Project	Interest	Stage
Philsaga Co-O	100% of gold production	Production
Masapelid	Earning 84%	Exploration

Source: Company data, Ambrian

Summary

Medusa Mining Limited was listed on the Australian Stock Exchange in December 2003. Its main objectives are to: acquire gold and gold-copper projects; achieve gold production with low capital exposure and rapid payback; and explore for high-grade deposits with good access and infrastructure. Medusa is divesting its mining interests in Australia to focus its activities in the Philippines, where a favourable mining investment climate now exists for foreign companies.

In October 2004, Medusa commenced negotiating for the acquisition of Philsaga Mining Corporation, a Philippine company which has been successfully mining profitable high-grade gold ore from the Co-O gold mine. The transaction had been held up subject to a Condition Precedent that was subject to a Supreme Court decision regarding overlapping timber concessions and the issue of the mining licence. This has now been resolved through the issue of a Special Mining Permit (SMP) which allows full-scale mining, renewed on an annual basis. The deal will now proceed to completion (a cost of A$13m for Medusa along with 25m shares to Philsaga shareholders). We are of the view that the Supreme Court decision will resolve the issue in favour of mining rights in the next year.

In September 2005 Medusa acquired 100% of the Co-O plant by signing a Plant Lease and Ore Supply Agreement with Philsaga giving it full benefit of the cash flow. A lease payment of A$3M was completed.

Investment Case

We view the Philippines as a highly attractive mining region. It is geologically highly prospective, located on the Pacific 'Rim of Fire' and is richly endowed with minerals. The country has suffered from a lack of investment over the last decade due to restrictive foreign ownership laws, a series of natural disasters closing mines and low metal prices, all but killing off the local industry.

The Mining Act has since been reformed by the current administration to attract investment by removing ownership restrictions and streamlining approval processes. This has opened up an under-explored country to those fast enough to get in. Medusa's exploration strategy has shown an ability to pick up highly promising properties such as the previously mined Tambis and Anoling projects adjacent to Co-O and the Masapelid project.

Medusa is in the final stages of developing the mine ready for a step-up in production to an annualised 40,000oz in 3Q06. With a fresh injection of capital almost complete, we believe that the target is achievable. Strengths of the project are the production track record, management expertise with this type of mining and the high grade of the orebody (29.7 g/t). This should allow Medusa to produce at low costs (forecast cash costs below US$200/oz) and, with its un-hedged position, capitalise on strong gold prices. With this level of low-cost production and the high grades adding robustness to margins, we see Medusa as undervalued and make a **BUY** recommendation.

Project Overview

The company's primary asset is the Co-O underground mine which has been in production under Philsaga for the past five years at 17,000oz pa; the plant (built by BHP) and mine were developed in 1989 at a cost of A$22m. Total resources for the mine are estimated at 252,000t at 29.7 g/t for 241,000oz Au and a maiden resource will be estimated for Tambis, where 344 drill holes contain 188 intersections at >5g/t Au and averaging 16.63g/t Au (uncut).

The Co-O mine is developed on a series of low sulphide, epithermal quartz veins which strike west over a length of at least 600m and to date have been explored to a maximum depth of more than 200m. The veins are open to the west and at depth, and have been extended by drilling to the east for 250m past the northerly trending Oriental Fault. One of the Philsaga partners is an experienced narrow vein miner from Western Australia with over 35 years experience mining narrow vein deposits.

Other promising exploration projects stretching over 70km of strike north and south of the Co-O mine include: Tambis, Anoling and Das-Agan, which contains the Lingig porphyry copper target. Other projects near Co-O are Das-Agan, Apical, Abacus and Saugon, Also to the north, the company has JVs with Metals Exploration on Masapelid Island and Goldsearch Limited on Panaon Island.

Key Developments

The granting of a Special Mining Permit (SMP) for the Co-O mine allows full-scale mining development to continue while Philsaga awaits the approval of the surrounding Mineral Production Sharing Agreement (MPSA). This has been held up by objections by a forestry company attempting to link surface rights to mineral rights. After two lower courts found against the forestry company (as the minerals are owned by the state), the matter is now with the Philippine Supreme Court (a decision is pending) and the litigant is trying to prevent the MGB from issuing the MPSA. The SMP has identical terms and conditions to an MPSA, enabling Philsaga to perform full-scale mining operations at the Co-O mine for one year (renewable). It will be replaced by the MPSA (full mining permit) when the latter is granted. Targeted production at the Co-O mine is 40,000oz pa from 3Q06.

On 15 June, Medusa advised that it had appointed Ambrian Partners in relation to its proposed admission to the Alternative Investment Market (AIM) of the London Stock Exchange in the second half of this year.

Positive news on gold production, new high-grade vein discoveries, increases in the high-grade resource base and drilling of the Lingig copper-gold porphyry target later in the year should see a re-rating of the company's share price.

24th August 2006

Metals Exploration

Metals & Mining

Price: 37p

Buy

Upcoming Events:
FY ends – September
Drilling Results (ongoing)
Resource Upgrade (end 2006)
Pre-Feasibility Study (1H07)

Market cap	**£19.6m**
Bloomberg ticker	**MTL**
Shares	
Basic	**54,895,248**
Fully diluted	**74,417,540**
5 day volume (000s)	**2,840.0**
5 day volume (£000s) (3-month avg)	**1,079.4**
52 week	
High	**48p**
Low	**8p**
EV (£)/Resource oz	**13**
Cash in hand (£m)	**1.3**
Top shareholders	
Cantor Fitzgerald	**8.9%**
Alliance Cornhill	**8.5%**
Fidelity Inv Mgmt	**8.2%**
Mr Peter Draper	**6.3%**
MAN Financial	**3.8%**
Total	**35.6%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Main Interests

Project	Interest	Stage
Runruno Gold Project, Philippines	70%*	Exploration
Puray	100%	Exploration
Masapelid**	70%	Exploration

*Earn-in option up to 85% in place; **JV with Medusa Mining in place, Metals Ex to lower stake to 16%; Source: Company data, Ambrian

Summary

Metals Exploration Plc, listed on AIM in London, is focused on the acquisition and development of mineral exploration properties in the Philippines. The company is under Australian management, with key staff each having at least ten years experience each in the Philippines or South-East Asia. Its portfolio includes gold, copper and base metals projects. The company is in a good position to take advantage of the Supreme Court's decision (in October 2004) to allow foreign ownership of Philippine mining interests. It is now working to expand its prime development asset, Runruno, and its exploration projects, Masapelid and Puray.

Investment Case

In our view, Metals Exploration represents a compelling investment at the moment. We believe the Philippines is a region rich with opportunities due to recent changes in mining legislation. This has resulted in a less restrictive investment environment in a highly prospective country which has been under-explored for the last ten years.

In May 2006 Metals Exploration announced inferred resources for Runruno of 1.7Moz Au and 35Mlb molybdenum (increased from 600,000oz Au in November 2005). The company has continued to have excellent drilling results that will add to the resource base of the project. Following Ambrian's visit to the site in July 2006 we have every confidence that it will be able to prove up its targeted resource of 3Moz Au contained before year end.

According to our £EV/oz metrics this company is already undervalued, with as strong an upside as we have seen on the market. The project is technically straightforward; a large resource, close to surface in relatively soft ground which should allow low-cost mining and processing. Backing this up is a management team with ten years experience each in the Philippines, who are resident there, are technically strong and committed to the project.

We see Metals Exploration as one of the most exciting exploration plays on AIM and are confident in its future success. There is significant upside potential in the next resource upgrade and we also view this project as one of the most likely to enjoy a smooth transition to production (anticipated for 2009). We make a **BUY** recommendation.

Project Overview

Metal Exploration's main assets are the Runruno, Masapelid and Puray Projects. The prime focus for the company at present is Runruno — located about 200km north of Manila on the main Philippine island of Luzon. It has a defined gold resource of 23Mt @ 2.3 g/t Au and 0.07% Mo for 1.7Moz Au and 35Mlb molybdenum (increased from 600,000oz Au in November 2005). Infill drilling is currently ongoing in order to upgrade some of the resource to the higher confidence 'Indicated' category.

The project has an intermittent history of exploration dating back to the 1960s with companies like Fil-Am and Placer having conducted work there. The deposit outcrops at surface and some small-scale artisinal mining still continues on the site. The deposit looks amenable to low-cost open-pit mining methods, though it will have to contest with tropical weather conditions, access through steep terrain and infrastructure issues (eg, power costs in the Philippines can be high). These are technical difficulties that will be overcome and are outweighed by the positive aspects and exploration upside of the Runruno project.

Masapelid is a gold exploration project with high-grade gold-bearing quartz veins outcropping at the surface and possibly extending at depth beneath the old mine workings. It is a JV with the Medusa Group.

At Puray, work in the 1970s showed an average grade of 21% copper, 5.75 g/t gold and 196 g/t silver. The company plans to carry out surface geochemistry and geophysical programmes to determine the presence of additional high-grade 'Kuroko-style' sulphide deposits.

Key Developments

In March 2006, Metals Exploration announced its first audited final results (for the period to 30 September 2005). The highlights were: acquisition of a 70% interest in the Masapelid project; acquisition of a 70% interest in the Runruno project; acquisition of a 100% interest in the Jaclupan exploration project; acquisition of a 100% interest in the Puray project; and at Runruno, revaluation of historical data and recent mapping and sampling have produced results which indicate mineralisation over 2.5km at the surface, 100m wide and 400m deep.

From September 2005: Metals Exploration positioned itself with an option to acquire a further 15% interest in the Runruno project; a JV with the Medusa Group on the Masapelid project; and acquisition of 100% in a copper project's Exploration Permit Application, situated near Baguio, Philippines.

24th August 2006

Moto Gold Mines

Metals & Mining

Price: 303p

Buy

Upcoming Events:
FY ends – December
DRC Election Results (Aug-Oct 2006)
Pre-Feasibility Study (Sep 2006)
Mining Licence re-negotiation (1H07)
Bankable Feasibility Study (2007)

Market cap	**£179.1m**
Bloomberg ticker	**MOE**
Shares	
Basic	**60,690,909**
Fully diluted	**72,614,909**
5 day volume (000s)	**2.0**
5 day volume (£000s) (3-month avg)	**5.5**
52 week	
High	**375p**
Low	**220p**
EV (£)/Resource oz	**13**
Cash in hand (£m)	**31.3**
Top shareholders	
Goodman & Co.	**13.8%**
Front Street Capital	**7.5%**
Colonial First State	**6.2%**
Mackenzie Financial Corp.	**2.6%**
US Global Investors	**1.9%**
Total	**32.0%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Main Interests

Project	Interest	Stage
Borgakim Mining Licence	68.5%	Exploration

Company data, Ambrian

Summary

Moto Gold Mines is a gold exploration and development company focused exclusively on the development of the Moto Gold Project in the Haut-Congo province in the north-east of the Democratic Republic of Congo (DRC). Moto is an Australian-based company listed on the TSX (MGL) and AIM (MOE) in London. The company is earning its interest in the project through the funding of exploration to the completion of a Bankable Feasibility Study.

The Moto Gold Project is one of the most exciting standalone opportunities currently on AIM; with a growing resource base of 16.1Moz, it could potentially support a world top-20 gold mine. It comprises seven leases which are held through the Borgakim Mining Licence, a joint venture between Border Energy (100%-owned subsidiary of Moto), Okimo, the state mining company, and Orgaman, a private Congolese logistics company. Moto is the managing and operating partner.

Moto has assembled one of the strongest management teams on AIM to take this project forward. It includes Chairman Sir Sam Jonah KBE, former CEO of AngloGold Ashanti, Director David Hodgson, former COO of AngloGold Ashanti, Director Dr Jeff O'Leary, formerly of HSBC (also on the Board of AIM-listed Monterrico Metals), the CEO Klaus Eckhof, a geologist with a strong track record of successful projects, and COO Andrew Dinning, who previously held senior roles in WMC's gold division.

Investment Case

Any investment case in Moto is underpinned by the opportunity to get into what may become one of the premier gold mines in Africa. The project, despite having been known of for some time, is in its early growth and development phase. Resources have expanded at a phenomenal rate in the last 15 months; with 12Moz Au added in the indicated and inferred categories the company calculates a discovery cost of US$1.34/oz.

Apart from the attraction of exploration success and strong upside potential, the current resource base is undervalued relative to the market at £13EV/resource ounce. It would seem that this discount applies due to a lack of market awareness and the location of the project in the DRC. We would argue, however, that the current history-making democratic elections are an opportunity for an effective national government to be formed with a strong mandate for peace and stability. The resurgence of mining investment can underpin this and the current moment looks like one of the best opportunities to invest in the future growth of a world class mining region.

The stock's low liquidity on AIM needs to be seen in perspective also. Though AIM is the primary listing, most of the stock trades on the Toronto Stock Exchange, where its 5-day volumes over the last three months have averaged around 900,000 shares (worth ~£2.3m). As the company becomes better known on AIM and it works to expand its client base in London we see this situation turning around. In our view, Moto remains fundamentally undervalued and an excellent **BUY** opportunity.

Project Overview

The Moto Gold Project is located in the Moto goldfields in the north-east of the DRC, 560km north-east of the city of Kisangani and 150km west of the Ugandan border town of Arua. The region has a history of gold production with over 3Moz estimated to have been produced from there in the 1950s and 1960s. Since that time the region has been relatively under-exploited and under-explored. Between 1996 and 1998 Barrick and AngloGold completed a limited exploration programme before abandoning work there in the face of civil unrest.

The current resource-base of 16.109Moz Au (indicated and inferred) has been defined over seven discrete deposits. The focus of work to date has been the combined Karagba-Chaffeur-Durba deposits which lie adjacent to each other along the same mineralised trend. Current planning work envisages these mined together from a single, large open pit. The combined resource for these deposits is 8.77Moz.

Current work is directed at infill drilling which will upgrade the quality of the resource rather than increase the size. This will lead to one of the best quality, largest, unexploited resources listed on AIM and will be the foundation of a Bankable Feasibility Study planned for completion in 2007. The current resource has been independently verified by internationally-recognised mining industry consultants Snowden.

Key Developments

Both technical and social aspects will drive Moto's share price as the project is developed. From this perspective the technical focus is on the drilling programme and the completion of the Bankable Feasibility Study. A pre-feasibility study is due before the end of the year and most of the technical aspects of this are complete or nearing completion, such as metallurgical testwork, pit design and scheduling, geotechnical studies, tailings dam design and environmental and social studies.

Given Moto's exclusive exposure to the DRC, the political situation there cannot be ignored, nor the project's location in the historically troubled north-east of the country bordering Uganda, Sudan and Rwanda. The developments of the current presidential election should be closely watched and as we go to print all reports are that the process to date has gone smoothly and the favoured candidate, the incumbent President Kabila, will be returned to power. The region Moto is in is generally regarded as supportive of Kabila, which we view as positive for local stability.

The company is also in discussions with Okimo to simplify the contractual arrangements and structure of the mining licence, currently fragmented over seven leases. This will also provide an opportunity for Moto to increase its exposure to certain parts of the project.

24th August 2006

Pan African

Metals & Mining

Price: 6p

Upcoming Events:
FY end - March
8,000m drill programme at Manica (4Q06)
Manica Pre-Feasibility Study (4Q06)
CAR Exploration Results (ongoing)

Market cap	**£25.9m**
Bloomberg ticker	**PAF**
Shares	
Basic	**407,753,235**
Fully diluted	**461,753,235**
5 day volume (000s)	**2,311.8**
5 day volume (£000s)	**135.7**
(3-month avg)	
52 week	
High	**2p**
Low	**9p**
EV (£)/Resource oz	**18**
Cash in hand (£m)	**1.9**
Top shareholders	
Brait SA	**16.7%**
Resource Capital Group	**7.9%**
Craton Capital	**6.6%**
Mr Colin. Bird	**6.1%**
Barclay Share Nom's	**4.9%**
Total	**42.2%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Ambrian acts as Nomad and is engaged as corporate broker to this company

Main Interests

Project	Interest	Stage
Manica Gold Project (Mozambique)	80%	Exploration
Bogoin Gold Project (CAR)	45%	Exploration
Dekoa Gold Project (CAR)	45%	Exploration

Source: Company data, Ambrian

Summary

Pan African is an acquisitive gold exploration and development company, with its main assets in two African countries (Mozambique and the Central African Republic). The company has a management team with extensive experience in the region. Pan African has the right of first refusal on any gold project discovered by Pangea Exploration (Pty) Limited. Pan African plans to continue to make mineral deposit acquisitions throughout Africa to boost the quality of its portfolio. It recently terminated an option it held over the Wa Gold Project in Ghana.

Pan African was initially established as an investment vehicle and was admitted to AIM in May 2000 (as White Knight Investments). In December 2003, after deciding to focus on the natural resources sector, White Knight completed the acquisition of Mistral Resource Development Corporation Ltd, a company with two gold exploration projects, one in Ghana and one in Mozambique. This represented a reverse takeover under AIM rules, and on 14 September 2004 the company was readmitted to AIM as Pan African Resources Plc.

Investment Case

There are two attractions to Pan African. The first is the growing resource base and exploration success at Manica. Since reporting an 824,00oz resource in December 2005, it has now increased to 1.311Moz as of June 2006. The potential for growth here lies in the small portion of the identified mineralised strike length that has been drilled to date. The Fair Bride Prospect justifiably remains the focus and could potentially see production around the end of 2008, depending upon the results of a feasibility study.

The second is the speculative potential of the position held in the CAR. The projects there are in very early stage exploration and though highly prospective it will be some time before a resource is defined. Pan African also holds a first-mover advantage which may bring other opportunities and the company has demonstrated its corporate agility through the deal earlier this year by which it acquired a controlling free-carry stake in the CAT properties.

Despite the disappointment in Ghana, shareholders should be encouraged by the decision to drop the Wa Gold Project, where the company recognised that the potential for this project to deliver something meaningful (>750,000oz Au) was low and that its other exploration projects were more deserving of company cash and resources.

Project Overview & Figures

The company's principal asset is the Manica project in Mozambique, which it gained through acquiring a 100% shareholding in Explorator Limitada, which held the title to the project. Pan African has an effective 80% stake (to be ratified by end-September 2006) in the project which has a Samrec-compliant resource of 14Mt @ 2.89 g/t Au for 1.311Moz Au. Pangea Exploration retains a 20% carried interest.

Manica is an historical greenstone belt mining complex in western Mozambique comprising old underground and open-pit mine workings with the resource defined over four separate prospects. The focus of the current programme is the Fair Bride Prospect, which alone contains approximately 1Moz of resources, of which 36% is in the higher confidence measured and indicated categories. Fair Bride is the subject of the ongoing pre-feasibility study (planned for completion in 2006) to evaluate the viability of an open-cast mine.

In the Central African Republic, Pan African has built a 4,00km^2 regional exploration portfolio specifically aimed at the discovery of a multi-million ounce gold deposit, centred on the Bogoin and Dekoa Gold Projects. The areas cover two of the four major known greenstone belts in the CAR and are under exclusive exploration licences. The prospectivity of this area has been compared with that of the Lake Victoria greenstone belt in Tanzania that now host mines like Bulyanhulu, Tuluwaka and Geita.

The projects are a JV between Pan African (45% contributory stake but 55% effective management stake) and International Mining Investments (45% contributory stake). At Bogoin, gold had previously been mined in a now abandoned open pit. Three drill intercepts from exploration carried out in the 1960s by GTZ showed 17.38 g/t over 19m, 3.09 g/t over 18m and 5.05 g/t over 20m. Pan African has completed regional geological mapping of the area and Phase 1 soil sampling.

Key Developments

The focus is clearly on progress at the Manica Project in Mozambique, where in June 2006 a 254,398oz (24%) increase in the resource was announced from 1.055Moz to 1.311Moz. This was independently verified by ExploreMine Consultants and Geologix. The upgrade is the result of a recently completed infill drilling programme

In March, Pan African announced that, together with its JV partner International Mining Investments, it has been granted three additional exclusive exploration licences in the Central African Republic. The newly acquired licences (Bozoro, Daya and Boufoyo) cover an area of 3,000km^2 in the northern part of the Dekoa greenstone belt.

24th August 2006

VANE Minerals

Metals & Mining

Price: 10p

Hold

Upcoming Events:
FY ends - December
Half-year Results (Sep 2006)
Guadalcazar Drilling Results (Oct 2006)
Diablito Drilling Update (2H06)
Paraguay Drilling Update (2H06)
Uranium Exploration Updates (ongoing)

Market cap	**£14.2m**
Bloomberg ticker	**VML**
Shares	
Basic	**146,143,823**
Fully diluted	**151,743,823**
5 day volume (000s)	**466.4**
5 day volume (£000s) (3-month avg)	**47.4**
52 week	
High	**17p**
Low	**9p**
EV (£)/Resource oz	**110**
Cash in hand (£m)	**0.7**
Top shareholders	
Commerzbank	**9.9%**
Frank Nelson	**8.6%**
Alan Edwards	**8.6%**
Richard Harris	**8.6%**
Roy Williams	**7.6%**
Total	**43.3%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Ambrian acts as Nomad and is engaged as corporate joint-broker to this company

Main Interests

Project	Interest	Stage
Diablito	100%	Production
Guadalcazar (Au, Ag))	100%	Exploration
Paraguay (Au, Cu)	100%	Exploration
22 Breccia Pipe Targets (Uranium)	100%	Exploration
Happy Jack Mine (Uranium)	100%	Exploration
Mina Charay	100% option	Exploration

Source: Company data, Ambrian

Summary

VANE Minerals Limited was incorporated in April 2002 as a minerals exploration and development company, founded by the former international exploration team of Freeport-McMoRan Inc, who negotiated exclusive access to Freeport's global exploration database containing 7,000 exploration files on projects worldwide. Thus, VANE is primarily focused on defining and developing projects generated from the review of the 'Freeport Data Bank'. It should be noted that the 'Freeport Data Bank' is just an information database (no mineral rights are included).

The company has a highly qualified and experienced management team with a proven track record in exploration credited with or contributing to the discovery of a number of deposits, including Escondida in Chile, the Mt Keith nickel mine in Western Australia, the Santa Cruz copper deposit in Arizona, and the uncovering of the Bre-X scam in Indonesia.

VANE's objective is to be a self-funding exploration company, and it began production at the Diablito mine in Mexico in November 2005 and will use the revenue generated by this to fund development work across its portfolio of gold, silver, copper and uranium prospects in Mexico, Paraguay and the US. The recent acquisition of exploration rights in Arizona and Colorado has signalled an expansion in strategic focus for the company to include uranium exploration.

Investment Case

VANE Minerals is a true grassroots exploration play and, as such, is a speculative investment. The formula being applied makes a strong case for exploration success; the database from Freeport is a powerful tool and a source of competitive advantage for VANE. It is also differentiated from other early-stage explorers by virtue of the cash flow generated by the small-scale gold production from its Diablito project. The mine is currently producing at a rate of around 20,000oz pa for around US$420,000 per month revenue.

The exploration team at VANE has achieved a measure of success in the discovery and commencement of production from Diablito. This team of experienced geologists has seen an opportunity from within Freeport for the discovery of deposits that have been overlooked, deemed to be too small or were uneconomic at the exploration stage and which today could be quite profitable for a smaller operator. With this in mind we place VANE on **HOLD** pending further news and progress at the newly-acquired uranium prospects and the results of ongoing drilling at Guadalcazar and in Paraguay.

Project Overview

VANE's production asset is the Diablito project in west-central Mexico, an epithermal quartz vein system with gold and silver resources of 17,300t @ 12.13 g/t gold and 1,319 g/t silver for 21,400oz Au equivalent, plus an indicated and inferred resource of 76,700t at the same grades for 95,000oz Au equivalent, along with lesser copper, lead and zinc mineralisation. Production is ongoing from the small-scale mine at an approximate rate of 1,500t/month, with the ore shipped to a third party's custom mill where it is toll treated.

VANE has also been active at three other properties in Mexico: Mina Charay, Guadalcazar and the Choix Copper Project. VANE has completed three rounds of diamond drilling at Mina Charay over a strike length of some 240m. The mineralised intercepts contained an average of 13 g/t gold and 93 g/t silver. The veins are believed to have an average true width of 1.2m with potential for a small-scale narrow vein underground mine rather than the bulk tonnage operation hoped for. The Guadalcazar prospect was drilled on a wide spacing during 2005. Although no economic intervals were identified, anomalous low-grade gold was found to occur over a large area, leading to a second drilling programme, the results of which are now pending. A drilling programme at the Choix Copper Project indicated no economic deposit was present and VANE ceased its interest in the project.

VANE is also now shifting its focus to uranium on the renewed strength of the uranium market and growing predictions of long-term supply shortages. The company has identified a number of high-quality projects in the Colorado Plateau Uranium District in the south-western US, including a number of previously drilled properties. Some 22 target areas have been acquired in the Breccia Pipe district of northern Arizona. In south-eastern Utah, the company has acquired the Happy Jack Mine and the North Wash property, with combined drill indicated resources of 320,000lb of uranium oxide (U_3O_8). Of the 22 pipe properties held by the company, four are confirmed pipes with one containing a drill intercept with up to 1.78% U_3O_8. Potential exists for any uranium produced to be processed at the White Mesa Mill which was restarted in March 2005.

Key Developments

In April 2006, VANE announced that the Diablito mine was now producing gross revenues of US$420,000/month and that investigations were underway to secure its own milling facilities close to Diablito. The company also announced an extension to its exclusive agreement with Freeport McMoRan. This has extended the deal until 30 June 2007.

Exploration results from Utah are now driving the 'blue sky' of the company with a potential resource upgrade at Diablito driving the sustainability.

This page is left blank intentionally

Gold Production Companies

24th August 2006

Avocet Mining

Metals & Mining

Price: 170p

Buy

Upcoming Events:
FY ends - March
ZGC Project Update (2H06)
Bakan Pre-Feasibility (4Q06)
Penjom Reserve Upgrade (1H07)
Acquisition Growth (ongoing)

Market cap	**£206.6m**
Bloomberg ticker	**AVM**
Shares	
Basic	**121,576,530**
Fully diluted	**125,603,530**
5 day volume (000s)	**1,871**
5 day volume (£000s)	**3,137**
(3-month avg)	
52 week	
High	**234p**
Low	**81p**
Key data	
EV (£)/Production oz	**846**
P/E (x)	**29.6x**
EBITDA (£m)	**12.8**
EV/EBITDA (x)	**13.8x**
Total Cash Costs ($/oz)	**300**
Avg Sale Price ($/oz)	**437**
Cash in hand (£m)	**37.1**
Top shareholders	
Elliot Associates	**15.4%**
Artemis	**12.3%**
Axa	**10.0%**
Management	**6.3%**
JPMorgan	**5.1%**
Total	**49.1%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Main Interests

Project	Interest	Stage
Penjom Gold Mine, Malaysia	100%	Production (118koz pa)
ZGC Gold Mine, Tajikistan	75%	Production (36koz pa)
North Lanut Gold Mine, Indonesia	80%	Production (54koz pa)
Dynasty Gold / Hatu JV	36%*	Advanced Exploration

*Option to earn in; Source: Company data, Ambrian

Summary

Avocet is a gold mining company with operations in Central and South-East Asia. Through its existing operations and growth, Avocet aims to establish itself as a substantial producer, aiming for annual production of 1Moz with a ten-year reserve base. Listed on AIM of the London Stock Exchange, its principal activities are gold mining and exploration in Malaysia (the country's largest gold producer), Tajikistan, (Tajikistan's principal gold mine) and Indonesia. Current annual production is 208,000oz, which it is producing at unaudited cash costs of US$300/oz.

Investment Case

Avocet is one of the largest gold producers listed on AIM and has a well-informed following in the market. Management is committed to growing the company and has recently had success with increasing annual group production, good exploration results at the ZGC operations in Tajikistan, and shown an ability to increase its resources base through acquisition. This is demonstrated by the recent earn-in agreement negotiated into the Hatu JV (separate to its existing stake in Dynasty). We feel the interest was purchased at a competitive price (approximately US$6.80/oz) and is consistent with the company's growth strategy.

Avocet faces a number of challenges which are holding back the share price. These include high operating costs in Tajikistan (US$634/oz) and low reserves (just over three years of production) at the flagship Penjom Mine in Malaysia.

However, we expect profitability to improve as Avocet reduces hedging commitments and is able to raise the average price realised for its gold sales as it increases its exposure to the spot price. It has also just successfully raised £30.5m (gross), putting it in a strong cash position to develop a new mine at Bakan, near the North Lanut operation in Indonesia, and invest in other near-mine exploration.

We see Avocet as at the low end of a fair price based on market metrics. It is currently trading well below our EV/production ounce valuations and more in line with peer ratio valuations at a current P/E of around 30x (in line with the established gold producers' P/E of 30-50x) and an EV/EBITDA ratio of ~14x. This reflects the low profitability per ounce and this is where we see room for growth, particularly in a high gold price environment. Further potential lies in the success of current efforts to lower costs at all operations, most importantly at ZGC where increased production in 2007 should lower unit costs.

On this basis there will be considerable growth in earnings over the next 12 months driven by a rising gold price and what we believe will be improving margins. Coupled with the encouraging news from Bakan, we reiterate our **BUY** recommendation.

Project Overview

Avocet's main asset is the Penjom Gold Mine, Malaysia's largest gold producer. Penjom began production in December 1996 and now produces around 120,000oz pa, with 117,679oz produced in the year ended 31 March 2006. Production was slightly lower due to additional overburden removal conducted as part of a pit expansion programme to uncover additional resources. On current reserves the mine life at Penjom is around three years. The expansion will uncover additional resources which, when proved up, should extend the mine life and confirm potential for an underground operation.

In Indonesia Avocet holds an 80% interest in a JV company that holds a Contract of Work (CoW) on the island of Sulawesi. The Mongondow CoW includes the North Lanut gold mine plus exploration and mining rights over approximately 50,000 hectares, including the Bakan prospect. Gold production began in October 2004 and has now ramped up to complete its first full year of commercial production of 54,520oz in the year to March 2006. It is expected to maintain this level over the current five year mine life.

The 75%-owned JV Zeravshan LLC (the government holds the remaining 25%) owns a gold mining complex located in the north-west of Tajikistan in the Sogd region. It is Tajikistan's largest gold producer and since commencing production in 1996 has produced over 600,000oz of gold (44,240oz of gold in FY05). Current operations consist of two open pits feeding high-grade ore to a conventional Carbon-in-Leach (CIL) processing plant and low-grade to a low cost dump-leaching operation.

Key Developments

In March 2006, Avocet announced the signing of a memorandum of understanding with Dynasty Gold Corporation of Canada in which it has a 30% stake (AngloGold Ashanti has also recently come onto the register with a 9% stake). Dynasty controls a large area of prospective ground in Western China including the Hatu JV in Xinjiang Province, Red Valley in Qinghai Province and Wild Horse in Gansu Province. The last two are JVs with AngloGold Ashanti. The MOU allows Avocet to earn up to 36% of Dynasty's interest in the Hatu JV by investing US$1.8m, over a minimum of US$800,000, by 31 March 2007.

Also in March, the company announced a significant increase in gold resources at ZGC's Jilau operations in Tajikistan. The increase represents a 40% gain in the resource base net of depletion.

In June 2006 encouraging drilling results were released following the completion of the drilling programme in the Bakan District of the company's 80%-owned North Lanut CoW in Indonesia. The results add strength to the company's view that the area may contain over 500,000oz of gold resources and an update is expected in the next few months.

24th August 2006

Metorex

Metals & Mining

Price: 83p

Buy

Upcoming Events:
FY ends – June
Full-year Results (Aug 2006)
Commercial Prod at Ruashi (Aug 2006)
Production Updates (2H06)

Market cap	**£227.8m**
Bloomberg ticker	**MTX.SJ**
Shares	
Basic	**289,438,703**
Fully diluted	**295,746,703**
5 day volume (000s)	**2,641.6**
5 day volume (£000s)	**2,020**
(3-month avg)	
52 week	
High	**93p**
Low	**32p**
Key data	
EV (£)/Production oz	**1,995**
P/E (x)	**19.9x**
EBITDA (£m)	**28.0**
EV/EBITDA (x)	**9.2**
Total Cash Costs ($/oz)	**376**
Avg Sale Price ($/oz)	**452**
Cash in hand (£m)	**9.1**
Top shareholders	
Allan Gray Asset Mgrs	**19.7%**
Rand Merchant Bank	**10.8%**
Sepiol SA	**5.6%**
The Metallica Trust	**5.0%**
Sociedad Anonima Sulquisa	**3.5%**
Total	**44.6%**

Analyst

David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Ambrian is engaged as corporate broker to this company

Main Interests

Project	Interest	Stage
Barberton, South Africa	54%	Production
Sable, Zambia	100%	Production
Chibuluma, Zambia	55%	Production
Vergenoeg, South Africa	70%	Production
Ruashi, DRC	67%	Production
Consolidated Murchison, South Africa	100%	Production
Wakefield, South Africa	74%	Sold

Source: Company data, Ambrian

Summary

Metorex is a Johannesburg- and London-listed diversified mining company, with interests in the DRC, Zambia and South Africa. The company's principal commodities are antimony, coal, cobalt, copper, fluorspar and gold. The company's strategy has been to build critical mass through a diversified commodity spread. The company has built a portfolio of assets that are large enough to generate economies of scale as well as significant revenues, but too small to attract the interest of the majors. To date, Metorex has tended to acquire projects which are at or near production or at least in the very late stages of exploration. On top of this, acquisitions have created a diversified commodity mix as well as good growth prospects. Revenues in 2005 were derived as follows: coal — 37%, gold — 35%, fluorspar — 12%, antimony — 9% and copper — 7%.

The company's board consists of a wealth of experience and expertise, most notably in the Chairman (Simon Malone) and CEO (Charles Needham).

Investment Case

Metorex's business model is based on the identification, acquisition, optimisation and operation of mining projects. It applies broad but strict criteria to its investments; it has established a balanced portfolio of profitable, mid-size operating projects that have slipped under the radar of the major mining companies. These mines include the largest known antimony orebody in the world at Cons Murch and the world's largest fluorspar resource at Vergenoeg. These provide world-class economies of scale without world-class capital expenditure. Metorex is now poised to realise the benefits of this strategy, timed well for the current high commodity prices.

We are expecting this to be graphically illustrated when the final results come out. On a rolling 12-month basis, EBITDA increased from £11.7m in the 12 months to June 2005, to £17.4m in December 2005. The latest guidance from the company indicates that for the year to June 2006 this figure will be between £27m and £31m. While gold is the second largest contributor to this we must also look at the coal and the copper. The timing of the sale of the coal assets was chosen to be offset in the coming year by the contributions now commencing from Ruashi Phase I, which we estimate will be more than double that absent following the sale of the coal assets. This is due to the current high copper prices, which Metorex is exposed to, and the low domestic prices Metorex received for its coal.

The current multiples look acceptable on 2005 earnings but our view is that a re-rating is imminent, particularly given the long-life of most of the company's operations upholding the quality of earnings. With all the business units increasingly profitable, we reiterate out **BUY** recommendation.

Project Overview & Figures

Metorex owns and manages several different mining companies throughout Sub-Saharan Africa. Of the principal companies, four are situated in South Africa, two in Zambia and one in the DRC. They are listed below in order of significance.

Ruashi (67%) (DRC)

Initially intended to be a treatment plant for existing stockpiles in order to produce copper concentrate and subsequently mine for copper and cobalt, this deposit is now being actively developed as an open-pit mining project and holds out massive growth potential for Metorex. Current reserves and resources for the stockpiles are 3.2Mt @ 1.76% Cu and 0.49% Co, and for the orebodies 31.9Mt @ 3.59% Cu and 0.39% Co. Production of 10,000tpa copper and 1,000tpa from historical stockpiles commenced in August 2006 and Phase II is set to expand to 45,000tpa copper and 3,500tpa cobalt carbonate as of 1Q08.

Sable (Zambia)

100%-owned. Located in Kabwe; essentially the processing facility for the copper/cobalt concentrate being produced at Ruashi. Also holds a mining licence which enables it to process the lead and zinc from the tailings dump as well as being a copper producer in its own right. Produces approximately 9,600t of copper pa and 960t of cobalt pa.

Consolidated Murchison (100%) (South Africa)

Located in the Limpopo Province; produces gold and antimony. In 2005 the mine produced just under 22,000oz Au as a by-product from the antimony operation. The mine's mineralisation covers approximately 15km to depths of around 1,300m and approximately 3.5 years of reserves remain. Conversion of resources to reserves will increase the current mine life by an additional six years.

Barberton (54%) (South Africa)

Located in the Mpumalanga Province; in 2005 the mine produced 102,000oz Au. Future projects include the development of the underground mines at Fairview and New Consort, with the aim being to expand the ore reserves, which currently stand at 546,00oz with further resources of 1.25Moz. Current cash costs at Barberton are estimated to be US$380/oz, using a 6.5:1 currency conversion rate. While these have been controlled well, potential for increased margins is limited due to 60% of production being forward sold, with an average realised price of US$460/oz in 2005.

Chibuluma (55%) (Zambia)

Located within the Zambian Copperbelt; produces c.20,000t of ore per month. Proven reserves at Chibuluma South are 7.6Mt @ 3.9% Cu for 295,000t contained copper. The mine has been undergoing an expansion programme and from June 2006 should be producing at a rate of 40,000tpm. This implies a mine life of around 16 years and annual copper production of 12,000t. As mining progresses to deeper levels, a 'barren zone' that has impacted production to date appears to be pinching out and the mine looks set to meet its targets. There are also a number of further expansion opportunities available at the mine, including the nearby Chifupu deposit with reserves of around 1Mt @ 2.9% Cu.

Vergenoeg (70%) (South Africa)

Located in the Gauteng Province; produces fluorspar from a conventional open-cast mine. The deposit contains about 10% of the world's fluoride resources, as well as having the second highest grades globally. It is the second largest supplier to a world market of sustainable industrial consumers and is effectively sitting on a large cash-cow in an environment of strengthening prices and increased tonnages. The mine is targeting production for 2006 of 180,000t, an increase of 20% on the previous year. This is on the back of the completion of a processing plant upgrade, which was commissioned in April 2006.

Wakefield (74%) (South Africa)

Located in the Mpumalanga Province; produces c.4.4Mt at an average yield of 57% of coal annually from four different collieries (Leeuwfontein, Bankfontein, Lakeside, Middelburg Townlands). In 2005 the group produced 2.4Mt of saleable coal with an additional 1.1Mt contracted to the South African power utility ESKOM. The sale of this business unit was announced in July and will be finalised subject to various conditions including regulatory and competition commission approvals.

Key Developments

Like all South African-listed companies, Metorex is obliged to subscribe to the Black Economic Empowerment policies. As such, it has initiated partnerships with several black-owned or run investment/mining companies which show synergy with Metorex's future development. Currently, the Coal Division and Barberton Mines have achieved the 26% shareholding requirement, and empowerment participation in other assets continues to progress.

The on-schedule commissioning of the Ruashi mine in July was a major milestone and this has been followed up with the successful commencement of commercial production on 15 August. This is seen as one of the cornerstones for the company's growth over the medium term and we are expecting this to add around £21m to Metorex's EBITDA in 2007. This will increase dramatically as the project is expanded and the proceeds from the sale of Wakefield will be a major contributor to funding the accelerated Ruashi Phase II development programme.

Other key drivers of Metorex's performance will also be the success of the production expansion at Chibuluma and increasing the resources base at the Barberton operations.

This page is left blank intentionally

24th August 2006

Oxus Gold

Metals & Mining

Price: 27p

Sell

Upcoming Events:
FY ends – June
Full-year Results (Sep 2006)
Jerooy Update (4Q06)
Khandiza Update (4Q06)
Vysokovoltnoye Production (4Q06)

Market cap	**£80.5m**
Bloomberg ticker	**OXS**
Shares	
Basic	**298,132,780**
Fully diluted	**315,732,113**
5 day volume (000s)	**5,404**
5 day volume (£000s)	**2,400**
(3-month avg)	
52 week	
High	**85p**
Low	**20p**
Key data	
EV (£)/Production oz	**1,201**
P/E (x)	**98.5**
EBITDA (£m)	**3.26**
EV/EBITDA (x)	**29.8**
Total Cash Costs ($/oz)	**230**
Avg Sale Price ($/oz)	**346**
Cash in hand (£m)	**4.1**
Top shareholders	
RAB Capital	**29.4%**
LR Global Mgrs	**9.1%**
TNS Investments	**8.5%**
Fidelity Inv.	**8.4%**
Capital Group	**4.4%**
Total	**59.8%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Main Interests

Project	Interest	Stage
AGF Oxides gold mine, Uzbekistan	50%	Production (160koz pa)
AGF Sulphides gold project, Uzbekistan	50%	Evaluation
AGF Vysokovoltnoye silver/gold mine, Uzbek	50%	Production (commenced)
Jerooy Gold Project, Kyrgyzstan	67%	Development, suspended

Source: Company data, Ambrian

Summary

The Oxus group was established in 1996 and listed on AIM in London in 2001. The company's primary operations are the exploration, development and mining of metals in Central Asia. Its current annual production is 160,000oz @ US$230/oz total cash cost, of which 50% is attributable to Oxus. The company's three main assets are: the Amantaytau gold mine (in central Uzbekistan), the Jerooy gold project (northern Kyrgyzstan) and a majority (85%) holding in the polymetallic Khandiza project (south-east Uzbekistan).

Investment Case

Oxus represents a challenging investment case at present, though the current price weakness offers a buying opportunity for those bullish on the company and optimistic on the potential outcome of the dispute over the Jerooy Project's mining licence. This issue is particularly pertinent given the doubling of production the project was scheduled to add (180,000oz pa) from the end of the year, and the uncertainty is significantly reducing upside for the share price.

The AGF projects in Uzbekistan, however, are progressing well. Production is increasing towards forecast levels of 200,000oz pa, costs have been well controlled given the inflationary environment of raw material costs (rising less than 5% from US$211/oz to US$221/oz total cost) and Oxus has closed out its hedge book on these projects which should increase its revenues through increased exposure to the spot market. Gold is currently trading around US$630/oz as against Oxus' average sale price in the 12 months to December 2005 of US$346/oz.

Postscript

The situation has worsened for Oxus and it is currently fighting fires on a number of fronts. As we close off our research, Marakand Minerals, Oxus' 85%-owned subsidiary and operator of the Khandiza project in Uzbekistan, has had its licence transferred from it to the state mining company Almalyk Mining and Metallurgical Combine. This has followed a worsening in relations between the Uzbek Government, the West and western-based businesses. Oxus is now in a dire situation where a precedent is being set that puts its right to operate its primary producing asset, the AGF projects, at risk. Newmont, operating the Muruntau mine at Zarafshan is considering divesting from the country due to a taxation dispute with the government.

Prior to these developments we had considered Oxus overvalued in light of its relatively low attributable production and the uncertainty over the future of Jerooy. Despite the optimistic perspective that this may represent a buying opportunity, we consider the risk too great. Therefore, given other more attractive opportunities available in this sector we make a **SELL** recommendation.

Project Overview

The Amantaytau Gold Fields (AGF) is a large mining lease area comprising a number of projects in which Oxus holds a 50% interest with the Government of Uzbekistan. Principal of these is the Amantaytau Oxide mine (Centralny open-pit) and the Amantaytau Sulphides (Centralny and Severny underground deposits). AGF also includes the Vysokovoltnoye silver-gold heap-leach operation which commenced trial production at the end of 2005.

Development and mining of these has been divided up into two phases. The first phase will be to concentrate on oxides: an open-pit mine with 690,000oz reserves. The mine should initially produce 200,000oz of gold pa at an average cost of US$132/oz. Sulphides will be the focus of phase 2: an underground mine with 2.03Moz reserves. Here, there is an initial expected production rate of 163,000oz pa, which should then rise to 277,000oz pa.

In Kyrgyzstan, Oxus (in a 67% JV with the Kyrgyz State Mining Enterprise) is in the construction phase at the Jerooy Gold Project which has a reserve base of 1.1Moz and is expected to produce an average of 183,000oz pa from open-pit and underground operations (at an estimated cash cost of US$169/oz). This operation has, however, been plagued with uncertainty following the suspension of the mining licence in 2004 and a decision against its re-instatement in May 2006. Oxus is currently appealing the decision and seeking international mediation.

Oxus also holds an 82% interest (as of March 2006) in Marakand Minerals (a company formerly spun off from Oxus). Its primary asset is the Khandiza zinc-silver project which has 0.85Mt of contained zinc, 80Moz of silver, 0.42Mt of lead and 0.10Mt of copper.

Key Developments

By far the most important issue facing Oxus at present is the resolution of the Jerooy Mining Licence dispute with the Kyrgyz Government. Oxus has invested over US$47m into the development and construction of the project and its future production is key to the growth of the company. Latest news from Oxus is that consultations and negotiations are being sought with the government and that Oxus would be prepared to improve the terms of the JV as it currently stands, which presumably may result in lower attributable production to Oxus but may save the project.

Oxus also faces a dispute with Eurogold Ltd (AIM:EUG) following the falling through of an asset purchase agreement. It was planned to acquire from it 98.59% of a Ukrainian mining company holding the Saulyak Gold Project in the Ukraine and exploration rights in Romania. Oxus now faces a legal dispute seeking damages against it.

24th August 2006

Peter Hambro Mining

Metals & Mining

Price: 1301p

Sell

Upcoming Events:
FY ends – Dec
Interim Results (Sep 2006)
Pioneer Feasibility Study (2H06)
Malomir Feasibility Study (2H06)
Construction Updates (1H07)

Market cap	**£1,046m**
Bloomberg ticker	**POG**
Shares	
Basic	**81,155,052**
Fully diluted	**81,155,052**
5 day volume (000s)	**2,165**
5 day volume (£000s)	**26,850**
(3-month avg)	
52 week	
High	**1710p**
Low	**690p**
Key data	
EV (£)/Production oz	**3,892**
P/E (x)	**141**
EBITDA (£m)	**14,317**
EV/EBITDA (x)	**67.7**
Total Cash Costs ($/oz)	**220**
Avg Sale Price ($/oz)	**442**
Cash in hand (£m)	**87.5**
Top shareholders	
P.Maslovskiy Assoc's	**23.5%**
Merrill Lynch & Co.	**10.5%**
Eastbourne Capital Mgmt	**7.2%**
Peter Hambro Assoc's	**6.6%**
Landsdowne Partners	**6.0%**
Total	**53.8%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Main Interests

Project	Interest	Stage
Pokrovskiy Gold Mine, Russia	98.6%	Production (185,700oz pa)
Omchak JV, Russia	50%	Production (79,000oz pa)
Pioneer Gold Project, Russia	98.6%	Feasibility
Malomir Gold Project, Russia	98.6%	Feasibility

Source: Company data, Ambrian

Summary

Peter Hambro Mining Plc is one of the largest gold producer and explorers in Russia, with significant assets mainly in the Amur, Magadan and Yamal regions in Russia. In 2005, its attributable production was 249,000oz at total cash costs of US$159/oz. Its current production comes from its two primary assets, the Pokrovskiy Rudnik open-pit operations in the Amur region and the Omchak Joint Venture in the Magadan region. The company has a bold production forecast to increase annual attributable production to 1Moz in 2009. This will be sourced from four mining operations: Pokrovskiy (170,000oz), Pokrovskiy Flanks (330,000oz), Pioneer (250,000oz) and Malomir (430,000oz). Some of the key targets to be met in order to achieve this goal include the following:

- expansion of the Pokrovskiy mill to 2.2Mtpa in August 2006;
- completion of the feasibility study in 2006 at Pioneer;
- construction and commissioning of the 5Mtpa Pioneer heap-leach facility in 1H07 with production commencing in 2H07;
- feasibility study and design to be completed at Pokrovskiy Flanks in 1H07 with mine construction to commence at that time;
- in 2H08 the 4Mtpa Resin-In-Pulp (RIP) plant at Pokrovskiy Flanks is to be commissioned with gold production, then commencing in 2009; and
- at Malomir exploration continues with a feasibility study to be completed by the end of 2006 and mine construction ongoing from now through 2007.

The Malomir plant is due for commissioning and commencement of production in 2H08.

Investment Case

Peter Hambro Mining is maintaining its ambitious target of producing 1,000,000oz Au pa by 2009. While the company has projects with the resources potentially sufficient to achieve this target, we are cautious for two reasons: the scale of mining and processing operations currently in place is well below that necessary to achieve production in excess of 250,000oz pa and we are not convinced that there is enough time to expand Pokrovskiy and build and bring into production two more significant mines for 2009. The problem is that the market has priced this targeted future production in, leaving only downside to the price in the event the goal is not achieved.

On all our metrics Peter Hambro trades at a significant premium to its peers. £EV/Production oz of nearly £4,000 values it at twice our sector benchmark (£2,156) and around four times that of comparable producer Avocet (208,000oz). TSX and AIM-listed producer Bema gold occupies a similar position to POG but it has a two standalone world-class development projects in the Kupol Project (550,000oz pa in 2008) and Cerro Casale (975,000oz pa Au and 130,000tpa Cu, 24% of which will be attributable to Bema).

The company's resources of over 100Moz are undervalued but due to its scale this is an academic point. Even if PHM was to reach its targeted annual production of 1Moz it would theoretically be 50 years before even half of these resources realised any value. This may also dilute any upside from future discoveries.

The company has the lowest costs amongst our chosen producers and while these are rising we expect this to be more than offset this year by the strong gold price. A trading update issued in July stated that the average realised gold price for the group had increased to US$573/oz, up from US$442/oz (30%) in the year to December 2005.

Despite the strengths of the operations it is our view that the company is overvalued on its current and future earnings and that, paradoxically, due to its already strong margins it is less exposed to the rises we are expecting for the gold price this year. On balance we therefore make a **SELL** recommendation and advise a switch to a higher growth stock.

Project Overview

The Pokrovskiy mine is the main asset of the group, producing approximately 180,000oz pa from 1.4Mt of ore @ 3.6g/t Au. It is the largest producing mine in the Amur region. Ore is sourced from the Pokrovskiy pit, historical stockpiles and bulk samples from the Pioneer Project being developed 30km to the north-west. Higher grades are processed through the RIP plant and lower-grade material on heap-leach pads. Costs in 2005 were US$159/oz.

The Omchak Joint Venture in the Magadan region had total production of 79,000oz of which 51,600oz was attributable to PHM. The two primary assets there, the Shkolnoye underground mine and the Berelekh alluvial deposits, reported lower production primarily due to lower grades. This also had an impact on total cash costs which have risen to US$360/oz.

The Pioneer Project is currently in the advanced stages of feasibility and significant trial mining parcels are being sent to Pokrovskiy for metallurgical testwork. A total of 133,000t @ 3.6 g/t Au was mined for 15,000oz. Total Russian classified reserves and resources are 196Mt @ 1.62 g/t for 10.2Moz Au, of which approximately 30% are in the C2 'reserve' category.

The Malomir Areas are the subject of an intensive exploration programme, with total Russian classified reserves of 545Mt @ 1.04 g/t for 18.2Moz Au, of which approximately 10% are in the C2 'reserve' category.

Key Developments

The most pressing issue for PHM is the development of its projects on schedule to meet the 2009 production target of just over 1Moz. The various milestones outlined at the start of this piece are critical to this.

A further key issue facing the company at this time is an increasing cash-cost base. The group's total cash costs rose to US$220/oz on a weighted average basis for the Group's production. This still compares favourably the global average total cash costs of US$269/oz but represents a significant increase over the US$135 reported last year. Apart from factors common to all mining operations, such as higher fuel and energy costs, higher consumables and labour costs, PHM faces higher operating costs as the Pokrovskiy mine gets deeper and harder rock is encountered.

To support the planned expansions, which have combined capex of US$327m over the next three years, the group completed a US$140m convertible bond issue in August 2005. The group retained profits of US$13.3m for 2005 and has a strong balance sheet with net assets of US$244m. Further project financing developments are expected.

One of PHM's prime exploration and development properties is the Yamal area which comprises a number of early stage gold, polymetallic and base metal deposits. Mining consultants SRK (UK) reported in April 2006 that it believed that one of these, Novogodnee Monto, had potential to host a 5Moz gold deposit. This and a number of other prospective targets in the area will be the focus of ongoing exploration programmes through 2006.

This page is left blank intentionally

24th August 2006

Serabi Mining

Metals & Mining

Price: 33p

Buy

Upcoming Events:
FY ends - Dec
Half-year Results (Sep 2006)
Open-pit Scoping Study (1H07)
Mill Upgrade (1H07)
Drilling Results (ongoing)

Market cap	**£35.7m**
Bloomberg ticker	**SRB**
Shares	
Basic	**110,651,608**
Fully diluted	**122,651,068**
5 day volume (000s)	**230.1**
5 day volume (£000s)	**82.3**
(3-month avg)	
52 week	
High	**55p**
Low	**25p**
Key data	
EV (£)/Production oz	**1,152**
P/E (x)	**N/A**
EBITDA (£m)	**(1,888,234)**
EV/EBITDA (x)	**N/A**
Avg Sale Price ($/oz)	**N/A**
Total Cash Costs ($/oz)	**758**
Cash in hand (£m)	**3.81**
Top shareholders	
McRae Investments Ltd	**24.7%**
WM Clough Pty Ltd	**16.1%**
JP Morgan Natural Resource Fund	**3.8%**
Standard Bank plc	**3.7%**
Total	**48.3%**

Analyst
David Coates
Metals & Mining
+44 (0)20 7776 6471
david.coates@ambrian.com

Ambrian is engaged as corporate joint-broker to this company

Main Interests

Project	Interest	Stage
Palito Mine	100%	Production
Jardim do Ouro District	9 sites - 100%	Exploration
Tapajos Region	8 sites – 100%	Exploration

Source: Company data, Ambrian

Summary

Serabi Mining is a gold mining and exploration company whose assets are located in Brazil. The company has several projects, of which the principal is the Palito mine, located in the Tapajos region in the north of Brazil. The company is using this project as a template for the future development of other gold assets in the region. The company was founded in Brazil in 1999 with a view to acquiring assets previously unknown or too technically challenging for local artisianal miners. In 2001, the company acquired the Palito project which has since become the first producing modern mine in the region.

Serabi's current portfolio consists of over 100,000ha across the Tapajos, which the company believes contains the potential for several other important deposits. The region has a known history of artisinal mining, including the Jardim do Ouro district (The Garden of Gold) where Palito is situated. It is estimated that since 1970 these operations have extracted around 30Moz of gold from alluvial and surface-weathered bedrock deposits.

The company's management is well experienced within the mining industry. The Chairman (Graham Roberts) has over 30 years of experience within the industry, including an extensive period at BMO Nesbitt Burns as head of its London Investment Banking arm. The company's CEO (Bill Clough) is a founding partner through whom Serabi developed its interest in the Tapajos region.

The company's principal aim is to get Palito into full-scale production of 45,000oz pa in order to demonstrate its methodology and generate funds which can be put towards developing these other assets. Currently the company expects to declare commercial production during 3Q06.

Investment Case

As the Palito mine makes a transition to commercial production rates the valuation has also moved towards production metrics. On a rolling 12-month basis the mine has now produced 28,994oz to 2Q06. In 2Q06 itself the Palito mine was producing at a rate roughly equivalent to 39,000oz gold equivalent pa. At the current market capitalisation this values the production at around £1,200/oz. This is at the lower end of the range that we are currently seeing on AIM.

With Serabi now apparently making a successful transition to production and looking on schedule to declare commercial production in November 2006, we would expect the stock to be re-rated over the near term. To what level this occurs will depend upon how successful Serabi is at meeting its total cash cost target of below US$250/oz. The interim results expected in September will be the best guide to this. The current costs we have estimated are typically high and to be expected of a project at this stage of development.

A development to be noted from the update in July is the bottleneck that is emerging at the milling operations, currently struggling to keep up with the 400tpd production levels. Serabi is now looking to increase its milling capacity to 600tpd with the purchase of a new ball mill.

However, with a market re-rating expected, un-hedged production exploration, upside remaining at Jardim do Ouro and at the company's other Tapajos projects, Serabi offers good exposure to the current gold and copper prices and we retain our **BUY** recommendation.

Project Overview & Figures

Serabi's main asset is its 100%-owned Palito mine, which has been producing since 2003. Total gold recovery during 2005 was 89.4%, which resulted in production of 15,345oz of gold and 216t of copper, or 17,261oz gold equivalent. The company's March quarterly update reported continuing production improvements to 7,927oz gold equivalent (+43% Q/Q), approximately 32,000oz at an annualised rate, with recovery improving to 91.9%. The company had previously reported a 35% increase in tonnes mined in 4Q05 and improvements have continued into 2006 with reported mining rates above 400tpd during March 2006. The company is targeting annual production for 2006 of c.40,000oz (45,000oz gold equivalent) which assumes continuing throughput improvements over the rest of the year. In addition, the company reported during 1Q06 a 74% YoY increase in total resources at Palito to 825,900oz gold equivalent with the resource remaining open in all directions.

The company's other assets in the Jardim do Ouro district, surrounding the Palito mine, include Palito West, Chico do Santo, Bill's Pipe, Ruari's Ridge, Rio Novo South, Tatu and Biruti, and drilling has recently commenced on these prospects. Outside the Jardim do Ouro district the company has exploration interests within the wider Tapajos region and also in the Mato Grosso state to the south.

Key Developments

Costs will be the prime focus for the company and investors as commercial production is established at Palito. A clear example of this is the company's recent connection to grid electricity at Palito. Having previously relied on diesel-fuelled power generation on site, the connection is expected to lower operating costs by some US$20/oz Au equivalent. Also in 1Q06 the Underground Decline was completed, setting up mining operations from more productive (and cheaper) longhole stopes, from which production could commence in 2H06.

Following the definition at the end of 2005 of a high-density vein system near the surface at Palito an open-pit scoping study is to be undertaken with additional drilling planned to test the potential of an open-pit operation.

Appendix 1 — Glossary

Au: Chemical symbol for gold.

De-hedging: When a gold miner forward sells (hedges) production it effectively adds supply to the market. When the gold miner buys the hedge position back before it has been delivered on, it effectively removes supply from the market.

ETFs: Exchange Traded Funds are securities certificates that state legal right of ownership over an asset, in this case physical gold. The physical assets must be held by a custodian bank and in this way the physical demand is created.

JORC: Is the Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy (AusIMM) system of classifying and reporting Mineral Resources and Ore Reserves. This system is an internationally recognised set of guidelines that helps to standardise reporting of reserves and resources. Other internationally recognised classification systems are the Canadian **NI 43-101** guidelines and the South African Code for the Reporting of Mineral Resources and Mineral Reserves (**Samrec**).

Stripping Ratio: The ratio of waste to ore mined at an open-pit operation to exploit the deposit. If an open-pit mine has a stripping ratio of 4:1, you have to mine $4m^3$ of waste for every $1m^3$ of ore. It has nothing to do with the number of beers you have to buy from the barmaid at Diggers'n'Dealers.

Troy Ounce (oz): Traditional unit in which mass of gold is measured:

- 1oz = 31.10348 grams (g)

Guide to gold grades: It is very difficult to make generalisations regarding the economic viability of gold grades as every potential orebody will have a unique set of circumstances and characteristics that determine whether or not a certain grade is profitable or not. This being the case it will vary from mine to mine whether a gold grade is considered high, medium (sometimes called Run-of-Mine or ROM grade) or low.

However, to give the reader a very general guide on industry perceptions of grade the following is provided:

Guide to Industry Perceptions		
0-0.5g/t:	Uneconomic	These grades will almost certainly be uneconomic and provide no benefit unless being mined in the largest bulk tonnage mining operations and then in conjunction with another mineral such as copper or platinum or with higher grade material. An example would be the planned dump leaching operations of Newcrest's Telfer gold-copper mine in Australia (19koz @ 0.45g/t as per feasibility study).
0.5–1.0g/t	Low	These are the grades at which large bulk tonnage, low cost open-pit operations start to become economic. These will often incorporate low-cost recovery methods such as heap leaching or conventional processing in conjunction with other minerals. Examples would include Freeport's Grasberg Mine in Indonesia (307koz @ 0.67g/t in 2Q06) and Barrick's Pierina open-pit in Peru (258koz @ 1.0g/t in 1H06).
1.0–3.5g/t	Med.	These are typical grades for many medium- to large-scale open-pit mining operations (250,000–500,000oz pa) around the world. This is also entering the lower end of grades that are economic for large, bulk tonnage underground operations such as Goldfield's Beatrix mine in South Africa (624,000oz @ 3.6g/t in 2004) and Newcrest's Ridgeway mine in Australia (reserves 61Mt @ 1.59g/t Au and 0.57% Cu).
3.5–7.0g/t	Med.	These grades are starting to make smaller open-pit mines (c. 150,000oz pa) quite viable, for example Avocet's Penjom operations in Malaysia (120koz pa @5.18g/t), and are typical economic grades for large underground mines such as Gold Fields St Ives underground mines in Australia (351,000oz @ 5.7g/t).
7.0–15.5g/t	High	Any commercial open-pit mining operation should be economic at these grades unless there are exceptional circumstances such as extreme weather, logistical, ground or topographical conditions. These grades will support most underground mining operations, including higher-cost mining methods in narrow vein mines. These grades will also be extremely profitable in larger underground mines such as the Driefontein mine in South Africa.
15.5–31.1g/t and above	Very High	31.1g/t is the 'magic' 1 ounce per tonne mark and in most mines represents bonanza grades if present on a consistent level. Barrick's Eskay Creek underground mine in Canada mines 120-200koz pa @ 26-32g/t for negative total cash costs. These grades are typical also of informal artisinal mining operations around the world where local miners follow visible gold veins.

Source: Ambrian Research

Appendix 2 — Gold Companies' Management

A summary of management attributes is also given below:

Boardroom Breakdown by Company

Company	Technical	Legal	Financial	Other
Archipelago	1	1 (non exec)	1 (non exec)	
Ariana	4 (1 non exec)		2 (1 non exec)	
Avocet	1		7(4 non exec)	
Ballarat	2		2	
Centamin	3 (2 non exec)		1	1
Cluff	3 (2 non exec)		4 (2 non exec)	1 (non exec)
GMA	3 (2 non exec)		1	
Metals Exploration	2		1	2 (non exec)
Metorex	3		4 (3 non exec)	
Oxus Gold	3 (2 non exec)		4 (2 non exec)	
Peter Hambro	2		7 (2 non exec)	
Serabi	2 (non exec)		3	
Vane	4		3 (2 non exec)	

Source: Company & Ambrian data

AMBRIAN

Notes

AMBRIAN

Research

Michael Armitage
+44 (0)20 7776 6474
michael.armitage@ambrian.com

Richard Chase
+44 (0)20 7776 6461
richard.chase@ambrian.com

David Coates
+44 (0)20 7776 6471
david.coates@ambrian.com

Richard Lucas
+44 (0)20 776 6467
richard.lucas@ambrian.com

Anthony Nathan
+44 (0)20 7776 6463
anthony.nathan@ambrian.com

Sales

Caroline Basham
+44 (0)20 7776 6473
caroline.basham@ambrian.com

Charles Bendon
+44 (0)20 7776 6469
charles.bendon@ambrian.com

Jonathan Beatson-Hird
+44 (0)20 7776 6462
jonathan.beatsonhird@ambrian.com

Guillermo Serrano
+44 (0)20 7776 6472
guillermo.serrano@ambrian.com

Trading

Darren Knight
+44 (0)20 7776 6468
darren.knight@ambrian.com

Operations

Mike Dack
+44 (0)20 7776 6464
mike.dack@ambrian.com

Company Address

Ambrian Partners Limited
2nd Floor
8 Angel Court
London
EC2R 7HP