

# Russia's next golden bear

An advancing Russian gold portfolio of almost 4 million ounces has won the affections of South African giant AngloGold. **By Paul Garvey**



*Trans-Siberian Gold managing director Jocelyn Waller: "Our immediate top priority is to bring the Asacha mine into production on schedule and within budget."*

Jocelyn Waller was a particularly happy executive when he met with **RESOURCESTOCKS** at London's Institute of Directors last April.

That morning, the Trans-Siberian Gold managing director had announced the cementing of its partnership with one of the world's premier gold miners, a partnership set to deliver a further £8 million into Trans-Siberian and greatly assist in the company's transition to producer status.

AngloGold Ashanti's agreement with Trans-Siberian is significant, not least of all because of the financial boost it provides for the Cambridge-based Russian explorer.

AngloGold, which ranks among the biggest of the big global gold boys, has long been seeking to lessen its operating exposure to South Africa, and Russia represents one of the hottest gold exploration hotspots on earth. Anglo's selection of Trans-Siberian as the partner-of-choice in this ever-expanding gold province represents an endorsement of both the company and its Russian strategy.

Under the agreement, AngloGold and Trans-Siberian will divide new business in Russia on a 51:49 basis, meaning

Trans-Siberian will automatically have the security of a major, well-funded partner on any new ventures it pursues.

AngloGold, where Waller first began his career, will have two representatives on Trans-Siberian's board. Importantly, Trans-Siberian will also have a three-year consultancy arrangement with Anglo that will allow Trans-Siberian to access the technical expertise of the South African — an invaluable resource for a company making the transition to producer status. AngloGold will also increase its stake in Trans-Siberian from 17.6% to 29.9%.

Among the glut of AIM-listed Russian gold explorers currently on the market, Trans-Siberian has one of the smallest market capitalisations.

Its stock market valuation of \$US81 million is less than half that of its North American peers High River (\$US167 million) and Gabriel (\$US202 million), and significantly below that of fellow AIM residents Oxus Gold (\$US318 million), Celtic Resources (\$US331 million), Highland Gold (\$US574 million) and Peter Hambro Mining (\$US889 million).

The dramatic comparative undervaluation of Trans-Siberian is due

primarily to it being still more than a year away from production, while the majority of its Russian-oriented comrades are already pouring gold. However, there is no escaping Trans-Siberian sitting on fully JORC-compliant gold resources of 3.7 million ounces. Using Trans-Siberian's market cap of \$US81.3, that works out to be an equivalent value net of cash of just \$US18.59/oz of gold currently under the company's control.

Of that 3.7Moz, some 677,000 oz lies within the advanced high-grade Asacha deposit, set to come into production by October of next year.

The bulk of the remaining resources currently under Trans-Siberian's control are at Veduga, a 2.79Moz behemoth in one of Russia's premier gold regions. With several of the deposits that make up Veduga open in various directions, it is the sort of project one would expect to catch the attention of a company such as AngloGold.

Yet while South Africa's gold giant has picked up the Trans-Siberian scent, London's investment community appears to have lost the trail.

There is an expectation that AngloGold's endorsement of Trans-Siberian will make its immediate fundraising ambitions that much easier.

At present, the Standard Bank of London and EBRD are conducting due diligence over financing for Asacha, in need of \$US60.3 million to bring the project into production.

To the end of 2004, some \$US11.7 million had already been spent on constructing access roads and accommodation, site preparation and engineering studies. Including capital costs incurred after the mine comes into production and allowing for contingencies of \$US7.6 million, the total price tag for the Asacha mine is expected to be \$US82.5 million. Trans-Siberian has not been immune from the increased costs of equipment hitting the resources industry worldwide, and the current capital



*The camp at Trans-Siberian's Asacha project.*

expenditure figure is already up on the \$US54.4 million estimated in the original February 2004 study.

Waller describes Asacha, which sits on the peninsula that contains the Kamchatka province in Russia's extreme far-east, as a classic "ring of fire-style epithermal gold-silver deposit".

The currently planned seven-year mine life is based around a 1.25Mt reserve hosting an average feed grade of 15.8 grams per tonne gold.

The operation will process 200,000t of ore per annum and produce 96,000 oz of gold and 178,000 oz of silver each year. Recoveries are forecast to average a strong 94.4%.

Using forecast average cash costs of \$US177/oz (including royalties), the project is expected to have an internal rate of return in excess of 15%.

According to Waller, quotations have been received for all major equipment items, including the processing plant, diesel power plant and mine, with the processing plant likely to be sourced out of China.

Waller said the Asacha plant would be "relatively straightforward", comprising standard gravity and carbon-in-leach processing.

An "experienced and fully licenced" Russian contractor has been engaged for the construction phase, while Russian institutes are handling the detailed engineering studies.

On the all-important permitting front, Trans-Siberian has received a clearance from the region's environmental body to convert the land to an industrial usage site, and the company has filed an application to extend the Asacha licence requirement to produce 1000kg of gold by June 30 2006 out to December 31 2007.

A potential enhancement of the Asacha economics could come from Trans-Siberian's nearby Rodnikova deposit. Infill drilling of the Rodnikova orebody will now be carried out, with the expectation it could eventually be developed as a satellite operation to Asacha. The deposit has JORC-compliant resources averaging 9.4gpt gold and containing 234,000 oz of gold. Russian-classified C1 and C2 resources at Rodnikova exceed 1Moz.

The expected returns from Asacha are, by Waller's own admission, modest, and the mine is unlikely to put Trans-Siberian on the world resources map. It will, however, generate the cash flow that will help Trans-Siberian advance a project that will be hard to ignore: namely, Veduga.

Veduga sits in the Yenesei Ridge gold belt of Krasnoyarsk province, a prolific stretch of geology that has yielded more than 25Moz of gold over its history. It is also home to Olimpiada, Russia's largest gold mine, which produces about 800,000 oz of gold each year.

Veduga is just a short drive away from Olimpiada, and is well serviced by



Asacha is scheduled to come into production by October 2006.

existing infrastructure, including an 110kV power line running right past the project.

The project's 2.8Moz of JORC-compliant resources are split between more than a dozen separate orebodies with an average grade of 5.2gpt, and Trans-Siberian envisages exploiting the deposits through five open pits.

Waller points out the true extent of Veduga is only likely to emerge down the track, when drilling targets extensions to the existing deposits. According to Waller, the majority of the Veduga deposits are open in most directions.

With almost 3Moz in resources and an obvious potential for much more, Veduga sounds a rosy proposition. However, a solution to the problem of processing the project's partially refractory ore must be found before Veduga can be properly exploited.

Engineering consultancy Aker Kvaerner has been engaged to determine the optimal processing method for the Veduga ore and calculate capital and operating cost estimates. Two methods, namely biological oxidation of floatation concentrates and pressure oxidation of floatation concentrates, have been established as viable and are being evaluated further.

Partnering Aker Kvaerner in the study is Russian institute Giprotvetmet, which will be responsible for completing "the 'Substantiation of Investment' phase of the Russian feasibility study necessary for permitting". Both the Aker Kvaerner and Giprotvetmet studies are due to be wrapped up shortly.

The company expects a final feasibility study over Veduga will be wrapped up within a year, with first production pencilled in for late-2007 to early-2008.

Outside of its two core projects, the company has an intensive exploration program planned for the 47.5sq.km Bogunay project, where a 300m x 700m soil anomaly has been identified.

The advancing nature of Trans-Siberian key projects recently brought about the appointment of Dick Watts as the company's operations director.

Watts, most recently the general manager of Amantaytau Gold Fields in Uzbekistan and a former principal mining engineer at SRK Consulting, will take responsibility for the company's technical and operational activities.

"Our immediate top priority is to bring the Asacha mine into production on schedule and within budget. I am sure that his experience and leadership will help to make that happen," Waller said at the time of Watts' appointment.

The combination of imminent cash flow from Asacha and an advanced multi-million ounce play at Veduga has already caught the attentions of AngloGold; how much longer it takes to register on the radar screens of London investors is another question altogether. **RS**

### trans-siberian gold ... at a glance



Sources: Pateros Securities Limited

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#### DIRECTORS

Jocelyn Waller (managing director),  
Simon Olsen (finance)

#### MARKET CAPITALISATION

\$US81.3 million (at press time)

#### MAJOR SHAREHOLDERS

AngloGold (17.6%, increasing to 29.9%)  
RAB Capital (10.2%)  
Management (7.2%)