



52-wk Range: £0.45-1.42  
12 month target £1.46

Market Cap (M): £424.8  
EV (M): £363.7

## Mining

## The Highland Gold presentation

### Summary

Highland Gold is a gold producer with operation in Russia. It is about to commission a lead/zinc mine in partnership with Kazzinc and has one further gold project under feasibility study. The company is actively looking to acquire gold producing assets in Russia and the former CIS countries.



### Key Metrics

Shares Outstanding (M): 325.2  
Current Price (GBP): £1.31  
Fully Diluted Shares (M): 325.2

### Event

Highland Gold gave a breakfast presentation where they commented on the 2009 financials and gave comments on their existing operations and the exploration potential that they are pursuing.

### Comment

#### MNV

Aims to produce 155K oz pa for the next three years. Unless current exploration extends the life of the open pit, production will then start to decline, but the start up of Belaya Gora will compensate.

#### Novosheokinskoye

The mine made its first shipment of concentrates in March 2010. It will reach its nameplate capacity of 550ktpa in 2013. 45% of the concentrate sales value comes from gold. The mine is accessed by shaft and only the first three levels are developed but as a tracked mine. Kazzinc is looking at developing the lower levels using trackless mining. This is five years away. The ore body is open at depth.

#### Belaya Gora

An initial ore reserve, using GKZ, of 820k oz contained in 7.3Mt was announced. Gold production, starting in 2H 2010 is forecast at 15k oz in 2010. An independent processing facility is planned to be operational at a cost of \$110M in 2012. Highland has recently acquired the Blagodotnoye property providing additional resources within a regional hub.

#### Taseevskoye

The feasibility study expects a start up date of 1 June, 2013. Off-site toll refining of concentrates is to be investigated. This would minimize capital expenditures.

#### Unkurtash

3,200m of underground development is planned in 2010 which will enable underground exploration to commence and it is anticipated that the tonnage will quickly double. A resource of 2m oz is being targeted.

### Recommendation

We retain the Buy recommendation with an unchanged target price of £1.46/share.

FYE Dec	2008	2009	2010E	2011E	2012E
Revenue (US\$M):	149.1	164.7	231.3	318.6	237.4
EBITDA (US\$M):	-232.7	99.5	119.8	172.3	100.8
NPAT (inc significant items):	-232.4	78.8	69.2	105.7	50.3
EPS (USc):	-71.5	24.2	21.3	32.5	15.5
Cash Flow/Share (USc):	-76.4	27.9	27.3	39.0	23.5
Gold Price (US\$/oz):	872.6	973.7	1179.7	1325.0	1100.0
Lead Price (USc/lb):	95.9	78.0	94.9	100.0	80.0
Zinc Price (USc/lb):	85.9	75.3	111.0	115.0	100.0
Ozs production/'000 shares	0.49	0.50	0.54	0.65	0.56
Ozs reserves/'000 shares	5.75	16.53	15.93	15.22	14.61

### Contact

Peter Rose  
+44 (0)207 936 5246  
Peter.Rose@fdcap.com

Ian Lucas  
+44 (0)207 936 5245  
Ian.Lucas@fdcap.com

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### Peter Rose

Peter Rose has had 20 years experience in equities as a resources analyst, most recently having spent 11 years with Deutsche Bank in Australia, with previous positions including three years with Prudential Bache and five years with James Capel. Peter's industry experience includes 16 years as a metallurgist, three years with De Beers in South Africa, and eight years in the uranium industry, five of which were spent at the Ranger Uranium mine. Peter has a Bachelor of Science in Applied Mineral Science from Leeds University UK, and a Bachelor of Commerce from the University of South Africa. Peter is a member of the Institute of Mining & Metallurgy and a chartered engineer.

+44 (0)207 936 5246

Peter.Rose@fdcap.com

### Ian Lucas

Ian Lucas joined the Fox-Davies Capital research team in December 2007. Prior to this, Ian gained a Bachelor of Arts (Hons) in Archaeology from University College London, and worked on a number of research excavations around Europe. He has passed the Securities and Investment Institute Certificate in Securities.

+44 (0)207 936 5245

Ian.Lucas@fdcap.com

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Research disclosure as of 20 May 2010

Company Name	Disclosure
Highland Gold (HGM)	7

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Company	Ticker	Recommendation	Date	Target Price	Last Price
Mining					
African Barrick Gold	ABG LN Equity	SELL	27.04.10	£4.26	£5.62
Angel Mining	ANGM LN Equity	BUY	03.03.10	£0.16	£0.06
Antofagasta	ANTO LN Equity	HOLD	06.05.10	£9.90	£8.64
Atlantic Coal	ATC LN equity	BUY	21.01.10	£0.025	£0.006
Discovery Metals	DME LN Equity	BUY	09.04.10	£0.65	£0.42
EMED Mining	EMED LN Equity	BUY	12.04.10	£0.62	£0.10
Exco Resources	EXS AU Equity	BUY	09.04.10	A\$0.67	A\$0.24
Gippsland Limited	GIP LN Equity	BUY	06.10.09	£0.02	NA
Hambledon Mining	HMB LN Equity	HOLD	20.05.10	£0.13	£0.05
Highland Gold	HGM LN Equity	BUY	20.05.10	£1.46	£1.31
Hochschild Mining	HOC LN Equity	HOLD	21.04.10	£3.11	£2.76
KEFI Minerals	KEFI LN Equity	Spec. BUY	06.10.09	NA	£0.01
Kryso Resources	KYS LN Equity	BUY	21.04.10	£0.14	£0.11
Lydian International	LYD CN Equity	BUY	18.03.10	C\$1.22	C\$1.1
Minera IRL	MIRL LN Equity	BUY	14.05.10	£0.94	£0.69
Oxus Gold	OXS LN Equity	BUY	21.04.10	£0.30	£0.08
Stratex International	STI LN Equity	BUY	03.03.10	£0.07	£0.04

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