

The mining of significant amounts of gold has been a feature of commercial and industrial life in Russia since the 18th century. Worldwide production had increased to about 75 tons before the California gold rush of 1847 – and almost half came from Russian mines.

Today, with the annual level at some 1,400 kg, Central Asia Gold AB, a Swedish mining company focused on gold production in Eastern Siberia and Mongolia, is aiming to develop from a junior to a medium-sized global player.

CAG, whose shares have been listed on the Swedish stock exchange, Nordic Growth Market (NGM) since March, 2005, is the parent company of two wholly-owned subsidiaries in Russia – OOO Tardan Gold and OOO GRK Tomano.

It has the advantage of being a multicultural company benefiting from Russian main-owners and specialists who know the best way to work in Russia, while, at the same time, having western legal status with western specialists able to attract financing on their capital markets.

The Russian principals have more than eight years' experience of participation in western-listed companies and understand that long-term performance is the key factor. Crucially, the Russian gold sector, once a fragmented industry, is now about to become consolidated in much the same way the country's oil sector did 10 years ago.

However, the gold sector turnover represents only two percent of Russia's oil sector – and is therefore not politically sensitive, so foreign players are not discouraged.



## Golden opportunity in Russia

David Neville Williams profiles Central Asia Gold, a Sweden-based company looking to become a greater player on the world stage

These subsidiaries own licences covering seven projects for the exploration and production of gold in the Russian regions of Tyva, Buryatiya and Irkutsk, with three already producing gold assets. Other minerals may, in due time, become the focus of the company's business.

To achieve a critical size and become visible on the world map of mineral companies, CAG need to achieve a reserve base of at least 1,000,000 troy ounces (oz) of recoverable gold reserves (1 troy ounce = 31.1g). At this point, a good balance would be created between exploration, production and administrative costs. At present, total reserves and resources stand at 7.6 million oz, whereof some 10 percent in the reserve categories.

CAG's plans, along with the company's determination to quickly become a medium-sized player in an international context, mean it is already attracting a great deal of interest from foreign investors.



Central Asia Gold began appraising the Tardan deposit in late 2004 and by the end of 2006 the production process had started. This demonstrates that CAG can, with limited resources, take a project from appraisal to production in record time. It also shows that the company has the capacity to deal with very complex projects. The next step in CAG's development is to repeat the operation in the Irkutsk region, where the project is considerably bigger. The aim is to transform the Kopylovskoye deposit into a world-class operation with a couple of million ounces of recoverable reserves.

The company's development and expansion is led by chairman Michail Malyarenko, 44, a Russian natural resources entrepreneur. Crucially, he and his fellow main owner colleague on the board of directors, Alexander Merko, a 52-year-old leading Russian grain miller, have the confidence of the Scandinavian equity markets and the backing of major institutions.

Other board members range from Orjan Berner, 68-year-old Swedish Ambassador and managing director of the Stockholm-based organisation Swedes Worldwide, to 34-year-old Swedish entrepreneur Peter Geijerman, who lives in western Siberia, and managing director Torbjorn Ranta, 45, who has a 10-year Russian business background.

CAG's senior geologist, Alexander Gerasimov, 50, is also a board member, along with Patrick Perenius, 54, a Swedish geologist with a wide experience of the gold and oil

industries. Adding further financial and business experience to the board is Paal Hveem, 52, a leading Norwegian entrepreneur and investor.

Mr Malyarenko points out that Russia's gold sector is the sixth largest in the world but still the "little brother" of the country's oil sector. The biggest player, Polyus, produces some 16 percent of all Russian gold, with the remainder split between about 500 companies. Most of these are privately held and have difficulty financing growth because they have no channels to the global capital markets.

CAG aims to acquire some of these 500 firms and grow them via their western financing channel. This will not trigger political problems because the size of these deals will not impact on the bottom line of the Russian economy. "Since our main owners are Russian, we more easily get access to the good deals than western-dominated companies," says Mr Malyarenko.

"Gold is a global commodity play, and the underlying tendency is that primary gold production is falling slightly and demand growing. So there is a positive tendency in the market."

CAG's marketing objectives have the target of a yearly production of 50,000-100,000 oz within three years and at least one million oz of proven and probable gold reserves. Seasonality plays only a minor role, with both mine gold production working year-round and two smaller producers of alluvial gold producing only during the warmer time of year.

The main target groups for investment are institutional owners and wealthy private individuals in Scandinavia. The company would also like to strengthen the presence of non-Scandinavians among shareholders. A major industrial partner therefore, such as a large western gold company seeking Russian exposure, would be an ideal new shareholder.

The company, which was established in September, 2004, is well-positioned for growth, with acquisitions and participation in new public auction processes and organised growth from existing assets and local organisations. CAG is listed on the NGM in Stockholm, with currently 402.2 million shares outstanding and market capitalisation of SEK 804m/US\$115m (SEK 2 per share), and is planning a listing on the Oslo Stock Exchange this year.

The investment climate is favourable for investments in the Russian gold sector, with a cheap labour pool and highly qualified specialists available. CAG offers a unique entry, with its exploration and production upside in existing products and skilled Russian and international management, plus the ability to find and execute favourable transactions.

Expected investment is US\$15m to reach production estimates for 2008 and an additional US\$40-60m to reach production estimates for 2010, including appraisal.

Central Asia Gold will be producing 1 percent of all Russian gold by 2007/2008 and this

production ramp-up is expected to increase investor awareness of the company's great potential.

CAG's influential Russian owners have excellent contacts in the nation's geologist and banking societies, implying continued interesting deal flow in the currently still-fragmented gold sector.

Company expansion to date has been financed solely through equity issues, but from this year credit financing will partly be used to improve the capital structure. The improving Russian banking climate also opens up the possibility to predominantly credit finance Kopylovskoye, which is almost certainly a world class gold deposit.

As the valuation of Russian gold prospects is expected to increase following the concentration of the sector, CAG will focus more on appraising the huge upside of their existing mining projects at Tardan, Kopylovskoye, Kavkaz, Kara-Beldryr and Uzhunzhulsky.

According to Russian geologic classifications from 1994, Tardan holds 229,000 oz of gold reserves as well as 184,000 oz of gold resources. The extension of the ore bodies at depth has not yet been determined, which means that the Tardan gold reserves may be increased by further drilling. Tardan gold production has already started.

Gold has a fascinating history. About 4,000 years ago, one ton of the precious metal was dug from mines in what is now Egypt, Sudan and Saudi Arabia. The first gold-containing coin was produced in 800BC, and it is believed the first solid gold coin was created in the 6th century BC by King Kroisos of Lydia. During the glory days of the Roman Empire, new deposits were discovered in Portugal, Spain and Africa.

Centuries later, the gold rush in California signalled a turning point in the history of gold. In 1853, 95 tons of gold were taken from the mines there, and at about the same time substantial gold discoveries were also made in Australia. In more modern times, the price of gold rose dramatically in the 1980s and production surged once more, with many older mines re-opening with intensive exploration resulting in numerous substantial gold discoveries.

Gold is extremely unusual in the sense that it is a commodity as well as a monetary asset. Since it is – in principle – indestructible, all the gold that has ever been mined still exists in some form.

At the end of 2002, the consultancy company Gold Field Mineral Services (GFMS) estimated that total global stocks were 147,800 tons, of which some 60 percent had been extracted and produced since 1950. The greatest demand is generated by the jewellery industry and during the past few years its demands have exceeded total gold mine production.

Gold also has industrial applications, with substantial amounts used in dental care, as well as in the electronics, space and pharmaceutical industries.

It is this growing demand that Central Asia Gold is determined to follow up. 