



22 February 2006

Mining MARKET COMMENTS

Precious Metals	US\$/oz	% chg.	Base Metal	US\$/lb	% chg.
Gold	552.39	-0.35%	Aluminium	1.10	+2.15%
Silver	9.57	-0.31%	Copper	2.24	+0.75%
Platinum	1,024.50	-0.49%	Nickel	6.88	+0.17%
Palladium	290.25	-1.11%	Zinc	1.01	+4.98%

Oxus Gold (OXS.LN)

Price: 55p

Rating: Spec. BUY

Construction stopped at Jerooy mine

Oxus Gold has announced that the ongoing dispute with the Kyrgyzstan government over the mining licence for the Jerooy mine has forced it to suspend construction at the project.

The construction of the processing plant for the Jerooy mine is nearing completion, and the project has reached the stage where the approval of the Kyrgyz Government is required to start mining. However, such approval has not been given, and without the reinstatement of the Jerooy mining licence, Talas Gold (the operating subsidiary of Oxus Gold) is not able to extract ore to feed the processing plant. As a result, the project development has been put on hold pending a satisfactory resolution of the mining licence issue. Gold production is therefore likely to be delayed.

Oxus Gold has also served notices of disputes on the Kyrgyz Government in respect of the UK – Kyrgyz Republic Bilateral Investment Treaty, the US - Kyrgyz Republic Bilateral Investment Treaty, The Law on Investments of the Kyrgyz Republic, and the Talas Gold Mining Company Joint Venture Agreement. The dispute notices call upon the government to engage in negotiations with Oxus to try to resolve the dispute over the mining licence, failing which Oxus will pursue the claims in international arbitration.

Speaking from Bishkek, Kyrgyzstan, Bill Trew, the CEO of Oxus, said "We have been building the Jerooy mine in good faith and with the express encouragement and full knowledge of the Kyrgyz Government. We remain committed to delivering gold from the project as soon as possible, but we need the full cooperation of our Kyrgyz partners. We are ready to enter into negotiations at any time. If we can resolve the licensing issue swiftly we can complete construction and still produce gold later this year."

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Oxus Gold (continued)

Comment:

The dispute over Jerooy has been rumbling on for some 18 months now, since the State Agency for Geology and Mineral Resources of the Kyrgyz Republic purportedly annulled the mining licence held by Talas Gold (Oxus's operating subsidiary in Kyrgyzstan). Oxus has continued to build the mine, apparently with the blessing of the government and the President, and clearly in the hope / expectation that the mining licence would be reinstated.

Oxus issued a press release in early February 2006 that detailed the long saga of contacts with the government departments and the President of Kyrgyzstan. Despite many contacts with all levels of the government, and both tacit and specific approval for the company to continue the plant development, the mining licence has still not been renewed. Indeed, in November 2005 the Kyrgyz Prime Minister wrote to Talas Gold acknowledging the Kyrgyz Government's responsibility for the expenses incurred by Oxus to develop the Jerooy mine, but alleging that the Kyrgyz Republic has decided to refuse to reinstate the license. The Kulov letter asserted that the Government would authorize a company to negotiate with Oxus regarding the amounts confirmed by an independent auditor.

The saga was further complicated by the intervention of Tony Blair earlier this month, which apparently rubbed some of the Kyrgyz government up the wrong way as they consider this to be an internal issue that has nothing to do with the UK government.

Not surprisingly, Oxus Gold's share price has fallen sharply this month. The share price closed at a high of 82.5p on 2 February, but then fell by 17% the next day on the disclosure of the failed intervention by Tony Blair. The price drifted down to around 62p last week, and has fallen again on today's press release, to around 55p.

At the current level Oxus Gold appears cheap. The company has 50% of the Amantaytau gold complex in Uzbekistan where gold production is expected to grow to over 400koz of gold per annum by 2008. The balance sheet at the end of June 2005 (the latest available) showed net current assets, less long-term debt, totalling US\$32M. The company also has a stake in Marakand Minerals worth around US\$18M.

We have compared Oxus – **excluding** Jerooy - with a number of other western gold companies operating in the FSU. The results are shown in the table below. In terms of 'Gross Capital per ounce of Resources' Oxus is the cheapest of all the stocks – and this is assuming no value for Jerooy, despite Oxus having spent US\$46M on its development. The rating of 'Gross Capital per ounce of annual production' is also lower than average. It appears, therefore, that the sell-off of Oxus Gold over the Jerooy debacle has been overdone. There are clearly still risks involved, but we recommend the shares as a **Speculative BUY**.

Disclosures: None

Comparative table for Russian and FSU gold producers

Based on actual or estimated resources to Western standards.

Company	Price	Issued shares	Mkt. Cap.	Net cash / (debt)	Capex req'd.	Gross Cap.	Resource	Gross cap./oz	LT prod. rate	Gross cap./oz	LT cash costs
	Local										
Bema Gold	\$4.67	453	1,844	-63	739	2,647	27,925	95	1,092	2,425	186
Celtic Resources	£ 2.07	42	151	73	33	111	1,747	64	168	662	159
Centerra Gold	\$38.24	72	2,405	280	26	2,151	13,302	162	890	2,417	242
Highland Gold	£ 3.22	159	892	48	310	1,154	18,694	62	773	1,492	191
High River Gold	\$1.90	218	361	2	109	468	3,261	144	303	1,547	218
Oxus Gold	£ 0.55	287	275	50	58	283	4,787	59	204	1,387	176
Peter Hambro Mining	£ 13.92	79	1,909	51	144	2,003	7,839	256	1,072	1,868	157
Trans-Siberian Gold	£ 1.20	41	86	28	291	349	3,701	94	265	1,319	189
Averages			991	59	214	1,146	10,157	113	596	1,923	192





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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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