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Price	**16.25p**
Bloomberg	OXS
Market cap (£m)	29.42
Shares in issue (m)	181.05
Index:	
12m high (p)	17.00
12m low (p)	4.25
12m relative perf.	
versus All Share Index (%)	67.17
NAV/share (p)	8.00

Major Shareholders	% Holding
MAED Holdings Ltd	27.14
RAB Capital Ltd	9.40
Invesco	6.16
Capital Group	6.06
Individuals	3.17

UK Smaller Companies
Mining

16 May 2003

Oxus Mining plc

Same strong asset with new strong management

Oxus has appointed a new management team, which has successfully completed the necessary debt financing to bring its Amantaytau Phase 1 project into production. Capital requirements have decreased from $41.5 million to $29.9 million following changes to the planned recovery methods, although cash costs are likely to rise to US$130/oz.

A project finance facility has been provided from the syndicate banks for a $30 million term loan, plus a further $6 million overrun facility. First drawdown on the facility was made in April 2003. Our discounted cashflow analysis estimates fair value for the shares at 24p based on a gold price of $340/oz. As a result, we rate the shares a SPECULATIVE BUY.

- New management has a strong track record of bringing mines into production.
- New processing route for Amantaytau Phase 1 increases gold recoveries to 90%
- Reduced capital requirement for Amantaytau Phase 1 improves project returns.
- Debt finance obtained from Standard Bank and West LB for $36 million facility - first drawdown made in April 2003.
- The substantial reserves and resources at Amantaytau Phase 2 provide excellent growth potential.
- Jerooy licence re-instated, holding increased to 66.67%.
- Our estimated value per share of 24p is in our opinion extremely prudent and also heavily geared to the gold price.

Brown Shipley acts as nominated adviser and broker to the company and is paid fees for these services. Brown Shipley may also hold and/or deal in shares of the company for its own account.

PLEASE READ THE IMPORTANT INFORMATION AT THE END OF THIS REPORT

Background and History

Oxus is a junior gold exploration and development company with assets in Central Asia. The Company's key property is Amantaytau Goldfields in Uzbekistan, a 50/50 joint venture between Oxus and the Uzbek Government. The first phase, an open-pit gold project, is fully financed and construction has commenced. First production is anticipated by the end of 2003. In total, Oxus has attributable reserves of some 1.5 million ounces of gold and resources of 3.4 million ounces at Amantaytau.

During 2002, Oxus attempted to raise US$41.5 million through project finance and insured subordinated debt from Société Générale. The company was unsuccessful in these efforts. This failure to secure funding ultimately led to a significant change in the Oxus management team in November 2002.

New Management

During October and November 2002, a South African mining group, MAED Limited, increased its shareholder voting rights to 26.2%. Following a board meeting on 14 November 2002, four of the original eight directors resigned and a further director left the company one month later. Five new directors were appointed, three of which are from MAED. The new board has a strong track record in bringing mines into production, in particular, the new CEO and COO.

MAED is also the principal contractor for the construction of the Amantaytau Phase 1 project, and, although the contract was negotiated by the previous management prior to the change in control, this has raised some concerns over Corporate Governance issues. To address potential conflicts, the Board has set up a separate committee chaired by Richard Shead, one of the new non-executive directors.

The new CEO, Bill Trew has over 22 years' experience in the engineering and mining industry. He has previously worked for Gold Fields of South Africa Limited and E.L. Bateman Limited. In 1990, Mr Trew founded MAED, of which he remains non-executive Chairman. He has been involved as project manager in many of MAED's major projects, including the Yatela Heap Leach project and the Syama Gold Mine project.

The new COO, John Donald has 31 years' experience in the mining industry. He has previously worked for Anglogold Limited, Consolidated Mining Corporation Limited as operations director, and Randgold Resources Limited as a general manager. Since 1998, he has worked as a consultant and contractor with MAED on the Yatela project and with Anglogold on the Ergo Operations.

The other new directors are: Johnny Kipps, CFO; Richard Shead and Dan Kappes, both Non-executive Directors. Richard Wilkins (executive), Mark Wellesley Wood (non-executive) and Michael Beckett (non-executive Chairman) remain from the original Board.

The Company has recently called an EGM proposing a name change to OxusGold plc.

Amantaytau Goldfields Joint Venture

Oxus has a 50% interest in and operational management of the Amantaytau Goldfields (AGF) project. The Amantaytau gold and gold-silver mineral deposits are located within a 192 square kilometre exploration area in the Kyzylkum region of central Uzbekistan. The property is situated close to the State owned gold mining complex at Muruntau, which is one of the largest gold mines in the world and produced 1.8 million ounces of gold in 2001. Also nearby is Newmont Mining Corp's Zarafshan heap leach operation, which has been in operation since 1995 and produced 500,000 ounces of gold in 2002. The AGF licence areas and Muruntau lie on the Tien Shan Gold Belt, which represents the second largest gold province in the world after South Africa's Witswatersrand Basin. The principal town of the region, Zarafshan, which serves the Muruntau and Newmont Mining operations, is approximately 30 kilometres north of Amantaytau.

The project has a five-year tax holiday from start of production, and thereafter the tax rate is 16%. All development capital expended by Oxus is by way of shareholder loans and will be repaid to Oxus prior to any dividends being paid out by AGF.

Amantaytau Phase 1 – Open Pit Oxides – A New Approach

During 2001 a bankable feasibility study was completed on Phase 1, proposing the development of three oxide deposits Amantaytau Centralny, Uzunbulak and Vysokovoltnoye.

The new management has redesigned the project to enable a significant reduction in the overall capital requirement and in a recent press release, the Company stated that the capital requirement had fallen from US$41.5 million to US$29.9 million. It expects to achieve this reduction in capital by using contract mining and by using conventional milling and Carbon-In-Pulp (CIP) treatment plant. Whilst this will enable the capital cost to be reduced, it will also have an effect on the overall project.

The use of contract mining is likely to increase the cash operating cost to approximately US$130/oz. However, the total cost of production, including capital, is estimated to fall to US$225/oz.

The new processing route, using conventional milling and CIP, (the previous route envisaged heap leach with a Merril-Crowe plant) will result in significantly higher gold recoveries in the region of 90%. However, CIP is not suitable for treating silver rich orebodies, such as the Vysokovoltnoye deposit, which is therefore unlikely to be mined without the requirement for further capital. As a result, this change in treatment process will likely reduce the project's mineable reserves to 700,000 ounces of gold. The new plant will produce at a rate of 1 Mtpa, and is likely to be relatively easily expanded up to approximately 1.5 Mtpa with only moderate extra capital expenditure.

Oxus expects to receive repayment of its US$14 million shareholder loan to Amantaytau Goldfields within the first twelve months of production.

Table 1 details the principal project statistics, as re-engineered by the new management:

Table 1- Amantaytau Phase 1, Statistics

Capital Expenditure ($000)	29,900
Mineable Gold Reserves (koz)	700
Gold Recovery (%)	90%
Gold Recovered (koz)	635
Project Life (years)	4.5
Cash Cost (Years 1 to 4 - $/oz)	127
Total Cost (Years 1 to 4 - $/oz)	220
Plant processing capacity (kt per year)	1,000
Oxus Interest (%)	50%
Oxus NPV @ 0% at $340/oz ($000)	42,100
Oxus NPV @ 10% at $340/oz ($000)	30,900
Pay back period (years)	2

Source: BSS Research

Amantaytau Expansion Potential

Within the Amantaytau licence area are a further 20 oxide deposits awaiting evaluation. Three of these have already been drilled and evaluated. An initial assessment of the additional oxide resources within the Amantaytau Area shows 1.45 million ounces of gold and 9.87 million ounces of silver.

In July 2001, Oxus re-acquired a 50% interest in the Tamdytauskaya and Ayirakskaya Exploration Areas. The areas are located close to the Amantaytau Goldfields licence area, and cover 260 square kilometres and 430 square kilometres respectively.

The most significant deposit within these two areas is Balpantau, located on a 15 kilometres trend, with a number of other promising gold occurrences. Balpantau is currently estimated to contain an oxide resource of 1.36 million ounces. The deposit is open to the east and additional resource potential is likely to be confirmed by continued drilling beyond the limits of existing exploration.

Management has stated that it hopes to increase production from the Phase 1 operations through the fast tracking of certain satellite orebodies close to the where the initial Amantaytau Phase 1 deposits lie. Whilst this should certainly extend the overall life of the operation, questions remain as to the cost of expanding the plant currently being built to enable annual production to increase.

In total, excluding the Amantaytau Phase 1 and 2 projects, there are resources of 3.14 million ounces of gold and 9.87 million ounces silver; and exploration potential for a further 9.7 million ounces gold and 172 million ounces of silver. Oxus has 50% interest in these.

Amantaytau Phase 2 – Underground Sulphides

In early 2002, the reserves and resources of Amantaytau were recalculated. Underground reserves of 2.02 million ounces of gold have been defined, and the total resource is estimated at 2.7 million ounces of gold.

A pre-feasibility study was completed in 2000, which estimated the capital costs for a 200,000 ounce p.a. operation would be in the region of US$90 million.

The underground ore bodies are open-ended at depth and along strike and the potential exists to increase the reserves through drilling. Mineralisation was intersected 500 metres below the lower limit of the current resources hitting 15 metres grading 28 g/t gold. The potential therefore exists for a significantly enlarged operation to be built here, that could ultimately produce over 300,000 ounces p.a. of gold.

The new management has said it intends to commence work on a full feasibility study during 2003.

Khandiza

Khandiza is a volcanogenic massive sulphide zinc deposit that contains silver, copper and lead by-products. It is located in southeast Uzbekistan. In October 2002, Oxus was granted the exclusive rights to develop Khandiza through either a concession agreement or a production sharing agreement. Under the terms of the decree, Oxus will undertake to complete a feasibility study within 24 months from the date of the decree.

Jerooy

The Jerooy gold deposit is located in the north-central part of the Kyrgyz Republic, some 190 kilometres from the capital Bishkek. Oxus has a 66.67% interest in the project via its 100% owned subsidiary, Norox. Norox has a 66.67% interest in the project.

A press release in July 2002 gave details of the audited mining and development report undertaken by Wardell Armstrong reserves and resources, quoting a total resource of 3.22 million ounces, and a mineable reserve of 1.3 million ounces. However, the recent press release of May 2003 makes reference to a total resource of 3.45 million ounces and "preliminary" reserves of 2.38 million ounces. These recent results are presumed to be based on unaudited in-house estimates.

In May 2002, Oxus entered into an agreement with Conquest Resources Limited, a Canadian listed company, that would have enabled Conquest to purchase 100% interest in Norox. This agreement has now been terminated. Up to May 2003, Conquest had earned a 7% interest in Norox. Oxus has now re-purchased this interest in exchange for 1,250,000 shares and 250,000 warrants exercisable at 25p for five years.

In June 2002, the Kyrgyz Government annulled the mining licence issued to Talas Gold, citing delays in completion of the feasibility study and site development.

Oxus, through Norox, disputed the annulment, and in May 2003 successfully concluded negotiations for the re-instatement of the licence area. Norox has now undertaken to complete a bankable feasibility study during 2003.

Cash Position

In the interim accounts for the twelve months to 31 December 2002, Oxus had a cash position of US$1.77 million. With debtors of US$284,000 and creditors of US$2.05 million, the company had net current liabilities of US$346,000.

The company finances have been improved through an injection of US$1.6 million on drawdown of the project finance facility as repayment for project costs already expended.

However, new management has stated that it aims to complete feasibility studies on Amantaytau Phase 2, Khandiza and Jerooy as well as examining the expansion potential of Amantaytau Phase 1. The cost of these initiatives, together with ongoing working capital requirements indicate that a further fund-raising may be necessary to finance all these objectives.

It should be noted that the new management has significantly reduced the overall burn-rate of the company, and head office costs have been reduced to in the region of US$100,000 per month. Management has chosen to share in the risks of the company by taking somewhat reduced salaries, but supplemented by generous option packages. In total, the directors have options of 11.9 million (6.6% of the issued share capital) at £0.12 per share, of which 4.25 million were recently granted to Bill Trew, and 2.75 million each to John Donald and Johnny Kipps.

Financing

Standard Bank and West LB have provided a US$36 million loan facility to cover 100% of the finance required to develop Amantaytau Phase 1. The facility consists a US$30 million term loan plus a US$6 million overrun facility. Oxus made first drawdown on the facility during April 2003. The expected pay-back period for the loan is two years.

Under the terms of the financing, Oxus has been required to hedge approximately 70% of its production during the life of the loan. As a result 260,000 ounces have been hedged at $323/oz over the first two years of the operation.

Gold Market

The gold market has of late moved into new territory, reaching a 6-year high in early Feb 2003 of just short of $380/oz. Whilst part of this rise can be considered a 'war premium', overall sentiment, combined with the weak US dollar and falling global stock markets has contributed significantly to the rise in the gold price. As a result, we have used US$340/oz as our base case for our valuation purposes.

Valuation

Table 2 shows a summary valuation of the company.

We have valued Amantaytau Phase 1 and 2 using a discounted cashflow. A discount rate of 10% has been applied to Phase 1 and a rate of 13% used for Phase 2, reflecting its less advanced state. Value has also been attributed to the other resources in the Amantaytau region. A nominal US$5.00 per ounce of gold resource has been applied to Oxus' 50% interest in 3.14 million ounces of gold and 9.87 million ounces of silver (equivalent to 0.16 million ounces of gold).

With the re-instatement of the Jerooy licence, we feel that some value can now be attributed to the project. Until the feasibility study is completed, we place a nominal value of US5.00 per attributable resource ounce, using the company's recently published total project resource figure of 3.45 million ounces of gold – this gives a value to Oxus of US$11.5 million.

Table 2 - Valuation

Project	Value
Amantaytau Phase 1 ($000) - 10%	30,911
Amantaytau Phase 2 ($000) - 13%	20,910
Amantaytau Resources ($000)	8,263
Jerooy ($000)	11,500
TOTAL VALUE ($000)	**71,584**
Shares Outstanding	182.3
Value per share (US cents)	39.3
US$:£1	1.62
Value per share (p)	**24.2**

Source: BSS Research

No value has currently been attributed to the Khandiza project - we await the results of the feasibility study before any valuation can be placed upon the project.

For the purposes of the valuation, we have added in the new shares (1.25 million) to be issued to Conquest Resources.

A base case of US$340/oz has been used for the valuations. A sensitivity analysis shows that the project exhibits good gearing to the gold price, as illustrated in Table 3.

Table 3 - Sensitivity Analysis

Gold Price ($/oz)	300	325	350	375	400
Value per share (£/share)	0.18	0.22	0.26	0.29	0.33

Source: BSS Research

Conclusion

The new management has successfully delivered on their promise to complete the project financing to bring the Amantaytau Phase 1 project into production. First drawdown was made in April 2003, and the company aims to pour first gold by the end of 2003.

The approach of changing the parameters of the Amantaytau Phase 1 project has improved the profitability of the project although at the small cost of reducing the mineable reserves of the project.

Oxus has recently received cash injection of US$1.6 million as repayment for project costs already expended. However, management has set itself some ambitious targets for the next year, including the completion of three feasibility studies on its various other projects, and further expansion of Phase 1. There are some concerns over how this programme will be funded, and this raises the possibility that the company may return to the market to raise new funds, diluting shareholders further.

Whilst the cash position and the corporate governance issues raise some small concerns, Oxus' projects are undeniably valuable, particularly at current gold prices. Furthermore, the significant resource base provides the company with an excellent opportunity to substantially increase production and add further value once Amantaytau Phase 1 is up and running.

The shares are therefore rated a **SPECULATIVE BUY**, up to our target price of 24p per share.

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