

Oxus Gold plc

OXS : AIM : 32p

BUY ↑

Target: 48p ↓

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COMPANY STATISTICS:

Share price:		£0.32
52-week high-low:		£0.66-£0.26
Shares O/S basic:		365M
Daily trading volume:		0.2M
Market capitalisation:	US\$229M	£117M

EARNINGS SUMMARY:

FYE Jun	2007A	2008E	2009E
Gold price recvd (\$/oz)	633	842	781
Attrib. gold sales (koz AuE)	33	38	41
Cash costs (US\$/oz)	642	556	572
Earnings (US\$M)	-19	5	-7
EPS (US\$/shr)	-6.3	1.2	-1.5
CF from ops (US\$M)	-19.8	24.8	3.5
CFPS (US\$/shr)	-6.5	6.3	0.7

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Oxus Gold plc is a London based gold company with assets in Central Asia. Its main project is the 50% owned Amantaytau gold project in Uzbekistan, where an open pit/CIL project came into production early in 2004. The company is currently awaiting completion of a Feasibility Study into the development of the underlying sulphides.

All amounts in £ unless otherwise noted.
 Share price data COB 22 January 2008.

Metals and Mining -- Precious Metals and Minerals

SULPHIDE PROJECT PROGRESS

Event

We have updated our valuation on Oxus Gold since the release of additional information regarding plans for the sulphide project and the remaining oxides on the company's 50%-owned AGF project in Uzbekistan.

Impact

The change to an NPV-derived value for the remaining oxide resources on the property compared to an in-situ valuation was the main contributor to the reduction in our estimated NAV for the company.

Action

We have upgraded our recommendation from Hold to BUY as a result of the fall in the share price since our last daily letter. We have reduced our target price from 57p to 48p per share.

Valuation

Our valuation is based on a 0.9 times multiple of our sum-of-the-parts NAV estimate assuming a 5% discount rate and our revised peak gold price scenario of US\$1,000/oz (previously US\$850/oz). The stock is currently trading at a 0.73 times multiple of our revised NAV using spot prices of US\$887/oz gold and US\$16.05/oz silver.

Next catalyst

Publication of a feasibility study which is expected by the end of the first quarter of 2008, and the financing of the AGF sulphide project around mid-2008.

Investment risks

We note the political risks of operating in Uzbekistan and also the risks associated with the financing necessary for the development of the company's lead sulphide project.

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Formal approval of AGF sulphide project received

On 6 December 2007, Oxus announced that formal approval for the AGF sulphide project had been received from the Uzbek cabinet. The project's construction remains subject to the completion of a feasibility study by Wardell Armstrong (expected April 2008), financing of the project and the usual permitting process.

Pending the completion of the feasibility study, the company expects that the capital cost of the project will be US\$139 million and that the plant will be completed in mid-2009, with full production planned to be achieved in 2012. The company estimates that average annual production over the first seven years of production is 246koz of gold (123koz attributable to Oxus) at average total cash costs of US\$268/oz. Reserves of 2.4 Moz of gold are sufficient to support the project for over eight years, although we note that the deposit remains open at depth and that additions to reserves can therefore be expected.

Plans for the future better defined

Additional details of the sulphide project were accompanied by a description of the company's plans for the remaining oxide resources on the AGF license area, which includes the planned construction of a heap leach operation at Asaukak in the east of the license area. In addition, the Vysokovoltnoye silver/gold heap leach operation, which commenced production in late 2005, will continue to operate in the south of the license area.

Figure 1: AGF/Oxus total resources and reserves at June 2007

At June 2007	Total contained metal			Attributable to Oxus (50%)		
	koz Au	koz Ag	koz AuE	koz Au	koz Ag	koz AuE
Oxide resources	1,692	11,293	0	846	5,647	0
Sulphide resources	5,483	42,783	0	2,742	21,392	0
Total resources	7,175	54,076	8,166	3,588	27,038	4,083
Oxide reserves	430	6,739	0	215	3,370	0
Sulphide reserves	2,408	0	0	1,204	0	0
Total reserves	2,838	6,739	2,962	1,419	3,370	1,481

Source: Company reports

Figure 2: Illustrative production profile

FYE Jun		2006	2007	2008E	2009E	2010E	2011E	2012E
Oxide CIP	koz Au	147	59	62	62	0	0	0
Sulphide BIOX	koz Au	0	0	0	0	86	201	267
Vysokovoltnoye	koz AuE	12	15	34	34	34	34	30
Asaukak heap leach	koz Au	0	0	0	0	27	27	27
Total gold production	koz Au	159	74	96	96	147	261	324
Attrib prodn	koz Au	79	37	48	48	73	130	162
Total cash costs	US\$/oz	302	642	578	575	585	337	326

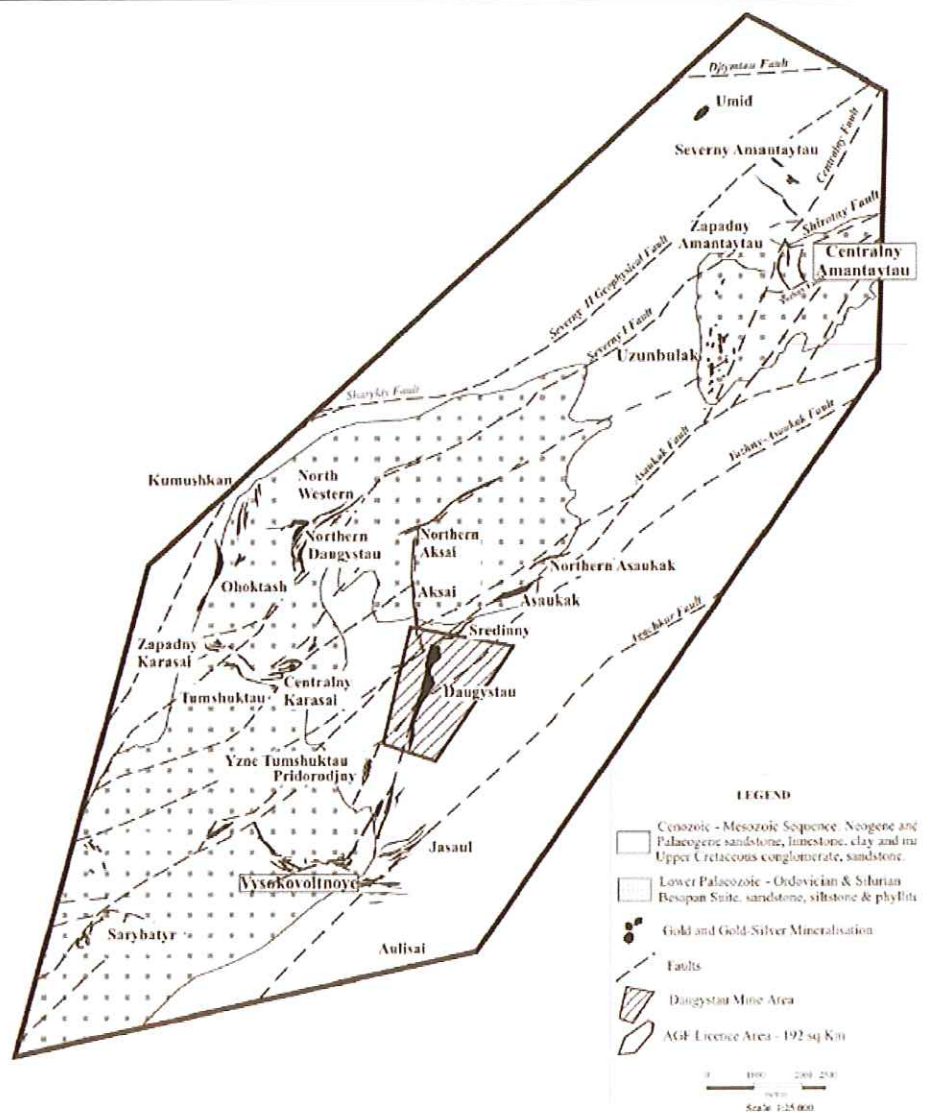
Source: Company reports and Canaccord Adams estimates

Sulphide production from mid-2009

The AGF Phase 2 sulphide project is the company’s most significant asset, accounting for over three quarters of its reserves and our estimate of its enterprise value.

In order to leverage the existing infrastructure and plant at Amantaytau and to minimise capital costs, Oxus plans to convert the existing 1.2Mtpa CIP plant to a plant capable of treating the refractory sulphides that underlie the oxides at Centralny and from the underground Severny deposits. The conversion of the plant involves the addition of a flotation circuit and a BIOX circuit and is expected to be completed by mid-2009.

Figure 3: Location of deposits within AGF license area



Source: Company reports

Feed for the plant will initially be sourced from a deepened Centralny pit, from which the company expects to recover 86koz of gold at an estimated total cash cost of US\$613/oz. The development of the trackless, decline accessed, mine at Severny is planned to be completed by mid 2010. Production is planned to build up to the steady state 1.2Mtpa of ore by 2012. At planned recoveries of 90%, the company expects average gold production of 246koz at total cash costs of US\$268/oz.

Resources at Severny and Centralny total 12.4Mt grading 8.7g/t for 3.5Moz of gold, within which a reserve of 9.7Mt grading 7.7g/t containing 2.4Moz of gold has been defined. At its planned production rate of 1.2Mtpa, this would support an operation for more than eight years. We note the potential to add to reserves over time, through both upgrading inferred resources and the definition of additional material, particularly at depth, where the deposit remains open. The company states that the deepest hole drilled to date on the sulphides returned 51.6g/t gold over eight metres; although, owing to the high angle that the hole was drilled, we note that the true width of this intersection was closer to one metre.

Heap leach operation at Asaukak by mid-2009

Since the commencement of operations at AGF in February 2004, the company has focused on exploiting oxide resources at the eastern end of the Amantaytau license area. Ore processed at the 1.2Mtpa CIP plant was initially sourced from the Centralny and Uzunbulak deposits, which are now exhausted, and since Q1/07 ore has been sourced from the Asaukak deposit, which is situated approximately 10km southwest of the plant. Given that the oxide plant is to be converted to allow processing of the refractory sulphides, Oxus plans to spend US\$5 million on the development of a 1Mtpa heap leach facility at Asaukak.

The company is targeting an average grade of 1.2g/t and recoveries of 70%, indicating production of 27koz of gold annually (13.5koz attributable to Oxus). Likely cash costs are currently estimated by the company to average US\$522/oz over the life of the operation.

We note that reserves at Asaukak were 102koz of gold contained within 1.7Mt of ore at June 2007 and would appear to be just sufficient to feed the existing CIP plant until its conversion is completed in mid-2009. However, Oxus aims to upgrade additional resources to reserves at a cluster of oxide deposits around Asaukak. Also, the concept is for the semi-mobile plant to be moved to exploit additional oxide resources at several locations within the AGF license area over the project's life, which the company estimates will be 20 years.

We note that additional drilling is required to upgrade oxide resources on the license area and that further metallurgical work is required to confirm the amenability of the material to heap leaching.

Vysokovoltnoye silver gold heap leach ongoing

The Vysokovoltnoye silver/gold heap leach operation commenced in late 2005. In the year and a half up to the end of June 2007, the project produced a total of 399koz of silver and 6.7koz of gold (approximately 14koz Au equivalent, or 7koz AuE attributable to Oxus).

However, it was not until over 18-months later, in July 2007, that the operation sold its first silver. This was a result of a combination of factors including not being allowed to export dore and limited smelting capacity on site and at the government-owned Almalyk complex, which has been awarded the smelting contract. As a result, a substantial stockpile of dore and calcine had built up that, at the end of June 2007, was valued by the company at US\$25 million, suggesting that the inventory contained almost 2.0Moz of

silver. The company reported in October that it expected silver export sales to be made at a rate of around 1.9Moz per annum (equivalent to 34koz AuE) until additional refining capacity is made available in the country, or an increased export allocation is made available. We are forecasting silver production of 0.6Moz in FY2008.

Reserves at Vysokovoltnoye at the end of June 2007 were 4.9Mt grading 1.1g/t Au and 42g/t Ag. This would support the 1Mpta heap leach operation to 2012. The company suggests that, like the proposed heap leach plant at Asaukak, the Vysokovoltnoye plant will also be used to process other nearby heap leachable deposits on the property after the exhaustion of the OB4 and OB7 deposits.

Finances

At the end of June 2007, the company had net current assets of US\$5.4 million, including cash of US\$10.9 million. Long-term debt was US\$8.8 million.

Regarding the financing of the 50%-owned AGF sulphides project, we note that Oxus is responsible for providing all of the project's development capital (currently estimated at US\$139 million). Under the terms of its agreement, Oxus would receive 100% of cash flows until the repayment of shareholder loans to the project. We have assumed that the company will raise US\$100 million in debt and that a further US\$70 million is raised as equity at around the current share price. This would result in the issuance of 112 million shares.

Figure 4: Financial summary

FYE Jun		2006A	2007A	2008E	2009E	2010E	2011E	2012E
Oxide CIP	koz Au	154	65	62	62	0	0	0
Sulphide BIOX	koz Au	0	0	0	0	86	189	253
Vysokovoltnoye	koz AuE	0	0	13	19	19	19	19
Asaukak heap leach	koz Au	0	0	0	0	27	27	27
Total gold sales	koz AuE	154	65	76	82	132	235	298
Attrib gold sales	koz AuE	77	33	38	41	66	118	149
Total cash costs	US\$/oz	302	642	556	572	580	385	374
Gold Price	US\$/oz	451	633	842	781	781	750	713
Net cash flow	US\$M	16	-20	25	4	11	72	82
	cps	5.6	-6.5	6.3	0.7	2.3	15.2	17.2
Earnings	US\$M	2	-19	5	-7	-3	26	30
	cps	0.7	-6.3	1.2	-1.5	-0.5	5.4	6.4

Source: Company reports, Canaccord Adams estimates

Management changes - Bill Trew steps down

On 21 December 2007, the company announced a series of changes to the composition of its board. The most significant of these included Bill Trew stepping down as CEO and resigning as a director of the company. His position is to be filled by Richard Wilkins, former company Secretary and one of the original founders of the company. In addition, John Donald rejoins the company as COO and as an Executive Director, having retired in September 2004. We also note that Miradil Djalalov, MD of Zeromax (see below), joins the board as a director.

Zeromax increases stake from 15.6% to 17% at £0.80 per share

Zeromax, a company controlled by Uzbek businessman Miradil Djalalov, became a significant shareholder in Oxus around the end of 2006, when it purchased 57 million shares (representing 15.6% of the outstanding shares) at a price of £0.215 per share. We consider that this was a significant factor in the improvement in the company's relationship with the Uzbek authorities that occurred in 2007. This followed difficulties in 2006 that included a large claim for tax by the authorities late in the year.

On 10 December 2007, the company announced that Zeromax had signed an agreement with Oxus's largest shareholder, RAB Special Situations (which then held a total of 29.0% of the company), which gave it the option to purchase 52.3 million shares (representing 14.2% of the company) from RAB at a price of £0.80 per share. The term of the option was extended to 31 January 2008 on 4 January 2008.

On 31 December 2007, it was announced that Zeromax had partially exercised the option over 5.5 million shares (1.5%), increasing its stake to 17.0%. Exercising its option in full would increase its interest to 29.9% and RAB's interest would fall to 14.7%.

Valuation

As a result of revisions to our valuation, our estimate of the company's peak NAV has decreased from 57p to 48p per share. The main changes to our valuation include the following.

In line with Canaccord Adams' coverage of the precious metals sector, we have increased our 'peak' gold and silver price assumptions from US\$850/oz and US\$15.50/oz to US\$1,000/oz and US\$18.00/oz respectively.

We have changed the basis of the valuation of the remaining oxide resources from one based on an in-situ resource value (previously an effective US\$35/oz) to an NPV based valuation of the heap leach project. We have excluded any value for the Ayriak and Tamdy resources, to which we had previously ascribed a value of US\$18 million on account that there has been no public progress towards the conclusion of an agreement on these licenses.

We have revised our model of the sulphide project in-line with guidance. We have, however, assumed recoveries of 85% compared to the company's forecast of 90%.

We have reduced the value in our NAV of the potential US\$80 million that would become payable to the company if Kazakh Gold were to receive the license to the Jerooy project in Kyrgyzstan and commence mining there. There have been no public moves in this direction as a result of which we have reduced the value of this agreement in the NAV from US\$40 million to US\$20 million.

As noted previously, we have assumed the issuance of US\$70 million in new equity at around current prices before the end of FY2008.

As a result, we derive an NAV for the company of 48p per share. We note that at the spot gold and silver prices of US\$887/oz and US\$16.05/oz, the NAV would be 44p per share and that the shares are therefore trading at a P/NAV of 0.73, based on spot prices.

23 January 2008

Figure 5: Breakdown of NAV

NAV at US\$1,000/oz Au and US\$18/oz Ag At 5% discount rate	US\$M	£/shr
Amantaytau oxides	24	0.026
Amantaytau sulphides	329	0.353
Vysokovoltnoye Ag/Au heap leach	52	0.055
Asaukak Au heap leach project	13	0.014
Enterprise Value	418	0.448
Cash	89	0.095
Long-term debt	-9	-0.009
Risked Jerooy payment	20	0.021
Net Asset Value	499	0.534
Target multiple		0.90
Target price £/shr		0.48
Shares fully diluted in the money		477M

Note - NAV estimated as of June 2008 and

* assumes issuance of US\$70 million in new equity at current prices by mid 2008

Source: Canaccord Adams estimates

We have applied a target multiple of 0.9 to the NAV to derive our target price of 48p per share. Although this target multiple is lower than the average target multiple of 1.1 for junior producers in our coverage universe, we consider it appropriate on account of the risks relating to the sulphide project inputs that await the completion of the feasibility study, outstanding financing risks and the risks relating to the better definition of the heap leaching of the remaining oxides. We also consider that it reflects the political risk of operating in Uzbekistan and the company's past record of difficulty in achieving its targets.

Conclusion and recommendation

In spite of the decrease in our target price, we consider that the recent developments are positive for the company. We include amongst these the definition of the sulphide project and its approval by the Uzbek authorities, the scoping of the plans for the remaining oxide resources and the recent purchase of shares in the company by Zeromax at approximately double the market price.

The development of the sulphide project now appears to be back on track. It is over two years since the company announced the completion of a feasibility study into the project's development and that initial construction work on the project had begun. This proved a false start and we consequently view the approval by the government of the company plans for the sulphide project development at Amantaytau positively.

We do, however, note that the project's parameters remain to be confirmed by the feasibility study that is due by the end of the first quarter and also that expected capital expenditures on the sulphide project, the deepening of the Centralny open pit and the construction of the Asaukak heap leach operation total US\$155 million, which we would expect the company to raise during the first half of 2008. In addition, although of less significance in terms of our valuation, we note that a considerable amount of work remains to be undertaken to define the heap leaching projects on the AGF remaining oxide deposits.

We consider that Zeromax's purchase of shares in the company at twice the market price is a positive development that we see as a vote of confidence in the company's future. We

also consider that, as a result, there is an increased likelihood of additional assets being injected into the company in the future.

As a result of its revised plans, attributable gold production is planned to rise from the 37koz produced in the year to June 2007 to around 160koz by 2012. In addition, over the same period total cash costs are planned to fall from over US\$600/oz to below US\$350/oz.

We have increased our recommendation from Hold to BUY and have reduced our target price from 57p to 48p per share.

Investment risks

Metal prices may not match our forecasts. As with any mining company, there are operating risks involved in both underground and open pit mining operations, and foreign-currency exchange-rate fluctuations will impact both the company's operating costs and revenues. There are also numerous technical and environmental risks associated with the operation of a mining company that could have an impact both upon the company's valuation and our financial estimates.
