



## Operations Report Year Ended 30<sup>th</sup> June 2007

The disruptions caused by the State audit inevitably consumed significant management time and represented a major distraction from efforts to ensure efficient and economic operation of the AGF oxide plant, the Vysokovoltnoye silver-gold heap leach project and the further development of the underground sulphides.

Although operations were able to continue, albeit at a reduced level, AGF was unable to run the mining operation at maximum efficiency resulting in the depletion of oxide ore stockpiles and strategic consumable stocks. As a result of this, the expected reduction in grade and quality of ore, and an increased tax base arising from the loss of privileges, it was not possible to maintain plant production at economic levels. In addition, the financial disruption and impact on working capital led to shortages of diesel, lime and steel balls, and resultant interruptions to mining and processing operations. Gold production for the year was therefore substantially below target, although AGF did export its first silver bullion from the oxide plant on 30 June 2007 when a total of 44,038 ounces was shipped to London.

Nevertheless, during the period, mining at Amantaytau Centralny continued until the oxide ores were exhausted. Mining continued into the higher grade 'refractory transition / 'sulphidic' oxide' ores until this was curtailed due to increasingly low gold recoveries in the plant. After the planned commencement of mining at the lower grade Asaukak deposit and haulage of ore to the CIP plant gold recoveries improved considerably, and during May and June averaged over 90% (even though the recovery for the six months to the 30 June 2007 averaged only 56%).

At Vysokovoltnoye irrigation of the stacked ore and the operation of the Merrill Crowe plant continued throughout the period, as did production of concentrate. As at 30 June 2007 a total of 13,608 kilograms of doré containing 398,999 ounces of silver and 6,709 ounces of gold were produced. Of this 5,759 kilograms had been stockpiled and 7,849 kilograms were awaiting refining at the Almalyk Mining and Metallurgical Combinat ("Almalyk"). In June, the Uzbek Government approved the silver off-take agreement, enabling AGF to export refined silver. Since the year end doré production has increased to 8,200 kilograms per month, although silver sales are expected to average 5 tonnes per month until the refining capacity at Almalyk can be increased, or a contract to export silver doré to international refineries is concluded and registered with the Uzbek authorities.

The value of precious metal in the doré and silver calcine concentrate at Vysokovoltnoye at 30 June 2007, taken at current sales value less refining cost, and where applicable, smelting costs, was approximately \$25 million. The development costs of the Vysokovoltnoye project, including plant and machinery, mine infrastructure and stacking incurred to date are \$21.79 million, which will be expensed over the revenue producing life of the project.

## Amantaytau Goldfields Phase 1 oxides project

The following table summarises AGF's operating results:

	Six months to 30 June 2007	Six months to 31 December 2006	Year to 30 June 2007	Year to 30 June 2006
Ore mined, tonnes	708,902	454,198	1,163,100	1,517,574
Ore processed, tonnes	315,542	561,135	876,677	1,609,726
Average grade (g/t)	4.2	2.4	3.1	3.9
Average gold recovery (%)	56.0	80.6	68.4	73.6
Gold produced, ounces	24,138	35,235	59,373	146,937
Gold sales, ounces	37,675	27,499	65,174	154,038
Hedge ounces	0	0	0	76,699
Spot ounces	37,675	27,499	65,174	77,339
Average gold price \$ per ounce	651	608	633	451
Average cash cost \$ per ounce	576	536	559	250
Average total cost \$ per ounce	666	623	642	302
Net profit (loss) after tax & debt service \$m	(3,986)	(2,440)	(6,426)	20.337

### Underground Sulphides Project

A feasibility study into the mining and processing of the substantial AGF primary sulphide mineral resource was completed by Wardell Armstrong in September 2005. In addition, in order to comply with Uzbek regulations, it was necessary to restate the feasibility study in accordance with Uzbek standards for approval by the authorities. Both of these studies were based on underground mining and a new biological oxidation plant. The Uzbek approval process was also delayed whilst the claims arising from the State audit were passing through the Uzbek legal process. However, AGF and the Uzbek authorities are now cooperating fully and the formal approval from the Uzbek Government for the sulphides project is expected by the end of this year.

The Phase 2 sulphides project is designed to mine the deeper primary sulphide extensions to the oxide ore bodies that have been mined-out by open pit methods at Amantaytau Centralny and also to mine the adjacent Amantaytau Severny sulphide ores. Combined they contain underground Ore Reserves of 9.71 million tonnes at an average grade of 7.71 grammes per tonne (g/t) containing 2.41 million ounces of gold. This Ore Reserve is within a combined Measured and Indicated Resource above a 3.5 g/t cut-off of 10.32 million tonnes at an average grade of 9.0 g/t gold containing 2.97 million ounces of gold. There is an additional Inferred Resource of 2.05 million tonnes at an average grade of 7.6 g/t, containing a further 0.5 million ounces of gold. The ore body is open at depth and at Amantaytau Severny Soviet drilling at 500 metres below the currently explored ore bodies encountered 51.6 g/t gold over 8 metres.

Whilst the delay in implementing the sulphides project has affected AGF negatively in the short term it has allowed time for optimisation studies to be carried out which offer significant benefits over the original design. Instead of building a new stand-alone plant, the existing oxide CIP plant will be modified to accept sulphide ore. This will mean that the existing crushing, milling, thickening and reagent systems will be re-used along with individual items such as the interstage carbon screens. Since the plant modifications are mainly adding additional processing sections, the new plant can be constructed and commissioned without significantly affecting the existing plant production.

Re-using the existing plant will not only optimise capital but will also reduce lead times associated with the procurement of major equipment such as mills. It is therefore planned to start feeding sulphidic ore to the plant in the second quarter of 2009. In addition, since existing plant capacity is higher than that allowed for in the feasibility study, it is planned to increase the sulphide plant throughput from the original design tonnage of 750,000 tonnes per annum in 2009 to 1,200,000 tonnes per annum by 2012 as the underground ore production is expanded.

In order to provide sulphidic ore to feed the plant in 2009 initially it will be necessary to mine the sulphides from surface by expanding the existing Amantaytau Centralny open pits, since significant quantities of ore from underground will only become available in 2010. Deepening the existing pits will not only allow the sulphide plant to be brought on stream earlier but will also provide an access point for the underground mine portal. By starting the portal in the pit, the length of the required decline will be reduced and the necessity to excavate a large box cut through the poor surface rock will be avoided which will save on both capital and time.

Although testwork undertaken in the last twelve months has led to encouraging results by using ultra-fine grinding and flotation technology, negotiations are now well underway to utilise biological oxidation technology. This technology is already being used at a nearby project in Uzbekistan and is considered to be the preferred and more reliable alternative.

A new economic model for the sulphides project has also been prepared, which will now form the base case for future financial projections. Further details relating to this project will be released shortly.

### **Other Heap Leach Projects**

In addition to the development of the sulphides, which will become the main priority for AGF during 2008, AGF also intends to construct and commission a 1 million tonnes per annum heap leach facility close to the Asaukak pit. For the initial twelve months this facility will be fed from low grade ore stockpiles situated at Asaukak. This will significantly reduce operating costs and allow for the plant to pay for itself within a year. Approximately 29,000 ounces of gold is expected to be produced from this facility in 2009.

The initial cost of creating the low grade ore stockpile of approximately 251,000 tonnes, at an average contained gold grade of 0.7 grammes per tonne, has been fully expensed to date.

Heap leaching of the Asaukak low grade stockpiles will require the completion of exploration drilling, then development followed by shallow open-pit mining of other deposits within the Asaukak area (Aksai, North Asaukak, Sreddiny, Aksai North, Daugystau North and Karasai West) and then other satellite oxide deposits. Alongside production from the higher grade sulphides, heap-leaching will provide an ongoing recovery of gold from the lower grade oxide deposits, thus contributing to AGF's future profitability and increasing the overall production from 170,000 ounces gold equivalent in 2009 to over 300,000 ounces from 2010.