

13 December 2010

## BUY

### Mining

**Price** 64.5p  
**Target Price** 107p

#### Company description

Chaarat Gold is a gold exploration and development company working in the western part of the Kyrgyz Republic

#### Key data

Ticker	CGH
Listing	AIM
No. of shares (m)	147.03
Market cap (£m)	94.8
Enterprise value (£m)	89.8

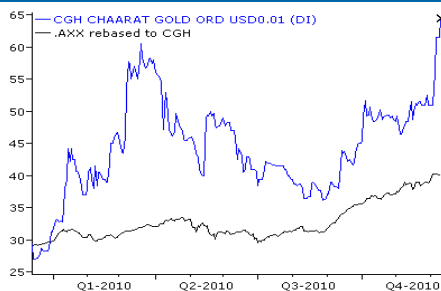
#### Top-five shareholders (% holding)

China Nonferrous Metals Int'l Mining Co. Ltd	15.3
Mada Limited	10.0
Vetan Investments Limited	7.9
Palmer-Tomkinson & Family	5.5
Chase Nominees Limited	4.9

#### Relative performance

<b>Period:</b>	<b>1mn</b>	<b>3mn</b>	<b>12mn</b>
Performance (%)	+25.0	+36.3	+56.3

#### Price/FTSE AIM rebased to CGH



Pricing: Fidessa, as of 13 December 2010

#### Marketing communication

**Westhouse Securities acts as nomad and broker to Chaarat Gold and is paid fees for these services**

#### Analyst

**Mark Heyhoe**  
**Mining Analyst**

+44 (0)20 7601 6132  
 mark.heyhoe@westhousesecurities.com

## Chaarat Gold

### Undervalued as it transitions into a producer

Chaarat Gold (AIM: CGH) has had a great year in 2010. First it increased its resource by 20% from 3.338Moz to 4.009Moz, and then it discovered that part of the project could be free milling and mined at surface, allowing it to fast-track into production in Q4 2011 and pour gold in Q2 2012.

However, we believe that these positive developments have been missed by investors, as the company is valued at only US\$35.3/oz, compared to our pre-production peer group of US\$72.6/oz. With strong news flow anticipated over the coming months, including resource upgrades and the feasibility study for Tulkubash, we believe Chaarat is due to attract increased interest. We are therefore raising our target price to 107p, up from 82p, and we maintain our BUY recommendation.

#### Key points:

- Valued at US\$35.3/oz, substantially below the peer group at US\$72.6/oz.
- The most recent resource estimate was 4.009Moz gold, with upgrades anticipated as results of the 2010 drilling programme and the 2010/2011 underground drill programme are incorporated.
- Plenty of blue sky potential, as only 5km of 10km of known mineralisation at the first of three target areas has been drilled.
- Potential value uplift as Chaarat moves from explorer to developer, then to producer.
- Tulkubash is mostly free milling gold and close to the surface, allowing fast-track production to partially fund the larger Kiziltash Project.
- Targeting 40Koz pa gold production from the open pit Tulkubash Project in early 2012.
- Estimated first stage capex of US\$70m, with construction scheduled to start in H1 2011, subject to funding.
- 140-180Koz pa gold from the mainly underground Kiziltash Project in 2014.
- Being a single project, large resource company makes it an attractive M&A target.
- Political risk is incorporated within current share price.
- Infrastructure and execution risk are key concerns for achieving its timetable.

## Investment rationale

We see four potential key catalysts for Chaarat Gold to be revalued over the coming year:

1. Continuing growth in the resource base from the most recent estimate of 4.009Moz gold.
2. Rerating in line with its pre-production peer group.
3. Rerating as the company moves from explorer to developer.
4. Potential M&A activity in the sector, particularly for large, independent resources.

### 1. Continued growth in the resource base from the current 4.009Moz gold

The Chaarat gold project lies in the middle of the Tien Shan gold belt, one of the most productive gold belts in the world, hosting truly world class gold deposits including Muruntau (175Moz), Daugyztau (18Moz) and Kumtor (18Moz). The Chaarat project is not out of place among this peer group. In March 2010, Chaarat announced a 20% increase in the JORC inferred total resource from 3.338Moz to 4.009Moz of gold at 4.14g/t.

Since the resource upgrade, 42 holes have been drilled in the Tulkubash Zone, ten in the Main Zone and two in the Contact Zone. Each hole targeted short-term mineable resources and recently published results have demonstrated that the mineralisation is open both at depth and along strike. The results of the remaining proportion of the summer drilling campaign are expected to be published in early 2011. We understand that the underground winter programme has commenced on the Contact Zone of the Kiziltash Project, focused on consolidating mineralisation into larger blocks, allowing improved mining rates.

We anticipate two resource updates in H1: the first taking account of the 2010 drilling programme and the second following the results of the winter underground programme. Chaarat is targeting the achievement of a 5Moz gold resource in 2011.

As yet, Chaarat has only partially drilled the known mineralisation, giving enormous scope for the company's resource to increase as exploration continues. An indication of the resource potential at Chaarat can be gleaned from the fact that only 5km of the 10km target area has been drilled. In addition, the drilling has only been undertaken in what is the first of three targets within the company's 40km wide Sandalash licence area. We anticipate significant drilling and resource news flow in 2011.

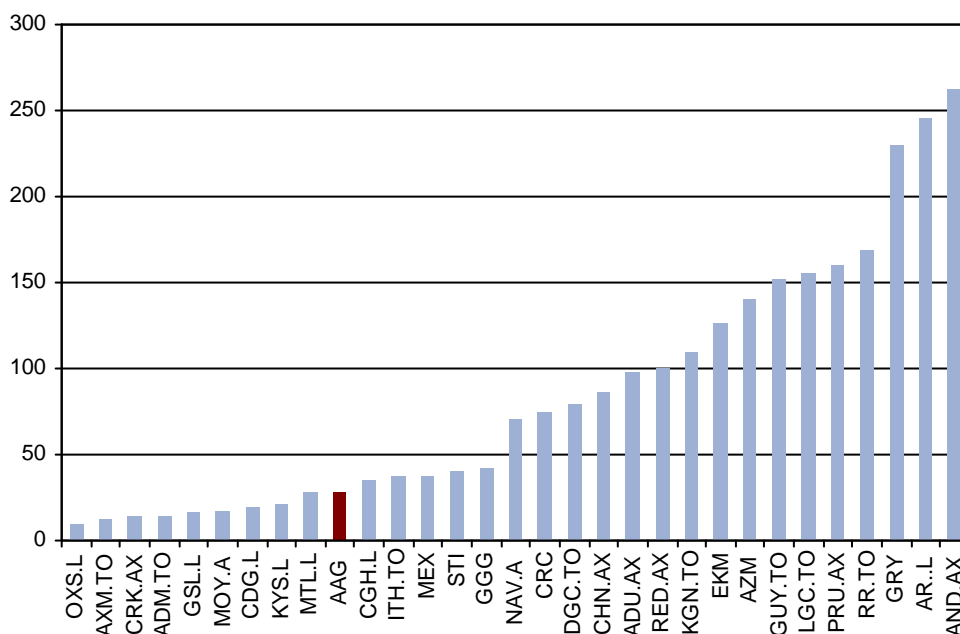
### 2. Rerating in line with its pre-production peer group

Chaarat Gold is currently valued at US\$35.3 per ounce, given its current 4.009Moz resource and accounting for c.US\$8m in cash. While cognisant of the shortcomings of peer group analysis, an evaluation of potential large resource/pre-production companies provides a useful insight into the value that the market is placing on Chaarat's peers. In preparing this analysis, we selected companies which had at least obtained a scoping study report, but were pre-production and listed in London, Canada or Australia. Adjusting for cash and debt, the results show a wide variation in valuations, as we would expect, but with a median value (to restrict outliers) of US\$72.6 per ounce. Although there is no direct comparison in terms of geography, resource and grade, this was in line with our expectations and, despite the recent appreciation in Chaarat's share price, suggests that the company remains heavily undervalued.

There are few independent, primarily single project, large resource gold companies with Chaarat's potential for resource expansion in the market and we believe these factors outweigh the political issues and infrastructure/production cost concerns that are inherent in the stock. We believe that Chaarat should at least be on a par with the median of our peer group, which would value the company at closer to US\$299m rather than the current US\$149m.

The full results of our analysis can be found on page 9 of this report.

Peer group analysis: Pre-production gold companies (EV/Oz, US\$)



Source: Fidessa, Bloomberg, company websites, Westhouse Securities estimates.

### 3. Rerating as the company moves from explorer to developer

#### The market doesn't appreciate that Chaarat could be producing gold by Q2 2012

In early 2010, as part of the Pre Feasibility Study, Chaarat became aware that the Tulkubash Zone was far less refractory than the rest of the deposit and contained a significant proportion of free milling gold. As this is close to surface, it is amenable to mining from an open pit. This opened up the possibility of a twin-track project, fast-tracking an open pit mine at Tulkubash to generate cash flow, which will significantly de-risk, assist the development of and partially fund the development of the larger Kiziltash Project. In our opinion, this potential has largely gone unnoticed by the market.

The Tulkubash Project is now the subject of a Definitive Feasibility Study being conducted by Canadian group, SNC-Lavalin, which is due for completion in mid-2011.

#### Estimated project operating parameters

	Tulkubash Project	Kiziltash Project
First Gold	Q2 2012	Q3 2014
Expected Mining rate (tpd)	~700-1,000	~4,000-5,000
Gold production rate (oz p/a)	~40,000	~140,000-180,000
Estimated investment (US\$m)	70	300 (additional)
Estimated cash cost per ounce	Not yet available	Not yet available
Power source	Generators	Power line
Mining method	Mostly open pit	Mostly underground

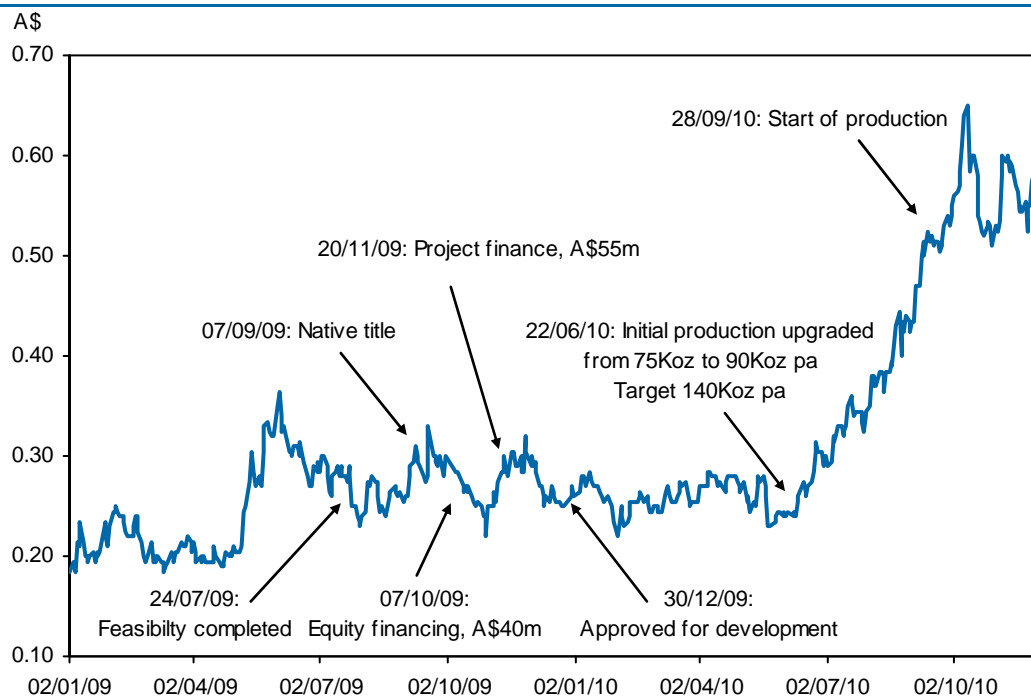
Source: Company estimates.

## Rerating as it enters production? Integra Mining: A case history

As Chaarat transitions from developer into producer, we would expect to see a marked uplift in the company's valuation. One company which has recently undergone such a transition, with a two-stage development plan, is Integra Mining (ASX: IGR), which brought the Randalls Gold Project into production at the end of September 2010. The first stage of the project was for 75Koz pa gold production (which was increased to 90Koz during construction) from an open pit at an average grade of 3.1g/t. Total capex is A\$64m with cash costs of A\$574/oz over the ten-year mine life.

The full feasibility study was released in July 2009 and the project was approved for development at the end of the year, once financing through a mix of debt (A\$55m) and equity (A\$40m) was completed.

### Integra share price highlighting key development milestones



Source: Bloomberg, company website, Westhouse Securities.

The Integra share price chart shows how financing and construction caused minor fluctuations in the price, having already been factored in, but the big uplift came in the final three months of the nine-month construction period.

Over the period from completion of the feasibility study through to the start of production, the share price rose 112%. Obviously there is no guarantee that other companies would perform in a similar way and changes in commodity prices have had an impact on the performance, but this gives an indication of the nature of the uplift we could expect as a company switches from development into production. In Chaarat's case we anticipate that this would be in H2 2011, in the run-up to the start of mining in Q4 2011 and the first gold pour in Q2 2012.

## 4. Potential sector M&A activity, particularly for large independent resources

Gold resources the size of Chaarat's are not common and we see demand for them increasing as global gold demand outstrips production and global production outstrips reserve replacement.

Global gold production peaked in 2000 at 2,573Mt, but has declined steadily to 2,356Mt in 2008. Only last year's sharp rise in the gold price brought about a reverse in this trend to 2,572Mt, as more marginal operations were brought into production. Globally, grades have fallen from around 12g/t in the 1950s to nearer 3g/t. South Africa, once the world's largest gold producer, with 32Moz of gold in 1970 (two-thirds of global output), produced only 13Moz last year.

However, more significantly there has been a failure to replace these mined resources, despite a threefold increase in exploration expenditure. As much of the current exploration spend is focused on lower risk, brownfield exploration to move ounces into production quickly to take advantage of the gold price, there are fewer large projects being discovered. The number of >1Moz projects discovered has halved over recent years, with under 5% of those being larger than 5Moz.

As a result, various companies, including the world's largest gold producers, Barrick and Newmont, have stated publicly that they are looking to acquire new assets. Even companies that boast of their own organic growth record, such as Randgold Resources, with its acquisition of Kibali (formerly Moto Goldmines), have had to make acquisitions in more challenging regions to continue to replace mined resources.

## Kyrgyzstan: A confluence of opportunities

Although operating in Kyrgyzstan is logistically challenging and not without political risk, Chaarat is ideally located to attract major company attention. Kyrgyzstan has also played a key part in East/West relations. A former Soviet Republic bordering China, Kyrgyzstan has attracted Western, Russian and Chinese gold companies in increasing numbers. We see this trend continuing: last week it was announced that the EBRD had agreed to provide a US\$150m corporate debt facility to finance Centerra Gold's development and potential acquisitions of mining assets in the region. Centerra's Kumtor Gold mine in Kyrgyzstan is the largest gold mine operated in Central Asia by a Western-based company.

Chaarat itself has not gone unnoticed, with China Nonferrous Metals Int'l Mining Co Ltd (CNMIM) becoming Chaarat's largest shareholder in July 2009. CNMIM currently owns 15.3% of Chaarat and may be a possible acquirer of the assets. However, given the shareholder restrictions included within the relationship agreement between the two organisations, we do not see the CNMIM holding precluding other parties bidding for the company. The company has a strong institutional shareholder base, with specialist mining investment houses AIMS Asset Management, ASVI Inc and First State Investments all holding notifiable (>3%) stakes.

## Key risks

### Political

Kyrgyzstan held elections on 10 October 2010 for which the country received international praise for conducting what have been described as the most democratic elections that have ever taken place in Central Asia. These followed several months of political turmoil after President Kurmanbek Bakiyev was ousted in a mass uprising in April. Kyrgyzstan enjoyed several years of economic growth rates of 8% or more up until 2009, in part due to massive Chinese investment of over US\$2bn. However, the growth rate turned negative in 2009 which, coupled with rising inflation and ethnic tensions, caused civil unrest.

Chaarat was unaffected by either the uprising or change in government, as the project is in the far west of the country, whereas rioting occurred in the south and east. We understand that no Western-owned businesses were attacked in the disturbances. During our own site visits in January and September we experienced no difficulties either in the capital, Bishkek, or on site; however Kyrgyzstan is not without political risk.

Another issue is security of licence agreements. In November 2010, the Kyrgyz Ministry of Natural Resources revoked a \$200m licence agreement with Austrian company Global G.O.L.D. Holdings at the Jerooy gold deposit, located in the north-west of the country. However, the government was keen to point out that this was because the company had failed to start construction of an ore-enrichment factory by 1 November 2010. Global G.O.L.D. Holdings and the Kyrgyz national gold company, Kyrgyz Altyn, had set up a joint project venture company, Jerooyaltn, to develop the project under the terms of the new 2006 licence agreement.

Chaarat has been operating in the country since 2002 and has not experienced any such difficulties. We believe this is partly due to the fact that the Chaarat project is a discovery by the company: it was not acquired from the state and there are no previous claims on the property.

## Execution

Another key risk for the company is the execution of its development plan. Chaarat hopes to begin mining at Tulkubash in Q4 2011 and to produce gold in Q2 2012. This is a tight deadline, as the feasibility report for the project is not expected until Q2 2011 and the current resource is still in the inferred category. One of our primary concerns is that the resource at Tulkubash, as it currently stands, is only 336Koz and not continuous within the proposed pit shell. However, the company expects this to change when the recent drill results are added to the resource and will further reduce the 13:1 strip ratio as more of the current waste is shown to be mineralised. Other issues concern dilution, due to the heavily sericitised orebody; and grade control, which will have to be done with close grade control drilling. In the open pit, this may not be so much of a problem as the company can drop the cut-off grade and mine most of the mineralisation.

## Infrastructure

Given the remote location of the Chaarat project, infrastructure in terms of road access and power is a key issue.

### Road access

The main artery road along the Chatkal valley extends between the Karabura pass in the north and the Chapchama pass in the south. Access from the north is from the Talas region, and is typically closed during the winter, although it should be possible to keep it open if Chaarat were willing to cover the cost. The Chapchama pass, however, is typically open throughout the winter. From the Chatkal road there is a 40km road going through the Kumbel pass, which is also usually closed between late November/ early December and mid April.

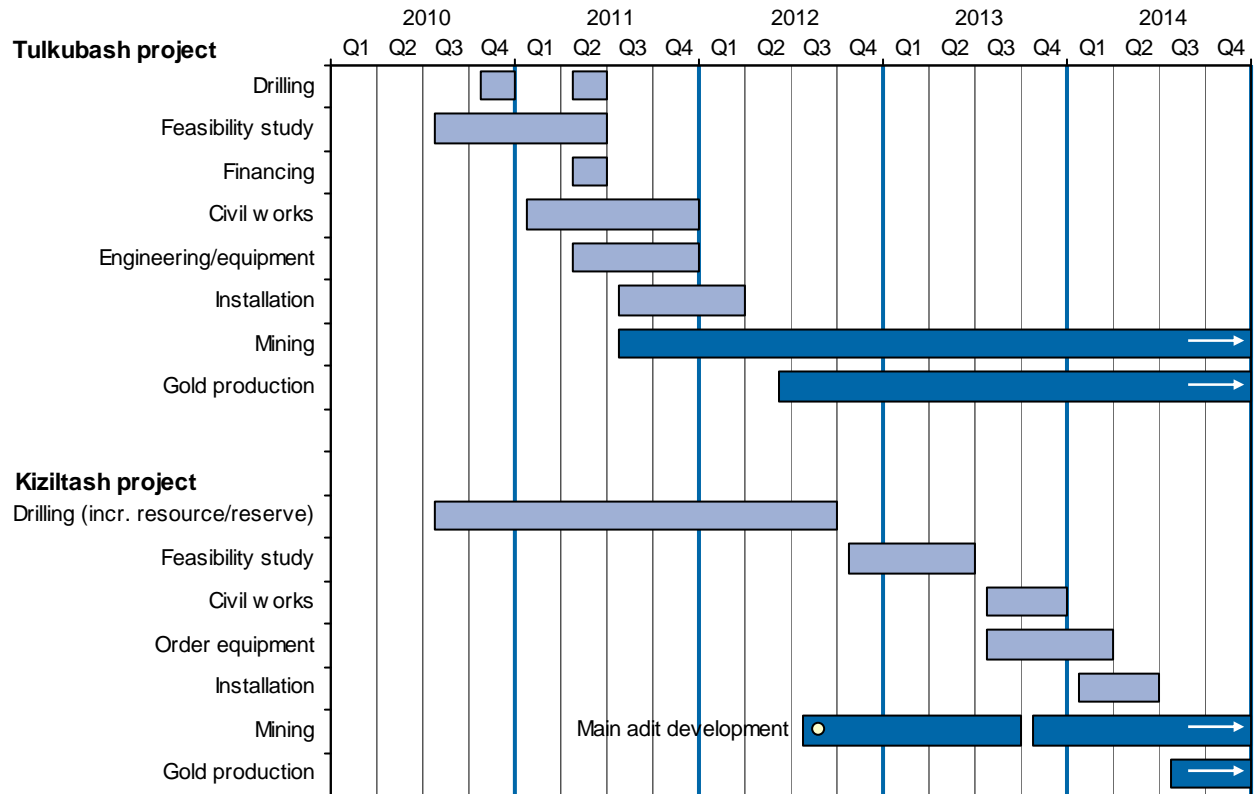
Chaarat intends to improve the road and bring it to a good standard, and to try and keep the Kumbel pass open throughout the year. A feasibility study and the required geotechnical works are under way and the design is expected to be finalised by March 2011. This work is being undertaken by local companies to ensure that operations comply with the local regulatory framework, with supervision and support provided by SNC-Lavalin, which is overseeing the whole Chaarat project. The total cost of this is expected to be around US\$10m.

### Power

At the moment there is no power to the site and the power lines in Chatkal are not adequate to support the project. However, as the requirements for the Tulkubash Project are limited, power will initially be provided by diesel generators.

Originally a hydroelectric power plant on the Sandalash River was considered, but this would have been too costly. Instead, Chaarat plans to build a 110 kV power line to the property from the Kristal sub-station, which is about 160km away. A quota of 25 Megawatts has been allocated by the Kyrgyz Power Supply Authority for the project and design work for the line has started. Subject to regulatory approval, this should all be completed by the end of 2011. Construction will coincide with first production from Tulkubash and Chaarat may be able to involve other neighbouring operations in part-funding the project, and/ or finding a contractor interested in building and financing the power line on a take or pay basis.

## Development timetable for Tulkubash and Kiziltash Projects



Source: Company.

## Conclusion

Recent drilling at Chaarat Gold has confirmed the extension of the known resource both at depth and along strike. More importantly, it has indicated that previously identified mineralised zones could be contiguous, improving potential mining rates. In addition, recent metallurgical work has also shown that the Tulkubash Zone is far less refractory than the rest of the deposit and close to the surface. This means that it should be possible to twin-track the project by fast-tracking an open pit mine at Tulkubash to generate cash flow to partially fund the development of the main Kiziltash Project.

We believe the market has missed this opportunity, being distracted by the problems in Kyrgyzstan in April, which had no impact on Chaarat other than to suppress its share price. As a result, it now trails its peers despite a significant resource upgrade, Tulkubash advancing to production by the end of next year and first gold being poured in Q1 2012. Against a backdrop of increasing M&A activity in the gold sector, Chaarat's expanding resource looks attractive.

Based on the most recent resource estimate of 4.009Moz gold and current cash of cUS\$8m, we value Chaarat at US\$299m or £190m on a peer comparison basis at US\$72.6 per oz. This takes no account of either the 2010 drilling programme or the ongoing underground winter drilling programme, each of which is expected to add significantly to the resource when reported. (Full details of the pre-production peer group can be found on the following page.)

We are mindful that the company will need to raise c.US\$70m in early 2011 which we expect to be at or close to the then current share price, based on previous financing rounds by Chaarat. Such an issue at the current price of 64.5p would result in an enlarged issued share capital of c.216m shares, US\$78m in cash and no debt. Again, conservatively using the existing reported resource and US\$72.6 per oz, this results in a per share valuation of approximately 108p, or 107p on a fully-diluted basis, taking into account outstanding share options.

The anticipated enhancement of the resource and the increase in valuation to be expected from the de-risking of the project provided by the fundraising both present significant upside to the valuation.

We believe the company will be substantially rerated in H2 2011, as it is about to enter production. In the meantime we maintain our **BUY** recommendation and **increase** our **target price** from **82p to 107p** per share.

## Peer group analysis

Company	EPIC	Country of operations	Stage of operations	Mkt cap US\$m	Proven Moz	Probable Moz	Measured Moz	Indicated Moz	Inferred Moz	Cash US\$m	Debt US\$m	EV/oz US\$
Oxus Gold	OXS.L	Uzbekistan	DFS	33.34					1.27	6.60	21.0	9.8
Axmin Inc	AXM.TO	Central African Rep	Permitting	66.89					1.54	8.00	1.6	12.2
Carrick Gold Ltd	CRK.AX	Australia	Pre-feasibility	80.21			0.04	1.17	2.98	22.00	0.0	13.9
Andina Minerals, Inc	ADM.TO	Chile	Scoping	174.42					0.28	33.08	0.0	14.1
Greystar Resources	GSL.L	Colombia	DFS	372.01					2.80	112.00	0.0	15.9
Millennium Minerals	MOY.AX	Australia	BFS	22.18			0.64	0.38	0.23	0.62	0.0	17.3
Conroy Diamonds & Gold	CDG.L	Ireland	Pre-feas/scoping	22.27				0.44	0.59	1.65	0.0	20.0
Kryso Resources	KYS.L	Tajikistan	DFS	66.51						1.68	0.0	21.4
Metals Exploration	MTL.L	Philippines	DFS	69.14	0.54	0.24	0.6	0.3	0.51	26.42	19.2	28.1
Aragon Resources	AAG	Australia	Pre-Feasibility	57.46			0.00	0.90	0.60	14.51		28.4
<b>Chaarat Gold</b>	<b>CGH.L</b>	<b>Kyrgyzstan</b>	<b>DFS</b>	<b>149.61</b>				<b>2.19</b>	<b>1.82</b>	<b>8.00</b>	<b>0.0</b>	<b>36.3</b>
Intl Tower Hill Mines	ITH.TO	Alaska	PEA/Scoping	789.99				15.70	4.90	30.00	0.0	36.9
Midlands Minerals	MEX	Ghana/Tanzania	Scoping Study	19.28			0.00	0.19	0.20	4.53		37.2
GGG Resources	GGG	Australia	Scoping Study	56.20					0.99	15.61		40.8
Stratex International	STI	Turkey/Ethiopia	Pre-Feasibility	37.62			0.05	0.39	0.42	2.34		41.3
Navigator Resources	NAV.AX	Australia	BFS	107.90				1.22	0.46	3.36	15.2	71.2
Cortona Resources	CRC	Australia	DFS	34.75			0.00	0.13	0.23	7.55		73.9
Detour Gold Corp	DGC.TO	Canada	DFS	2,555.00	3.36	8.03	4.84	12.83	3.43	0.18	0.0	78.6
Chalice Gold	CHN.AX	Eritrea	DFS	144.96		0.76		0.84		7.69	0.0	85.8
Adamus Resources	ADU.AX	Ghana	Construction	333.12					0.36	23.01	0.0	97.4
Red 5	RED.AX	Philippines	Construction	239.38				0.77	0.35	57.68	0.3	99.4
Keegan Resources Inc	KGN.TO	Ghana	Pre-feasibility	407.45				2.03	1.45	28.81	0.0	108.9
GoldRoad Resources	EKM	Australia	Exploration	97.54			0.28	0.21	0.26	2.42		126.9
Azumah Resources	AZM	Ghana	Pre-Feasibility	194.48			0.00	0.65	0.46	38.70		140.6
Guyana Goldfields Inc	GUY.TO	Guyana	DFS	764.04				3.21	1.37	66.91	0.0	152.3
Luna Gold	LGC.TO	Brazil	Construction	323.17					0.40	6.90	0.0	155.3
Perseus Mining	PRU.AX	Ghana	Construction	1,339.78					2.97	185.59	0.0	160.1
Rainy River Resources	RR.TO	Canada	PEA/Scoping	927.17				2.37	2.66	77.00	0.0	169.0
Gryphon Minerals	GRY	Africa/	Scoping	412.31					1.50	65.98		230.0
Archipelago Resources	AR.L	Indonesia	Construction	457.40					1.75	38.75	0.0	246.3
Andean Resources	AND.AX	Argentina	DFS	3,611.08				2.54	0.52	62.47	0.0	686.1

Source: Bloomberg, Fidessa, company websites.

## RATINGS, CERTIFICATION AND DISCLOSURES

Westhouse Securities Limited ("Westhouse") is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority. Registered in England and Wales, No. 05861129. Registered Office: 12th Floor, One Angel Court, London EC2R 7HJ

### Investment analyst certification

In my role as Research Analyst for Westhouse Securities Limited, I hereby certify that the views about the companies and their securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

### Non-independent research

This is a marketing communication. It is non-independent research as it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

### Ratings system

Westhouse Securities Limited uses a five-tier stock rating system to describe its recommendations. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

### Ratings are explained as follows:

BUY:	Forecast absolute total return in excess of +15%.
ACCUMULATE:	Forecast absolute total return of between +5% and +15%.
HOLD:	Forecast absolute total return of between -5% to +5%.
REDUCE:	Forecast absolute total return of between -15% and -5%.
SELL:	Forecast absolute total return of less than -15%.

Total return is defined as the movement in the share price over a 12-month period, and includes any dividends paid.

### Distribution of Westhouse Securities' research recommendations:

Westhouse Securities Limited must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "BUY", "ACCUMULATE", "HOLD", "REDUCE" or "SELL" rating, and also the proportion of relevant investments in each category issued by the issuers to which the firm supplied investment banking services during the previous twelve months. The said ratings are updated on a quarterly basis, most recently on 30 September 2010.

Recommendation breakdown as at 30 September 2010	BUY	ACCUM.	HOLD	REDUCE	SELL
Overall coverage	76.5%	0.0%	19.1%	0.0%	4.4%
Companies to which Westhouse has supplied investment banking services	95.8%	0.0%	4.2%	0.0%	0.0%

### Disclaimer

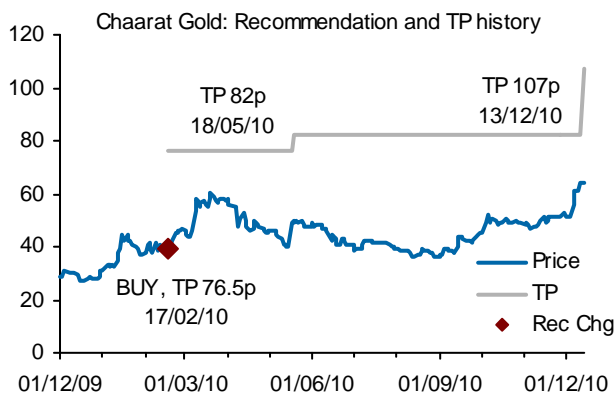
This research report has been published in accordance with our Conflicts of Interest policy which is available at [http://westhousesecurities.com/archive/research/Managing\\_Conflicts\\_of\\_Interest.pdf](http://westhousesecurities.com/archive/research/Managing_Conflicts_of_Interest.pdf).

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. This research recommendation is issued and approved for distribution within the UK only to eligible counterparties and professional clients, as defined under the FSA rules. Our research is not directed at, may not be suitable for and should not be relied upon, by any other person. Westhouse Securities Limited recommends that investors independently evaluate particular investments and strategies, as the appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. This report is not an offer to buy or sell any security or to participate in any trading strategy, Westhouse Securities Limited employees and its affiliates not involved in the preparation of this report may have investments in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report.

Westhouse Securities Limited makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a Company. With the exception of information regarding Westhouse Securities Limited, reports prepared by Westhouse Securities Limited research personnel are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Westhouse Securities Limited business areas or its affiliates. The subject company may have seen a copy of this research report, absent a recommendation, to confirm factual accuracy. Westhouse Securities Limited research personnel conduct site visits from time to time.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised.

### Recommendation and target price history



Source: Bloomberg, Westhouse Securities estimates.

### Valuation basis

Our valuation is based on a peer group comparison value of US\$72.6/oz for Chaarat's 4.009Moz gold resource.

### Risks to our valuation

The key risks to our valuation are the feasibility studies for the Tulkubash and Kiziltash Projects; uncertainty in the mineralisation and structural geology; infrastructure and power issues; political risk in Kyrgyzstan; and funding.

This recommendation was first published on 17 February 2010.

### Investment research disclosures

Westhouse Securities Limited ("Westhouse"), its affiliates and research analysts involved in the preparation of this report have:

- Managed or co-managed a public offering of securities of the subject companies mentioned in this report within the last 12 months.
- Received compensation for investment banking services from the subject companies mentioned in this report.
- Received compensation for products and services other than investment banking services from the subject companies mentioned in this report.
- Provided or plans to provide investment banking services to, or has an investment banking client relationship with any of the subject companies covered in this report.
- Provided or plans to provide non-investment banking, securities-related services to any of the subject companies mentioned in this report, or in the past has entered into an agreement to provide services, or has a client relationship with any of the companies covered in this report.
- Westhouse and its affiliates were acting as a market maker in the subject companies' securities at the time this research report was published.
- Westhouse and its affiliates beneficially own 5% or more of any class of common equity securities of the subject company.
- The research analyst(s) involved in the preparation of this report and any members of their household have a financial interest in the securities of the subject company or have received any compensation from investment banking services revenues or from the subject companies in the past twelve months.
- The research analyst(s) involved in the preparation of this report or any members of their household serve as an officer, director, or advisory board member of the subject companies mentioned in this report.
- Any legal or natural person working for Westhouse involved in the preparation of this research has received or purchased shares of the relevant issuer prior to a public offering of those shares.
- The subject companies of this research have holdings of more than 5% of shares in Westhouse Securities.
- Westhouse Securities is party to an agreement with the issuer relating to the publication of research.

### Contact Points at Westhouse Securities

<b>Sanjiv Pandya</b>	Sales	+44 (0)20 7601 6130	sanjiv.pandya@westhousesecurities.com
<b>Martin Dobson</b>	Sales trading	+44 (0)20 7601 6135	martin.dobson@westhousesecurities.com
<b>Nick Linington</b>	Market making	+44 (0)20 7601 6602	nick.linington@westhousesecurities.com
<b>Jeremy Chantry</b>	Equity research	+44 (0)20 7601 6133	jeremy.chantry@westhousesecurities.com