Corporate Advice & Research AS

Recommendation

Gold & Minerals

11th September, 2006

Price: SEK 2,03

NGM: CAG

Central Asia Gold AB

From Russia with Gold

We initiate coverage of Central Asia Gold (CAG) with a **Buy**-rating and share price **target SEK 2,74.** CAG is a gold mining company with production in Russia. 2006 has been a year of preparation for CAG prior to the production starts up at their core asset Tardan. The company already has annual production of ca 10,000 oz through the acquisition of the alluvial producer Artelj Tyva last year. CAG has recently signed a Letter of Intent regarding an acquisition that would increase their reserves with 240k oz or by ca 75%.

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Reserves and Resources

CAG currently has two producing assets, Kopto and Artelj Tyva. In 2005 Kopto produced 570oz and Artelj Tyva 10,120oz, a total of 10,690oz. The company has 333,000oz in C1+C2 reserves and 4,9m oz in total resources. In addition, CAG's geologists have verified a low grade ore-body of ca 300k oz at the Tardan deposit, a decision to start up production of these is expected in 2007.

Massive production growth

A process facility capable of producing 27,000oz annually is right now being delivered and installed (turn-key) at Tardan. Tardan is expected to produce ca 2,600oz in 2006, 21,000oz in 2007 and 27,000oz in 2008. We estimate the new Kopylovskoye deposit to contribute with a production of ca 65,000oz in 2009. In total that would give CAG an annual production of ca 14,00oz in 2006 increasing to ca 117,000oz by 2009. A production growth by ca 745% in 3 years time!

Acquisition of the Kopylovskoye deposit

CAG has signed a LOI regarding the Kopylovskoye deposit, with ca 240,000oz in C1+C2 reserves and a production facility capable of processing 500k tonnes of ore annually. The price for both the process facility and the reserves is $18m, or ca $72/oz. Prior to the announcement of the LOI, CAG's reserves were valued at ca $190/oz!

The deposit is located in the Irkutsk region, Russia's most gold prolific region. Russia's two largest deposits, the Olimpiada and the Sukhoi Log deposits with combined reserves of over 40m oz are located here. Polyus Gold has explored 4 deposits in the region with very good results. These 4 deposits have average reserves of ca 1m oz and resources of ca 5m oz. The LOI deposit has only been explored to a depth of 30m and only in parts of the concession area. CAG's geologists believe that the deposit could contain up to "5-10 times" the current 240k oz. Based on the limited exploration and the surrounding deposits we believe there is a substantial exploration upside of the LOI, possibly a multi-million oz deposit.

Based on a gold price of $600/oz in 2006, $650 in 2007, $630 in 2008 and $550 2009-2015 and a WACC of 11%, our base case DCF-model returns a value of SEK 2,74/share. In our optimistic case, our DCF-model returns a value of SEK 3,8/share, close to a 100% upside from the share price of today. ***CAR has corporate relations with CAG, see back-page for additional information.***

Valuation (SEK)	
Share price	2,03
52-week range	0,89-2,96
Dividend yield	0 %
Shares outstanding (m)	291,2
Shares, fully diluted (m)	366,2
Market cap (m)	591,1
Net debt (m)	(45,2)
EV, inc. capex (m)	545,9
Free float	60 %

Fundamentals (1)	**2006E**	**2007E**	**2008E**
Sales	59,4	146,5	236,3
EBITDA	15,3	57,9	106,8
EBIT	(2,8)	35,1	77,2
Net profit	(7,0)	28,0	60,1
EPS	(0,0)	0,1	0,2
Cash earnings	0,04	0,14	0,24
EV / EBITDA	35,8	9,4	5,1
P/E	NA	26,5	12,4
P/CE	NA	14,6	8,3

(1) mill SEK

Company Description....3
Projects, Reserve and Resource statement....3
Tardan....4
Kopto....5
Sivo Pravy Uval....6
Artelj Tyva, Agliyak....6
Letter of Intent....7
Exploration....8
Management, Board & Shareholders....9
Risks....11
Russian gold....13
A fragmented industry....13
Valuation....15
Peer comparison....15
Production and Cash costs 2006-2009....19
DCF and Multiples Valuation....19
Appendix....23
FSU Reserve and Resource Classifications....23

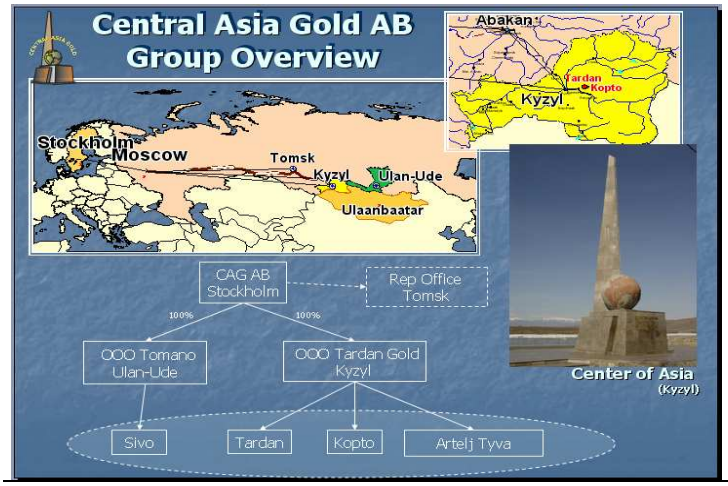
Company Description

Central Asia Gold (CAG) is a Swedish company listed on the NGM list in Stockholm with gold production and assets in Russia. The company has 4 licenses for production and exploration of gold in Tyva and Buryatiya in Russia and has signed a Letter of Intent concerning a fifth license in Siberia.

CAG was established in 2004 and has rapidly developed into a gold producer. In 2005 the company produced some 10,000 oz of gold; beginning in the second half of 2007 an annual production rate of minimum 24,000oz is estimated.

The company has 333,000oz in C1/C2 Reserves (comparable to measured and indicated resource, for more information please see *FSU Reserve and Resource classification*) and a total of 4,9m oz in reserves and resources.

CAG's core asset is the Tardan deposit, which has C1/C2 Reserves of 229,000oz. In addition there is 4,4m oz in Resources, suggesting a substantial exploration and upgrade of Reserves potential.



Source: Company Information

Projects, Reserve and Resource statement

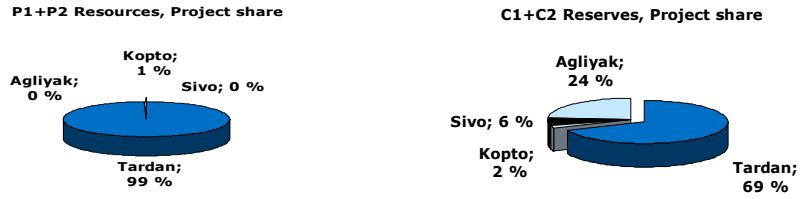
Reserve and Resource statement as at early 2006, oz

Subsidiary	Project	Ownership	Reserves C1	Reserves/ Resources C2	Resources P1	Resources P2	Total
000 Tardan Gold	Tardan	100 %	86 000	143 000	184 000	4 354 000	4 767 000
	Kopto	100 %		5 000	31 000		36 000
000 Tomano	Sivo	100 %	19 000				19 000
000 Artelj Tyva	Agliyak	99,8 %	80 000				80 000
Subtotal			185 000	148 000	215 000	4 354 000	4 902 000
Subject to due diligence	Kopylovskoye	100 %	10 000	230 000			240 000
Total inc LOI			195 000	378 000	215 000	4 354 000	5 142 000

Source: Company Information, there are 250k oz in C1+C2 reserves at Kopylovskoye however the exact split between the classifications C1/C2 is not yet available. We have assumed a 50/50 split.

Central Asia Gold has, at present, 4 different projects and a Letter of Intent (LOI) to acquire a fifth in Siberia, the Kopylovskoye deposit.

Reserves and Resources, project share



Source: CAR Analyse, Company information

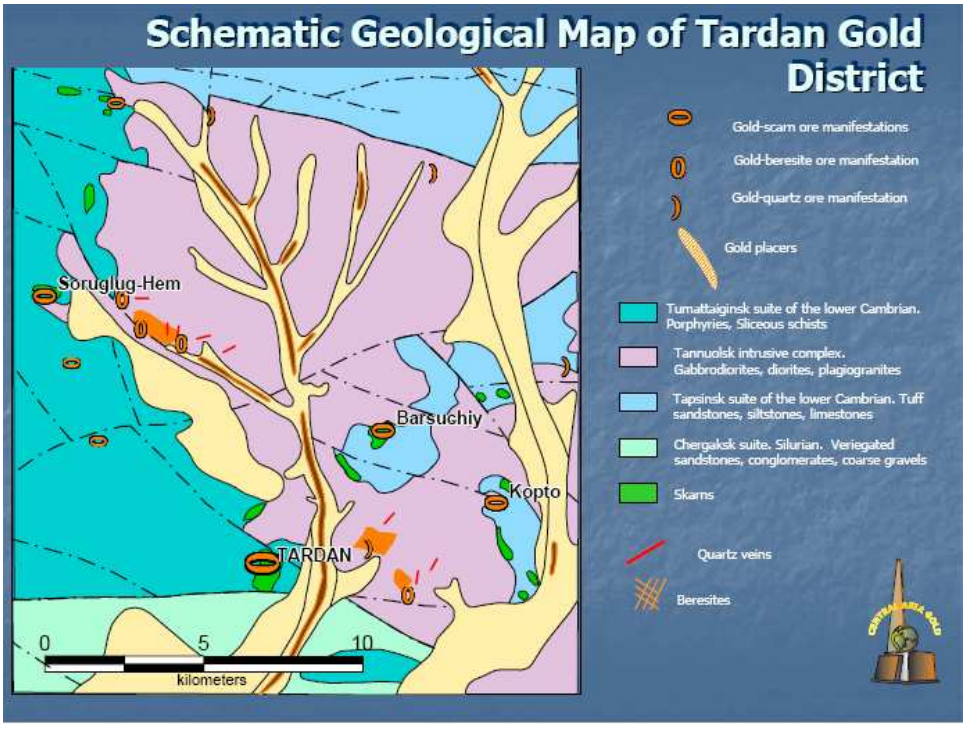
These four projects have a total of 333,000oz in C1+C2 Reserves, in total CAG has 4,9m oz in resources.

If CAG pursues the LOI to acquire Kopylovskoye, total resources will be increased to 5,2m oz and C1+C2 reserves increase to 573,000oz.

Tardan

The Tardan deposit is located close to the regional capital Kyzyl, Russia. As illustrated above, the Tardan project is the project with the largest reserve base (229,000oz in C1/C2 Reserves). In addition it is also the project with the highest potential with 4,5m oz in P2 Resources. For the reserves, the grade is as high as 10,7 g/t.

The Tardan area



Source: Company information

These figures originate from the latest exploration that was carried out during the 90s. However, during this period the gold price was as low as $330/oz, therefore the deposit likely contains more ore as a result of a higher gold price today. Furthermore, exploration has only been conducted to a depth of ca 100m; CAG believes that there is more ore below this level.

There are four main high-grade ore-bodies at the Tardan deposit (those containing the C1+C2 reserves @ 10,7 g/t). This year CAG has focused on preparing the ground where these ore

bodies are located. So far two of the ore bodies have been bared, whereas the remaining two are on their way.

In addition there are other occurrences of gold in the Tardan area. The Soruglugchemskoye mineralization has P1 resources of ca 50k oz and the Barsuche mineralization has P1 resources of ca 30k oz. These mineralizations have not yet been licensed to a company. CAG has the possibility to add these as well. The most interesting aspect though is that there are indications suggesting that the entire valley from the Tardan deposit to the Soruglugchemskoye and Barsuche mineralizations could be the same ore zone (see figure above).

Prior to production start-up, a gravitation process facility has been ordered (turn-key) and is right now being delivered and installed. Management believes that there is a chance that the process facility actually will be able to produce ca 2,600oz already this year.

CAG has also made efforts to expand the reserve base. Since 2004 interpretation of earlier and new data collected has revealed that the gold of the Tardan deposit is spread over a larger area than only the four high-grade ore bodies containing the reserves. The company has focused on the "Block 2", where detailed mapping has been performed over an area of 15 400m² during the soviet era. CAG's geologists estimate that this area alone contains ca 4m tonnes @ 2,28 g/t or ca 300,000oz of gold. Trenching performed in 2005 verifies the existence of an economically mineable low-grade ore body.

Management firmly believes that CAG will be able to submit a feasibility study in 2007, proving the existence of mineable reserves in the "Block 2". According to CAG, a likely production start is then in 2008.

Since labour and energy are the largest components of operating cash costs, we assume that there are significant synergies between the high-grade and low-grade operations; furthermore the low-grade ores will only be crushed prior to the heap-leaching *(see below)*.

We have assumed a cash cost of $150/oz for the low-grade ores, thereby the Tardan operation (both high-grade and low-grade ores) will have a total cash cost of $245/oz, assuming ca 30k oz produced @ $297/oz and 15k oz produced @ $150/oz.

In addition we have estimated $5m in CAPEX (CAG has announced that a process facility capable of producing 500k tonnes costs ca $10m, the low-grade ores contain ca 2,28 g/t which means that the heap-leach facility has to process ca 200k tonnes annually) in 2007 for an expansion of the process facility to incorporate the low-grades ore. We have assumed that production commences in 2008.

Due to the strong correlation between copper and gold (i.e. high grades of gold occurs where high grades of copper is found) of the mineralization at Tardan, x-ray based separation is possible. The x-rays don't indicate for gold but for copper. Eventually, the copper could be extracted and thus be used to reduce the cash cost of the gold produced.

In order to maximize the extraction grade of the high-grade ore bodies, these will be crushed and milled prior to the leaching process, whereas the low-grade ore bodies only have to be crushed prior to being heap leached. This production methodology has been tested and verified successful at similar low-grade ore bodies in the proximity.

In 2007 the production of high grade ores is expected to contribute with ca 21,000oz at a cash cost cum royalty of 270/oz, increasing to 27,000oz in 2008 an onwards while we estimate that cost inflation will push the cash cost to $297/oz, or by 10% in 2008.

Kopto

The Kopto deposit is located right next to the Tardan deposit, only 6km away and was included in the acquisition of Tardan. The deposit has C1+C2 Reserves of 5,000oz and 31,000oz in P1 Resources. At the Kopto deposit there is a small enrichment plant that was assembled during the 90s and later upgraded during 2005 and 2006. In 2005 570oz was produced and for 2006 1,600oz is estimated, so far 235oz have been sold. The production for this year has been adversely affected by the extreme cold that occurred this winter in Russia.

The production at Kopto has served as an experimental facility allowing CAG to prepare the workers and the organization for the large-scale production start up at Tardan.

As such, management has not been able to isolate the cash cost/oz for the production of Kopto, we have taken a conservative approach and estimated that cash cost will be as high as $350/oz in 2006, since this only is an experimental production facility. Even so, the impact of Kopto is limited since it only contributes with 1,600oz in 2006.

Presently, management has only announced production estimates for 2006, it is uncertain whether production will continue after this or not. This depends on the fact that no forward looking exploration is being undertaken at this point in time, production will continue further down at depth as long as mineable ore is encountered.

Due to its low-scale production we don't believe that Kopto will significantly contribute to the cash flows. However, the process facility is useful for other purposes, it can be used as an experimental and analysis facility for testing new ore bodies in the area.

Sivo Pravy Uval

The Sivo deposit contains 19,000oz of C1 Reserves but no Resources. The deposit is an alluvial deposit that was producing in the 50s and later in the 90s and is located in the Russian region Buryatiya. Since a decision to start up production was taken in the 90s, when the gold price was around $400/oz, we believe that this deposit certainly will be feasible with the gold price of today.

In 2005 CAG entered into a joint-venture (JV) agreement with a Russian company regarding the expansion of the project. The Russian company will be liable for the financing and the operation of the project.

However, as of today no important progress has been made at the Sivo deposit.

Artelj Tyva, Agliyak

The Agliyak deposit is an alluvial deposit with C1+C2 Reserves of 80,000oz.

Artelj Tyva was acquired in 2005 for a total consideration of SEK 14,5m ($2m). The deposit then contained ca 91,800oz in C1+C2 Reserves and had an annual average production of ca 8,500oz the last three years, which implies that CAG paid SEK 158/oz! At the time of the announcement (2005.05.26) CAG had a market capitalization of ca SEK 163m (share price 0,55) and 253,000oz in C1+C2 Reserves which valued their resources @ SEK 355/oz. This implies that the transaction created a shareholder value of ca SEK 18m or 0,1 per share after adjusting for the issue of 36m new shares.

In 2005 Agliyak produced 10,120oz of gold, at a total cash cost of ca 406/oz (inc royalty of 6%) management estimates that production will stay at this level in the future. Due to the late actual acquisition date (27th of December) the result of Artelj Tyva has not been consolidated into the accounts of 2005.

As an alluvial producer in a frosty climate, Agliyak is deemed to produce only during the warm period of the year i.e. May-October. Management has announced that most production will occur in the Q2-Q3 whereas most of the gold sales of Agliyak will take place in Q4.

Kopylovskoye, Letter of Intent

In May CAG signed a Letter of Intent (LOI) concerning the acquisition of the Kopylovskoye in Siberia, close to the city of Irkutsk. The deposit has been subject to a rather detailed exploration and so far the C1+C2 reserves constitute to ca 250,000oz. However, so far only parts of the mineralization have been prospected and only to a depth of 30m.

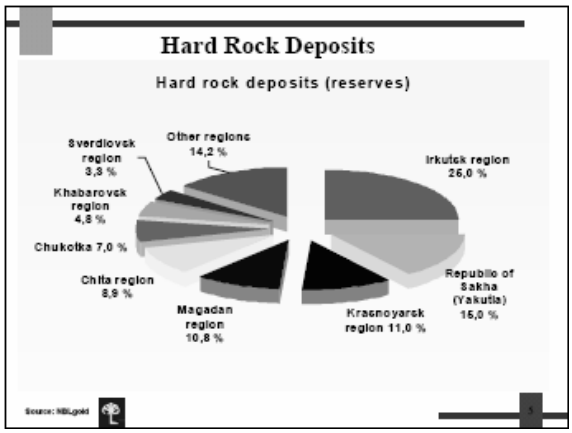
The deposit is of stockwerk-type, meaning that it extends to the depth, which makes it highly reasonable to believe that more gold will be found as exploration is conducted further to the depth and over a larger area of the mineralization. CAG's geologists also see a potential for other ore bodies in the concession, additional to the ones containing the 250,000oz. According to the CEO, the geologists of CAG believes that the concession could contain up to 5-10 times the C1+C2 reserves of 250,000oz of today or up to 2,5m oz!

The LOI also includes certain equipment such as a gravity enrichment-plant which already has been through test-production, capable of processing 500,000 tonnes of ore annually, at a grade of 3 g/t this would yield a production of ca 50k oz. There are already roads, buildings, electric cables and drilling equipment established at the ground, thus the infrastructure situation for the project is good.

The deal is separated into two parts, for the ore deposit the price is set to $6m whereas the equipment will fetch a price of $12m. According to the LOI, CAG will thereby be able to acquire reserves for $24/oz! ($6m/250,000oz). Presently CAG has a market capitalization of ca $69,8m and 333,000oz in reserves, which values their reserves at $210/oz! Given that the LOI results in a 100% acquisition of both the reserves and the equipment at $18m (ca SEK 128,5m), this means that CAG will add a value of ca $34m or SEK 1/share! (acquisition: $18m/250koz=$72/oz).

The company's geologists actually believe that the concession area contains substantially more gold than the 250,000oz in reserves meaning that the price/oz eventually will become even lower.

Siberia and particularly the area around Irkutsk hosts some of Russia's largest and potentially the world's largest gold deposits. The region is home to both Polyus Gold's (a subsidiary of Norilsk Nickel) Olimpiada and the Sukhoi Log deposits. The Olimpiada deposit has C1+C2 reserves of 13m oz, whereas the reserves of Sukhoi Log have been estimated to some 30m oz.



Source: NBL Gold

As illustrated above, the Irkutsk region is actually the most gold prolific region in Russia. Most of the other deposits found in the Irkutsk region are believed to be satellite ore bodies of the

Sukhoi Log. Polyus gold has explored several deposits in the Irkutsk region with very good results.

The Zapadnoye deposit has C1+C2 reserves of 400k oz and an inferred resource of 2,7m oz.

The Chertovo Koryto deposit has C2 reserves of 350k oz and inferred resources of 7,2m oz. It is notable that the Chertovo Koryto deposit is of the same type of stockwerk mineralization as CAG's LOI.

The Pervenets and Verinskoye deposits have a total of 2,8m oz in C1+C2 reserves and inferred resources of 6m oz.

Thereby these gold deposit (excluding the bonanza deposits Olimpiada and Sukhoi Log) in the Irkutsk region have average C1+C2 reserve of ca 1m oz and inferred resources of ca 5m oz. Except for the Zapadnoye mine, these are all in the exploration stage suggesting that the reserves could increase significantly. The Zapadnoye mine, is already producing and Polyus has announced that further exploration will be carried out to increase the reserves and that measures already have been taken to increase the production capacity which implies that they are certain that a large amount of the inferred resource will be transformed to reserves.

Based on the fact that exploration only has been carried out to a depth of 30m and only in parts of the concession area and the reserve and resource base of similar deposits in the region, we believe that the deposit could contain significantly more gold than the present 240k oz in C1+C2 reserves , possibly a multi-million oz deposit.

To assume that the deposit contains 500k oz or a 100% increase actually seems conservative given that the other deposit in the region have average inferred resources of ca 5m oz in an early exploration stage. We believe that it reasonable to believe that the mineralization could contain 1-2m oz, however with the limited information available we feel that it is still too early fully price such assumptions. If CAG pursue the LOI, exploration will probably be conducted in 2007 which will reveal more information about the size of the mineralization.

Should the exploration verify the existence of a deposit in the 1m oz range, a solid appreciation of the share price is justified.

CAG announced on the 9th of September that they had secured the funding of the acquisition through an equity issue of 75m share @ SEK 2,02/share, with proceeds of ca SEK 150m, whereas the price is ca SEK 130m. Furthermore, the broker house that introduced CAG to Kopylovskoye will receive a remuneration of 5% of the consideration of $18m, ca SEK 6,5m under the terms of a convertible credit letter. This credit facility gives the brokerage house the rights to convert the amount of ca SEK 6,5m into CAG shares at a price of SEK 2,05/share which, if converted this would render in ca 3,2m shares.

We have assumed that an exploration program in 2007-2008 will prove that there is more gold in the ground. Consequently we believe that CAG will increase the production. In our estimates we have assumed that $8m is invested in the mine site and on an expansion of the process facility, increasing the production to 65k oz annually from 2009 and onwards.

Exploration

Per today CAG has not engaged in green-field exploration. This has been a conscious approach by the management and a result of the possibility to acquire proven Russian oz cheaply due to the strong fragmentation of the Russian gold industry. This strategy is dependent upon the management's ability to identify and acquire cheap Russian assets and the availability of such. It is also dependent upon the company's ability to rapidly raise cash.

Thereby the future success and growth of CAG per today shouldn't be evaluated by the company's ability to discover new oz like an ordinary junior producer/exploration company but rather by the managements ability to identify and acquire already proven oz cheaply.

We believe that the acquisition of Artelj Tyva, the reward of the market (the share appreciated nearly 60% in about a month's time after the announcement of the purchase) and the recent LOI, clearly illustrates the management's ability to make accretive acquisitions. Its ability to quickly raise cash was demonstrated when the company in a week's time managed to raise up to $25m that was requested for the auction of the Kyzyl-Tazhdyg deposit (the auction that eventually was lost against a Chinese party).

As the consolidation of the industry continues and the gold price continues to increase, this window of opportunity will however not be open forever and CAG will likely have to carry out exploration themselves, in order to reach the corporate target of 1moz in C1+C2 Reserves.

CAG has announced that the first step likely will be to conduct brown-field exploration of the "low-grade ore" in the Tardan concession.

Management, Board & Shareholders

Michail Malyarenko (44) Russian citizen, Chairman: Mr. Malyarenko holds a degree in metallurgical engineering from the Technical College of Tomsk. In addition he has studied at the International Centre for Gas and Prospecting (MGIMO) in Russia. Mr. Malyarenko has 20 years experience of exploration activities.

He started his career as a geologist at what today is known as the Russian oil company Yukos.

Most recently he was the CEO of Vostochnaya Transnatsionalnya Kompaniya which sold the oil license Middle Nyurola that created the Swedish public oil company West Siberian Resources Ltd (former Vostok Oil Ltd). Today this company has a market cap of SEK 6,3bn. At this time Torbjörn Ranta was CEO of West Siberian Resources. Being pleased with the previous cooperation, Malyarenko and his partner Alexander Merko then asked Ranta to become the CEO for a company possessing the gold assets they had acquired in Russia since 2004. This company became Central Asia Gold.

Malyarenko holds 38,25m shares.

Alexander Merko (52) Russian citizen, Board member: Mr. Merko holds a degree in food science from the Technical College of Odessa. Prior to his engagement in CAG Mr. Merko held the position as CEO of Moscow Grain Combine, that produces ca 25-30% of the annual wheat flour consumption of Moscow, 1995-2005.

Mr. Merko controls the company Benton International Ltd., that holds 38,47m shares

Örjan Berner (69), Board member: Holds a degree from the University of Lund**.** Mr. Berner has held the position as Swedish Ambassador in several different countries including Soviet Union/Russia during the early part of the 1970s and 1989-1994.

He was also the Chairman for Vostok Oil Ltd. Currently; Mr. Berner holds the position as CEO of "Swedes World Wide"

Peter Geijerman (34), Board member: Mr. Geijerman holds a MBA from INSEAD as well as a MSc in clinical medicine from the Karolinska Institute. He has been established as an entrepreneur in Russia since 1997. Currently, Mr. Geijerman is the CEO of a management company that operates and controls an industry group engaged within infrastructure constructions such as road building and railroad transportation.

Mr. Geijerman is fluent in Russian and has extensive experience of project management and operations in Russia.

Patric Perenius (55), Board member: Mr. Perenius holds a degree in Metallurgical Engineering from the Royal Institute of Technology in Stockholm. He has worked within the oil and mining industries as a geologist since 1978. During the 90s and to this date he has held positions as board member and employee in public mining companies such as Wermlands Guldbrytning, Aurex and Gexco.

Mr. Perenius completed his engagement in Gexco in 2004 and is currently only engaged within the mining industry through Central Asia Gold.

Torbjörn Ranta (44), CEO and Board member: Mr. Ranta completed his Swedish military service within the Language and Intelligence School of the Swedish Armed Forces, one of the most demanding educations of the Swedish military, where he studied Russian. After which he held a position at the Swedish embassy in Moscow. He holds a BA from the Stockholm School of Economics.

Mr. Ranta then pursued a career within finance where he worked within corporate finance and as a stockbroker. In 1996 he accepted the position as CEO and Board member of the Swedish public company Vostok Nafta Limited. In 2001, Vostok Nafta Limited spun-off and listed it's subsidiary Vostok Oil and Mr. Ranta became the CEO of this new entity.

2003 Mr. Ranta completed his engagement in Vostok Oil, prior to his appointment as CEO of Central Asia Gold in 2004. Mr. Ranta is a fluent Russian speaker.

Ranta holds 4m shares.

Paal Hveem (53) Norwegian citizen, Board member: Mr. Hveem holds a degree in Business Administration. Mr. Hveem has been working as a business man/investor since 1985, manly in real estate, shipping and oil. Mr. Hveem is also a board member of Greenwich Land Securities AS and Malka Oil AB.

Mr. Hveem and Mr. Blystad held some 54,4m shares prior to the directed issue of 75 million shares published on September 7. In this rights issue Mr. Blystad has announced that he takes 20m additional shares.

Alexander Gerasimov (50) Russian citizen, Board member and Chief-Geologist: Mr. Gerasimov holds a degree in Metallurgical Engineering from the Technical Institute of Tomsk. He has previously held positions such as Chief-Geologist of a public Russian company and director of a Gold-analysis company. Mr. Gerasimov has 24 years experience of the mining industry.

Oleg Novgordov (46) Russian citizen, Vice-CEO of Tardan Gold and Tomano: Mr. Novgordov holds a degree from the Technical Institute of Tchita in Metallurgical Engineering, Underground Mining. Previously he has held positions such as CEO, Director and Production Engineer at various Russian mining companies. Mr. Novgordov has 19 years experience of the mining industry.

Major Shareholders, April 2006, pro-forma*

Shareholders	MM shares	%
1. Arne Blystad/Paal Hveem	74,44	20,33 %
2. Benton International Ltd	38,47	10,50 %
3. Michail Malyarenko	38,25	10,44 %
4. Skrindan AB	17,20	4,70 %
5. Catella Case	8,87	2,42 %
6. Hansard International Ltd	6,66	1,82 %
7. EFG Private Bank	6,34	1,73 %
8. Cancale Förvaltnings AB	5,00	1,37 %
9. Bernt Plotek	4,00	1,09 %
10. Torbjörn Ranta	4,00	1,09 %
Subtotal 10 largest owners	203,23	55,50 %
Others	162,97	44,50 %
Total	**366,20**	**100,00 %**

Source: CAR Analyse, Company information. * The new issue of 75m shares has only been guaranteed, thereby the allocation and ownership of those is still not known.

In March 2006 CAG entered a finance agreement with the two recognized Norwegian entrepreneurs Arne Blystad and Paal Hveem. The aim of the agreement was to secure capital to acquire a promising zinc deposit (the Kyzyl-Tazhdyg deposit) via a public privatization auction in Russia.

The terms of the deal was that Blystad and Hveem guaranteed the total consideration if the auction was won. In the case of losing the auction they were given the rights to minimum $5m and maximum $10m in a direct issue. The auction for the zinc deposit was lost, but Blystad and Hveem subscribed to the directed issue to the maximum amount of $10m at an issue price of SEK 1,44/share. Mr. Hveem has also been elected as new board member by the June 2006 AGM.

On the 9th of September CAG announced that the acquisition of Kopylovskoye will be financed through the issue of 75m new shares, prior to this there were 291,196,923 shares outstanding. In total the issue results in 366,196,923 shares outstanding.

In total, management and board members controls 155m shares or 40% and we thereby estimate the free-float to 60%.

Risks

Currency risk: Since CAG's subsidiaries' expenditures are in Russian ruble whereas the revenues are directly correlated to the gold price, which is denominated in US dollars, the exchange rate between the US dollar and the Russian ruble has a substantial impact on CAG's financial statements. Currently the Russian inflation runs at 10%. In our estimates we have assumed a 10% cost inflation in dollars annually from 2006-2008 and thereby taken a prudent approach, since part of the increase could be offset by synergies.

However, as the gold price historically has been negatively correlated to the dollar, i.e. when the dollar depreciates against other currencies the gold price appreciates, the negative effect of a depreciated dollar to CAG's revenues could be offset by an appreciation of the gold price.

Furthermore CAG, the holding company, has its headquarter in Sweden and thus its accounting currency is SEK and thereby the exchange rate between the SEK and the ruble also has an impact on the financial statements of CAG.

Cyclical Market: Demand for various minerals and gold, as well as the price of minerals and gold, has historically displayed variations of a substantial magnitude. Should the demand for the mineral decline and subsequently the price of it drop this will affect the operational profit of CAG.

Regulations: Accidents can affect the whole industry. An environmental disaster would most likely affect the whole industry through new regulations. Government regulations could call for stronger safety measures, requiring new equipment to be installed.

Geopolitical risk: Russia has experienced a rapid transformation from the old communist era to the more democratic model of today. However, the constitution of today has concentrated the power to the president, Vladimir Putin. Thereby regulations are very much correlated to Putin's will and thereby hard to predict. The gold industry currently only constitutes to ca 2% of Russian exports, compared to the oil industry which provides ca 50% of export revenues. Thereby the gold industry isn't that much of a government affair and state intervention is less likely. Another aspect is the possibility of a new communist government ruling, which could nationalize assets. In addition Russia isn't a very homogenous country; there is a wide range of different ethnical group which could prove to be insurgent, such as the Chechens.

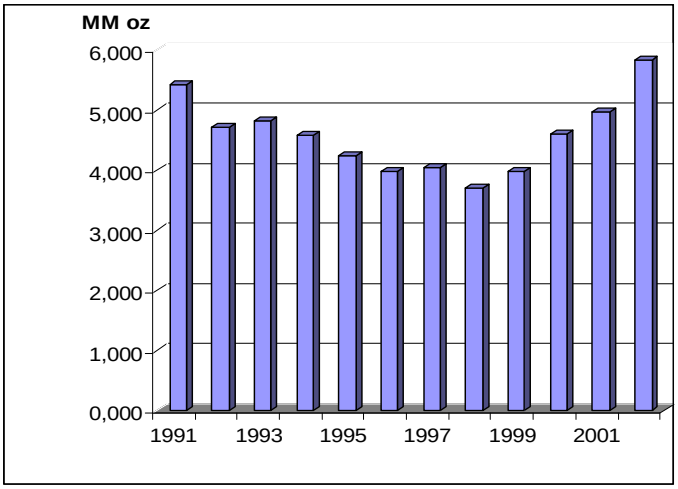
Geological risk: There are no guarantees that CAG's projects will be economically mineable. The amount of gold and the grade in deposits is estimated based on exploration and simulations, when the production start and the gold is extracted reality might be different to what exploration has suggested. In addition the amount of economically mineable gold is dependent upon the gold price and thus fluctuates with it.

Russian gold

A fragmented industry

Russia is the world's 5th largest gold producer with an annual production of ca 181 tonnes or nearly 6m oz in 2002. In 1999 a 30 year old trend of falling production was breached and since production has increased by ca 50%. This trend is likely to continue since, according to CAG, Russia has enough reserves to produce at current levels for 50 years whereas this figure in the Western world is ca 14 years.

Russian gold production 1991-2002



Source: CAR Analyse, Company information

At present there are more than 600 registered gold companies registered in Russia, making it extremely fragmented. In 2002 the 20 largest companies contributed with ca 56% of the production. As a benchmark, the 4 largest oil companies in Russia produced more than 60% of total production.

This suggests that the Russian gold industry is ripe for consolidation, a process we have already seen in the international market. Since September 2005 there have been ca 20 mergers and acquisitions in the international gold industry, with the merger between Barrick Gold and Placer Dome being the most significant, the others has primarily been among junior producers.

There are signs that this pattern repeats itself in Russia. Norisk Nickel has made several acquisitions the latest years, including the acquisition of Russia largest mine, Olimpiadinskoye and a 20% stake in Gold Fields Ltd which however was sold in spring 2006.

The consolidation of the Russian gold industry will probably continue as long as there is a possibility to acquire proven assets cheaply and then sell them to the international gold price.

The international consolidation process is a result of global exploration spending having decreased from $5bn in 1997 to less than $2bn in 2002. As a result there have been very few new projects in the pipeline. Thus the only way for gold producers to rapidly replace and increase their reserves is to acquire companies with reserves.

The Russian gold industry appears to be a more liberated industry regarding foreign ownership than the energy industry which is more or less monopolized through Gazprom; in fact the Russian government recently declared that Gazprom has a monopoly of Russian gas export. In 2002 foreign owned gold companies contributed with ca 15% of the total

production. This suggests that the Russian gold industry isn't as politically sensitive and less likely to experience governmental intervention. In Australia, one of the world's largest mining nations, foreign ownership has increased from 20% to 70% in the recent year.

Valuation

Peer comparison

Russian and Scandinavian peers

Market	Peter Hambro	Trans-Siberian Gold	Lappland	Gexco	CAG	Highland Gold	Celtic Resources	High River Gold	Average
Market Cap $m	1 955	57	148	39	104	472	194	488	432,0
Enterprise Value $m	1 944	45	136	37	98	465	176	520	427,6
Operations									
Reserves (Moz)	9,0	2,8	0,7	0,0	0,6	8,1	9,4	2,9	4,8
Total Resources	18,7	3,7	1,9	0,5	0,8	15,7	9,4	3,1	6,7
2007e Production (Koz)	250	-	-	-	31	215	78	270	168,8
Cash Cost USD/oz	174	-	-	-	307	303	363	340	297,4
Operating profit margin @Gold $620/oz, 2007e	72 %				50 %	51 %	41 %	45 %	52 %
2007e Operating profit (USDmn)	111,50	-	-	-	9,80	68,16	19,99	75,60	57,0
Valuation									
Price/operating profit 2007e	17,5	NA	NA	NA	10,6	6,9	9,7	6,5	10,24
Mcap USD/Reserves oz	216	21	215	NA	182	59	21	170	126
EV USD/Reserves oz	215	16	197	NA	171	58	19	181	122
Mcap USD/ Total resources oz	104	15	79	77	132	30	21	156	77
EV USD/Total Resources oz	104	12	73	73	124	30	19	167	75
Ratio Market Cap/Total operating profit	0,49	NA	NA	NA	0,58	0,18	0,08	0,61	0,39
Reserve life @ 2007e production	36	NA	NA	NA	18	37	121	11	45
Mcap USD/Equity Prod oz	7820	NA	NA	NA	3323	2194	2492	1807	3527

Source: CAR Analyse, Company information. CAG LOI includes the 250k of C1+C2 reserves. Production and cash cost is based on company guiding, where we haven't found a guiding for cash cost, we have assumed a 10% increase of 2006 numbers.

All of these Russian peers are listed at the London AIM stock exchange, with the exception of High River Gold which is listed in Toronto.

To enable a comparison between international classification standards (JORC) and FSU classification standards, we have assumed that C1 and C2 Reserves in Russia is equivalent to Measured and Indicated (here referred to as reserves) and P1 resources is equivalent to inferred resources (here referred to as resources), we have not included any P2 or P3 resources (see *FSU Reserve and Resource classification* for more information).

Celtic Resources is valued very cheaply at EV/Reserves $19/oz. However, of those 9,4m oz, 7,7m oz originates from their 50% stake in the 15,4m oz large Nezhdaninskoye gold field.

The Nezhdaninskoye gold field is subject to a lot of turmoil. Celtic had a loan that was collateralized against their stake in the gold field where the debtor claims that the collateral is now theirs, in addition the future progress and Celtic's share of the project is highly uncertain. Adjusting for those 7,7m oz, Celtic's producing assets have a total of 1,7m oz valued at EV/Reserves at $106/oz, the average increases to $135/oz.

Trans-Siberian Gold is also valued very low at EV/Reserves of only $16/oz. Of the 2,8m oz in reserves, 2m oz is from their Veduga deposit which Trans-Siberian last year announced is uncertain if feasible. Adjusting for those 2m oz from Veduga, their reserves are valued at $56/oz, still low but production is not expected to start until 2008 and construction of the mine is not yet ready, leaving a large amount of CAPEX and financing as well as construction risk.

Highland Gold is currently valued at EV/Reserves $58/oz which appears fairly cheap. However, of the total resources of 15,7m oz ca 50% comes from the Mayskoye deposit, expected to be put in production by 2008, where CAPEX, financing and construction risk remains.

High River Gold appears to be quite attractively priced at EV/Reserves $181/oz, considering the quite high production level of 270k oz estimated for 2007. We believe that this is due to

the fact that ca 55% of the production in 2007 originates from the Buryatzoloto mine, which is the only of High River Gold's 3 mines with a track record, the other two, Taparko and Berezitovy are still under construction but planned to start up production in 2007 with ca $40m left in CAPEX. For the Buryatzoloto mine, the cash cost has escalated from $274/oz to $347/oz which creates uncertainty of future cash cost, even so the share by a brief look appears quite modestly priced.

Peter Hambro is a somewhat different ball-game with a market cap of nearly $2bn, 9m oz in reserves and 18,7m oz in resources. The company has announced that they have a target to produce 1m oz by 2009, which seems rather optimistic though since they have to quadruple the output in 2,5 years from 2005 year's level.

Currently Peter Hambro only produces from the Pokrovskiy mine and Pioneer mine, whereas the target of 1m oz only will be reached conditioned that Pokrovskiy mine boosts its output to 0,5m oz, Pioneer to 0,25m oz and Malomir with 0,43m oz. Presently, the Pokrovskiy field has ca 2m oz of C1+C2 reserves which gives a mine life of 4 years at the estimated output of 0,5m oz. Being right in the start-up of an aggressive production growth where crucial parameters such as cash cost and reserves aren't yet available, the reserves and cash flows aren't fully priced yet.

Lappland Goldminers is expected to start a production of 100,00oz in 2010 at a very competitive cash cost of ca $150/oz, they are valued at EV/Reserves $197. However the company still hasn't received a environmental permit for their Fäboliden mine and the total investment is estimated to ca $150m, with ca $12m in cash its clear that they will need more financing.

Gexco currently doesn't have any reserves, but they have ca 0,5m oz in inferred resources, valuing them at $77/oz. Compared to CAG's $132/oz this is fair considering that production will start up in 2008 at the earliest and will need further financing considering that an investment of ca $6m is needed. However, newly received test results from the area suggest a larger mineralization than previously estimated.

After the acquisition of the Kopylovskoye deposit CAG's reserves has increased to 573k oz and are currently valued at EV/reserves $171/oz.

More important than a pure asset valuation, CAG is currently priced at Price/operating profit 10,6x while the average of those Russian peers who has production in 2007 is 10,24x, Peter Hambro has the highest multiple of 17,5 whereas High River Gold has the lowest of 6,5. Considering that this multiple falls to 5,9x 2008 operating profit and as low as 2,6x 2009 as the Kopylovskoye deposit likely comes into production, we believe this is defendable.

The ratio market cap/total operating profit (total operating profit defined as (*spot gold price-cash cost)*oz of reserves*) is useful as it takes both margins and reserves into account. Adjusting for the Nezhdaninskoye gold field of Celtic Resources the average is 0,46, while CAG's ratio is 0,58 which is comparatively high due to the presently rather weak reserve base.

Thereby CAG and its producing Russian peers are all valued at Market cap/total operating profit 0,44-0,61, with the exception of Highland Gold who comes in low at 0,18.

In conclusion it appears that CAG and its Russian peers all are in a growth phase, with no proven track records of major contributing deposits. Most have multiple projects of which some are doubtful if they even come into production whereas some have large resources of projects that are not constructed or financed yet. This makes a simple peer comparison inappropriate.

CAG is priced higher than the average at EV/Reserves at $171/oz. Based on a Price/operating profit of 2007e CAG is valued at 10,6x which is which is defendable considering the production and revenue growth.

Based on Market cap/total operating profit, CAG is valued at 0,58. The average is 0,46. Thereby CAG is currently priced higher than its peers for 2007, however it should be recognized that this figure doesn't take account of the possible increase in reserves by the 300k oz of low-grade ore at Tardan, the expected decrease in cash cost as a result and only 240k oz in reserves of the LOI.

With 183k oz in P1 resources and 4,354m oz in P2 resources at Tardan there is a substantial exploration upside. Tardan is certainly interesting, assuming that only 23% of the P2 resource could be converted into reserves, would mean an increase by ca 1m oz.

To illustrate the impact on the asset based valuations we have made a likely reserve growth assumption.

It is reasonable to believe that the first addition to the reserve base will be the 300,000oz from the low-grade ores at Tardan, which would then increase the reserves to 873k oz. Based on a comparison to other deposits in the area of the Kopylovskoye deposit and the stockwerk type of mineralization (these types of mineralizations extends to the depth, whereas exploration only has been carried out to a depth of ca 30m, *see p. 7*) it is reasonable to believe that the LOI contains substantially more gold than the present 240k oz in C1+C2 reserves, probably 1-2m oz. Assuming that the Kopylovskoye has 1m oz would give an increase of the reserves to 1,633m oz.

Such a reserve growth would render an EV/reserves of $60/oz suggesting an upside of 125% compared to the present average of $135/oz. Market cap/total operating profit would decrease to 0,20 (without adjusting for the lower cash cost when the low-grade ores are brought into production), which suggests an upside of 130% compared to the present average of 0,46.

In addition, other Russian gold producers have significantly higher reserve bases, 6,4m oz in reserves on average. In the section *FSU Reserve and Resource Classifications* it is found that the FSU classification doesn't entirely evaluate the economic feasibility of reserves, suggesting that those large reserve bases of the Russian companies may not be entirely recoverable which in turn then artificially decrease their ratio. Whereas this could be the case for CAG as well, we find their modest reserve base of 573k oz more reliable. This is also supported by the fact that int. peers have a higher average Market cap/total operating profit ratio of 0,53.

We believe that the upside currently is limited by the rather weak reserve base, but when the expansion of Tardan is incorporated and the Kopylovskoye is proved to be in line with the other deposits in the region, a substantial appreciation of the share price is justified on a peer group basis.

International peers, junior producers

Market	Alamos Gold	Aurizon	Bendigo	Banro	Golden Star	Sino Gold	Miramar Mining Corp	Average
Market Cap $m	756	384	529	324	645	551	960	593
Enterprise Value $m	777	359	426	259	626	553	905	558
Operations								
Reserves (Moz)	3,0	1,7	0,2	2,4	6,7	2,4	3,6	2,9
Total resources (Moz)	3,5	2,8	11,2	7,9	10,8	3,7	9,0	7,0
2007e Production (Koz)	200	180	110	-	500	164	-	231
2005 Cash Cost USD/oz	200	240	300	-	350	200	-	258
2007e Operating profit (USDmn)	84,00	68,40	35,20	-	135,00	68,88	-	78,3
CPS (USD) 07e*	0,79	0,55	0,10	(0,20)	0,54	0,72	(0,03)	0,54
Valuation								
P/operating profit 2007e	9,0	5,6	15,0	NA	4,8	8,0	NA	8,5
P/CF 2007e*	10,3	5,3	16,6	(42,2)	5,8	5,0	(150,9)	8,6
Mcap USD/Reserves oz	250	231	2244	133	97	232	270	202
EV USD/Reserves oz	257	216	1805	106	94	233	255	193
Mcap USD/ Total resources oz	219	135	47	41	60	149	106	108
EV USD/Total Resources oz	224	126	38	33	58	150	100	104
Ratio Market Cap/Total operating profit	0,60	0,61	7,01	NA	0,36	0,55	NA	1,83
Reserve life @ 2007e production	15	9	2	NA	13	15	NA	11
Operating profit margin %	68 %	61 %	52 %	NA	44 %	68 %	NA	58 %
Mcap USD/Equity Prod oz	3782	2134	4814	NA	1290	3359	NA	3076
**Thomson First Call consensus estimates*								

Source: CAR Analyse, Company information

Among the international juniors, trends are more easily recognized.

Miramar Mining Corp has the highest market cap after a recent equity issue of 22m shares and the highest Market cap/reserves of $270/oz.

With the exception of Miramar, Alamos Gold who has the highest market cap is also the lowest cost producer, together with Sino Gold. Alamos reserves are valued at $250/oz compared to Sino's $232/oz, which is fair considering that a finance facility requires Sino to hedge ca 20% of the production at $523/oz giving an averaged sales price of ca $605/oz (assuming a spot gold price of $620/oz).

The company with the lowest market capitalization, Banro is expected to finish feasibility studies for their projects in 2006-2007, but production start-up is still uncertain.

Based on a 2007e Price/operating profit, the international peers appears to be valued lower than the Russian. The average is 8,5 compared to 10,3 (this could be because we have taken a prudent approach and assumed a 10% increase in cash cost where no company guiding is available, cash cost for intl. peers is $258/oz whereas the Russian average is 284, which substantially reduces the operating profit). However, the Russian peers have much higher growth rates of the production, meaning that this figure could dramatically change if the time frame was longer. In addition it is important to recognize that due to the fragmentation of the Russian gold industry there is a window of opportunity to acquire new oz significantly cheaper in Russia than in the rest of the world which offers a substantial upside to reserve growth.

Golden Star has a large reserve base of 6,7m oz and a high production of 2007e 0,5m oz, but appears to be punished by having the highest cash cost of the group.

Bendigo is a special case in the sense that they only have 0,2m oz of reserves whereas the production for 2007 is estimated at 110k oz. However, the company has an inferred resource of 11m oz and must be quite certain (as well as the market) that these will be recoverable since they have taken the decision to start the construction of the mine.

As with the Russian peer group, the most consistent measurement seems to be the market cap/total operating profit. Excluding Bendigo, the average market cap/total operating profit is 0,53.

Production and Cash costs 2006-2009

Production and cash cost estimates 2006-2009

	2006				2007						
	Q1	Q2e	Q3e	Q4e	YE 2006e	Q1e	Q2e	Q3e	Q4e	YE 2007e	YE 2008e	YE 2009e
Gold price $/oz		600	600	600	600	650	650	650	650	650	630	550
TARDAN low-grade ores												
production oz											15 000	15 000
Cash cost/oz $ cum royalty											150	150
TARDAN high-grade ores												
production oz				2 570	2570	5 300	5 300	5 300	5 300	21 200	27 000	27 000
Cash cost/oz $ cum royalty				240	240	270	270	270	270	270	297	297
KOPTO												
production oz		400	400	400	1 200							
Cash cost/oz $ cum royalty		350	350	350	350							
ARTELJ TYVA, 99,8% ownership												
production oz		5 060	5 060		10 120		5 060	5 060		10 120	10 120	10 120
attributable production oz		5 050	5 050		10 100		5 050	5 050		10 100	10 100	10 100
Cash cost/oz $ cum royalty		350	350		350		385	385		385	424	424
KOPYLOVSKOYE (LOI)												
attributable production oz												65 000
Cash cost/oz $ cum royalty												275
Total production oz		5 450	5 450	2 970	13 870	5 300	10 350	10 350	5 300	31 300	52 100	117 100
Avg. cash cost/oz ex royalty 6%		354	353	413	366	309	346	346	383	346	317	310
Revenues $		400 000	240 000	7 841 856	8 481 856	3 445 000	3 445 000	3 445 000	10 009 844	20 344 844	32 822 849	64 404 868
Opex $		1 931 458	1 921 858	1 227 311	5 080 627	1 637 700	3 581 904	3 581 904	2 031 591	10 833 098	16 515 619	36 285 540
Operating profit $		-1 531 458	-1 681 858	6 614 545	3 401 229	1 807 300	-136 904	-136 904	7 978 253	9 511 746	16 307 230	28 119 328

Source: CAR Analyse, Company information, gold price based on Thomson First Call estimates 2006-2008. 2009-2015 a long-term gold price of $550/oz has been assumed.

For Tardan we have use CAG's guiding for costs and production level.

We have only incorporated Kopto in the production until 2006, CAG hasn't given any guiding for future production.

In the case of Artelj Tyva, the alluvial deposit, we have based our cost and production estimates on 2005 figures. Furthermore, we have assumed that production occurs evenly in the 2nd and 3rd quarter where also the costs occur, whereas the revenue comes in Q4, when the gold is sold.

Regarding the Kopylovskoye (LOI) project, the process facility is capable of producing 500k tonnes of ore or ca 50k oz at 3 g/t, the same production level as for the optimistic case of Tardan where CAG has estimated a cash cost of ca 190/oz. However this estimate was given at the end of 2005, consequently we estimate that inflation has increased by ca 20% 2006-2009 to ca $250/oz, to be prudent we have added $25/oz and assumed a cash cost of $275/oz in 2009 for the LOI at a production of ca 65k oz. We have assumed CAPEX of $8m in 2008 for the mine site and an increase in production to 65k oz annually from 2009 and onwards.

We have taken a prudent approach and inflated cash costs for all projects by 10% annually from 2006-2008.

DCF and Multiples Valuation

We have used a discount rate of 11% (the company is debt free), USD/SEK has been set to 7,2.

Based on the production and cost estimates above, CAG will generate a NPV of SEK 647,8m between 2007-2015 or SEK 1,77/share.

Terminal value

Our terminal value has been achieved by estimating oz left after 2015. Tardan today has 230k oz in reserves. At the forecasted production level outlined above, all of these will have been produced by 2015 (237k oz produced). We have assumed a zero reserve growth at Agliyak and thus Agliyak will run out of reserves and stop production in 2012. The LOI project will have produced 455k oz by 2015 according to our estimates, which implies that the LOI deposit contains a minimum of 455k oz.

We have made an estimate of 1,215m oz in reserve growth until 2015, which could come both from exploration of current deposits (such as Tardan where exploration only has been performed to a depth of ca 100m and there is 4,4m oz in the P2 resource and 184k oz in P1 resources that could be converted), or from acquisitions in the period.

However, the most likely and our assumption is that the new LOI is comparable to other deposits in the region and contains a minimum of 1m oz. Having produced 455k oz 2008-2015, 545k oz would still be left at the LOI deposit alone.

Thereby only ca 525k oz has to be added to the reserves in order to reach a residual of 1m oz in 2015.

We have assigned a value of $55/oz (10% of gold price of $550/oz) of the 1m oz in the residual. At a cash cost of 310 ex royalty and gold price of $550/oz, CAG will make cash flows of $240/oz, suggesting that the assigned value of $55/oz constitutes to just 20% of the expected CF/oz. This generates a present value of the residual of SEK 357,2m, or 0,98. This is probably rather conservative, the Tardan deposit has 4,4m oz in P2 reserves and the resource base of other deposit in the Irkutsk region suggests that Kopylovskoye could contain significantly more than 1m oz, up to 2,5m oz. Management has declared that their corporate goal is 1m oz already in 2009.

We believe that exploration of the Tardan and Kopylovskoye in 2007-2008 will have increased the reserves to a level where investments for process facilities with substantially higher production levels are justified. This will defend a substantial increase in the valuation as the cash flows increase.

Base case DCF

	SEK M	Per share	%
PV 2007-2015	647,8	1,77	64 %
PV of terminal value	357,2	0,98	36 %
Total	1005,0	2,74	100 %

Source: CAR Analyse, Company information

In our base case we find a fair value of SEK 2,74/share.

Based on these estimates, CAG will generate cash earnings (operational) of SEK 0,14 in 2007, 0,24 2008 rapidly increasing to 0,43 in 2009. At the current share price of SEK 2,03 this gives P/CF of 14,6x in 2007, 8,3x 2008 falling to 4,8x for 2009. Given the steep decline as a result of the production growth, we believe these multiples are fair as of today but as more reserves are proven and production starts, we believe an appreciation of the share price is justified.

Things could change rapidly in 2007-2008 as exploration of the LOI probably will add greatly more reserves, furthermore CPS increases substantially in 2009 as the LOI will contribute with ca 65k oz to the production, a production increase by ca 275% from 2007-2009.

Further upside exists if CAG continues their accretive acquisitions or manages to prove more reserves through exploration.

In addition, the entire Tardan area has P2 resources of 4,4m oz and exploration has only been carried out to a depth of 100m, whereas the geologists of CAG believes that there is more gold below this, suggesting a substantial exploration upside.

CAG has published 4 optimistic cases of the Tardan deposit, ranging in reserves from 1,3m to 3,9m oz with different CAPEX, OPEX and production scenarios. We believe that the top 3 scenarios are too optimistic, but the first scenario implying reserves of 1,3m oz or 30% of the P2 reserves is reachable.

Tardan optimistic case, assumptions

Assumptions	
Gold oz	1 286 029
Gold price $	550
cash cost $	193
Investment $	12m
Annual prod. Oz	64 301
Mine life	20
Grade g/t	4,0

Source: CAR Analyse, Company information

CAG had originally assumed a CAPEX of $17m, of this $7m is estimated to be spent on the mine site. Since CAG already has prepared the mine site for the current operation, we have assumed that only $2m is required for the mine site giving a total CAPEX of $12m (the remaining $10m is required for a new process facility capable of processing 500k tonnes of ore annually).

Agliyak are based on the same estimates (2005 figures) as in the base case and are thus not "optimistic".

In our assumptions for Kopylovskoye we have utilized a reserve base of 1,5m oz, resulting in a mine life of 15 years at a production level of 100k oz annually, cash costs have been estimated to $250/oz (significantly higher than CAG's own estimate at Tardan, but Tardan has a grade of 10,7 g/t whereas Kopylovskoye only has ca 3 g/t), which is the average cash cost in the world. Furthermore we have assumed a $50m investment in the mine site and process facility to scale up the production from the current 50k oz to 100k oz.

Optimistic case DCF

	NPV $m	SEK/share	%
Tardan 1,3m oz	111,0	2,2	51 %
Agliak	7,4	0,1	3 %
Kopylovskoye 1,5m	97,7	1,9	45 %
Total NPV	216,1	4,2	100 %
(Overheads)	(21,1)	(0,4)	
Total	195,0	3,8	

Source: CAR Analyse, Company information

In these calculations we have utilized a discount rate of 10% and a gold price of $550/oz.

This sum of the parts DCF valuation is useful to estimate the present value of the optimistic case. However, we believe that exploration conducted in 2007-2008 will reveal if the Kopylovskoye deposit is as promising as CAG's geologist and deposits in the proximity suggest. Should the exploration indicate that this is a multi-million oz deposit and production is increased to ca 100k oz annually, Tardan and Kopylovskoye will according to these estimates generate cash flows of ca $16m and $21m respectively, $37m in total or ca SEK 0,73/share, possibly already from 2009. Applying a conservative P/CF multiple of 10x would render a share price of SEK 7,3.

Appendix

FSU Reserve and Resource Classifications

There is a significant difference between the FSU classification and the western JORC code for classification of mineral reserves and resources. The JORC classification is solely based upon the interpretation of the exploration results by a *qualified person* with regards to the framework implemented by the code, which also means that is it highly subjective. In contrast, the FSU classification system aims to be fully objective by imposing a framework for the complete process of exploration, resource computation and reporting.

"The principles of the JORC Code are summarised… as Transparency, Materiality and Competence. Transparency requires that a public report contains sufficient information, the presentation of which is clear and unambiguous, so that a reader is able to understand the report and is not misled. Materiality requires that a public report contain all the relevant information that a reader could reasonably be expected to need in order to make a balanced judgement about the matters being reported. Competence requires that the public report be based on work that is the responsibility of a suitably qualified and experienced person who is subject to an enforceable professional code of ethics, that is, that public reports are based on work undertaken or supervised by a Competent Person."

From this framework it is clear the outcome of such a report is entirely dependent upon the judgement of the Competent Person.

JORC Classifications

Mineral Resource: means a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

Inferred Mineral Resource: means that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

Indicated Mineral Resource: means that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

Measured Mineral Resource: means that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

Mineral Reserve: means the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the

material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proven Ore Reserves.

Probable Reserve: means the economically mineable part of an Indicated, and in some circumstances Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

Proven Reserve: means the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified

(source: www.crew.no)

In contrast, the FSU classification is completely dependent upon the work carried out. For each classification, a framework of exploration methods requirements has been established. Thereby there is no possibility for a Competent Person to come up with a reserve or reserve estimate unless the required exploration work that classification has been carried out.

FSU Classifications:

Category A: The reserves in place are known in detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation.

Category B: The reserves in place have been explored but are only known in fair detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the basic reliability of the projected exploitation.

Category C1: The reserves in place have been estimated by a sparse grid of trenches, drillholes or underground workings. This category also includes reserves adjoining the boundaries of A and B reserves as well as reserves of very complex deposits in which the distribution cannot be determined even by a A-1 very dense grid. The quality and properties of the deposit are known tentatively by analyses and by analogy with known deposits of the same type. The general conditions for exploitation are known. The ore tonnage is derived from estimates of strike length, dip length and average thickness of the ore body. Allowance for barren blocks may be made statistically.

Category C2: These reserves are based on an extremely loose exploration grid, with little data. The limits of the orebody are defined mainly by extrapolation within known geological structures, and from comparison with other similar deposits in the vicinity. The grade and mineral properties of the orebody are determined from core samples and comparison with similar mineral deposits in the area. The reserves have been extrapolated from limited data, sometimes only a single hole. This category includes reserves that are adjoining A, B, and C1 reserves in the same deposit.

Prognostic Resources are estimated for mineralisation outside the limits of areas that have been explored in detail and are often based on data from trenches and from geochemical and geophysical surveys.

Category P1: Resources in the P1 category may extend outside the actual limits of the ore reserves defined in the C2 category. The outer limits of P1-type resources are determined indirectly by extrapolating from similar known mineral deposits in the area. P1 is the main source from which C2 reserves can be increased.

Category P2: These resources represent possible mineral structures in known mineral deposits or ore-bearing regions. They are estimated based on geophysical and geochemical data. Morphology, mineral composition and size of the orebody are estimated by analogy with similar mineralized geologic structures in the area.

Category P3: Any potential ore-bearing deposits are classified as resources in the P3 category. The presence of these resources relies on the theoretical definition of a ''favorable geological environment''.

Resource figures are derived from figures of similar deposits in the region.

Estimates of Prognostic Resources (P1, P2, and P3) routinely depend on assumptions and projections regarding the probable dimensions (length, width and depth) and grade of the deposit that are subject to confirmation by more detailed investigations.

In decision-making on a new mining project, the categories that are normally taken into account are A, B, C1, and C2. There is, therefore, a broad equivalence between these and the western proved plus probable reserves.

Deposit Categories

Deposits are categorized by their complexity and by their size and shape. These two categorization systems overlap to a significant extent (i.e. they are not orthogonal), in that complexity class I deposits tend also to be in shape/size group 1.

Complexity classes:

Group I: Simple non-disseminated deposits, of uniform thickness and continuous grade.

Group II: Deposits with complex geology, including irregular thickness, faulting, or uneven ore grade.

Group III: Highly complex geology with significant variation in thickness, very uneven grade distribution, or faulting.

Group IV: Extremely complex geology, with drastic variations in thickness and grade, or intensive faulting.

Size/shape groups:

Group 1 deposits: Large deposits, simple in form, with uniform distribution of minerals (examples: coal, some iron and disseminated copper deposits). A normal density of drillholes allows the definition of a high level of A and B reserves.

Group 2 deposits: Large deposits with different and sometimes complicated forms and uneven distribution of minerals (examples: some iron and sedimentary copper deposits). Only up to B category reserves may be defined with a normal grid of drillholes. A combination of drilling and underground workings may be necessary to define the reserves. Category A reserves can be established only by close spaced drilling and underground workings.

Group 3 deposits: Smaller sized deposits with uneven distribution of minerals (examples: some veins, skarns, dykes, and pegmatite deposits). Drillholes can only establish C1 reserves. B reserves can be established only with underground workings.

Group 4 deposits: Smaller sized deposits similar to Group 3 deposits or with even more complex shapes (examples: some veins, skarns, dykes, pegmatite deposits and gold placers). Category A reserves cannot be established with drilling or a normal grid of underground workings. Drilling in combination with underground workings is necessary to establish category B reserves.

Group 5 deposits: Small pocket deposits. Category A and B reserves cannot be established. Only category C reserves can be established, by systematic prospecting.

(source: angara mining plc)

What emerges from the FSU classification is that there is a strict framework of exploration work required in order to classify a reserve/resource, whereas in a JORC classification the exploration work required is subject to the interpretation of the Competent Person.

Naturally, both classifications are ultimately dependent upon the quality of the exploration work carried out and the experience of the geologists that analyse it.

In order to enable a comparison between the two different classification standards, *Resource Computing International Ltd* has established a framework for comparison.

FSU classification vs. JORC

FSU	International Reporting Code, JORC etc
A, B	Proved Reserve/Measured Resource
C_1	Proved or Probable Reserve/Indicated Resource
C_2	Probable Reserve/Indicated Resource/Inferred Resource
P_1	Inferred Resource
P_2	Reconnaissance Mineral Resource (UNFC code 334)
P_3	No equivalent

Source: Resources Computing International Ltd

Source: Resource Computing International Ltd

Key Financials

Operating data (SEK)	2004	2005	2006e	2007e	2008e	2009e
Sales	1 985 845	26 959 278	59 399 363	146 482 877	236 324 511	463 715 050
EBITDA (1)	(857 402)	6 873 948	15 271 344	57 884 569	106 812 052	191 859 158
EBIT (1)	(902 630)	3 050 145	(2 798 928)	35 090 304	77 219 836	162 797 750
Profit after financial items (2)	(1 152 326)	4 026 067	(2 079 964)	37 345 697	80 079 297	169 444 033
Pre-tax profit	(1 152 326)	4 026 067	(2 079 964)	37 345 697	80 079 297	169 444 033
Net profit (6)	(755 748)	4 019 067	(6 955 934)	28 009 273	60 059 473	127 083 025
Free cash flow I (3)	(3 500 938)	(37 812 680)	(57 538 020)	3 595 187	20 567 526	130 905 380
Free cash flow II (4)	865 854	(5 540 636)	4 891 709	19 300 921	51 075 309	104 343 971
Cash earnings (5)	(1 022 543)	6 624 465	15 911 105	50 803 538	89 651 689	156 144 434
Gross capital investments	4 412 020	50 500 848	210 100 000	38 500 000	60 100 000	2 500 000
- of which acquisitions	-	14 405 001	129 600 000	-	-	-
- Organic investments as % of sales	222,2	133,9	135,5	26,3	25,4	0,5
- Organic investments as % of depreciat	9 755	944	514	221	292	13

Margins (%)	2004	2005	2006e	2007e	2008e	2009e
EBITDA (1)	(43,2)	25,5	25,7	39,5	45,2	41,4
EBIT (1)	(45,5)	11,3	(4,7)	24,0	32,7	35,1
Profit after financial items (6)	(58,0)	14,9	(3,5)	25,5	33,9	36,5

Return on capital (%)	2004	2005	2006e	2007e	2008e	2009e
Adjusted ROE (7)	(2,9)	4,7	(3,2)	8,3	15,7	26,8
ROCE (8)	(4,9)	4,5	(1,5)	12,0	23,8	47,6
ROA (9)	(3,2)	4,5	(0,5)	9,6	17,5	28,2

Working capital management (%)	2004	2005	2006e	2007e	2008e	2009e
Inventories/sales	33	34	25	25	25	25
Accounts receivable/sales	60	38	15	15	15	15
Accounts payable/sales	106	14	25	25	25	25
Other current liabilities/sales	105	10	5	5	5	5
Net working capital/sales	(119)	48	10	10	10	10

Balance sheet (SEK)	2004	2005	2006e	2007e	2008e	2009e
Shareholders' equity	52 565 853	117 375 567	323 419 632	351 428 905	411 488 378	538 571 403
Net interest-bearing liabilities	(15 522 447)	(17 448 289)	(43 310 269)	(46 905 456)	(67 472 982)	(198 378 361)
Net financial gearing (%) (10)	(30)	(15)	(13)	(13)	(16)	(37)
Capital employed (11)	37 043 406	99 978 278	280 201 364	304 615 449	344 107 396	340 285 041
Total assets	56 763 540	139 039 409	361 123 508	415 257 834	502 269 797	697 569 984
Equity turnover (15)	0	0	0	0	1	1

Price multiples	2004	2005	2006e	2007e	2008e	2009e
P/E (17)	nm	-	nm	26,5	12,4	5,8
P/CE (18)	nm	-	46,7	14,6	8,3	4,8
P/Sales (19)	-	-	12,5	5,1	3,1	1,6
P/BV	-	-	2,3	2,1	1,8	1,4
EV/EBIT (20)	17,2	(5,7)	(250,1)	19,8	8,8	3,3
EV/EBITDA	18,1	(2,5)	45,8	12,0	6,3	2,8

Per share data (SEK)	2004	2005	2006e	2007e	2008e	2009e
Number of shares (year-end) (m)	138 088 774	228 608 802	366 196 923	366 196 923	366 196 923	366 196 923
Average number of shares (m)	26 813 860	183 287 071	297 402 863	366 196 923	366 196 923	366 196 923
Number of shares (full dilution) (m)	154 443 870	189 572 354	366 196 923	366 196 923	366 196 923	366 196 923
EPS (12)	(0,0)	0,0	(0,0)	0,1	0,2	0,3
Adjusted EPS (13)	(0,0)	0,0	(0,0)	0,1	0,2	0,3
Adjusted EPS (full dilution) (14)	(0,0)	0,0	(0,0)	0,1	0,2	0,3
Dividend	-	-	-	-	-	-
Book value	0,4	0,5	0,9	1,0	1,1	1,5
Free cash flow I (full dilution)	(0,0)	(0,2)	(0,2)	0,0	0,1	0,4
Free cash flow II (full dilution)	0,0	(0,0)	0,0	0,1	0,1	0,3
Cash earnings (full dilution)	(0,0)	0,0	0,0	0,1	0,2	0,4

Growth data (%)	2004	2005	2006e	2007e	2008e	2009e
Adjusted EPS (full dilution)	#DIV/0!	nm	(190)	nm	114	112
Dividend per share	nm	nm	nm	nm	nm	nm
Book value per share	#DIV/0!	35	72	9	17	31

1. Excluding associated income and non-recurring items.
2. Excluding non-recurring items.
3. Defined as EBIT + depreciation - net financial items +/- change in working capital - taxes paid - investments in operations.
4. Defined as EBIT - net financial items +/- change in working capital - taxes paid. This cash flow calculation is built on the assumption that depreciation is a good proxy for the ongoing reinvestment requirement in the company; in other words, this Free cash flow measure is concerned with sustainable cash flow generation.
5. Defined as EBIT + depreciation - net financial items - taxes paid.
6. Adjusted for non-recurring items.
7. Defined as net profit adjusted for non-recurring items net of taxes divided by average shareholders' equity.
8. Defined as EBIT including associated income divided by average capital employed.
9. EBIT including associated income and financial income divided by average total balance.
10. Defined as interest-bearing net liabilities (including pension liabilities) divided by shareholders' equity and minority interests.
11. Defined as the sum of shareholders' equity, minority interests and net interest-bearing liabilities.
12. Defined as net profit divided by average number of shares outstanding.
13. Defined as net profit adjusted for non-recurring items divided by average number of shares outstanding. Note that we have tax adjusted the effects of non-recurring items.
14. Defined as (13) divided by the fully diluted number of shares.
15. Defined as net sales divided by average shareholders equity.
16. Defined as net profit adjusted for non-recurring items divided by net sales.
17. Defined as year end share price over adjusted EPS.
18. Defined as year end share price over fully diluted CEPS.
19. Defined as year end share price multiplied by total shares at year end divided by total sales.
20. Enterprise value defined as year end share price multipled by total shares at year end plus net interest bearing debt.

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We, Daniel Råvik and Gunnar Holen, hereby confirm that the views in this report accurately reflect our personal views about the companies and securities covered. We further confirm that we have not been, nor are or will be, receiving direct or indirect compensation in exchange for expressing a specific view or recommendation.

Definition of ratings

Buy – Attractive valuation based on estimates and perceived risks. Expected investment return > 15%.
Trading Buy – News flow or other short-term effects are expected to trigger short-term share appraisal.
Trading Sell – News flow or other short term effects are expected to trigger negative short-term share movement.
Sell – Demanding valuation based on estimates and perceived risks. Expected investment return < 15%.

The market price of the security in question is the price at close the business day before the research report is published.

Recommendation distribution as of 31/08 - 2006

	All recommendations	
	#	%
Buy	71	61
Trading Buy	1	1
Trading Sell	3	3
Sell	42	36
Total	117	100

	Inv. banking clients prev. 12 months	
	#	%
Buy	19	86
Trading Buy	0	0
Trading Sell	0	0
Sell	3	14
Total	22	100

Share ownership, Central Asia Gold	
Analyst	-
Employees CAR	-
CAR	-
Total	-

Information regarding coverage of Central Asia Gold AB.

Date	Recomendation	Target	Share Price
11.09.2006	Buy	2,74	2,03

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