



High River Gold: strong 2009 preliminary results

Yesterday High River Gold Mines Ltd. (“HRG”) issued some key preliminary operational and unaudited financial results for 2009. We are impressed by the numbers and will be looking to receiving the final audited results to update our target price and recommendation.

Key points

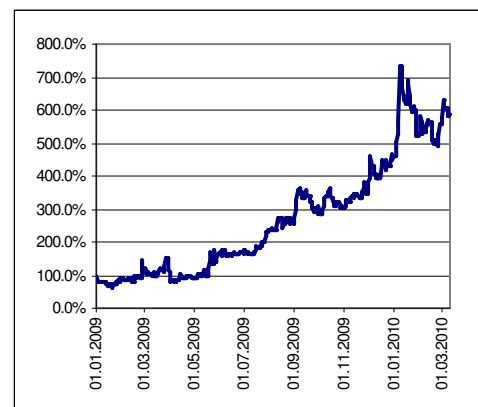
- Net gold revenue comprised \$363.3 mln, which is a 100% y-o-y increase.
- Cash flow from operations (“CFO”) totaled \$126.7 mln for 2009. When adjusted for a \$70.2 mln write-down of carrying value, the balance of \$56.5 mln represents a 121% increase y-o-y from \$25.6 mln in 2008. For the first 9M09CFO comprised \$86mln; Q409 cash generation has thus totaled \$40.1mln.
- The company’s working capital turned positive at \$96.2 mln compared with the deficit of \$42.1 mln in 2008.
- HRG’s cash and cash equivalents comprised \$82.1 mln for 2009, a 329% y-o-y increase, primarily due to a private placement of 150 mln of additionally issued shares in favor of Polenica Investments, a Troika Dialog affiliate, on October 27, 2009 for a total consideration of \$57 mln.
- The company’s total LT and ST debt at the end 2009 was \$84 mln, a strong 55% y-o-y reduction, which brings the company’s net debt position to \$1.9 mln, down from \$82.5 mln as most recently reported for 3Q09.
- On the operational side the published results were slightly better than we anticipated: HRG’s 2009 gold production increased 53% to 336.4 koz, compared with 220 koz in 2008, while Total cash costs decreased 21% to US\$505/oz, compared to US\$638/oz in 2008, suggesting sound cost control and commitment to strong management’s execution ability.
- The company believes it has addressed many of the technical problems at its mines. That said, it retains a potential production upside as it continued to experience maintenance shut-downs at Berezitovy mine.

Note: all numbers are expressed in Canadian Dollars unless otherwise stated

Shares data	
Ticker	HRG
Shares issued, mln	799
Current price, \$	0.70
Target price, \$	2.48
Upside	254%
Market value, \$ m	
Market capitalization	567.4
Net debt	1.9
Enterprise value	569.3
2009E EPS, C\$/share	(0.06)

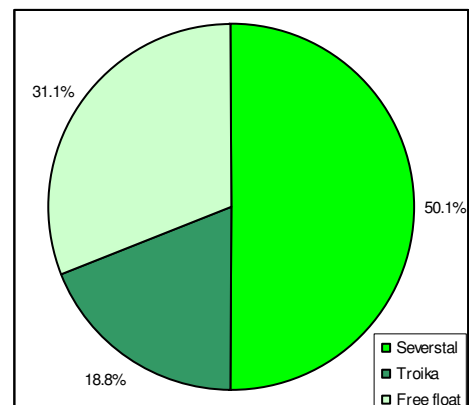
Source: Company data, OLMA estimates

TSX performance



Source: Bloomberg

Ownership



Source: Bloomberg, company data

Overview of operations

The company achieved stable operation of its Irokinda and Zun-Holba underground mines with gold production slightly increased up to 149.4koz in 2009 and Total cash costs reduced meaningfully down to US\$494/oz, from US\$580/oz a year earlier. The company admits Rouble cost increases at Buryatzoloto mines due to inflation and increases in output, though this was offset by the weakening Russian Rouble as compared to US\$ in 2009. Replacing reserves at Irokinda and Zun-Holba remains a priority for local management and \$23mln is budgeted for 2010 for exploration to replace mined-out reserves and extend the mine life at these mines.

The company recorded an increase in gold output at its Berezitovy open pit mine, with 87.5koz produced (on a 100% basis) in 2009 as compared to 43.9koz a year earlier. However, the company continued to experience technical issues at its Berezitovy open pit mine, which led to underperformance as compared to planned parameters, thus retaining a potential production upside at Berezitovy. The company has also achieved a significant cost reduction at Berezitovy with Total cash costs at US\$564/oz as compared to US\$775/oz in 2008, which reassures us in the company's strong execution and cost control ability.

Production at the Taparko open pit mine totaled 99.5koz, a 225% y-o-y increase as compared to 31koz in 2008; the improvement came primarily from the better mill availability. The company states, that many of the technical issues at the mine have been addressed, with the mill vibration has been reduced. The issue will continue to be monitored.

At the Bissa gold project the company continues to perform exploration activities with US\$1.8 mln budgeted for completion of the bankable feasibility study in 2010.

HRG suspended exploration activity at its Prognoz silver project in 2009 as a cash conservation measure and have not budgeted exploration for 2010.

The company's disclosed results are summarized below:

High River Gold preliminary 2009 results review, C\$ mln

	2009A	2009E	Diff, A/E	2008	Y-o-Y
Gold revenue	363.3	349.7	4%	180.8	101%
Cash flow from operations*	56.5	48.2	17%	25.6	121%
Cash and cash equivalents	82.1	51.1	61%	19.1	329%
Current and long term debt	84.0	81.2	3%	188.1	-55%
Net debt	1.9	30.1	-94%	169.0	-99%
Working capital	96.2	53.3	80%	(42.1)	<i>n/a</i>
Gold production, th oz					
Buryatzoloto** (100%)	149	143	4%	146	2%
Taparko-Bouroum (100%)	100	91	10%	31	223%
Berezitovy (100%)	87	98	-11%	16	444%
Total (100%)	336	332	1%	220	53%
Total HRG attributable production	303	300	1%	193	57%
Total cash costs, US\$/oz					
Buryatzoloto**	494	458	8%	580	-15%
Taparko-Bouroum	469	505	-7%	838	-44%
Berezitovy	564	615	-8%	775	-27%
Total	505	513	-2%	638	-21%

* Adjusted for a \$70.2 mln write-down of carrying value

** Includes Irokinda, Zun-Holba and placer operations

Note: A stands for Actual, E stands for Expected.

Source: Company data, Olma estimates

The numbers published by the company are unaudited and are not sufficient to revise our model and update forecasts.

The company intends to issue audited financial results and detailed operational report prior to April 15, 2010. We will be looking to update our financial model and our target price, as well as recommendation, upon the issue of the final audited results.

Appendix A: High River Gold Peer Group Summary

	Ticker	Country	Share price \$/share	Mcap \$ mln	EV \$ mln	EV/S			EV/EBITDA			P/E			EV/ Production	EV/ Reserves*	EV/ Resources**	P/ NAV	
						2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E					
Intermediate Gold Miners																			
	High River Gold Mine	HRG CN	Canada	0.70	567.4	569.3	3.33	1.63	1.42	32.38	13.11	6.39	neg	neg	36.73	2.2	523	129	1.4
	Northgate Minerals	NGX CN	Canada	3.0	870.9	669.5	1.45	1.35	2.04	6.46	4.48	6.04	81.24	28.85	46.82	1.8	523	50	2.1
	Centerra Gold	CG CN	Canada	13.1	3 123.6	2 800.7	4.40	3.65	3.52	12.03	7.93	8.24	23.18	21.86	18.55	4.1	383	195	3.6
	Golden Star Resources	GSC CN	Canada	3.9	1 001.1	1 006.2	3.91	2.23	1.96	>100	5.51	4.54	neg	16.51	10.63	2.5	270	134	2.5
	Gammon Gold	GAM CN	Canada	7.2	998.6	1 034.2	4.87	2.99	2.68	19.20	5.64	4.67	33.03	9.34	7.38	5.1	335	202	1.6
	Jaguar Mining	JAG CN	United States	9.2	717.8	728.7	7.78	3.37	2.13	34.77	8.48	4.70	neg	14.48	9.77	4.8	366	157	3.6
	Crew Gold	CRU CN	United Kingdom	0.4	887.5	1 194.1	5.32	5.88	5.07	neg	38.21	17.88	neg	neg	39.89	6.7	398	229	3.7
	Average						4.4	3.0	2.7	21.0	11.9	7.5	45.8	18.2	24.3	3.9	400	156	2.7
	Weighted average						4.4	3.2	3.0	12.9	10.7	7.7	21.6	15.9	22.0	4.0	388	168	2.9
Senior Gold Miners																			
	Newmont Mining	NEM US	United States	50.9	25 006.0	26 544.0	4.33	2.90	2.84	12.41	6.01	5.93	30.09	13.94	12.75	5.0	289	n/a	2.0
	AngloGold Ashanti	ANG SJ	South Africa	38.0	13 751.1	14 588.4	3.99	3.21	3.17	35.88	9.11	9.01	neg	21.17	21.20	3.1	195	61	4.5
	Gold Fields	GFI SJ	South Africa	12.6	8 902.6	9 802.6	3.10	2.31	1.96	8.17	5.65	4.56	14.51	15.09	11.05	2.8	124	38	1.6
	Barrick Gold	ABX CN	Canada	38.3	37 739.1	41 510.1	5.45	4.14	4.00	13.79	8.00	7.67	48.08	14.50	13.18	5.5	297	178	2.4
	Harmony Gold Mining	HAR SJ	South Africa	9.48	4 040.3	3 835.3	2.90	2.17	1.81	20.00	8.28	5.49	neg	27.58	13.36	2.6	80	18	1.1
	Kinross Gold	K CN	Canada	17.1	11 895.1	11 954.9	7.39	4.65	4.53	18.22	10.00	9.37	neg	26.18	20.84	5.3	227	138	2.1
	Newcrest Mining	NCM AU	Australia	29.6	15 633.1	15 701.0	7.41	6.28	5.59	16.84	13.16	11.16	>100	26.57	22.97	7.0	364	86	4.4
	Goldcorp	GG US	Canada	37.2	27 673.7	27 509.9	11.37	7.59	6.18	26.15	14.09	11.24	18.75	30.78	21.61	10.4	396	214	1.8
	Average						5.7	4.2	3.8	18.9	9.3	8.1	27.9	22.0	17.1	5.2	247	105	2.5
	Weighted average						6.4	4.6	4.2	18.5	9.5	8.4	22.2	20.8	17.0	6.0	290	117	2.5
Russian Gold Miners																			
	Polyus Gold	AEM CN	Russia	25.8	9 817.3	13 202.2	12.15	7.60	5.98	30.28	16.22	12.69	>100	19.02	14.74	7.4	183	90	1.9
	Petropavlovsk	ELD CN	United Kingdom	18.1	2 166.7	2 185.8	5.73	2.87	2.42	16.07	4.79	4.31	98.48	7.93	7.48	4.4	189	114	1.7
	Highland Gold Mining	IMG CN	Russia	2.0	426.0	407.1	2.71	2.53	1.87	14.65	6.59	4.28	neg	8.11	6.19	2.5	267	84	1.0
	Polymetal	LGL AU	Russia	10.2	4 073.6	4 118.0	8.19	7.46	4.88	33.17	17.61	10.20	neg	40.09	17.85	7.3	301	135	9.2
	Average						7.2	5.1	3.8	23.5	11.3	7.9	98.5	18.8	11.6	5.4	235	106	3.4
	Weighted average						10.1	6.8	5.1	28.7	14.8	10.8	12.9	22.5	14.3	6.9	215	104	3.6

* Proven and Probable Reserves or B+C1+C2 reserves under GKZ standards

** M&I resources inclusive of reserves or B+C1+C2+P1 resources under GKZ standards

Note: Reserves and resources are in gold equivalent; prices are as of March 31, 2010

Source: Bloomberg, Thomson, Companies, Olma estimates

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