

October 24, 2011

To High River Gold Shareholders,

Alexei Mordashov, CEO of Severstal, recently stated to the media in an article linked below that they will decide this year on how to spin off its Nord Gold division. He said a sale of Nord Gold is also a sub option. Gold does not fit with their steel strategy. Both a potential spinoff or an outright sale suggest to HRG shareholders that a more investor friendly Board, Management or owner may be on the horizon. A Nord spinoff could mean new attention from those investors, analysts and funds that focus on the gold industry - rather than gold being a sideline to steel. This could lead to increased exposure for HRG. In order to maximize value, Severstal may possibly install a more diverse and independent Board of Directors at Nord. This could lead to a change in strategy for investor relations at HRG.

In the article, Mordashov refers to steel and gold companies having different multiples, so in separating the gold businesses, we can only assume he wants to create liquidity and to garner a premium for his controlling stake in a potential takeover. Whether it's a spinoff or an outright sale, I suspect Mordashov is still seeking the minimum \$4B valuation targeted in the IPO earlier this year. Now that Severstal's intentions to divest are public, you would think some senior gold companies, which have otherwise stayed away, might be interested in the assets. Some might even consider a bid for HRG alone.

A core group of HRG shareholders (including institutions) that hold 55% (majority) of minority shares have made it clear to Nord that they believe HRG to be worth at least 50% of Nord's value and that they can block any related party bid or amalgamation proposals on HRG. It will be interesting to see if Severstal will again risk a failed attempt in the markets due to HRG's low market cap - or will they make effort to get HRG's value in line with Nord's \$4B target. If they want to be certain that HRG's market cap does not drag down Nord's multiples, they could offer HRG minority shareholders an exchange for Nord shares where HRG is valued at 50% of Nord's value. Such a deal would have to complete after spinoff as minority would require publicly traded shares. Another option (suggested in the past) is for Nord to go public by merging into HRG at a 50/50 valuation. With HRG contributing 94.5% and 62.2% of Nord Gold's EBITDA and cash flow last quarter respectively, Severstal/Nord should consider such a split a good deal.

The Q3 results are expected on November 15. The average price of gold during Q3 was \$1730/oz vs. \$1531/oz for Q2. If production equals Q2, this \$199/oz increase will add \$18.5M for a total of \$157M in revenues. To highlight HRG's strong performance since the beginning of 2009, I have charted its quarterly numbers in a link below. In another article linked below, Severstal says Nord is spending \$129M on exploration this year. This will likely result in increased resources for HRG. Specifically, we are anticipating drill results for the depleting Irokinda and Zun-Holba mines before year's end along with some updates on Prognoz. In other news, HRG was added to the S&P/TSX Global Gold and Mining Indexes. Also, a Thomson Reuters Stock Report has given HRG a 10 out of 10 average score.

Article 1 Nord spinoff

<http://www.bloomberg.com/news/2011-09-29/severstal-makes-strategic-decision-to-separate-nord-gold-unit.html>

Article 2 Nord spinoff

<http://www.interfax.com/newsinf.asp?id=277005>

Article Nord exploration

http://www.prime-tass.com/news/Severstal_gold_unit_to_invest_129 mln_in_exploration_in_2011/0/%7B2D746647-10BD-432C-962D-045D4BD64A02%7D.uif

SP/TSX index changes

<http://finance.yahoo.com/news/Standard-Poor-Announces-cnw-4272290844.html?x>

Thomson Reuters quote

<http://www.theaureport.com/pub/co/11>

HRG Financial Performance

<http://freepdfhosting.com/6169e1f9b9.pdf>

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