



High River Gold: strong 2Q10 results TP upgraded to C\$1.93/share 2010E EPS revised to C\$.15/share

High River Gold Mines Ltd. has published strong 2Q10 results. The Company realized 12% growth in total gold output (100% basis) and a 14% decline in cash operating costs in 2Q10, q-o-q. Gold price appreciation favorably impacted HRG's financials. We upgrade our TP to C\$1.93/share. We now expect 2010E EPS to reach C\$0.15.

Key points

- Buryatzoloto production was close to full capacity, showing 8% q-o-q growth in gold output and a 19% decline in cash operating costs. The \$23mln exploration program started in 2010 will show its first results in 1H11.
- Somita has overcome early production difficulties and is operating at higher than planned levels. Cash operating costs fell 23% q-o-q to US\$325/oz. Four new cyclones will be installed in the second half of 2010 to further increase mill productivity.
- Berezitovy: the main crusher and mill availability significantly increased in the 2Q10 compared to 1Q10; gold output grew 49% q-o-q while cash operating costs declined 28%. Berezitovy is still underperforming. The new mill is planned to be commissioned in 3Q10.
- Bissa feasibility study is expected by the end of 2010. The \$8mln exploration budget for Burkina Faso could be increased in 2H10 to allow more exploration.
- The Prognoz bankruptcy procedures: there is a possibility that HRG may increase its holding in Prognoz beyond 50%.
- On August 16, 2010 HRG announced Severstal exercised warrants, increasing its stake in HRG to 70.4%. HRG received C\$26mln in cash.
- The company continued to use operating cash flows to reduce its debt. As of the end of 2Q10 HRG's cash and cash equivalents reached C\$92.7mln while total debt was reduced 50% to \$31.5mln.
- In Q1 2010 Somita performed a 90-day completion test and the technical performance of the mill was acceptable to RGI. HRG expects the RGI loan to be retired in 2010. RGI collateral by our estimates is now worth C\$97mln. HRG now virtually holds C\$216 mln in cash and cash equivalents.

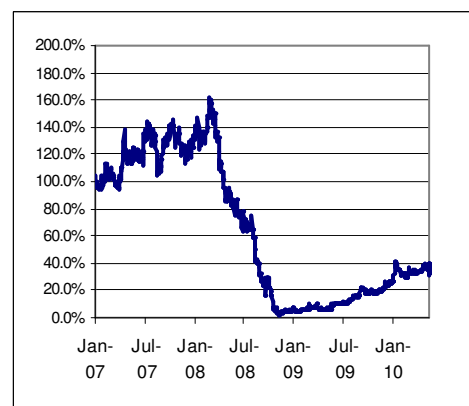
Shares data*	
Ticker	HRG
Shares issued, mln	840
Current price, C\$	0.87
Target price, C\$	1.93
Upside	122%
Market value*, C\$ m	
Market capitalization	695.3
Net debt**	-185.0
Enterprise value	510.3
2010E EPS, C\$/share	0.15

*as of August 17, 2010

**Assuming the release of RGI loan C\$97mln collateral; including C\$26mln in cash from warrants

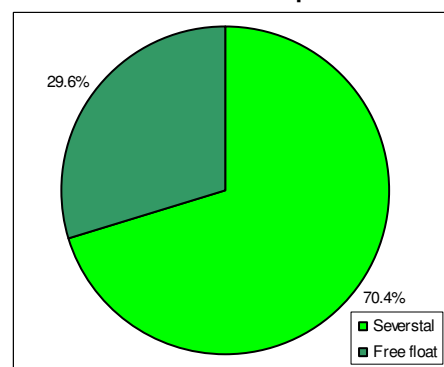
Source: Company data, OLMA estimates

HRG share price performance



Source: Bloomberg

Ownership



Source: Bloomberg, company data

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

Operating projects overview**Buryatzoloto**

Buryatzoloto continued to operate close to full capacity. In 2Q10 Buryatzoloto produced 36.5koz of gold at US\$520/oz Cash operating costs (COC), up 8% from 33.7koz produced in 1Q10 at US\$643/oz COC (-19%). The q-o-q growth in gold production and decline in COC were expected as Buryatzoloto's gold production is subject to seasonal fluctuations.

The mature state of the Irokinda and Zun-Holba operations suggests less than 6 months of production at current rates. The amount of minable reserves has been a major concern for the management in 2010; we believe that their mine life can be extended due to the extensive \$23 mln exploration program launched in 2010. The exploration will continue in the second half of 2010 and in 2011. The results of the 2010 exploration work are expected in the first half of 2011.

We have modeled Buryatzoloto's operations until the end of 1H11, applying a 50% discount to the valuation to reflect the uncertainty over the exploration program success.

Somita

Somita produced 30koz of gold in 2Q10, in line with the previous quarter results.

The mine has overcome early production difficulties and is operating at higher than planned levels. Somita managed to increase the mill throughput by installation of an additional cyclone and other minor operational improvements. It is planned that four new cyclones will be installed in the second half of 2010, which will further increase mill throughput.

Cash operating costs fell 23% to US\$325/oz in 2Q10 as compared to US\$423/oz in 1Q10. The decline was due to increased productivity as well as due to the decrease in CFA frank exchange rate, which has a fixed rate to the euro.

Berezitovy

The main crusher and mill availability significantly increased in the 2Q10 compared to the previous quarter. As a result of increased throughput gold output grew 49% to 20.3koz, while cash operating costs declined 28% to US\$684/oz. However, Berezitovy continues to underperform, while disruptions in the electricity supply in June also negatively affected the production. The installation of the second ball mill, which has arrived at the mine site, is expected to permit production at planned levels. The installation and commissioning of the new mill is planned for Q3 2010 and should enable increased production and decrease per unit costs in the second half of 2010.

Gold grades witnessed at Berezitovy in 1Q10 and 2Q10 were lower than we anticipated. We have updated our model to reflect this and now expect that Berezitovy will produce 84koz of gold in 2010, compared to a previous estimate of 105koz.

Exploration projects overview**Bissa**

High River Gold continues exploration at the Bissa project. The bankable feasibility study is expected by the end of 2010. The company expects that the \$8 mln Burkina Faso exploration program budget for 2010 could be increased in 2H10 to allow for more exploration work to be performed.

Prognoz

On June 8, 2010 HRG announced the beginning of the bankruptcy procedures of its 50% owned Prognoz Silver LLC JV, holding the mineral license for the Prognoz silver project. The commencement of the procedures will result in the preservation of Prognoz Silver LLC's assets, the preparation of the list of creditors and the holding of the first creditors' meeting.

Since the primary creditor was OJSC Buryatzoloto, 85% owned by HRG, who was owed approximately \$18mln, the bankruptcy procedures may permit Buryatzoloto to collect or restructure the indebtedness of Prognoz.

In our conversation with HRG the management confirmed that as a result of the bankruptcy procedure there is a possibility that HRG may increase its holding in Prognoz beyond 50%. However, under Russian law, in case of bankruptcy procedure there is material risk that the exploration rights for Prognoz will be returned to the state. We thus apply a 25% discount to our estimated value of Prognoz due to the uncertainty over exploration rights.

It is anticipated that the bankruptcy procedures may last at least seven months.

RGI loan agreement

In Q1 2010 Somita performed the 90-day completion test and the technical performance of the mill was acceptable to RGI. However, the loan agreement also contained a clause stating that project completion was not achieved if any liability regarding the payment for the construction of the plant was outstanding. Somita withheld the final payment due to the contractor of the processing plant approximately US\$1,600,000 and has made a claim against the contractor for repairs and losses. The contractor in turn has commenced arbitration proceedings seeking payment of the withheld amounts.

The ultimate result of the arbitration cannot be determined at this time. The loan collateral at current market prices is worth approximately three times the value of the initial loan and ten times the value of the remaining debt owing. HRG believes that the current collateral held by RGI is redundant considering the amount of the claim and is negotiating the terms of its release with RGI. The company expects the RGI loan to be retired in 2010.

We estimate the RGI loan collateral value at C\$97mln.

Severstal warrants

On August 16, 2010 HRG announced Severstal has exercised warrants priced at C\$0.64/share. As a result, Severstal increased its stake in HRG to 70.4%, while HRG received C\$26mln in cash.

High River Gold 2Q10 results review, C\$ mln

	2Q10	1Q10	Q-o-Q	2Q09	Y-o-Y
Sales	115.2	98.5	17%	88.2	31%
Gross profit	52.7	38.5	37%	26.8	97%
Gross margin	46%	39%		30%	
EBITDA	62.6	51.4	22%	(9.8)	n/a
EBITDA margin	54%	52%		n/a	
Net income	39.3	27.3	44%	(37.8)	n/a
Net margin	34%	28%		n/a	
Cash flow from operations	48.8	31.5	55%	22.8	114%
Cash and cash equivalents**	118.8	82.5	44%	23.1	413%
Current and long term debt	31.5	62.6	-50%	135.6	-77%
Net cash position	61.2	19.9	207%	(112.5)	n/a
	2Q10	1Q10	Q-o-Q	2Q09	Y-o-Y
Gold production, koz (100%)					
Buryatzoloto*	36.5	33.7	8%	35.8	2%
Taparko-Bouroum	30.0	30.4	-1%	20.1	49%
Berezitovy	20.3	13.6	49%	24.0	-15%
Total	86.8	77.8	12%	80.0	9%
Cash operating costs, US\$/oz					
Buryatzoloto*	520	643	-19%	404	29%
Taparko-Bouroum	325	423	-23%	491	-34%
Berezitovy	684	879	-22%	640	7%
Total	491	569	-14%	497	-1%

* Includes Irokinda, Zun-Holba and placer operations

** Inclusive of C\$26mln in cash proceeds from Severstal warrants exercise

Source: Company data, Olma estimates

Gold prices grew noticeably in 1H10. We have upgraded our gold price assumptions to reflect price appreciation of the precious metal. We now expect the gold price to average \$1182/oz in 2010. We have also accounted for the depreciation of market valuation of HRG peers and now use a 1.3 P/NAV multiple to value HRG's operating assets (See Appendix A).

Appendix A: High River Gold Peer Group Summary

	Ticker	Share price US\$/share	Mcap US\$ mln	EV US\$ mln	EV/S 2008	EV/S 2009	EV/EBITDA 2008	EV/EBITDA 2009	2010E	2008	2009	P/E 2009	2010E	EV/ Production	EV/ Reserves**	EV/ Resources***	P/ NAV****
Intermediate Gold Miners																	
High River Gold Mine	HRG CN	0.84	673.4	495.5	2.90	1.34	1.05	28.18	6.37	2.24	neg	neg	5.30	1.47	233.85	119.49	0.59
Northgate Minerals	NGX CN	2.9	853.4	652.1	1.41	1.34	1.30	6.29	4.19	4.42	79.61	neg	31.03	1.80	509.82	48.60	
Centerra Gold	CG CN	14.2	3 346.4	3 023.5	4.75	4.41	3.65	12.99	12.55	7.52	24.83	55.48	12.77	4.48	412.99	210.07	
Golden Star Resources	GSC CN	4.5	1 169.6	1 174.6	4.56	2.93	2.54	>100	8.59	7.04	neg	70.80	25.83	2.90	314.91	156.21	
SEMAFO	SMF CN	8.4	2 266.2	2 239.0	4.45	9.30	7.42	18.03	22.56	14.79	neg	52.09	25.07	9.25	1 506.84	336.65	
Gammon Gold	GAM CN	6.5	899.3	807.9	3.80	3.91	3.28	15.17	11.47	6.72	23.27	>100	>100	3.70	261.45	157.48	
Jaguar Mining	JAG CN	6.3	525.4	536.3	5.73	3.81	2.74	25.59	17.37	10.81	neg	neg	87.57	3.46	269.03	115.48	
Crew Gold	CRU CN	4.6	482.4	789.0	3.51	4.27	3.44	neg	neg	12.42	neg	neg	9.82	4.51	263.16	151.17	
Average					3.9	3.9	3.2	17.7	11.9	8.2	42.6	59.5	28.2	3.9	471.5	161.9	
Weighted average					4.2	4.8	3.9	13.3	12.8	8.8	16.8	37.8	20.6	4.8	612.9	200.2	
Senior Gold Miners																	
Newmont Mining	NEM US	58.4	28 761.3	30 299.3	4.95	3.93	3.22	14.17	8.06	6.14	34.61	22.18	15.33	5.76	330.13	n/a	
AngloGold Ashanti	ANG SJ	44.0	15 954.3	16 791.6	4.59	4.54	3.40	41.30	16.22	10.24	neg	>100	33.42	3.65	224.22	69.68	
Gold Fields	GFI SJ	14.2	10 042.6	10 942.6	3.46	2.63	1.99	9.12	7.15	4.55	16.37	20.96	11.40	3.22	138.75	42.85	
Barrick Gold	ABX CN	44.3	43 648.3	47 419.3	6.23	5.83	4.50	15.75	13.21	8.25	55.60	neg	14.56	6.39	339.31	203.40	
Harmony Gold Mining	HAR SJ	10.46	4 483.2	4 278.1	3.23	2.87	1.99	22.31	16.43	6.73	neg	neg	16.80	2.93	88.85	19.83	
Kinross Gold	K CN	15.2	10 677.6	10 737.4	6.64	4.45	3.91	16.36	9.82	8.17	neg	34.46	23.32	4.79	204.20	124.29	
Newcrest Mining	NCM AU	31.5	15 219.3	15 036.0	7.10	6.08	4.69	16.12	10.74	8.91	>100	30.98	17.80	6.62	348.17	82.16	
Goldcorp	GG US	40.8	30 351.4	30 187.6	12.48	11.08	8.39	28.69	22.10	15.31	20.57	>100	31.23	11.57	435.07	234.94	
Average					6.1	5.2	4.0	20.5	13.0	8.5	31.8	27.1	20.5	5.6	263.6	111.0	
Weighted average					6.9	6.0	4.6	20.3	13.5	9.2	26.5	10.6	20.5	6.6	316.4	127.0	
Russian Gold Miners																	
Polyus Gold	PLZL LI	23.8	9 054.8	8 768.8	8.07	7.16	5.15	20.11	15.97	10.58	>100	28.03	17.91	6.95	118.37	79.56	0.93
Petropavlovsk	POGLN	17.0	3 188.8	3 207.8	8.40	6.80	4.11	23.59	14.26	7.50	>100	22.02	11.68	6.59	478.78	271.85	1.92
Highland Gold Mining	HGM LN	1.9	620.6	482.6	3.24	2.93	2.30	12.48	7.82	5.33	neg	11.82	8.29	2.96	316.27	99.65	0.96
Polymetal	PMTL LI	12.3	4 892.3	5 304.2	10.55	9.46	6.33	42.72	22.45	13.00	neg	50.97	21.74	9.06	387.71	173.88	1.54
Average					7.6	6.6	4.5	24.7	15.1	9.1	n/a	28.2	14.9	6.4	325.3	156.2	1.3
Weighted average					8.6	7.6	5.2	26.7	17.2	10.5	-	32.7	17.5	7.3	264.2	140.8	1.3

* Assuming the release of RGI loan C\$97mln collateral, including C\$26mln in cash proceeds from Severstal warrants exercise

** 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

***** We base our valuation of HRG on comparative analysis of russian gold miners' P/NAV

Note: Reserves and resources are in gold equivalent; 2009 Sales, EBITDA and Net Income data is consensus estimate, if actual data is not reported; prices are as of August 17, 2010

Source: Bloomberg, Thomson, Companies, Olma estimates

Appendix B: High River Gold financials, C\$ mln

	2008	2009	2010E	2011E	2012E	2013E	2014E
INCOME STATEMENT							
Revenues	181.2	369.4	472.1	612.1	496.5	521.8	405.1
Costs	(172.7)	(252.8)	(285.5)	(359.5)	(270.4)	(278.6)	(220.8)
Gross Income	8.5	116.6	186.6	252.7	226.2	243.2	184.2
Gross margin	5%	32%	40%	41%	46%	47%	45%
SG&A	(17.1)	(13.2)	(4.0)	(5.1)	(3.8)	(3.9)	(3.1)
Other Operating Expenses	(24.4)	(84.4)	(13.8)	(14.1)	(12.0)	(10.8)	(11.1)
EBITDA	(4.4)	77.8	220.8	272.3	249.6	267.9	209.6
EBITDA margin	n/a	21%	47%	44%	50%	51%	52%
D&A	28.5	58.8	52.0	38.9	39.3	39.5	39.5
EBIT	(33.0)	19.0	168.8	233.5	210.3	228.4	170.1
Financing costs, net	(14.4)	(21.7)	(3.1)	(7.8)	(0.9)	(0.8)	(0.7)
EBT	(47.4)	(2.7)	165.7	225.7	209.4	227.6	169.4
Income taxes	(9.4)	(3.6)	(33.1)	(45.1)	(41.9)	(45.5)	(33.9)
Non-controlling interest	(0.6)	(3.5)	(5.5)	(7.5)	(6.7)	(7.2)	(5.5)
Net income	(57.4)	(9.7)	127.1	173.0	160.9	174.9	130.0
Net margin	n/a	n/a	27%	28%	32%	34%	32%
BALANCE SHEET							
Assets							
Property, plant and equipment	432.1	340.6	316.1	282.7	246.1	206.7	167.2
Other assets	196.6	172.1	190.2	214.7	194.5	198.9	178.4
Total non-current assets	628.7	512.8	506.3	497.5	440.6	405.6	345.6
Cash and cash equivalents	19.1	82.1	287.8	478.5	738.1	941.2	1 165.6
Accounts receivable	14.5	18.1	23.2	30.0	24.4	25.6	19.9
Inventory	79.4	81.1	91.6	115.3	86.7	89.4	70.8
Other assets	11.4	12.4	29.7	38.5	31.2	32.8	25.5
Total current assets	124.4	194.2	432.2	662.4	880.4	1 089.0	1 281.8
Total assets	753.1	707.0	938.5	1 159.9	1 321.0	1 494.5	1 627.4
Liabilities							
Equity	477.0	512.8	767.6	1 027.9	1 205.6	1 382.6	1 525.7
Long-term debt	51.4	25.4	7.6	2.9	2.9	3.9	3.9
Other	39.6	48.5	67.2	46.6	45.9	43.0	43.8
Total long-term liabilities	91.1	73.8	74.8	49.6	48.8	46.9	47.7
Short-term debt	136.7	58.7	30.5	6.9	6.9	5.9	5.9
Accounts payable	29.8	39.7	44.9	56.5	42.5	43.8	34.7
Total short-term liabilities	166.5	98.4	75.4	63.4	49.4	49.7	40.6
Non-controlling interest	18.5	21.9	20.7	19.1	17.3	15.3	13.4
Total liabilities & equity	753.1	707.0	938.5	1 159.9	1 321.0	1 494.5	1 627.4
CASH FLOW STATEMENT							
Net Income	(57.4)	(9.7)	127.1	173.0	160.9	174.9	130.0
Depreciation & Amortization	28.5	58.8	52.0	38.9	39.3	39.5	39.5
Working capital change	(14.1)	140.9	(10.4)	(19.0)	20.2	(2.6)	15.2
Other assets change	68.7	(64.4)	0.7	(31.0)	4.7	(6.4)	6.2
Operating cash flow	25.6	125.5	169.4	161.9	225.1	205.4	191.0
Capital Expenditures	(85.7)	(32.0)	(27.5)	(5.5)	(2.7)	(0.1)	(0.0)
Other	(8.2)	(0.9)	(18.0)	(24.6)	20.3	(4.4)	20.5
Investing cash flow	(93.9)	(32.9)	(45.6)	(30.0)	17.6	(4.5)	20.5
Increase in Debt	(52.3)	(94.5)	(45.9)	(28.4)	-	-	-
Other	86.5	67.5	127.7	87.2	16.8	2.1	13.0
Financing cash flow	34.2	(26.9)	81.9	58.8	16.8	2.1	13.0
Net Change in Cash	(32.4)	62.9	205.7	190.8	259.5	203.1	224.4

Source: Company data, Olma estimates

OLMA Investment Company

7/1 Maly Karetny Per.
Moscow, Russia 127051
+7-495-960-3121
www.olma.ru

Sales and Trading

Head of OLMA-Canada: Bob Saharov
Tel: +7 (495) 960-3121, ext. 303
E-mail: bob@olma.ru

Head of Equities: Nicholas Betsky
Tel: +7 (495) 960-3121, ext. 441
E-mail: betsky@olma.ru

Co-head of Equities: Alexei Bystrov
Tel: +7 (495) 960-3121, ext. 301
E-mail: alex@olma.ru

Head of Sales: Dmitry Lobanov
Tel: +7 (495) 960-3121, ext. 308
E-mail: lobanov@olma.ru

Sales: Roman Rassadin
Tel: +7 (495) 960-3121, ext. 306
E-mail: rar@olma.ru

Alexander Loktev
Tel: +7 (495) 960-3121, ext. 309
E-mail: alexl@olma.ru

Sergey Sheikov
Tel: +7 (495) 960-3121, ext. 296
E-mail: sheikov@olma.ru

Sergey Petrov
Tel: +7 (495) 960-3121, ext. 320
E-mail: spetrov@olma.ru

Research

Head of Research: Vladimir Detinich, CFA
Tel: +7 (495) 960-3121, ext. 414
E-mail: dva@olma.ru

Equity Markets: Anton Startsev
Tel: +7 (495) 960-3121, ext. 452
E-mail: sav@olma.ru

Chemicals/Metals&Mining: Ilya Klenin
Tel: +7 (495) 960-3121, ext. 477
E-mail: ilya.s.klenin@olma.ru

Infrastructure: Artur Galimov
Tel: +7 (495) 960-3121, ext. 480
E-mail: artur.galimov@olma.ru

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