



High River Gold: good 1Q10 results TP upgraded to C\$1.82/share

High River Gold Mines Ltd. has released its 1Q10 results. The Company is well on track to delivering production growth at competitive costs. We have updated our model to reflect better than anticipated production and SG&A cost controls. As a result we now expect 2010E EPS to reach C\$0.11 and we set our TP to C\$1.82/share.

Key points

- The company executed better than anticipated cost controls. Great results achieved both on operational and SG&A sides, which led us to revise our cost assumptions.
- The company continued to use operating cash flows to improve its debt position, as we anticipated. During 1Q10 the company paid out \$21.4 mln of debt and its net debt position turned negative to C\$-19.5 mln. The company also reported it has repaid its debt to Nomos Bank which at March 31, 2010 stood at \$25.207 mln. The developments led us to decrease our projected financing costs substantially.
- HRG reported that in 1Q10 Somita performed the 90-day completion test. Following the test, RGI had 30 days to review and approve the results of the test. At the time of preparation of HRG's results, as stated by the company, RGI had not finished the review. We estimate HRG's third party investments pledged for the RGI loan to be released upon completion test have appreciated C\$13.2 mln since March 31, 2010 and currently worth ca. C\$75.4 mln.
- Buryatzoloto continued to operate according to plan.
- Good results at Taparko: the mine is performing according to plan. Management intends to implement further improvements in 2H10, which may further increase gold output at the mine at maintained costs.
- TCC/oz at Berezitovy increased sharply in 1Q10 as a result of low gold production in 1Q10. That came primarily as a result of few technical problems with the main crusher breakdown in February and lower mill availability in March. That was expected as the company has reported on the problems in its 2009 AR. The company believes the problems were a "one-time off". The second ball mill is planned to be commissioned in 3Q10, as expected.
- All the adjustments made to our model resulted in 2010E EPS growth to C\$0.11 from C\$0.09 previously and an increased TP of C\$1.82/share.

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

Shares data	
Ticker	HRG
Shares issued, mln	799
Current price, C\$	0.84
Target price, C\$	1.82
Upside	117%
Market value, C\$ m	
Market capitalization	674.5
Net debt*	-19.5
Enterprise value	691.0
2010E EPS, C\$/share	0.11

**as of March 31, 2010*

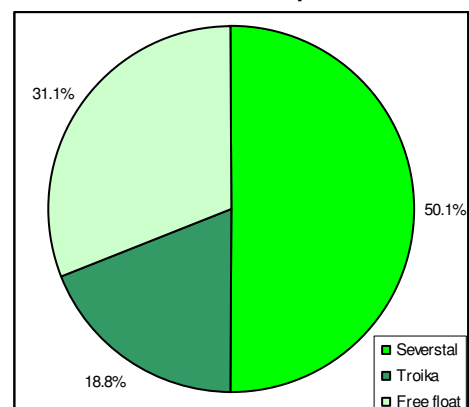
Source: Company data, OLMA estimates

HRG share price performance



Source: Bloomberg

Ownership



Source: Bloomberg, company data

The company's results are summarized below:

High River Gold 1Q10 results review, C\$ mln

	1Q10	4Q09	Q-o-Q	1Q09	Y-o-Y
Sales	98.5	101.6	-3%	89.1	11%
Gross profit	38.5	33.8	14%	28.2	36%
Gross margin	39%	33%		32%	
EBITDA	51.4	48.0	7%	18.4	179%
EBITDA margin	52%	47%		21%	
Net income	27.3	31.6	-14%	0.9	2920%
Net margin	28%	31%		1%	
Cash flow from operations	31.5	40.0	-21%	29.7	6%
Cash and cash equivalents	82.5	82.1	1%	25.0	230%
Current and long term debt	62.6	84.0	-25%	175.8	-64%
Net debt	(19.9)	2.0	n/a	150.8	n/a
	1Q10	4Q09	Q-o-Q	1Q09	Y-o-Y
Gold production (100%)					
Buryatzoloto*	33.7	41.3	-18%	34.8	-3%
Taparko-Bouroum	30.4	31.9	-5%	22.4	36%
Berezitovy	13.6	21.3	-36%	19.6	-31%
Total	77.8	94.6	-18%	76.8	1%
Cash operating costs, US\$/oz					
Buryatzoloto*	643	526	22%	423	52%
Taparko-Bouroum	423	420	1%	386	10%
Berezitovy	879	343	156%	430	104%
Total	569	487	17%	414	37%

* Includes Irokinda, Zun-Holba and placer operations

Source: Company data, Olma estimates

Gold prices grew noticeably in 1Q 2010. We believe it is too early to revise our gold price assumptions at this point of time. However, below we present the sensitivity analysis of TP variation at different gold price and WACC assumptions.

Sensitivity analysis of HRG TP to key assumptions, C\$/share

		Average realized gold price projection, 2010, US\$/oz												
		1 015	1 035	1 055	1 075	1 095	1 115	1 135	1 155	1 175	1 195	1 215	1 235	1 255
WACC variation (%)	8.5%	1.69	1.73	1.78	1.82	1.86	1.91	1.95	2.00	2.04	2.09	2.13	2.18	2.22
	9.0%	1.66	1.70	1.75	1.79	1.83	1.88	1.92	1.96	2.01	2.05	2.09	2.14	2.18
	9.5%	1.63	1.67	1.72	1.76	1.80	1.84	1.89	1.93	1.97	2.01	2.06	2.10	2.14
	10.0%	1.60	1.65	1.69	1.73	1.77	1.81	1.85	1.90	1.94	1.98	2.02	2.06	2.10
	10.5%	1.58	1.62	1.66	1.70	1.74	1.78	1.82	1.86	1.90	1.95	1.99	2.03	2.07
	11.0%	1.55	1.59	1.63	1.67	1.71	1.75	1.79	1.83	1.87	1.91	1.95	1.99	2.03
	11.5%	1.53	1.57	1.61	1.65	1.69	1.72	1.76	1.80	1.84	1.88	1.92	1.96	2.00
	12.0%	1.51	1.54	1.58	1.62	1.66	1.70	1.74	1.77	1.81	1.85	1.89	1.93	1.96
	12.5%	1.48	1.52	1.56	1.60	1.63	1.67	1.71	1.75	1.78	1.82	1.86	1.89	1.93

Source: Company data, Olma estimates

Appendix A: High River Gold Peer Group Summary

Ticker	Share price US\$/share	Mcap US\$ min	EV US\$ min	EV/S 2008	EV/S 2009E	EV/S 2010E	EV/EBITDA 2008	EV/EBITDA 2009E	EV/EBITDA 2010E	2008	2009E	2010E	EV/ Production	EV/ Reserves*	EV/ Resources**	P/ NAV***
Intermediate Gold Miners																
High River Gold Mine	0.82	654.1	656.0	3.84	1.78	1.67	37.30	8.43	3.72	neg	neg	7.05	1.95	309.6	158.2	0.61
Northgate Minerals	3.3	943.4	742.1	1.61	1.53	1.48	7.16	4.77	5.22	88.01	neg	34.13	2.05	580.2	55.3	
Centerra Gold	12.4	2 920.8	2 598.0	4.08	3.79	3.30	11.16	10.79	6.96	21.67	48.43	14.60	3.85	354.9	180.5	
Golden Star Resources	4.7	1 217.9	1 222.9	4.75	3.05	2.69	>100	8.95	7.06	neg	73.73	27.84	3.02	327.9	162.6	
SEMAFO	6.9	1 741.4	1 714.1	3.41	7.12	5.95	13.81	17.27	12.02	neg	40.03	22.31	7.08	1 153.6	257.7	
Gammon Gold	7.6	1 066.2	974.8	4.59	4.71	3.32	18.31	13.84	7.43	26.66	>100	14.80	4.47	315.5	190.0	
Jaguar Mining	10.8	841.7	852.6	9.10	6.06	3.91	40.69	27.61	10.33	neg	neg	36.39	5.50	427.7	183.6	
Crew Gold	0.3	593.6	900.2	4.01	4.88	3.93	neg	neg	12.88	neg	neg	24.83	5.14	300.3	172.5	
Average				4.4	4.1	3.3	21.4	13.1	8.2	45.4	54.1	22.7	4.1	471.2	170.1	
Weighted average				4.3	4.3	3.5	14.2	12.1	8.2	17.5	30.2	21.4	4.3	508.0	179.3	
Senior Gold Miners																
Newmont Mining	57.1	28 074.6	29 612.6	4.84	3.84	3.21	13.84	7.88	6.52	33.78	21.65	16.03	5.63	322.7	n/a	
AngloGold Ashanti	42.8	15 497.8	16 335.1	4.47	4.42	3.57	40.17	15.78	10.08	neg	>100	24.74	3.55	218.1	67.8	
Gold Fields	13.8	9 703.8	10 603.8	3.35	3.25	2.59	8.84	8.62	6.67	15.82	56.27	19.76	3.12	134.5	41.5	
Barrick Gold	44.8	44 116.3	47 887.3	6.29	5.89	4.72	15.91	13.34	8.42	56.20	neg	16.10	6.45	342.7	205.4	
Harmony Gold Mining	10.27	4 399.3	4 194.2	3.17	3.25	2.54	21.88	16.10	11.80	neg	13.38	43.40	2.87	87.1	19.4	
Kinross Gold	18.8	13 121.5	13 181.3	8.15	5.46	5.02	20.08	12.06	10.84	neg	42.34	30.73	5.88	250.7	152.6	
Newcrest Mining	29.8	14 390.6	14 458.5	6.83	7.64	6.04	15.50	18.71	12.43	>100	77.52	25.63	6.36	334.8	79.0	
Goldcorp	45.5	33 461.1	33 297.3	13.76	12.23	9.23	31.65	24.37	17.39	22.68	>100	42.11	12.76	479.9	259.2	
Average				6.4	5.7	4.6	21.0	14.6	10.5	32.1	42.2	27.3	5.8	271.3	117.8	
Weighted average				7.3	6.6	5.2	21.1	15.1	10.6	26.7	17.7	25.2	7.0	328.1	137.7	
Russian Gold Miners																
Polyus Gold	26.0	9 912.6	9 626.6	8.86	7.86	7.81	22.08	17.53	17.59	>100	30.69	28.28	7.63	130.0	87.3	0.98
Petropavlovsk	18.1	3 301.2	3 320.2	8.69	7.03	4.27	24.41	14.76	7.12	>100	22.80	12.06	6.82	495.6	281.4	2.29
Highland Gold Mining	1.9	623.1	485.1	3.25	2.94	2.31	17.45	7.86	5.35	neg	11.87	8.32	2.97	317.9	100.2	0.98
Polymetal	11.0	4 393.1	4 805.0	9.56	8.57	5.73	38.70	20.33	11.78	neg	45.77	19.53	8.21	351.2	157.5	1.19
Average				7.6	6.6	5.0	25.7	15.1	10.5	n/a	27.8	17.0	6.4	323.7	156.6	1.4
Weighted average				8.8	7.7	6.5	26.3	17.4	13.9	-	32.3	22.6	7.5	255.9	139.8	1.3

* 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 May 13, 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	393.7	500.0	476.9	501.1	389.1
Costs	(172.7)	(252.8)	(251.9)	(306.7)	(278.3)	(285.2)	(220.5)
Gross Income	8.5	116.6	141.8	193.3	198.6	215.9	168.5
<i>Gross margin</i>	5%	32%	36%	39%	42%	43%	43%
SG&A	(17.1)	(13.2)	(3.8)	(4.6)	(4.2)	(4.3)	(3.3)
Other Operating Expenses	(24.4)	(84.4)	(13.8)	(14.1)	(12.0)	(10.8)	(11.1)
EBITDA	(4.4)	77.8	176.3	213.5	221.3	239.9	193.3
<i>EBITDA margin</i>	<i>n/a</i>	21%	45%	43%	46%	48%	50%
D&A	28.5	58.8	52.0	38.9	38.9	39.1	39.1
EBIT	(33.0)	19.0	124.3	174.6	182.4	200.8	154.1
Financing costs, net	(14.4)	(21.7)	(3.1)	(7.8)	(0.9)	(0.8)	(0.7)
EBT	(47.4)	(2.7)	121.2	166.8	181.5	200.0	153.5
Income taxes	(9.4)	(3.6)	(24.2)	(33.4)	(36.3)	(40.0)	(30.7)
Non-controlling interest	(0.6)	(3.5)	(4.2)	(5.7)	(5.9)	(6.4)	(5.0)
Net income	(57.4)	(9.7)	92.8	127.7	139.3	153.6	117.8
<i>Net margin</i>	<i>n/a</i>	<i>n/a</i>	24%	26%	29%	31%	30%
BALANCE SHEET							
Assets							
Property, plant and equipment	432.1	340.6	316.1	277.7	241.5	202.5	163.4
Other assets	196.6	172.1	176.4	195.1	191.0	195.3	175.6
Total non-current assets	628.7	512.8	492.5	472.8	432.5	397.7	339.0
Cash and cash equivalents	19.1	82.1	239.7	383.5	585.1	765.0	975.4
Accounts receivable	14.5	18.1	19.3	24.5	23.4	24.6	19.1
Inventory	79.4	81.1	80.8	98.4	89.3	91.5	70.7
Other assets	11.4	12.4	24.8	31.5	30.0	31.5	24.5
Total current assets	124.4	194.2	364.6	537.8	727.8	912.6	1 089.7
Total assets	753.1	707.0	857.1	1 010.6	1 160.4	1 310.3	1 428.7
Liabilities							
Equity	477.0	512.8	699.0	891.2	1 045.2	1 198.8	1 328.4
Long-term debt	51.4	25.4	7.6	2.9	2.9	3.9	3.9
Other	39.6	48.5	59.7	42.6	44.5	41.8	42.6
Total long-term liabilities	91.1	73.8	67.3	45.5	47.5	45.7	46.5
Short-term debt	136.7	58.7	30.5	6.9	6.9	5.9	5.9
Accounts payable	29.8	39.7	39.6	48.2	43.7	44.8	34.7
Total short-term liabilities	166.5	98.4	70.1	55.1	50.6	50.7	40.5
Non-controlling interest	18.5	21.9	20.7	18.8	17.0	15.1	13.2
Total liabilities & equity	753.1	707.0	857.1	1 010.6	1 160.4	1 310.3	1 428.7
CASH FLOW STATEMENT							
Net Income	(57.4)	(9.7)	92.8	127.7	139.3	153.6	117.8
Depreciation & Amortization	28.5	58.8	52.0	38.9	38.9	39.1	39.1
Working capital change	(14.1)	140.9	(1.0)	(14.2)	5.8	(2.3)	16.1
Other assets change	68.7	(64.4)	(1.8)	(25.7)	1.6	(6.2)	6.0
Operating cash flow	25.6	125.5	141.9	126.7	185.6	184.2	178.9
Capital Expenditures	(85.7)	32.7	(27.5)	(0.5)	(2.7)	(0.1)	(0.0)
Other	(8.2)	(65.6)	(4.3)	(18.7)	4.1	(4.2)	19.7
Investing cash flow	(93.9)	(32.9)	(31.8)	(19.1)	1.4	(4.3)	19.6
Increase in Debt	(52.3)	(94.5)	(45.9)	(28.4)	-	-	-
Other	86.5	67.5	93.4	64.5	14.7	0.0	11.8
Financing cash flow	34.2	(26.9)	47.6	36.2	14.7	0.0	11.8
Net Change in Cash	(32.4)	62.9	157.7	143.8	201.7	179.9	210.3

Source: Company data, Olma estimates

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