



HIGH RIVER GOLD

(Bloomberg: HRG CN)

Update:
River of gold flows steadily

In the third quarter of 2009 High River Gold demonstrated improving operating and financial results: production, revenue and operating profit rose compared to the levels of the first and second quarters. Based on the Q3 numbers and upon completion of the Troika investment of C\$57M, the company is debt free on a net basis, which enabled us to increase our target price by reducing the discount applied in our peer valuation from 35% to zero. The stock's upside potential remains high supporting our BUY rating.

Positive

- Q3/09 net gold revenue totalled C\$89.6 million, an increase of 6% from Q2/09, an increase of 2.6 times from Q3/08.
- Low energy, materials and labour costs and higher capacity utilization rate at new mines along with cheap Russian rouble continued having their effect on HRG's total cash costs in 3Q/09 - they decreased 7% to US\$570 per ounce compared to Q2/09.
- Q3/09 cash flow from operations totalled C\$33.0 million, up 45% from C\$22.8 million in Q2 this year, and up from C\$4.7 million in Q3 last year.
- Q3/09 net loss totalled C\$4.6 million (C\$0.01 per share) compared to a net loss of C\$37.8 million (C\$0.06 per share) in Q2/09.
- Net profit excluding extraordinary items was positive for the nine months of 2009 rising from quarter to quarter and our estimate gives a figure of around C\$35.6 m.
- Working capital increased to C\$18.5 million from C\$2.8 million at the end of Q2/09, and up from a C\$42.1million deficit at 2008 year-end.
- Based on the Q3 numbers and upon completion of the Troika investment of \$57M, the company is debt free on a net basis.
- Steadily high metal prices allow High River to make scheduled debt repayments, fund capital expenditures and partially resume exploration programmes.

Negative

- The company determined in the third quarter that the Novophirsovskoye project (Russia) is no longer a key exploration property. A buyer has been found for the property and the project was written down by \$10.9 million to the sales value of US\$1.0 million. In Q2/09, the Prognoz property was written down by \$58.6 million.
- Q3/2009 total cash cost at Berezitovy was still high (US\$667) due to problems with equipment. Apparently, equipment at Berezitovy is still experiencing problems typical for a break-in period, which propels total cash costs.

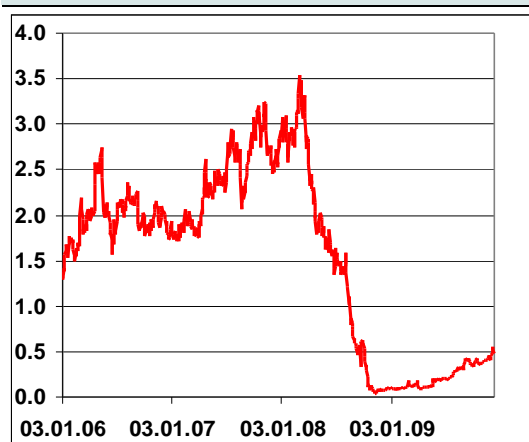
Stock data

Ticker	HRG CN
Share price, C\$	0.50
Target price, C\$	2.48
Upside	397%
Rating	BUY

Market value, C\$ m

MCAP	399.6
Net debt	25.5
Enterprise Value	425.1

HRG share price



Sources: Bloomberg, company data and OLMA estimates.

The Company

High River Gold Mines Ltd. (TSX:HRG) listed on Toronto Stock Exchange is an unhedged gold company with producing mines, mines under development, and advanced exploration projects in Russia and Burkina Faso. High River has recently brought two new open-pit gold mines into production. The Taparko-Bouroum Gold Mine in Burkina Faso achieved commercial production in October 2007 and the Berezitovy Gold Mine in Russia reported 90% production rate in October 2008. At full capacity, these new mines together with two existing underground mines in Russia, Zun-Holba and Irokinda, should attain total attributable unhedged annual gold production of approximately 300,000 ounces. In addition, the Company has two advanced exploration projects, the Bissa Gold Project in Burkina Faso and the world-class Prognoz Silver Project in Russia, and a 7.2% strategic investment in Detour Gold, which explores Detour Lake deposit.

The Zun-Holba and Irokinda old underground gold mines suffer from the shortage of reserves - the Irokinda mine can continue production at current rates for less than 6 months and the Zun-Holba mine for 12 months. A 633 million Rouble budget (approximately C\$23 million) for mine-site exploration is planned for 2009-2010 to replace mined-out reserves and extend the mine life at Irokinda and Zun-Holba.

In Q3/09, gold poured at Taparko (100%) totalled 25,073 ounces, up 24% from the second quarter. The production increased because of better mill availability and higher recoveries. A second ball mill is planned to be built and commissioned in 2010 significantly increasing production by the end of the year. The estimated cost is US\$4.4 million for the mill and another US\$4.1 million for the mine and plant expansion.

Berezitovy continues to underperform with year-to-date mill utilization of 72%. Production (100%) at Berezitovy during the third quarter was 22,487 ounces of gold, compared to 24,023 ounces produced in Q2/09. Production levels continue to be constrained by maintenance shut-downs and disk filter plant under-performance as well as crusher problems. A contract for a second ball mill to be built and commissioned in 2010 has been signed. The mill will have a capacity of 90 tonnes per hour and the estimated cost is 43 million Roubles (approximately C\$1.6 million).

Nine months 2009 results *(All figures in million C\$)*

	9m09	9m08	9m09/9m08
Revenue	267.831	123.445	117%
EBITDA	113.199	21.424	428%
Net cash from operations	85.504	7.092	1106%

As a result of the unconditional tender offer announced on June 9, 2009 which was increased and extended on July 28, 2009, Severstal acquired 28,897,135 additional shares at \$0.30 per share. Severstal's ownership of the company subsequently increased to 61.7%.

On Dec. 2, 2009 the company announced that it has closed its private placement of 150,000,000 common shares. Polenica Investments, an affiliate of Troika Dialog Group purchased the shares for the price of C\$0.38 per share for total aggregate gross proceeds to High River of C\$57 million. The shares Polenica acquired represent approximately 18.7% of the currently outstanding 799,219,422 shares. Severstal's ownership of the Company subsequently decreased to 50.1%. Proceeds of the placement will be used for repayment of the approximately US\$27 million outstanding under the two credit agreements that were assigned by Standard Bank to OAO Severstal as of April 20, 2009, with the balance being used to fund the exploration program at Buryatzoloto and for general corporate purposes.

Based on the Q3 numbers and upon completion of the Troika investment of \$57M, the company is debt free on a net basis. At the end of Q3 the total debt was \$121M plus \$23M in payables for a total of \$144M. To counter this, there was \$39M in cash and equivalents at the end of Q3, \$64M in third party stock investments (at latest share prices) plus the \$57M from Troika - bringing the total to \$160M. Hence, the company will have a surplus of \$16M on a net basis. The impressive piece of the Q3 results is the \$33M in positive cash flow from operations. With gold moving close to \$1200/oz, we can likely expect a minimum average of \$1100/oz in revenues for Q4. If HRG produces at the same rate as in Q3, this could add another \$11M to cash flow bringing Q4 cash flow to \$44M.

High River's cash requirements over the next 12 months are primarily to:

- service its debt obligations (approximately C\$39.6 million).
- mine-site exploration (approximately C\$23 million) at Irokinda and Zun-Holba to replace mined out reserves and extend the mine life.
- finance the Taparko and Berezitovy mine expansions.
- in-fill drilling to expand resources and complete the Bissa feasibility study

- extensive exploration in Burkina Faso to maintain licenses

It is anticipated that cash flow from operations will be sufficient to meet the operating funding requirements.

Gold price

Gold price is one of the vital factors for the gold mining business. An average gold price for the fourth quarter will be at least \$100 higher than in Q2 and Q3 2009.



Total cash cost

Another essential factor for gold mining companies is total cash cost. This parameter is an industry standard normally disclosed by all gold mining companies in their financial reports. It is typically expressed in USD per ounce regardless of the reporting currency.

As we expected, in Q3/09 total operating and non-operating cash costs decreased 7% to US \$570 per ounce, compared to US\$613 per ounce (restated) in Q2 2009. Direct mining costs per ounce in Q3/09 decreased 25% compared to Q2/09, and decreased 38% compared to Q3/08. It was primarily due to two main factors: a rise in utilization rate and Russian rouble depreciation. The results support our idea that excessively high total cash cost at HRG in 2008 was to a great extent overburdened by expenses associated with the launch of two new mines, Taparko-Bouroum and Berezitovy. As the utilization rate at these mines increased, the total cash cost reduced due to overhead cost dilution, thus, improving profitability.

Total cash cost and production at High River

	Production, koz			Ownership	Total cash cost \$/oz		
	2008	2009E	3Q09		2008	2009E	3Q09
Zun-holba (100%)	70	70	53	85%	704	548	520
Irokinda (100%)	74	73	55	85%	566	449	390
Taparko-Bouroum (100%)	31	91	68	90%	838	486	530
Berezitovy (100%)	44	98	66	99%	775	610	647
HRG (attributable)	193	300	218		694	570	570

Sources: company data and OLMA estimates.

Valuation

High River Gold (HRG) is at the stage of approaching full capacity production with two recently launched mines. The final target price is an average of financial targets based on EV/Sales, EV/EBITDA and P/E with equal weights. The figures used to compare HRG to its peers are estimates of 2009 financials taken from Bloomberg.

Below is a table with financial data of HRG and its peers to give a more comprehensive idea of where the company stands.

Data table (All figures are in Canadian dollars)

Company	Ticker	MCap	EV	Sales		EBITDA		Net Income		EV/ S	EV/ EBIT DA	P/E
				2009	2010	2009	2010	2009	2010	2009	2009	2009
14.12.2009	-	C\$m	C\$m									
Polyus-Gold	PLZL RU	10 831	10 104	1 387	1 909	621	885	354.9	469.7	7.3	16.3	30.5
IAMGold	IMG CN	6 389	5 807	1 023	1 125	523	611	221.4	261.1	5.7	11.1	28.9
Polymetal	PMTL RU	4 050	4 382	616	817	251	369	126.0	248.0	7.1	17.5	32.2
Red Back Mining	RBI CN	3 395	3 064	374	676	191	349	138.6	220.7	8.2	16.0	24.5
Centerra Gold	CG CN	2 461	2 154	687	886	240	420	24.1	194.6	3.1	9.0	102.3
Semafo Inc.	SMF CN	1 015	1 055	260	314	113	146	51.7	78.5	4.1	9.4	19.6
Golden Star Resources	GSC CN	879	928	439	524	136	220	7.6	78.4	2.1	6.8	115.1
Weighted average										5.7	13.3	31.4
High River Gold	HRG CN	400	425	362	409	176	204	51.0	79.4	1.2	2.4	7.8

*High River 2009 Net Income excluding extraordinary items
Sources: Bloomberg, company data and OLMA estimates.

Comparative Valuation (All figures are in Canadian dollars)

Company	Financial Targets			Average	Target price	Upside	Rating
	EV/ Sales	EV/ EBITDA	P/E				
High River Gold Mines	2.57	2.88	2.00	2.48	2.48	397%	BUY

Sources: Bloomberg, company data and OLMA estimates.

We applied a zero discount to our target due to following factors:

The company has become virtually debt free, as the residual debt of some C\$25 mil is countered by some C\$64 mil in third party stock investments (at latest share prices).

Our mid-tier peer group consists of gold mining companies operating in Russia and West Africa, the regions where High River operates.

High River's third quarter results, both operational and financial, reassure us of the company's stability. We believe High River Gold has now become a secure asset which carries substantial investment attractiveness. Thus, we maintain our BUY rating.

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