A SCOPING STUDY FOR THE UNKURTASH PROJECT, KYRGYSTAN

Prepared For

Highland Exploration LLC

Report Prepared by

srk consulting

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KZ0381

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EXECUTIVE SUMMARY
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1 INTRODUCTION

SRK Consulting (Kazakhstan) Limited ("SRK") is an associate company of the international group holding company, SRK Consulting (Global) Limited (the "SRK Group"). SRK has been requested by "Highland Exploration LLC" ("Highland Exploration", hereinafter also referred to as the "Company" or the "Client") to develop a Scoping Study of the viability of options of commercial development of the Unkurtash Project ("the Project"), situated in the Kyrgyz Republic.

2 GEOLOGY AND RESOURCES

IMC Montan (2013) completed a JORC Mineral Resource estimation report for Unkurtash, Sarytyube Karatyube using a block-modeling method. It was not in SRK's scope of work to sign off the IMC Montan work.

Notwithstanding this, SRK has reviewed the geological model and resource estimation and considers that additional drilling and remodelling is required to improve the confidence in the resulting models before any Ore Reserves should be declared.

SRK recommends the following be implemented for the Preliminary Feasibility Study ("PFS") stage of Project development:

Input data

- Complete additoinal drilling to achieve sufficient coverage to allow a clear understandingof the controls on mineralisation and the geometry of the deposits.
- Use core drillholes in selected locations to allow structural geology to be better understood adding confidence to the orebody geometry and continuity.
- Estimate the density of ore and waste rock for all three deposits that comprise the Project (Unkutash, Karatube and Sarytube deposits) more accurately with the use of all available data.
- Justify the exclusuion of silver from the Mineral Resources estimates.

Database

- Analyze and once more justify in detail the methodology of grade 'capping' in the sample datbase.
- Analyze, digitize, and include in the database all of the the arsenic, copper and sulphur grades.
- Correct and verify the sample database, eliminating the errors identified by SRK.

Geological Models

- Update the mineralization wireframes for all three deposits on the basis of geological and structural controlling factors, and include additional mineralization into wireframes for the

Karatube deposit.

Composites comparison and grade capping

- Analyze and make grade composites for the Unkurtash deposit.
- Consider the possibility of using longer composites grades for the Karatube and Sarytube deposits.
- Re-estimate grade capping for the new block models.

Statistics and geostatistics

- Imrpove block model reliability by forming individual domains of low and high gold grade classes without waste inclusion for the variograms.
- Build variograms on the basis of composite samples.
- Consider compiling alternative variograms (for example, paired relative variograms) for each grade domain.

Block modeling

- Use bigger block sizes for Unkurtash and Sarytube block models.
- Consider the option of using individual skewed block models oriented along the strike of the mineralization.
- Apply ordinary kriging with the use of a quite big and correctly oriented search ellipsoids for Unkurtash and Sarytube grade interpolation.
- Increase minimum and maximum number of samples within search ellipsoids for the Unkurtash and Karatube deposits.
- It is not recommended to use interpolation with short search ellipsoid ranges for the Unkurtash deposit.
- Verify and reconsider the density estimates for each type of host rock.
- Improve continuity of geological grades by means of repeated interpretation of available data and compilation of more reliable geological models.

3 MINING

For the Unkurtash Project study several open pit mining development options have been considered:

Mining Option 1 Selective mining: Initially, high-grade ore > 0.9 g/t Au is fed directly from the pit to the process plant. Low-grade ore > 0.6 g/t < 0.9 g/t is stockpiled in the course of mining and is not sent for processing. Production capacity is 3 Mtpa.

Mining Option 2 Selective mining: Initially, high-grade ore > 0.9 g/t Au is fed directly from the pit to the process plant. Low-grade ore > 0.6 g/t < 0.9 g/t Au is stockpiled in the course of mining and processed at the end of LoM. Production capacity is 3 Mtpa.

Mining Option 3 Bulk mining: Initially all ore with an economic cut-off grade of gold of > 0.6 g/t is immediately fed to the plant with no stockpiling. Production capacity for this option is 3 Mtpa.

Mining Option 4 Selective mining: Initially, high-grade ore > 0.9 g/t Au is fed directly from the pit to the process plant. Low-grade ore > 0.6 g/t < 0.9 g/t Au is stockpiled in the course of mining and processed at the end of Life of Mine (“LoM”). Production capacity is 4 Mtpa.

Mining Option 5 Bulk mining: All ore with an economic cut-off grade of gold above 0.6 g/t is immediately fed to the plant. Production capacity for this option is 4 Mtpa.

Calculation of the optimal open pit by generating of a series of pit shells was carried out in a Micromine software optimizer module on the basis of the geological and economic block model of the ore body. This software uses using the Lerchs-Grossmann algorithm. Selection of the optimal pit shell was based on the maximum cash flow, taking account the discount rate.

For development of the deposit for all mining options, it was assumed to use 91 t haulage trucks, which will be loaded by an excavator with a bucket capacity of 12 m^3.

Scheduling results show that the Project is very sensitive to initial capital costs. SRK believes that based on the current block model, Mining Option 5 (bulk mining at 4 Mtpa with an economic cut-off grade of 0.6 g/t Au) is optimal, since there is no need to stockpile the material, which will enable efficient processing of ore with the economic cut-off grade of more than 0.6 g/t Au from the start of mining.

The life of mine (“LoM”) mining (production) plan for Mining Option 5 is provided in Table ES 1:

Table ES 1: Mining Option 5 – Life of Mine Production Plan

Mineable reserves			Y 1	Y 2	Y 3	Y 4	Y 5	Y 6	Y 7	Y 8	Y 9	Y 10	Y 11	Y 12	Y 13	Y 14	Y 15	Y 16	Y 17	Y 18
Unkurtash ore	Mtpa	47.7	3.8	2.3	2.4	2.3	2.9	3.2	3.1	0.0	0.9	2.5	3.5	4.0	4.0	4.0	2.7	1.6	4.0	0.7
Sarytube ore	Mtpa	17.9	0.2	1.8	1.5	1.7	1.1	0.8	1.0	2.8	3.1	1.3	0.5	0.0	0.0	0.0	1.4	0.8	0.0	0.0
Karatube ore	Mtpa	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.3	0.0	0.0	0.0	0.0	0.0	1.7	0.0	0.0
Subtotal	Mtpa	68.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	0.7
Unkurtash grade	g/t	1.3	1.2	1.3	1.4	1.3	1.2	1.1	1.2	0.0	1.1	1.2	1.2	1.1	1.1	1.3	1.3	1.6	1.7	1.6
Sarytube grade	g/t	1.5	1.4	1.4	1.4	1.3	1.3	1.0	1.3	1.0	1.6	1.5	2.5	0.0	0.0	0.0	2.1	1.9	0.0	0.0
Karatube grade	g/t	1.8	0.0	0.0	0.0	0.0	0.0	1.6	0.0	1.5	0.0	1.5	0.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0
Average grade	g/t	1.3	1.2	1.4	1.4	1.3	1.2	1.1	1.2	1.2	1.5	1.3	1.3	1.1	1.1	1.3	1.6	1.8	1.7	1.6
Unkurtash metal	t	60.4	4.5	2.9	3.4	3.0	3.3	3.5	3.6	0.0	1.0	2.9	4.1	4.6	4.5	5.1	3.5	2.5	6.8	1.1
Sarytube metal	t	25.9	0.2	2.5	2.1	2.2	1.4	0.8	1.3	2.9	4.9	1.9	1.2	0.0	0.0	0.0	2.9	1.5	0.0	0.0
Karatube metal	t	5.6	0.0	0.0	0.0	0.0	0.0	0.1	0.0	1.8	0.0	0.4	0.0	0.0	0.0	0.0	0.0	3.3	0.0	0.0
Subtotal	t	91.9	4.7	5.5	5.5	5.2	4.7	4.3	4.9	4.7	5.9	5.3	5.3	4.6	4.5	5.1	6.4	7.3	6.8	1.1
Unkurtash metal in cash register	t	49.5	3.7	2.4	2.8	2.5	2.7	2.8	3.0	0.0	0.8	2.4	3.4	3.8	3.7	4.2	2.9	2.1	5.6	0.9
Sarytube metal in cash register	t	19.4	0.2	1.9	1.6	1.6	1.0	0.6	0.9	2.2	3.7	1.5	0.9	0.0	0.0	0.0	2.2	1.1	0.0	0.0
Karatube metal in cash register	t	5.3	0.0	0.0	0.0	0.0	0.0	0.1	0.0	1.7	0.0	0.4	0.0	0.0	0.0	0.0	0.0	3.1	0.0	0.0
Total in cash register	t	74.3	3.9	4.3	4.4	4.1	3.8	3.5	3.9	3.9	4.5	4.3	4.3	3.8	3.7	4.2	5.0	6.3	5.6	0.9
Revenue	USDM	2865.1	149.0	165.7	169.2	158.3	145.8	135.5	150.3	149.9	174.5	165.3	165.0	145.1	141.8	160.8	194.2	244.7	216.4	33.6

4 PROCESSING

Based on the scoping level work undertaken, SRK concludes the following:

- Sufficient testwork has been performed to evaluate a number of different processing options.
- The presence of coarse free gold in the ore justifies preliminary gravity concentration.
- Two process options have been selected and recommended for further studies: recovery of gold by gravity and tailings leaching; and gravity followed by flotation concentrate production for sale to third parties.
- Both options have been evaluated.
- The total recovery of gold by gravity followed by tailings leaching is around 80.8%.
- The total recovery of gold to a combined gravity-flotation concentrate can be as high as 90%, but the Project value is highly dependent on the payment terms for the combined concentrate. At gold payability above 85%, this option shows a higher Project value than the gravity and tailings leaching option.
- The feed is relatively low grade for a CIL plant. All operating costs should be managed to the minimal level possible.
- The estimated operating cost for a 4 Mtpa gravity-gravity tailings CIL plant is USD7.9 /t including a 5% contingency.
- The estimated capital cost for a 4 Mtpa gravity-gravity tailings CIL plant is USD121.3 M.
- The estimated operating cost for the combined gravity-flotation concentrator is USD6.9/t including a 5% contingency.
- The estimated capital cost for a 4 Mtpa combined gravity-flotation concentrator is USD102 M.
- For Processing Option 2 including CIL, the amount of cyanide in the filtered tailings will act as a bleed on the overall circuit and will allow the tailings thickener overflow and the filtrate, both containing cyanide, to be recycled. The residual cyanide in the discharge of the CIL, required for efficient leaching, will be utilised. Whilst there is a build up of Weak Acird Dissociated (WAD) cyanide in the circuit, it will reach an equilibrium level and is acceptable for this scoping study assessment. Consequently, a cyanide detox circuit has not been currently included in the design or operating costs.

Based on the scoping level work carried out, SRK recommends the following:

- Additional testwork is required to define the variability of the three ore bodies for design of all major plant areas and to develop a rigorous relationship between head grade and recovery for each of the orebodies.
- Further testwork should be performed on representative samples of each ore type to optimise and possibly improve the recovery of gold by the gravity - tailings CIL option.
- Further cyanide speciation and detox testwork should be performed to confirm that the build up of recirculating cyanide species is acceptable.
- Further testwork should be performed to define the flotation concentrate grade-recovery relationship for the three ore bodies.
- Concentrate terms should be obtained from a number of different buyers.
- Further testwork should be performed to evaluate the heap leaching of oxide ores if considered appropriate.
- Detailed local costs for all aspects of the plant operating costs for both options should be developed.

5 TAILINGS STORAGE FACILITY

Based on a scoping level assessment of the Tailings Storage Facilty (“TSF”) options, SRK concludes the following:

- The conceptual level economic trade-off between the TSF options indicates the Pressure Filtered Tailings (“PFT”) configuration incurs the lowest capital cost of the options considered. The traditional slurry (“TS”) option incurs the highest sustaining capital expenditures. This is due to the large amount of fill required to construct the TSF landform. The PFT (dry stack) option incurs significant operating cost penalties related to: 1) higher cost of tailings dewatering at the plant; and 2) reworking of filtered tailings material at the TSF. The overall LoM costs for the PFT are expected to be 9% lower than the TS option.
- A qualitative assessment of the potential environment and social impacts associated with each TSF development option indicates that the dry stack TSF will have the lowest negative impact on the local environment and communities.
- After considering the proposed methods of tailings deposition and potential storage locations, SRK’s preferred TSF option is the dry stack method.
- The downstream raise strategy requires relatively large volumes of embankment fill for construction, in comparison to the volumes of tailings stored. Use of filtered tailings would largely eliminate the requirement for a downstream raised embankment (only rock fill erosion protection is required).
- With the dry stack option, less contact water will be stored on the TSF, therefore the risk of seepage from the TSF is reduced. This reduces the risk of groundwater and surface water contamination.
- Dry stacking allows for a much higher stored density than the other options, hence the TSF footprint area/final level is reduced.
- The geotechnical risks associated with operation of a dry stack facility are significantly lower than maintaining large water retaining dams. With slurry dams, the consequences of a dam failure are very high and the risks posed by the seismicity of the region are significant.
- The environmental impact of the TSF will be reduced as the footprint area, surface water management requirements and final height of the facility will be significantly reduced. Closure costs will be minimised as progressive rehabilitation can occur during placement of tailings material.

Based on a scoping level assessment of the TSF options, SRK recommends the following:

- For this scoping study, dry stack tailings are adopted as the most appropriate approach.
- SRK has assumed that the facility needs to be fully lined for environmental compliance. SRK suggests, however, that the local legislation is consulted to confirm this is required in addition to any possible detox requirements for cyanide usage
- The outer slopes of the TSF can be progressively rehabilitated with Run of Mine (“RoM”) waste rock, thus final closure and rehabilitation costs are minimised. Placement of RoM material on the outer slopes of the dry stack landform will reduce the potential for dusting throughout the operations phase.
- Representative tailings samples should be sent for geotechnical characterisation testing (consolidation, PSD, Atterberg and shear strength testing) to obtain the necessary data to validate the conceptual dry stack configuration proposed in this report. SRK recommends that samples are sent to a competent, accredited laboratory for confirmatory testing.

- During the detailed design phase, a trade-off should be carried out which considers tailings placement using truck and shovel versus a conveyor/stacker system arrangement. This could potentially reduce the operating costs associated with current scoping study scenario (tailings hauled from the pressure filter to the TSF).

6 INFRASTRUCTURE

SRK has developed a Project layout cognisant of all components of the operation including a review of the processing plant location and the main infrastructure facilities. The processing plant is located in the position decided by the Client for the previous study.

In 2012, a power supply study was commissioned that considered five national grid connection options. The report also considered grid capacity. For this study, SRK has analysed the economic data and recommended a suitable power solution with minimal financial impact to the capital costs over the expected LoM. For the purposes of this report, the following options have been considered for the mine power supply:

- Connection to the Kyrgyzstan National Grid.
- heavy fuel oil (HFO) power plant purchase.
- diesel power plant purchase.
- coal fired power plant purchase and operation using locally supplied coal.

A preliminary load list was developed based on 4 Mtpa processing plant and assumed other loads from tailings and other infrastructure. From the information provided, the detailed economic analysis and an assessment of the remote site, for the processing at a rate of 4 Mtpa at Unkurtash, it would appear that the option of choice, based on economic and technical viability is connection to the “Crystal” substation of the Kyrgyzstan National Grid.

SRK also assessed the requirement for heating. Based on factored demand numbers and fuel consumption rates, the study indicated a coal fired boiler houses will be most cost efficient based on the assumptions and benchmarks used in the study.

Based on the scoping level work carried out for this study, SRK recommends the following:

- For future levels of study, additional surveys and material testing are carried out to confirm assumptions applied throughout this study.
- A mine water balance assessment for the Project and definition of the raw water source need to be undertaken.
- Develop and maintain a Risk and Opportunities Register to allow the Project team and third parties the opportunity to identify, review and eliminate risks as the Project develops further. The Risk and Opportunities Register is to be incorporated into a risk model to evaluate an appropriate level of contingency to be applied to the cost estimate(s). The main aim being to reflect the anticipated total cost of the Project and to monitor the Project status and the probability of completion at each phase.
- Develop an implementation schedule with associated timing and dates for all Project related infrastructure and investment. The estimated capital expenditure should then be updated within the financial model to reflect the implementation schedule.
- Development of a flood risk assessment and surface water management strategy for the Project area and to better protect the infrastructure assets.
- Plan and implementation of civil geotechnical investigations comprising of: field investigation and in situ and laboratory testing to inform the design of infrastructure assets for the Proejct.
- A geo-hydrological risk assessment risk assessment be concluded before a final decision is made regarding the sewage treatment technology to be used for the Project.

- Investigate the options for the transport of large items to the Project site as part of a general logisitcs study.
- Obtain further data into power outages to determine if back-up generators are required.
- Update the detailed study on the grid connection option to refine the capital cost and footprint and other recommendations made by SRK.
- Review bridge and crossing points of the Kassan-Say River.
- Obtain Contractor quotes for construction of the preliminary enabling works.

7 WATER SUPPLY

Three options of processing plant water supply for have been assessed:

- Two the options consist of intake of water from the alluvial aquifer on the Kassan-Say River.
- The third option consists of water dam downstream of the Unkurtash waste dump, which would also serve as seepage collection pond.

The options were selected for assessment because of:

- their potential in providing enough water to the plant all year round.
- the proximity of the water source to the plant.
- expected lower cost for the water source and supply pipeline.
- The potential minimal impact on the river and the environment.

SRK considers that the most suitable of the options is to build a water intake from the Kassan-Say River at the junction with ArykBulaksay stream. The alluvial aquifer in this river section seems wide and has the potential to contain significant amounts of water. The option has a lower risk as the pipeline for the water supply would be installed along the ore haul road, removing the need to construct a road specifically for pipeline installation and maintenance. The estimated capital cost for this option amounts to about USD640,000 and the operating cost to be around USD140,000 per year.

8 WATER MANAGEMENT

Based on the scoping level work completed for this assignment, SRK concludes the following:

- The most significant challenge in terms of water management of the Project is surface water run-off from the waste sites and the pits.
- Water management of the waste dump site must be carefully designed. SRK concludes that detailed characterisation of the waste rock material in terms of mineralogy and acid generation potential is essential and needs to be initiated at the PFS stage. Due to the presence of Kassan-Say River and a protected ecological buffer zone around the river, there is need to minimise discharge water from the Project site into the environment.
- Groundwater inflows are expected to be low and the estimated amounts range between 10 and 70 m^3/h.
- Despite the expected groundwater inflows being low, there is need to consider more carefully the pore water pressure in the pit walls in the PFS, especially at the Karatuybe deposit, where more geological structures and rock weathering exist, in order to assess the potential impact of the hydrogeology on the pit slope stability.

Based on the scoping level work completed for this assignment, the following recommendations are made for the next phase of study:

- Hydrogeological investigations should be carried out in the PFS level at the locations of the water supply sources at the Kassan-Say River. The investigations should be designed to test the availability of groundwater in the alluvial/top aquifer outside the protected ecological zone to verify if enough groundwater is present to fulfil the plant water demand.

- If the immediate water supply options presented on this study are determined to be unsuitable a third option should be investigated. For this option, the drilling of hydrogeological boreholes should be planned to identify the type and structures of the top geological horizons and to carry out hydraulic testing to estimate the hydraulic conductivity.
- More detailed topographic survey should be carried out across the area surrounding the water supply options to optimise the pipeline route and prepare more detailed design of the pumping system.
- Further borehole drilling is needed in the pit areas to provide enough data for the characterisation of the hydrogeology of the rock mass around the pit and collect the input data to accurately estimate the potential groundwater inflows into the pits.
- Recent data are not available from the regional meteorological stations used in the estimation of annual, monthly and extreme event precipitation in the present study. Each precipitation record available from the cited regional sources ends in 1991. The installation of a local meteorological station at the proposed mine site is recommended to update and improve estimations of precipitation. The meteorological station should include a snow gauge as well as tipping bucket to accurately account for snowfall.
- Stream flow monitoring in the local streams should continue on a more regular basis to improve the runoff characterization for the site. More complete flow records will improve the estimations of the natural runoff coefficient and mean annual runoff.
- Consideration should be given to the management of run-off from the waste rock dumps. This water is expected to require treatment for high suspended sediment prior to discharge and may require costly containment infrastructure in the form of dams or pumping systems.
- A Project water balance should be carried out in the PFS level, based on more detailed hydrological and hydrogeological information and using updated mine design.
- Characterisation of the waste rock mineralogy and geochemistry should be carried out in the next stage of the study to assess the potential for acid rock drainage and metal leaching from these sites. The type of water management infrastructures that will be needed for the waste rock dump (“WRD”) sites depends on the quality of seepage water from these sites. If the risk of acid rock drainage is found to be limited, the main parameter that will define the water management plan for the WRD sites will be suspended solids content in runoff water, which can be handled in settling ponds. Such structures will be much cheaper than treatment or control of chemical migration if the WRD are found to have high acid generation and metal leaching potential.
- Along the pit walls, especially at the Karatyube ore deposit, targeted hydrogeological investigation, combined with geotechnical drilling, should be carried out to characterise the hydrogeology around the pit walls and the impact this may have on the pit slope stability.

9 ENVIRONMENTAL AND SOCIAL

Analysis of the current stage of the environmental and social development of the Project and its compliance with the international industry standards showed the following:

- The OVOS, developed for the Project to a PFS level, contains a significant amount of useful information, which can be used as the basis to develop the ESIA document in accordance with the international standards.

- Gap analysis enabled the identification of the key areas in assessment of non-technical (environmental and social) risks of Unkurtash Project, which shall be focused on at the PFS stage, with subsequent advancing to the FS stage.
- The most significant issues, that require further consideration, study and analysis (as prioritized) are:
  - At further stages of the environmental and social appraisal of the Project, it is necessary to carry out a proper environmental and social impact assessment (ESIA) in accordance with the international requirements. Specific recommendations on ESIA and its content are provided in the relevant Environmental Section of the report).
  - It is necessary to develop a conceptual Mine Closure Plan (PFS level of detail) and then, at FS stage, it is recommended to make the Plan more detailed.
  - At the PFS/FS stage, it is recommended to develop the Company's Environmental and Social Policy and implement the Environmental and Social Management System (ESMS).
- Environmental capital costs were estimated on key aspects, as shown in Table ES 2:

No.	Activity/Item	Preliminary cost estimate, USD
1.	Development of full ESIA in accordance with international standards, including additional studies to collect background information, development of framework management and consultation plans.	170-200k
2.	Geochemical studies for ARD risk analysis	15-20k
3.	Implementation of Environmental and Social Management System (ESMS)	15k
4.	Development of conceptual Closure and Reclamation Plan	10-15k
4.1	Closure and reclamantion estimated cost*	20M
5.	Fulfilment of the requirements of environmental legislation of the Kyrgyz Republic, including development of local OVOS, permits, licenses and etc.	30-60k

* SRK provided a range of the closure cost estimate based on its experience of the projects with similar technical and physical-geographical characteristics. To produce more realistic cost estimates, it is recommended to carry out a separate closure and reclamation cost estimate using SRK's model.

10 FINANCIAL ANALYSIS

Based on the work carried out for this Scoping Study, SRK concludes the following:

- The Project has positive economics and, based on the assumed gold prices, the review and authoring work by SRK indicates for Processing Option 2 CIL at a 5% discount rate the post-tax NPV is USD440 M and at a 10% discount rate the post-tax NPV is USD200 M. The analysis of Processing Option 3 indicates that the flotation process route would offer a better return than the CIL process route for payabilities around 85% or higher.
- The Project's NPV is most sensitive to revenue (grade or commodity price) with lower sensitivity to operating and capital costs.
- Average operating costs for Processing Option 2 CIL are estimated at USD21.4 /t treated or USD616 /oz gold.
- Average operating costs for Processing Option 3 range between USD19.5 to 20.6 /t milled or USD510 to 531 /oz gold dependent on level of payability for concentrate assumed.
- Total capital expenditure is estimated to be USD472 M for Processing Option 2 CIL over the LoM.
- Total capital expenditure over the LoM is estimated to be USD447 M for Processing Option 3 Flotation.

Based on the work carried out for this study, SRK recommends the following:

- Further refinement of capital cost estimates is undertaken in order to optimise Project profitability.
- Further investigation of potential offtake agreements for flotation concentrate is undertaken to assist in confirming the potential process route.
- The financial model is updated regularly to reflect new information relative to revised production plans and resource estimates.