Kekura Gold Deposit, Chukotka, Russia

Excerpt from report **"*Audit review of the Kekura Gold Deposit, Chukotka Autonomous Area, Russian Federation*"** dated 30 March, 2012, and issued by Micon International Co Ltd. to ZAO "Bazovye metally". – Financial details have been omitted.

1.0 SUMMARY

ZAO "Bazovye metally" of the Russian Federation has commissioned Micon International Co Limited (Micon) of the United Kingdom to prepare an audit report of the Kekura gold deposit, located approximately 120 km south of the town of Bilibino in the Chukotka Autonomous Area, Russian Federation (see Figure 1.1).

At the beginning of August 2010, a Micon consultant met with representatives of ZAO "Bazovye metally" and visited the Kekura gold project site. Micon inspected the deposit area where drilling and mining operations were conducted, and visited the camp, core shed, offices, sample preparation room and field laboratory "Zolotinka" in order to assess and review the practices in place.

Micon has also made use of exploration data provided by ZAO "Bazovye metally" to create a mineral resource block model and to generate mineral resource statements compliant with the JORC Code. Micon's mineral resource model was subject to a Whittle open-pit optimisation analysis to determine the economic potential of the project. A production schedule was generated based on the estimated mineral resources within the pit shell and this data was subsequently used to create a preliminary cash flow model for the project. The cash flow model for 2011 was revised in light of the additional 20,000 linear metres of drill holes completed in 2010.

It is emphasised that the results of this study are principally derived from the examination and interpretation of historical exploration work conducted by various state authorities and, more recently, privately-owned entities. No independent confirmatory sampling has been performed by Micon as part of the current study to confirm or otherwise qualify the conclusions presented in this report.

1.1 LICENCES AND PERMITS

Micon has not undertaken legal due diligence of the Kekura asset portfolio and provides no legal opinion upon ownership or rights to operate. Micon has inspected documentation concerning the Kekura licence and permits to operate. The current licence (AND # 14974 BE) for exploration and production of hard rock and placer gold within the Stadukhinsky gold area is held by ZAO "Bazovye metally", which is registered in Bilibino. The licence was issued on 26thAugust 2002 and reissued on 13thJuly 2010. It is valid until 30th June 2022.

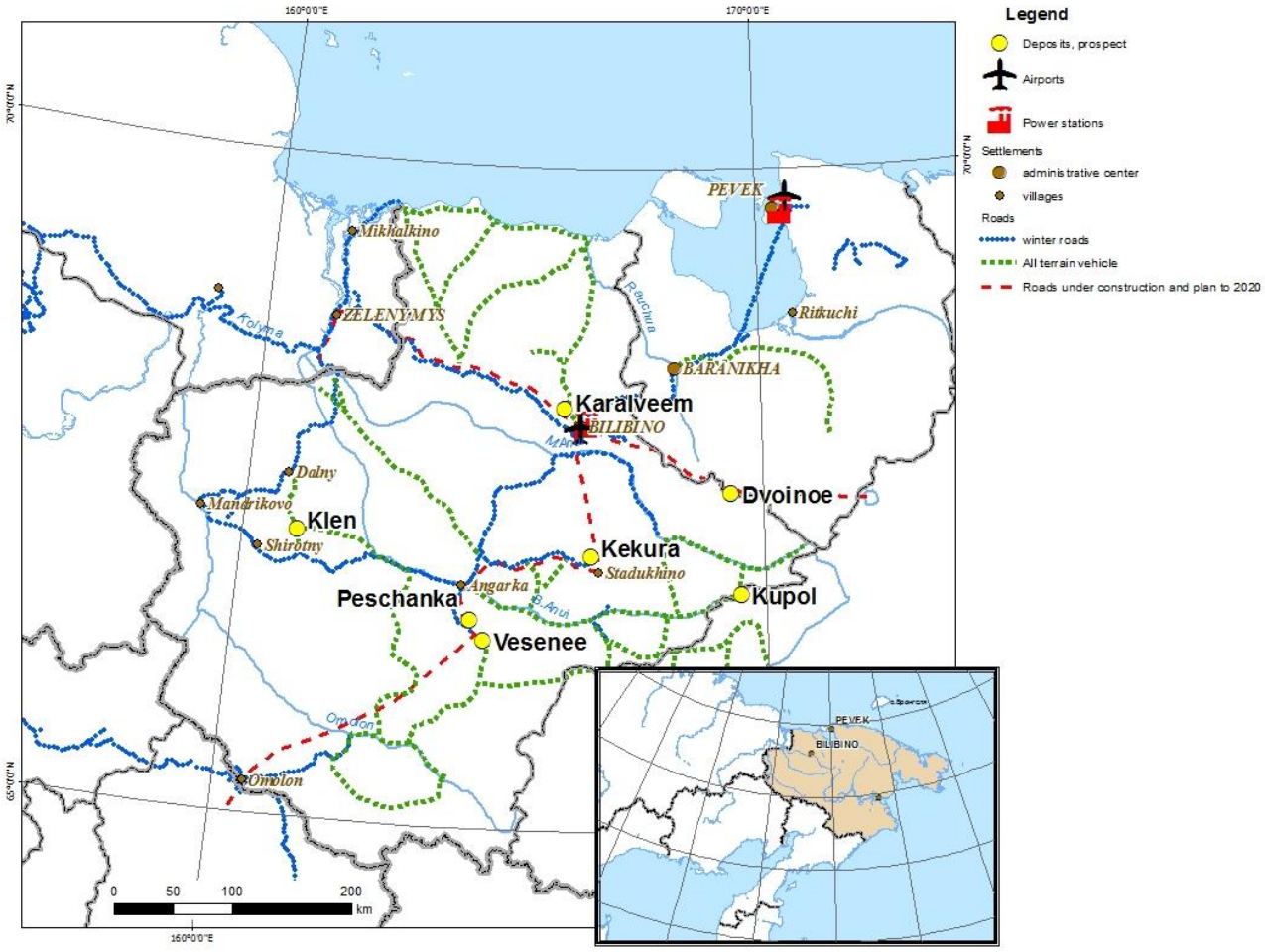
1.2 INFRASTRUCTURE

The Kekura gold deposit is located in a remote and economically undeveloped area. There are no permanent settlements and no deer-grazing lands around the site. Placer gold mining in the area was abandoned in 1997. Independent diesel plants are the only available source of power supply for the site.

Throughout winter, between December and April, supplies are delivered to the deposit area from the district centre at Bilibino by winter roads, a total distance of about 170 km. During the rest of the year, the site is only accessible by all-terrain vehicles or by helicopter from Bilibino. Cargo can be delivered to Bilibino via sea ports and then by year-round gravel roads from Zeleny Mys (300 km to Bilibino) or Pevek (480 km). In the colder months, a 2,500 km-long ice road from Magadan to Zyryanka to Bilibino can be used. The Keperveem airport, which serves various types of aircraft, is located 32 km from Bilibino and linked to the town by a gravel road that remains operational throughout the year.

Due to a lack of local labour, the project will need to operate on a shift-rotation basis with exploration and mining personnel sourced from outside the project area.

Figure 1.1: Location Map of the Kekura Deposit, Russia



1.3 GEOLOGY AND MINERALISATION

The geology of the deposit area is summarised below for the purposes of establishing the key elements of the mineral resource model.

The rock units in the deposit area comprise Upper Palaeozoic volcanic and sedimentary intermediate to felsic rocks, Mesozoic terrigenous and volcanic-sedimentary rocks, and unconsolidated units of Palaeogene and Quaternary age. The local geology is characterised by

folds and faults of various scales and the volcanic and sedimentary stratigraphy have been subject to multiple phases of intrusion of ultramafic to felsic composition. Fault structures are mainly of the reverse and thrust type and have north-west and north-east orientations.

The gold deposits and occurrences within and around the licence area are associated with the Lower Cretaceous diorite-monzodiorite-granodiorite-granite 'Gvardeisky Complex'. Within the licence area, the intrusive complex is present as large massifs that form Blokhin and Mezhdurechny Peaks and the Kekura and Topographicheskaya Mountains.

The Kekura ore field covers about 20 km^2 in area and is part of the Koralveemsky deposit cluster. The ore field is spatially associated with the Kekura Mountain intrusive massif. Kekura has been classified as a low-sulphide gold-quartz deposit. Mineralised bodies include veins, stringers and quartz vein/stringer zones contiguous with berezite (quartz-sericite-pyrite alteration) units. A number of mineralised targets, including the Pologaya zone (Kekura Centre deposit), Krutaya, Western 1, Western 2, Southern and Ryzhy Pereval, have been identified within the intrusion and in peripheral contact areas.

At present, the Pologaya zone is known to extend for over 1 km along strike and up to 350 m down dip. In plan the zone measures about 200 m wide and has a maximum thickness of 80 m to 120 m. The zone has been systematically studied to a depth of approximately 200 m and a few holes have intercepted economic mineralisation at depths of 275 m. Exploration targets of the Kekura project are shown in Figure 1.2.

The principal minerals in metasomatic host rocks are quartz, sericite, feldspar, carbonate and chlorite. Ore minerals mainly comprise sulphides (representing a few percent of total rock), often predominantly arsenopyrite. Gold is typically liberated, with visible gold particles from a few tenths of a millimetre to 10 mm, the most common size being between 0.5 mm and 1 mm. Finer gold of the 0.01 mm to 0.2 mm size-fraction occurs as intergrowths with quartz and arsenopyrite. Gold grades range from a few grams per tonne to several hundred grams per tonne and average approximately 10 g/t Au. There is no significant oxidation zone developed at the deposit.

1.4 EXPLORATION

Since 1957, the licence area has been geologically mapped using scales of 1:50,000 and 1:200,000. The region has also been prospected for placer gold. Hard-rock gold prospecting commenced in the 1990s and more detailed prospecting and evaluation work was performed in the Koralveemsky deposit cluster during 2005 to 2009. To date, work has been primarily focused on the Pologaya mineralised zone (Kekura centre deposit).

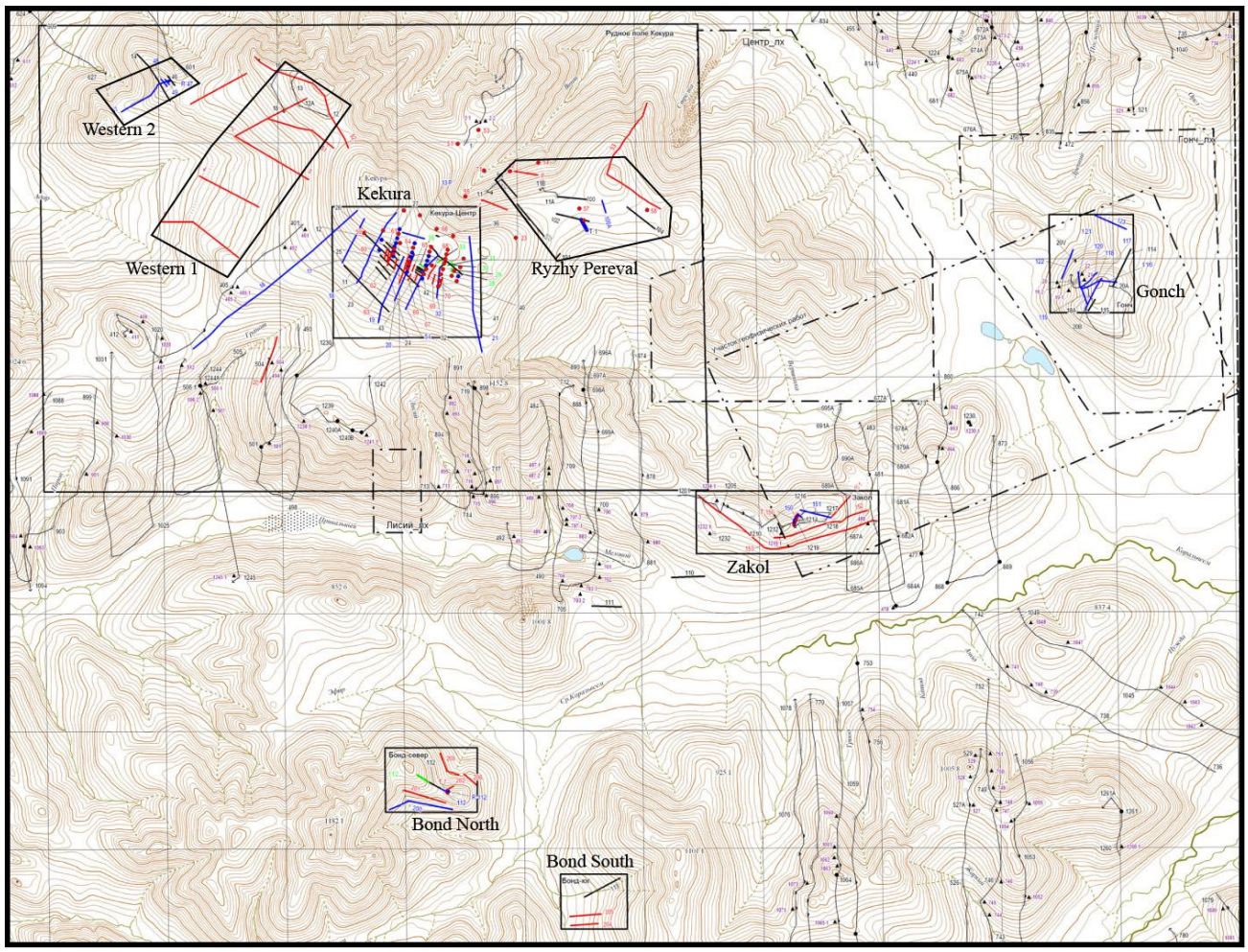
The Kekura centre deposit was explored by means of surface trenches and diamond drilling along six section lines spaced at 40 m to 150 m. The distance between holes along section lines ranges from 20 m to 40 m. Core recovery from the drilling campaigns is reported to be 95% to 97%. Channel sample cuts generally measure 10 cm by 3 cm. Core and channel sampling intervals were relatively short (less than 1.0 m) and were selected on the basis of style and grade of mineralisation. Assay quality control practices conform to Russian norms and assay data is considered to be reliable.

A number of other hard-rock gold occurrences have been discovered within the Kekura intrusion and these merit further exploration. The target areas include the Western 1 and Western 2 zones, the Ryzhy Pereval zone and the Southern areas as shown in Figure 1.2.

A number of potential targets also exist beyond the Kekura area, including Zakol, Bond and Gonch. The combined P1 and P2 gold resources of Zakol and Bond total 19.1 t of gold.

During the field season of 2011, the deposit area was explored in further detail. An additional 40 holes were drilled, totalling 8,309 linear metres, and 982 metres of surface trenches were excavated in order to gain further knowledge of the deposit. Thorough sampling and assaying was also completed at this time; 366 channel and 4,954 core samples were taken and 5,566 samples were analysed using x-ray fluorescent methods in the field laboratory. Four process samples were also collected from the trenches of the deposit: two from the Krutaya ore zone (110 kg and 120 kg); one from Zone 1 (5,741 kg); and, one from Zone 2 (6,265 kg).

Figure 1.2: Kekura Gold Project Exploration Targets



1.5 MINERAL RESOURCE ESTIMATE

Micon has completed a mineral resource estimate for the Kekura gold deposit using assay results from 270 drill holes and 64 surface trenches. This information was given to Micon in the form of an electronic database. The data has been subjected to a number of tests in order to validate its accuracy. Primary or raw gold assay data was composited and analysed to determine the basic statistical and geostatistical parameters.

To outline the mineralisation, Micon utilised 3-D wireframe solid models created by ZAO “Bazovye metally” geologists, using an assay cut-off grade of 0.5 g/t Au. Micon checked and validated the wireframes to ensure that the solids were triangulated correctly to form valid, closed solid models. A 3-D block model was created to represent the mineralised areas of the deposit and to determine the limits of any potential open-pit mines that might be developed. The block model utilised regular-shaped blocks measuring (X) 10 m by (Y) 10 m by (Z) 2 m in height. This block size was the most appropriate configuration considering the morphology of the mineralisation and the distribution of sample data. Block model gold grades were interpolated using inverse distance to the power of 3 (ID3). Block grades for each vein were interpolated using only sample data from individual veins.

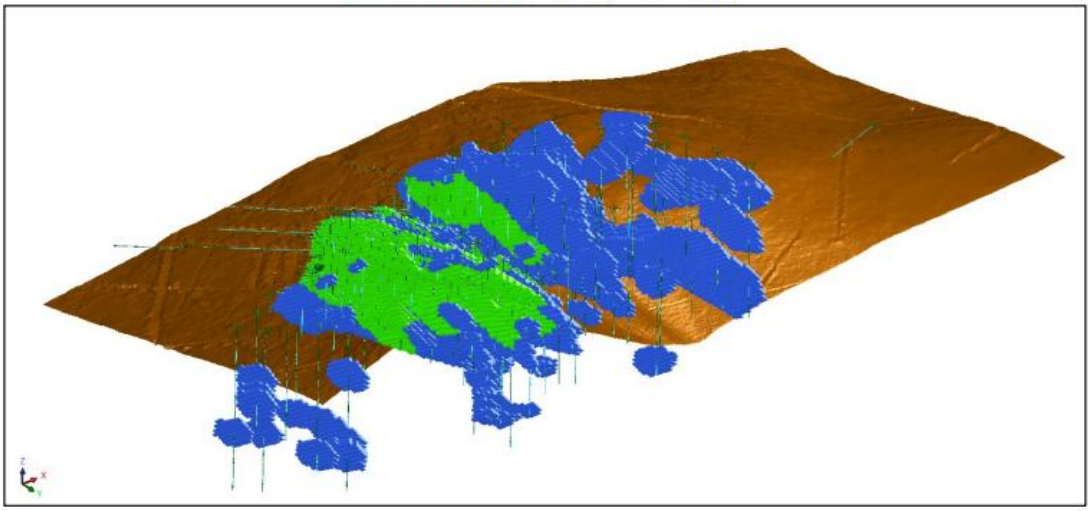
A tonnage factor of 2.65 t/m3 was used to convert block model volumes to tonnages. The final mineral resource was categorised as either Indicated or Inferred mineral resources following the guidelines of the JORC Code. Mineral resources were estimated using Datamine and Surpac mining software.

Based on a 0.9 g/t Au cut-off grade, JORC Code-compliant Indicated mineral resources total 5.00 Mt at a grade of 9.59 g/t Au. Inferred mineral resources total 5.35 Mt at a grade of 8.02 g/t Au. These details are presented in Table 1.1.

Table 1.1: Mineral Resources Estimate for the Kekura Property (0.9 g/t Au Cut-Off) as at 1st January 2011

Indicated Mineral Resources				Inferred Mineral Resources			
Tonnage (Mt)	Grade (g/t Au)	Gold (kg)	Gold (koz)	Tonnage (Mt)	Grade (g/t Au)	Gold (kg)	Gold (koz)
5.00	9.59	47,920	1.54	5.35	8.02	42,024	1.35

Figure 1.3: Kekura Block Model showing Indicated and Inferred Mineral Resources
(View from Below, Looking North-West)



1.6 MINING

Micon conducted an open-pit optimisation analysis on the Kekura deposit using Whittle optimisation software and the Micon mineral resource block model. Micon consulted previous reports it has completed on similar mining projects in the Russian Federation to establish the technical and economic parameters appropriate for the Kekura project. These were applied to block model grades to create a net value block model for optimisation. The marginal cut-off grade for ore (not including waste stripping) was calculated to be 0.9 g/t Au.

The open-pit optimisation analysis demonstrated that a large proportion of the currently defined mineralisation may be mined economically from an open pit. The optimum pit shell selected for reporting the mineable portion of the resources contained the majority of the mineralisation in Veins 1, 2 and 3. The waste to ore strip ratio calculated was approximately 23.5 to 1 on a tonnage to tonnage basis. The open-pit mill feed estimate is presented in Table 1.2.

Table 1.2: Open-Pit Mill Feed

Mill Feed (kt)	Grade (g/t Au)	Gold (kg)	Gold (koz)	Overburden (kt)	Strip Ratio (t/t)
7,257	10.06	72,997	2,347	170,420	23.5

Figure 1.4 shows the open-pit shell generated by Whittle for the Indicated-only and Indicated + Inferred scenarios.

The optimised pit shells generated are robust and show very little sensitivity to a reduction in metal price or an increase in operating costs. Sensitivity of the pit to the gold price for Indicated + Inferred mineral resources is presented in Figure 1.5. The plot shows very little variation of mineable resource tonnage that occurs within the pit for gold prices between US$ 625/oz Au and US$ 2,000/oz Au.

Figure 1.4: Kekura Optimised Pit Shells

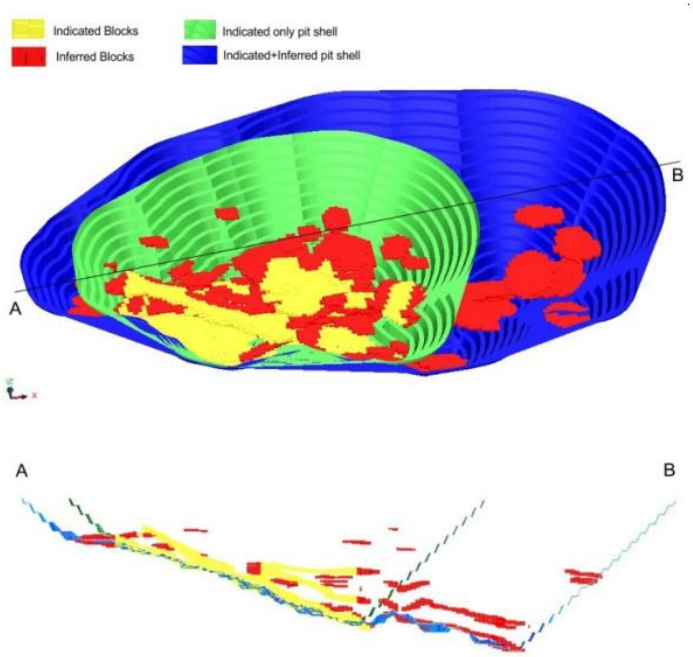
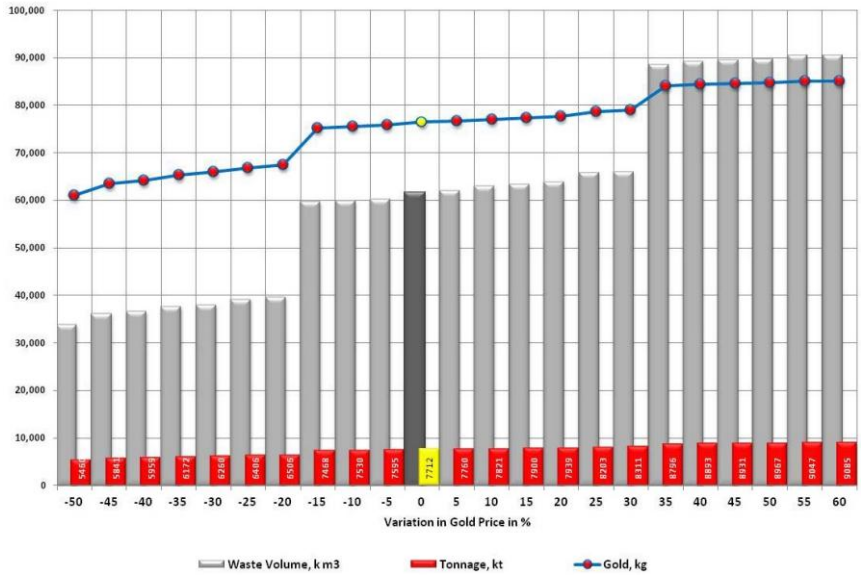


Figure 1.5: Sensitivity Analysis Chart for the Indicated + Inferred Run



A production schedule was prepared based on the open-pit mineable material in Table 1.2. The production schedule was designed to deliver a nominal feed rate of 200 kt in Year 1, 500 kt in Year 2, 700 kt in Year 3 and 900 kt of ore per year making the total life of the open pit approximately ten years.

1.7 PROCESSING

Micon reviewed available test work to determine the most effective method of estimating preliminary plant operating costs and gold recovery. These costs were then used in the open- pit optimisation analysis. The ore treatment route selected and gold recovery methods used in Micon's analysis are based on three samples derived from the Kekura 1 and 2 Veins that were analysed by TsNIGRI, SGS Vostok and NVP Centre–ESTAgeo LLC. The test works demonstrated that the Kekura mineralisation is capable of yielding high gold recovery using standard industry technologies and processing methods. The mineralisation is generally free milling and gold recovery of the order of 90% is achievable using combinations of gravity, flotation and cyanide leaching. Testwork has demonstrated that there is the potential for additional recovery and follow-up in this area is warranted. The remaining gold appears to be associated with the sulphides, is finely dispersed and is more refractory. Additional metallurgical test work and economic analysis is required to assess the economics of increasing gold recovery.

Based on the metallurgical test work results, Micon concludes that crushing and grinding to 0.1 mm, gravity recovery and upgrading, and cyanide leaching of gravity middling and tailing is an appropriate process route. The high-grade gravity concentrate and leached gold recovered by carbon adsorption, elution and electrowinning are smelted to doré bullion.

To achieve additional recovery beyond 90% would likely require some form of pre-oxidation of the sulphides prior to cyanide leaching, which may not be economic.

ZAO "Bazovye metally" commissioned a series of ore sorting tests through Russian consultant Integra. The test work demonstrated that a significant portion of the plant feed could be rejected with only minor losses of gold. The test work provided was only partially complete but the

favourable results demonstrated render further test work imperative to fully realise the potential of ore sorting.

The available ore sorting data was adapted for use in the cash flow model to demonstrate the potential benefit of the method. The ore sorting process is applied to screened material of 50 mm to 100 mm in size. It was assumed that 70.4% of the material mined was treated and at 95% efficiency that 43.2% of the +50 mm material fed to the ore sorter would be rejected. The ore-sorting test work demonstrated that gold grade of the sorted material increased by a factor of 1.8 and it was assumed that at 95% efficiency the grade of sorted material increased by a factor of 1.71. Gold recovery from the sorted material was projected to be 90%.

1.9 CONCLUSIONS

Micon has reviewed the mineral resources of the Kekura gold project. All aspects of mineral resource estimation including the method of collecting and compiling geological information; exploration drilling, sampling and assaying; and estimation and classification of mineral resources have been reviewed. The project appears to have good prospects with excellent potential to develop additional mineral resources. Micon can verify that the exploration work to date has been conducted to a high professional standard.

The Kekura gold mineralisation primarily occurs in three relatively high-grade veins and subsidiary splays and veinlets. The major veins have been explored on a drilling grid with lines at 40 m to 60 m along strike and holes at 20 m intervals along the lines. A number of the smaller splays and veinlets have been defined by one intersection and require follow-up exploration. Micon has used the inverse distance cubed (ID3) interpolation method to generate a mineral resource model and has categorised the mineral resources following the guidelines of the JORC Code. The deposit appears to be highly mineralised and amenable to open-pit mining.

Based on a 0.9 g/t Au cut-off grade the Kekura Indicated mineral resources total 5.00 Mt at a grade of 9.59 g/t Au. Inferred mineral resources total 5.35 Mt at a grade of 8.02 g/t Au. It should be noted that JORC Code-compliance precludes summing Indicated and Inferred mineral resources in a technical report. The details are presented in Table 1.10.

Table 1.10: Mineral Resource Estimate for the Kekura Property (0.9 g/t Au Cut-Off) as at 1st January 2011

Indicated Mineral Resources				Inferred Mineral Resources			
Tonnage (Mt)	Grade (g/t Au)	Gold (kg)	Gold (koz)	Tonnage (Mt)	Grade (g/t Au)	Gold (kg)	Gold (koz)
5.00	9.59	47,920	1.54	5.35	8.02	42,024	1.35

Further exploration is warranted to establish the full mineral potential of the project and ZAO “Bazovye metally” has continued to explore the Kekura ore field during 2011. Favourable preliminary exploration results from the Pologaya and Krutaya zones and areas south of the Kekura deposit indicate that gold mineral resources will very likely increase once exploration is completed.

1.9.1 Mining

Open-pit optimisation analysis was conducted to assess the economic potential of the project. The results of the Whittle analysis demonstrate that a large proportion of the currently defined

mineralisation within the deposit may be mined economically from an open pit. The optimised pit shells are robust, showing very little sensitivity to a reduction in metal price or an increase in operating costs. This lack of sensitivity is attributed to the high ore grade, which is highly profitable and capable of supporting a high waste to ore strip ratio.

Micon's mineable mill feed estimate is intended to demonstrate the excellent potential of the Kekura ore field. The estimate is based on mining and economic parameters applied to Indicated and Inferred mineral resources.

Open-pit mineable mill feed is presented in Table 1.11. Both Indicated and Inferred mineral resources were considered in the analysis of economic potential of the project and therefore the mineable material cannot be considered as an ore reserve as defined by the JORC Code. However, Micon considers the mineral resources to be compliant with the JORC Code.

Table 1.11: Kekura Open-Pit Mill Feed

Mill Feed (kt)	Grade (g/t Au)	Gold (kg)	Gold (koz)	Waste (kt)	Strip Ratio (t:t)
7,257	10.06	72,997	2,347	170,420	23.5

Micon generated a production schedule that was designed to deliver a nominal mill feed rate of 1,000 kt of ore per year. The mine production schedule will ramp up from 200 kt in Year 1 to 700 kt in Year 3 and finally 900 kt in Year 4. Mill feed from the mine will be augmented by stockpiled material accumulated during the first three years of mining operations. The total life of the open pit will be slightly less than ten years. It will be possible to begin mining production within the first year of operation as the mineralisation outcrops on the surface.

The production schedule was developed to form the basis of a cash flow model, which is described below.

1.9.2 Mineral Processing

Micon reviewed metallurgical test work in order to assess the potential to process and recover gold from Kekura mineralisation. Micon concludes that two metallurgical samples of three are sufficiently representative for the current exercise and status of the project. Similarly, Micon considers that the level of test work is appropriate to establish gold recovery from the CIL process for the current exercise and status of the project. However, the company has planned an ongoing programme of metallurgical test work to confirm the treatment and recovery parameters used in the current analysis, and particularly the amenability of Kekura gold mineralisation to ore sorting. The test work programme will used to optimise the ultimate gold recovery.

Micon concludes that crushing and grinding to – 0.1 mm, gravity recovery and upgrading and cyanide leaching of gravity middling and tailing is appropriate process route, with an overall gold recovery in the order of 90%. Additional gold recovery would likely require some form of pre-oxidation of the sulphides prior to cyanide leaching. More test work specifically designed to assess the potential to achieve higher gold recovery is required.

Further test work is required to validate the assumptions used for ore sorting in Micon's analysis. The test work conducted did not identify the proportion of material of the +50 mm to -100 mm size range that could be pre-concentrated by ore sorting, but rather rejected the +100 mm material. The proportions used in Micon's analysis have been assumed and it has been assumed that gold is equally distributed between the two fractions.

Additional test work and conceptual economic analysis will be required to confirm Micon's conclusions, optimise the process conditions and to provide process design criteria. In addition, the metallurgical response of the entire deposit must be determined, by testing of an appropriate number of representative samples using the selected process route.