

**ZAO POLYUS RESOURCE AND RESERVE AUDIT:
NEZHDANINSKOYE GOLD PROJECT**

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1 INTRODUCTION

In December 2005, ZAO Polyus (Polyus) approached SRK consulting (UK) Ltd (SRK) to undertake an audit of the resource and reserve estimates for three of its assets. The overall objective of the work was to produce audited resource and reserve statements suitable for publication in the public domain and classified according to an internationally recognised resource and reserve reporting code, in this case the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code).

This report presents SRK's audited Mineral Resource and Ore Reserve statements for the Nezhdaninskoye Gold Mine (Nezhdaninskoye) which is located in the Sakha Republic (Yakutia), Far East Russia and is operated by South Verhoynsk Mining Company (SVMC).

2 STATEMENT OF QUALIFICATION

SRK is part of an international group (the SRK Group), which comprises over 500 professional staff offering expertise in a wide range of engineering and scientific disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project and that its ownership rests solely with its staff. SRK has offices in the UK, South Africa, North and South America, Canada, China and Australia.

This particular commission has been undertaken by James Gilbertson, Mining Geologist with SRK and John Miles, Associate Mining Engineer and reviewed by Dr Mike Armitage, Principal Mining Geologist and Managing Director of SRK. All have experience in undertaking and auditing resource and reserve estimates throughout the world and particularly in Russia and other CIS countries.

3 SCOPE OF WORK

SRK has reviewed all of the key information on which the most recently reported resource and reserve statements for Nezhdaninskoye are based, including the results of drilling and resource and reserve estimation carried out by minesite technical staff and approved by the Russian state committee. Specifically SRK has reviewed information on the:

- geological setting and nature of the deposit especially with regard to the resource estimation methodology;
- nature of the gold mineralisation;
- historical and current sampling and assaying methodology and coverage;
- resource estimation methodology and classification;
- results of detailed reconciliation studies completed to date to demonstrate that the reported resource has been accurately estimated;
- mine designs and other technical and financial data to demonstrate that the resource can be technically and economically exploited.

In undertaking the above work, SRK has visited both the Polyus/SVMC office in Yakutsk to review the available documentation and supporting data and also the Nezhdaninskoye mine site to review the current site conditions and hold discussions with the mine production team.

4 PROJECT DESCRIPTION

Nezhdaninskoye is located some 450 km east of Yakutsk in the Verkhoyansk Mountains of the Republic of Sakha (Yakutia), Far East Russia. The deposit was discovered in the nineteenth century but was only properly explored in the mid to late twentieth century. Following this exploration, an underground mining operation was initiated which, between 1975 and the mid 1990s, processed over 2 million tonnes (Mt) of ore at a mean grade of 7.6 grammes per tonne of gold (g/t Au). Figure 4.1 Shows the mine license area.

Production at Nezhdaninskoye stopped in April 2005 and the mine was placed under care and maintenance by a site staff numbering around 80. Polyus/SVMC has now initiated a two year programme of exploration involving infill drilling and underground development with the objective of targeting a stockwork of veins and/or additional veins between the currently defined principal vein systems. From this, and together with the existing historical data Polyus/SVMC intends to investigate the potential viability of an open pit option for a number of the orebodies in conjunction with underground mining.

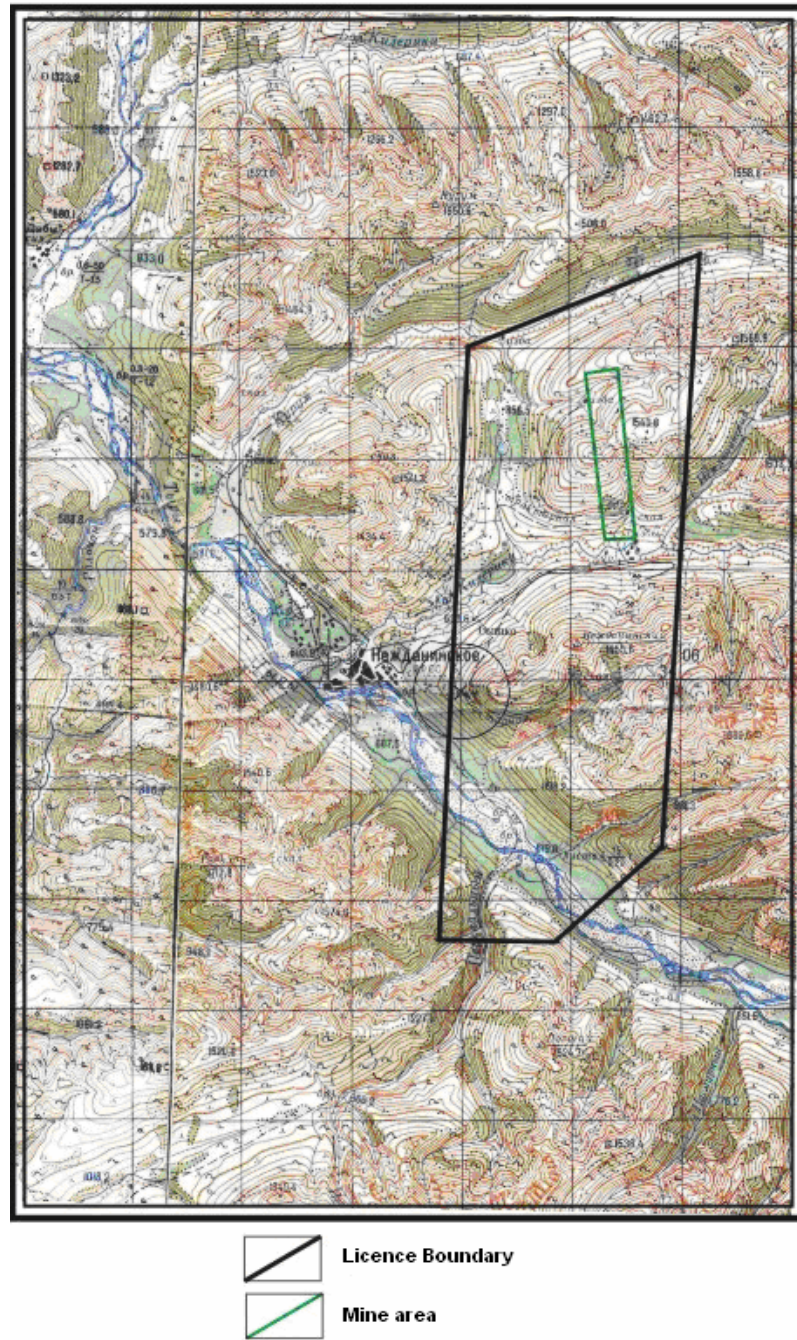


Figure 4.1: Location map of the Nezhdaninskoye Permit area and the previous mined areas.

5 GEOLOGY

5.1 Regional Geology

The Nezhdaninskoye deposit is located in the southern limb of the Verkhoyansk synclinorium, part of the northwest-southeast striking Yanakolimpaska fold belt.

The rocks in this belt vary in age from Upper Carboniferous to Cretaceous and the belt itself has a complex structural history characterised by numerous subvertical shear zones and associated folding and also a significant number of Cretaceous granitic intrusions.

There are several gold and base metal occurrences within the belt, one of which is Nezhdaninskoye. All of the gold occurrences appear to consist of quartz-rich veins containing minor sulphides and gold and associated sulphide disseminations within the host rocks and all occur within fracture zones characterised by semiductile shearing and brecciation. The host rocks at Nezhdaninskoye are gently folded Lower-Upper Permian greenschist facies shales and siltstones and intercalated with sandstone, most of which have high carbon content.

5.2 Orebody Geology

Some 117 individual orebodies were identified at Nezhdaninskoye during the early exploration period, although state certified reserve estimates were only reported for 37 of these.

Broadly speaking, the mineralisation is either hosted by relatively complex zones of shattering, termed Breccia Zones, or by simple Quartz Veins and Quartz Vein zones. Approximately 80% of the audited Measured plus Indicated Mineral Resources presented in this report occurs within the Breccia Zones and the vast majority of this within one particular zone, termed Zone 1.

The Breccia Zones strike north-south and dip steeply at angles of between 70° and 90° to the west. They are individually continuous for up to 13 km, anastomosing (branching and rejoining irregularly), and vary in thickness from 3 m to over 40 m. Zone 1, which is up to 40m wide, is the widest Breccia Zone delineated to date. The Breccia Zones are composed of rotated and sheared fragments of intermixed country rocks and quartz veins and may be fault breccia products of semi-ductile shearing. Contacts between the Breccia Zones and the host rocks are sharp. The gold content varies across the mineralised zone with the grade often being higher adjacent to the hangingwall and footwall contacts.

The Breccia Zones are characterised by variable gold grade (3-20 g/t Au), quartz content (10-50%) and sulphide content (3-5%) but relatively high carbon content (1-5%). Gold particle sizes tend to be between 2 and 60 µm.

The Quartz Veins strike variously east-west, northeast-southwest and northwest-southeast. Like the Breccia Zones, they are sub-vertical, but individual orebodies are rarely continuous for more than 1 km and tend to be straight with no offshoots or bifurcations. The veins vary in thickness from less than 1 m to a maximum of 5 m, are simple quartz veins and only rarely contain fragments of country rock, which, in this case do not appear to be sheared or rotated. Contacts with the host rocks are sharp and visually clear.

The Quartz Veins generally have higher gold grades (consistently over 10 g/t Au and occasionally up to 100 g/t Au), quartz contents (up to 100%) and sulphide contents (up to 10%), and lower carbon contents (< 1%). Gold particle sizes are generally coarser, up to 1.2mm.

The minerals present are the same in each orebody-type, only the relative quantities and the mineral textures vary. Gold and silver are the only economic metals. Silver grades tend to be between four and six times the gold grade. Sulphide minerals are primarily pyrite and arsenopyrite but there are also minor amounts of other minerals including stibnite, galena, sphalerite and cinnabar.

The mineralisation appears to be epigenetic and related to semi-ductile shearing. Gold, sulphide and quartz mineralisation appears to have been introduced over a long period of time. Deformation continued during the introduction of the mineralisation and while most of the orebodies have either been completely re-sheared and brecciated (Breccia Zones), some either formed subsequent to, or away from, this shearing, escaped later brecciation and remain as continuous undeformed quartz veins (Quartz Veins).

The result is a deposit consisting of two ore types, each of which has distinct geometric and compositional characteristics and each of which represents a different type of mining target.

6 MINERAL RESOURCE

6.1 Introduction

SRK has not independently re-calculated a Mineral Resource estimate for Nezhdaninskoye, but has rather reviewed and commented upon the quantity and quality of the underlying data and the methodologies used to derive the estimates as reported by Polyus and then re-reported these using the terminology and guidelines of the JORC Code.

6.2 Quantity and Quality of Data

Modern exploration commenced in 1957 and since this time a vast amount of data has been collected. An area of some 85 km² has been mapped at a 1:25,000 scale and almost 700 km of trenching excavated. In addition, some 280,000 m of diamond drilling and 110 km of underground development (prior to and during the course of mining) has been completed and sampled. In total, over 220,000 m of samples have been collected and assayed.

Underground samples were collected either by hand chiselling or using a mechanical sampler. Channel samples were collected over 1 m continuous intervals and generally from both sides of crosscuts. The crosscuts are spaced at 20 m intervals along strike and were developed to intersect the full orebody width. An average grade was calculated for each orebody intersection for use in the resource estimation process. SRK has not overseen the

sampling procedures, as no exploration is presently being conducted, but has reviewed the sampling protocols and discussed these in detail with the Chief Geologist and various staff and is confident that the procedures used were appropriate.

Diamond drilling produced 76 mm and 59 mm diameter core. In the latter case, the whole core was sampled. In the former case the core was first split and half of the core sampled. Core recoveries were reported as being of acceptable levels.

All assaying was by fire assay. The vast majority of this was carried out at a laboratory located at the Allah-Yun Regional Power Station. Control samples were analysed at four external laboratories all in Russia. SRK understands that no samples have been check-analysed outside of Russia, apart from metallurgical samples which have been tested at several Western laboratories.

In summary, vast amounts of geological data have been collected in a detailed and methodical manner over 35 years. SRK considers that the data are sufficient in terms of both quantity and quality to support the audited Mineral Resource statement given in Section 6.6 of this report.

6.3 Resource Estimation Methodology

The original resource estimate prepared for submission to GKZ for approval is based on standard Russian methodology.

This estimate, which is shown in Table 6.1, is contained within the 37 orebodies identified from the exploration work and is based on a 2.5 g/t Au equivalent block cut-off. The allocation of blocks to the respective categories is based on specific interpretations of these appropriate to the Nezhdaninskoye deposit developed by the Russian State Committee for Ore Reserves.

In addition the Russian geologists reported the existence of a further 75 Mt of ore with a mean grade of 5.2 g/t Au (12.5 million ounces) and 18g/t Ag (43.4 million ounces) in extensions to those orebodies and in additional orebodies. This material, however, had not been explored in detail and was placed in the P, or Prognostic, category.

Separate resource estimates for each orebody were calculated and maintained on Vertical Longitudinal Projections (VLP). These were continually updated for ongoing exploration but not for mining. The methodology used to derive the estimates presented in Table 6.1 is described below.

Orebody outlines were defined on development plans using a 2.0 g/t gold equivalent assay cut-off ($Au + Ag \times 0.023$) and a minimum horizontal orebody width of 0.8 m for Quartz Veins and 2 m for Breccia Zones. Mean orebody grades were calculated for each full

intersection. These and the horizontal orebody widths were plotted on the respective orebody VLP.

Resource blocks were then delineated on the VLPs bounded by existing and planned development levels and raises. If a crosscut grade was below 2.5 g/t Au, then the block boundary was drawn one half of the way between the 'pay' crosscut and the 'unpay' crosscut.

Blocks were constructed only where there was trench, crosscut or borehole information available. The 600 m Level is the lowest development level. Blocks evaluated based on the sample data extend down to the proposed 550 m Level. Blocks below this level contain borehole information only. The lowest block was terminated at the -200 m Level, the maximum depth of drilling. Blocks were generally extended to surface.

Block tonnages were determined by planimetry of the block areas, calculating average horizontal orebody thickness from sampling data within the block, determining a block volume and multiplying this by a density of 2.6g/cm³.

Block grades were determined by averaging all the orebody width weighted grade intersections within the block. Anomalous intersections, those contributing more than 20% of the total calculated gold accumulation in one block, were cut to 20% and the average recalculated. Typically, every other block had assays cut in this way.

The resulting block tonnages were then classified in terms of B, C1 or C2 reserves. Blocks in which mining was already underway or which had been prepared for mining were classed as B. Blocks where at least one edge was bounded by underground development were classed as C1. These were extended 25 m away from such development in the case of Quartz Veins and 50 m in the case of Breccia Zones.

Blocks estimated either using borehole data or extrapolated at distances between 25 and 50 m away from development in the case of Quartz Veins and between 50 m and 100 m in the case of Breccia Zones were classed as C2.

P resources are those areas of orebodies where grades and tonnages had been extrapolated from trench information only or alternatively areas more than 50 m distant from the nearest borehole or underground drive.

The classification methodology used gives an estimate of the resources at various levels of amenability to mining.

6.4 Polyus Mineral Resource Statement

The following table summarises the Mineral Resource Statement as approved by the GKZ. This is reported without deductions for subsequent depletion and is based on the five reports produced between 1978 and 1993.

Table 6.1: Polyus Resource Estimate

Category	Tonnes (millions)	Gold Grade (g/t Au)	Gold Ounces (millions)	Silver Grade (g/t Ag)	Silver Ounces (millions)
B	4.9	5.7	0.9	24.8	3.9
C1	42.8	5.2	7.2	30.1	41.4
C2	49.0	5.3	8.3	12.3	19.4
Total	96.7	5.3	16.4	20.8	64.7

6.5 SRK Comments

SRK has carried out several check calculations of individual block grades and tonnages from original drill and channel data supplied by Polyus/SVMC and, while these have not always been in direct agreement with those given on the VLP, SRK is confident that the estimates are unbiased. Overall, SRK considers that the original Russian resource estimates were derived in a thorough and professional manner.

SRK is also confident that the Russian estimation methodology is appropriate to the character of the geology and considers that the resulting estimates of grade and tonnage are more likely to be conservative, in view of the cutting methodology, than too high.

Notwithstanding the above, the state approved estimates are currently recorded in hard copy form, although Polyus/SVMC are in the process of digitally capturing all the associated VLPs. This form of estimation is not amenable to interrogation at different cut-off grades or being used to develop a computerised mining schedule. Further, the state approved estimate does not account for the resource depletion from historical mining. SRK recommends that Polyus/SVMC continues with digitally capturing all assay and development data therefore making it possible to produce a future digital 3-dimensional model to base further studies on.

6.6 SRK Audited Mineral Resource Statement

The resource statement detailed below has been produced by SRK from the original VLP based block grades and tonnages commented on above and checked by SRK, but where reconciliation data is available this has been used in place of the original data. Tonnages have also been deducted from individual blocks to account for historical mining. A gold equivalent grade (includes an estimate of the silver contribution) has also been determined by SRK on the basis of Au+Ag*0.156 (reflecting current metal prices).

For the purpose of classification, blocks that were bounded by at least two drives or cross cuts and infilled with adequate drillhole data, have been defined by SRK as Measured, while blocks bounded by underground development on only one side with infill drillhole data or with a spread of drillhole data roughly equating to a 100 x 50m drill spacing, have been classified as Indicated. The Inferred category were assigned to those blocks that have no underground development but have assay information that equates to greater than a 100 x 50m drill spacing but less than 100 x 100m drill spacing. The remaining blocks were left unclassified though SRK considers it likely that further exploration would enable a portion of these at least to be classified as resources in due course.

In addition to the above, some blocks were downgraded from Indicated to Inferred due either to their large size and the extrapolation that is required in their estimation, or their great distance from blocks with a higher degree of confidence.

A 4.0g/t equivalent grade cut off was then applied to all blocks except for Zone 1 where 3.0g/t was used due to the greater thickness of this orebody and the potential therefore for it to be mined at a lower operating cost.

The SRK audited JORC Mineral Resource statement for Nezhdaninskoye is presented below in Table 6.2:

Table 6.2: SRK Audited Mineral Resource Statement

Category	Tonnes (millions)	Gold Equivalent Grade (g/t)	Gold Equivalent Ounces (millions)
Measured	25.6	5.5	4.6
Indicated	23.8	5.3	4.1
Sub-Total	49.4	5.4	8.7
Inferred	22.0	5.7	4.0
TOTAL	71.4	5.5	12.7

While the total resource given above is reasonably in line with previous statements produced by SRK for Nezhdaninskoye there are some specific differences. Notably:-

- Additional check calculations undertaken by SRK and reconciliation data provided by Polyus/SVMC has enabled SRK to increase both the proportion of the Mineral Resource that has been classed as Measured and the Measured plus Indicated component combined.
- More detailed assessment of the reliance some of the larger deeper blocks on very limited data combined with the moderate grade of these blocks has led SRK to unclassify some blocks previously classed as Inferred subject to further drilling.

7 **MINE PLAN**

 7.1 **History**

The Nezhdaninskoye Mine has been in operation since 1975 and production has focused on the Quartz Veins and Vein Zone orebodies due to processing constraints associated with the carbon in the Brecciate Zones. Production declined in the 1990s due to problems associated with the re-structuring of the Russian economy similar to that experienced at many other Russian mines. A summary of the production history since commencement of operations based on data obtained by SRK at site is given in Table 7.1 below.

The highest throughput in any one year of 180kt was achieved in 1985. Production averaged some 170ktpa between 1985 and 1989 (a five year period) and 150ktpa between 1985 and 1994 (a ten year period) before declining to some 20ktpa in 2000. Gold recoveries typically ranged from 65% to 85% and averaged 75% over the life of the operation.

Table 7.1: Nezhdaninskoye Mine Historical

Period	Processing (kt)	Head Grade (g/t)	Gold Content (kg)	Gold Recovered (kg)	Recovery (%)
1975 - 1979	258	12.6			70.10%
1980 - 1984	599	8.5	5,120	4,181	81.70%
1985 - 1989	846	6	5,094	3,731	73.20%
1990 - 1994	688	6.9	4,751	3,568	75.10%
1995 - 1999	256	6.4	1,643	1,228	74.70%
2000 - 2004	107	4.5	485	359	74.00%
2005	17	4.7	80	60	75.20%
Total	2,771	7.4	20,431	15,411	75.40%

Celtic Resources Holdings PLC (Celtic) acquired an interest in the mine in the mid 1990's and developed a feasibility study to re-open the underground workings and increase production substantially through mining and processing of the Breccia Ore from Zone 1. Production also re-commenced from the Quartz Vein orebodies in 2001. The feasibility study (which was completed in 2002) envisaged increasing production in stages from an initial production rate of 600ktpa, through additions and modifications to the existing facilities (Stage 1), to a full production level of 2,400ktpa through establishment of a complete new plant and facilities (Stage 2 and 3). The capital expenditure programme

envisaged for Stage 1 was not however completed and production from underground was limited to the potential of the existing process plant. A new fleet of underground equipment was obtained and certain re-development of the underground workings undertaken. SRK has previously reviewed and commented upon the Stage 1 LoM plan for a 600ktpa operation in 2002 and produced a JORC compliant Ore Reserve statement based on this production level.

7.2 Mine Design and Methods

The mine is currently on care and maintenance and any operations underground are focused on the planned exploration programme. Mining has historically focused on the Quartz Vein and Vein Zone orebodies that dip steeply and are relatively narrow. Recent mining has concentrated on Vein No.8. The mining method used at Nezhdaninskoye has predominantly been shrinkage stoping although limited long-hole open stoping was practiced on the thicker Vein Zone orebodies. The methods used a combination of conventional and mechanised techniques, LHDs and trucks were used for all ore and waste handling. The underground workings are accessed through adits from the mountain side and by decline ramps for the deeper portions. Mining has predominantly taken place within the permafrost zone some 200m below surface although the actual elevation varies due to the mountainous terrain. The lowest working level was 650m Level although development for exploration purposes exists on the 600m Level. The lowest access by adit to surface is on the 700m Level and below this a decline ramp is required.

The stope design for shrinkage stoping is based on a vertical level spacing of typically 50m and predominantly on development originally installed for exploration purposes. On the level, an ore drive is installed to define the orebody along strike and provide a free face for the subsequent hangingwall cut for stoping. The strike drive is connected to a trackless haulage in the footwall of the orebody by short crosscuts of some 15-20m in length. A raise is developed to the next upper level on 50m centres to define the boundary of the stope block. Further development comprises short loading crosscuts installed between the haulage and the stope on a 4m spacing skin to skin. All the development is channel sampled to confirm the likely stope block grade. The stope is advanced by drilling and blasting the stope back and drawing off only the swell to maintain a working platform. A crown pillar is left between the next level depending on the necessity for extraction.

Shrinkage stoping has been the method used for Quarz Veins that are less than 5m in width and is considered to have a minimum mining width of 1.2m. It typically takes 1-2 months to develop an individual stope block and a further 2-3 months to mine.

In Vein Zones of 5m width and greater mechanised open stoping has been used to extract the ore that is also defined by 50m vertical level spacings. Vein Zone 7/15 has been subjected to an open stoping mining method using an Atlas Copco Simba drill rig to drill 57mm holes from the level for long-hole blasting.

A reasonable amount of trackless underground equipment exists at site much of which was purchased between 2002 and 2004. Development jumbo drill rigs were used for the installation of ramps and main haulages and all ore is was cleaned by LHDs. LHD types and sizes vary but are typically 5t while 20t underground dump trucks were used for transporting ore to surface. This equipment is currently located in the surface workshops and appears in relatively good condition as do the workshops. Ore was transported on surface by standard trucks from a stockpile situated adjacent to the adit or ramp entrance to the reception bin of the primary crusher for the process plant.

Ground conditions within the permafrost zone, where the majority of the historical mining has taken place, have been good as evidenced during the site visit. It is anticipated that ground conditions will deteriorate when mining proceeds below the permafrost zone within the so called transition zone (between permafrost and no permafrost) before improving again. The stoping does not involve large spans and it is believed, by SRK, that poor conditions will be localised and be mitigated by increased support particularly of development infrastructure.

7.3 **Life of Mine Plan**

As previously discussed Polyus/SVMC has now stopped mining and processing at Nezhdaninskoye and is in the process of establishing an exploration programme with the objective of assessing the viability of an open pit operation. SRK understands that the exploration programme principally comprises the development of a number of crosscuts between Zone 1 and Zone 8 to the west that will be used as platforms for exploration drilling. The target is to define a low grade gold stockwork and identify other ore veins that would improve the feasibility of a large open pit operation. Polyus/SVMC expects the exploration to take some 18-24 months and a feasibility study perhaps a further 6-12 months to complete. Polyus/SVMC has stated its intention to proceed with a purely underground mining operation if the exploration indicated that this was more favourable than establishing an open pit mine similar in concept to that envisaged by Celtic. Celtic proposed a staged approach to the underground design commencing with an increase to an initial level of 600ktpa followed by subsequent increases to an ultimate production level of 2,400ktpa. Mining and processing would focus predominantly on the development of Breccia ore associated with Zone 1.

7.4 **SRK Comments**

Due to the return to exploration at site and the intention of Polyus/SVMC to investigate a very different project to that previously defined at Nezhdaninskoye, the appropriate information to enable reserves to be defined to a sufficient level of confidence as required by the JORC Code is not yet available. SRK, however, understands that if the open pit option is unfavourable Polyus/SVMC would revert to a similar plan as that developed by Celtic in 2002. SRK has therefore in conjunction with Polyus/SVMC updated the Celtic LoM plan for

Stage 1, a 600ktpa operation, to reflect current economics and costs as well as certain modifications made by SRK. The Ore Reserves defined in Section 9 below are supported by an updated LoM plan and set of technical-economic projections for a 600ktpa operation as at 2006 money terms.

SRK considers that the suitability of the deposit, particularly Zone 1, for possible open pit mining could be tested relatively inexpensively and quickly by undertaking a computerised optimisation exercise using the information currently available and industry standards for mining and cost input parameters. Various sensitivities could be performed and the impact of a potential low grade stockwork surrounding the known veins assessed. A significant amount of data exists for the deposit that could support such an investigation although a computerised geological block model would need to be constructed. This could be completed before significant expenditure is incurred on the development and drilling programme.

8 ORE PROCESSING

The Nezhdaninskoye deposit contains two main ore types, Quartz Vein Ore which is free-milling and can be contaminated with organic carbon from the wall rock, and Breccia Ore which is semi-refractory and contains sulphides and organic carbon which exhibits "preg-robbing" characteristics during cyanidation. To date both ores have been treated together although, as already commented, the plant is not now operating and has been put on a care and maintenance basis.

The existing flowsheet comprises crushing, ball milling, primary gravity concentration using spirals and shaking tables, regrind ball mills and classification of primary and middlings gravity concentrate, further shaking tables for upgrading and concentrate collection and filtration. A gold rich concentrate and a gold bearing sulphide concentrate has been produced. SRK notes that some flotation cells are also available at site. Final tailings are thickened and filtered prior to tailings dumping.

A significant amount of testwork was undertaken on ore from Nezhdaninskoye by Russian Institutes between 1964 and 1986. This testwork confirmed that gold could be recovered by both gravity and flotation into relatively low grade concentrates. It was reported that 94 to 97 % gold recovery into concentrates could be achieved.

Additional test work was undertaken on Quartz Vein Ore and Breccia Ore during the 1990's by various international companies. Much of this work was summarised in a report produced by Celtic in 2002.

Initially it was proposed that quartz ore could be treated by a combination of gravity concentration together with CIL of the overall gravity tailings. For Quartz Vein ore it is reported that a gold recovery of 91 to 92 % was achievable, for Breccia ore the overall gold

recovery was 74 to 75%. However, the effect of 'preg robbing' carbon in the feed was not fully defined and it is likely that these recovery figures would be lower. This route was not pursued.

In general, much of the more recent testwork has confirmed the results from the previous Russian studies. Most of the testwork has focused on recovery by gravity and flotation techniques and extraction of gold and silver from concentrates using cyanidation. The testwork identified that whilst cyanidation and carbon adsorption of both gravity and flotation concentrates could be applied to extract gold, the 'preg robbing' effect of the natural carbon was problematical. Whilst finer grinding was found to improve the gold extracted from the concentrates it also released more natural carbon which collected the gold in solution with the overall effect of reducing the extraction in to solution. This problem was resolved by testwork that demonstrated that the addition of kerosene, approximately 5 kg/t, to the concentrates prior to leaching, coats the natural carbon, significantly reducing the 'preg robbing' characteristics. Intensive cyanidation test work has been performed by Gekko. Since the addition of kerosene is detrimental to carbon adsorption circuits, alternative methods of gold and silver recovery from solution have been considered, demonstrating that zinc precipitation, adsorption using ion exchange resins and direct electro-winning of gold and silver are all applicable. Additional testwork would however be required to confirm the design parameters for any of these options.

For Quartz Vein Ore, based on test work conducted to date, a recovery into concentrate of approximately 90% for gold and 50-60% for silver can be expected.

For Breccia ore, the Russian pilot/semi-industrial plant results indicate that about 91% of both gold and silver can be recovered into gravity and flotation concentrates. Intensive cyanidation and gold recovery of these concentrates indicates overall gold recoveries of 74% to 78% could be achievable.

Some test work on concentrate treatment has been performed. By use of roasting, the overall recovery would have been 84% for gold and 73.5% for silver. Further testing is, however, required to confirm the applicability and viability of this process route.

9 ORE RESERVES

9.1 Introduction

SRK understands that subsequent to Polyus' exploration programme a new feasibility study will be undertaken into the mining and processing of the ores at Nezhdaninskoye. SRK typically accepts that a pre-feasibility study level of confidence is the minimum requirement for defining Probable Ore Reserves and that normally Proved Ore Reserves would therefore only be defined at the feasibility study level of confidence.

Jointly with Polyus/SVMC, SRK has examined the Mineral Resources for the Vein, Vein Zone and Breccia ores with the objective of determining Ore Reserves that are compatible with a 600ktpa operation similar in principle to the Celtic 2002 LoM plan but updated to reflect 2006 estimates in terms of economics and costs. The ore blocks that support the Mineral Resources as audited by SRK and reflected in Table 6.2 above have been used as a basis for the derivation of an Ore Reserves for Nezhdaninskoye. These ore blocks comprise those of the Measured and Indicated Mineral Resource category only. These ore blocks have been interrogated in terms of cut off grades (CoGs) developed for each of the ore zone types and based on updated prices and costs as well as Polyus/SVMC and SRK's opinion of appropriate mining and modifying factors. The Ore Reserves derived in this manner are supported by an updated LoM plan that reflects a similar production profile to that of the 2002 Celtic plan but with updated costs based on the application of escalation factors for operating and capital cost elements. The gold and silver prices used in the updated LoM plan have also been updated. SRK has also made certain other modifications where considered appropriate.

9.2 Cut-off-Grade and Modifying Factors

The assumptions and parameters used in the derivation of a CoG for the Vein, Vein Zone and Breccia ore as well as the calculated CoG are tabulated as follows. The processing and G&A costs have been derived from the application of escalation factors to represent four years of inflation from 2002 to 2006 as well as changes in the exchange rate. The mining costs are an assumption for the type of ore zone and likely mining methods that Polyus/SVMC and SRK considers appropriate:

Table 9.1: Nezhdaninskoye Cut-off-Grade Calculation

Description	Units	Vein	Vein Zone	Breccia
Gold Price	(US\$/oz)	440	440	440
- Mining	(US\$/t)	40	30	20
- Processing	(US\$/t)	10	10	10
- G&A	(US\$/t)	14	14	14
Operating Costs	(US\$/t)	64	54	44
Plant Recovery Factor	(%)	90%	90%	75%
Mining Dilution	(%)	20%	18%	10%
Cut-off-Grade	(g/t)	6.0	5.0	4.5

With regards to the modifying factors and applicable mining parameters Polyus/SVMC and SRK have together considered the historical data obtained at site as well as the appropriate mining methods and techniques for the different orebody types. The dilution and extraction ratios are considered more onerous for the Vein and Vein Zone ores to that of the Breccia ore as typified by Zone 1. The Breccia ore is predominantly thicker and more continuous than the Vein and Vein Zone ore whilst the Vein ore is the more narrow and erratic of the three

types. Consequently modifying factors have been defined for the individual ore types and are summarised below:

Table 9.2: Nezhdaninskoye Modifying Factors

Description	Units	Vein	Vein Zone	Breccia
Mining Extraction Ratio	(%)	75%	75%	85%
Minimum Mining Width	(m)	1.2	1.2	4.0
Planned Dilution	(%)	3%	0%	1%
Un-planned Dilution	(%)	20%	18%	10%
Overall Dilution	(%)	23%	18%	11%

In addition to the modifying factors tabulated above a minimum vein size of 50kt has been applied as well as excluding any ore blocks below 400m Level which is some 300m below the valley floor and 250m below the current lowest established level (650m Level).

9.3 Ore Reserve Statement

The Ore Reserve derived by SRK based on the LoM Plan developed by Polyus/SVMC and SRK, and following the application of the modifying factors described above to Mineral Resource as presented in Table 6.2 is given in Table 9.3 and Table 9.4 below in terms of the different ore types and using the classification guidelines and terminology of the JORC Code respectively.

Table 9.3: SRK Audited Ore Reserve Statement by Ore Type

Ore Type	Tonnage	Gold Equivalent Grade	Gold Equivalent Ounces
	(Mt)	(g/t)	(Moz)
Vein	0.8	9.5	0.2
Vein Zone	1.4	7.4	0.3
Breccia	18.2	5.3	3.1
Total	20.4	5.6	3.7

Table 9.4: SRK Audited Ore Reserve Statement

Reserve Classification	Tonnage (Mt)	Gold Equivalent Grade (g/t)	Gold Equivalent Ounces (Moz)
Proved	0.6	10.5	0.2
Probable	19.8	5.5	3.5
Total	20.4	5.6	3.7

At the full production capacity of the current facilities of some 600ktpa this would provide for a life of mine of some 35 years. SRK considers that the modifying factors, mining methods and process flow sheet for the Vein and Vein Zone ore is of sufficient confidence that all Measured Mineral Resource can be converted to a Proved Ore Reserve. This material is essentially what has been mined historically at Nezhdaninskoye. Due to a lower level of confidence associated with certain aspects of the Breccia ore and particularly the final process flow sheet as well as the factoring of the operating and capital costs in the updated LoM plan, SRK has only defined Probable Ore Reserves for this ore.

9.4 RK Comments

SRK understands that Polyus/SVMC is establishing an exploration programme at site to investigate the possibility of establishing an initial open pit operation. Subsequently a feasibility study will be completed into this and the establishment at site of a process facility to treat a majority of breccia material. If an open pit operation is only partially justified SRK expect the mining of the breccia material principally associated with Zone 1 to be amenable to underground mining.

SRK in consultation with Polyus/SVMC has updated the 2002 LoM plan for Nezhdaninskoye for a 600ktpa underground operation. The LoM plan and associated technical and economic projections indicate to SRK that an Ore Reserve for a purely underground mine is supported in terms of the guidelines of the JORC Code.

10 CONCLUDING REMARKS

SRK considers the Nezhdaninskoye project to be an important asset to Polyus/SVMC. The Russian resource estimation methodology has been completed in a thorough and professional manner and is considered appropriate to the character of the geology.

Reconciliation data has supported the results from exploration and underground development data aiding the confidence SRK has for the estimated resource figures. This data has been used, in conjunction with depletion due to historical mining, to enable SRK to re-classify the

original Nezhdaninskoye resource estimate using the terminology and guidelines of the JORC Code.

A planned exploration programme is due to commence in 2006 with the objective of increasing confidence in certain areas of existing orebodies, and assessing the potential for additional resources between them. This will be used to aid in defining open pit options for the deposit. SRK believes that this is a valid programme but also that the full potential of the mine will only be realised through a combination of open pit and underground mining. Ore reserve estimates will only be able to be produced from this programme once the results of the exploration programme are available and appropriate feasibility studies have been completed.

Notwithstanding this, SRK understands that if an open pit operation was not optimal Polyus/SVMC would develop an underground mine in a similar manner to that defined by the projections contained within the 2002 LoM plan. SRK has in conjunction with Polyus/SVMC updated the projections to today's money terms and used this updated model to support the definition of Ore Reserves as reflected in Table 9.4 above in terms of the JORC Code.

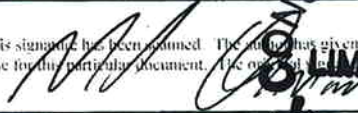

11 **WARRANTY**

The observations, comments and conclusions presented in this report represent SRK's opinion as of February 2006 and are based on discussions with Polyus/SVMC staff and consultants, SRK's review of reports and information provided by Polyus/SVMC and check analyses and verifications as deemed to be required.


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