

GBGR

GBP £0.063

Spec.

**HIGH****B**

### High cost and high leveraged junior gold producer.

We looked for a junior gold producer-explorer, that had a low market capitalisation per ounce of gold, and a company where its earnings were highly leveraged to improving its operations and to a rising gold price. Hambleton Mining Plc met these criteria with a very high total cost of production of over US\$1,136 per ounce. It is not surprising that the market is valuing the company's resource ounces at less than US\$20 per ounce, or around a fifth of the US\$110 per ounce for the world gold industry. At the moment the company is losing money but sits at the threshold of demonstrating profitability. The company has a December year end balance date.

Hambleton is exploring for precious metals in the Altai region of east Kazakhstan. A 100% owned subsidiary company owns the Sekisovskoye gold and silver deposit located near the village of Sekisovka. Sekisovka is 40 kilometres from the east Kazakhstan regional capital of Ust Kamenogorsk. The company also owns the adjacent Tserovka deposit and the Ognevka processing plant. Hambleton Mining was founded in 1997 and is based in London.

Despite grappling with operational difficulties the company's share price has performed surprisingly well. This is because the fortunes of the company are highly leveraged to increasing production and lowering unit operating costs.

This is our first coverage of Hambleton Mining

From a charting perspective, recent gains have greatly improved the outlook for Hambleton Mining. As evident on the daily chart, following 12 months of consolidation, prices have recently broken above resistance at 6.38p, reaching a high of 7.88p in September.



Although prices have paused over the past three weeks, previous resistance is now offering support. Given the close proximity of this level to current prices, we believe that downside risks are very limited. From a longer-term perspective, with a lengthy base pattern now in place, we anticipate a sustained upward trend to emerge over the coming months.



The Sekisovskoye mine is currently an open pit operation treating 850,000tpa. Gold production over the life of the open pit is targeted to average over 40,000 ounces per year. When production from the pit has reached steady state, the plan is to develop underground resources and lift production to 100,000oz per year. The Ognevka plant is suitable for treating primary base and precious metal ores. The plant is currently on care and maintenance until there is a justifiable need to re-start the plant.

### Reserve estimate

This ore reserve estimate of the Sekisovskoye deposit has been prepared under the JORC Code.

Location	Reserve Category	Tonnes (million)	Au g/t	Contained Metal Au oz	Ag g/t	Contained Metal Ag oz	Au g/t Cut-off
Open pit area	Probable	4.19	1.6	213,352	2.6	346,665	0.5
Underground	Probable	0.83	5.1	13,384	7.4	19,615	0.2
<b>Total</b>				<b>226,736</b>		<b>366,280</b>	

\*Troy oz = 31.10348 grams

At the time of writing the company had not posted full details of its production report for the 3Q09 on its website. Gold recovery for 3Q09 was below expectation which we assume is due to the amount of lower grade ore being processed. In addition, production during August and September was adversely affected by repairs and maintenance. The stock was punished for not delivering against expectations and on Friday, 9<sup>th</sup> of October the share price fell nearly 9%. For the brave this might provide an entry point. The good news was that the plant is operating at 15%-20% above design capacity.

Otherwise the last production update was in July for 2Q09. Mill throughput was 212,272 tonnes with a head grade of 1.11 g/t. Because the ore is low grade the gold recovery is a low 81%. Production for the June quarter was 7,581oz of gold and 13,611oz of silver. The plant treated 78,017 tonnes in June which exceeded the original design capacity of the plant by 12%. Production in April was 67,825t and in May 66,430t, hopefully the company will report a further increase in production for 3Q09 after modifying the tailings line.

Where mining is currently taking place, the stripping ratio is 5:1 which is higher than it will be at the end of open pit mining. The stripping ratio will gradually decline from February 2010. Moving extra waste is making it difficult to fill the processing plant and some lower grade ore is being processed to fill the deficit. As the pit deepens the stripping ratio will fall and the grade will improve.

During 1H09 the company reported a small operating cash flow of £0.42m. This was a good turnaround from 1H08 when the operations scorched £3.0m. The company reported a loss of £1.3m for the six months, down from a loss of £3.4m a year earlier. At the interim balance date the company had debt of £0.5m against a cash position of £0.12m. The net debt to equity ratio is 23.5%. We would not like to see the gearing ratio increase much above the current level for a junior company.

Total gold produced for the half year was 9,413oz. Capital expenditure for the period was £0.86m. Hambledon invested more in spare parts so as to reduce the down time fixing small breakdowns. A second pit to store tailings will suffice until 2011 after which a third storage facility will be needed. The company's mining fleet has limited capacity and civil earthworks are carried out by a contractor.

Changes to the crushing plant have increased its processing capacity to 1mtpa. The next step is to increase mine output to fill the crusher. Before changes were made to the crusher, ore production was being hampered by unscheduled maintenance and repair stoppages. Hopefully the production report for 3Q09 will show that the company's efforts are rewarded with further increases in production and gold produced. In 4Q09 the company expects to achieve an annual rate of production of 40,000oz. Higher production and a rising gold price should give a big boost to operating cash flow.

The performance of the processing plant was notably pleasing. Installation of a new crusher and improved operating and maintenance practices increased output of crushed product from 50,000tpm to over 80,000tpm. A reduction in the size of crushed product allowed the mills to operate at much higher throughput than before. At the end of the half year ore tonnage throughput was 15% above design capacity. Testwork indicated that gold recoveries of around 92% should be achievable. Unfortunately having to feed lower grade material to the plant has lowered the recovery.

The company expects to get approvals to commence developing an underground mine by the end of 2009. At this point the cash flow generated from operations should be strong enough so that orders can be placed for underground mining equipment. The company is giving consideration to use contractors to construct a decline to access underground ore.

The exploration effort is focussed on researching all the known gold occurrences in the East Kazakhstan region to evaluate possible targets for follow-up. A test pit at Tserkovka will mine a bulk sample for metallurgical test work.

We previously noted that Hambledon is a high cost gold producer. From the cost of sales disclosed in 2Q09, the cost to produce 9,413 ounces of gold, excluding any silver credits, was £563 or around US\$900 per ounce. When administration costs are included, the total cost rises to US\$1,136 per ounce. Hambledon is very clearly a high risk gold play. However, it is a high cost structure that leverages the company to improvements in its operations and to what we believe will be a rising gold price.

**Although this is a very high risk play, we are starting our coverage with a Buy Recommendation for all Members.**

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## Snapshot GBGR

### GoldBridges Global Resources

Altyn is listed on AIM and is a mining and exploration company focused on its Sekisovskoye gold and silver mine in East Kazakhstan. The company is producing gold from an open pit and is operating a treatment facility with a design capacity of 850,000tpa. Production over the life of the open pit will average over 40,000oz/yr. The company plans to develop an underground resource and lift annual production to 100,000oz. The current resource is 3.0moz of gold. In January 2014, the company changed its name from Hambledon Mining (HMB) to GoldBridges Global Resources (GBGR) in 2014. A change of name to Altyn plc (ALTN) in December 2016 was approved by shareholders.

**Market Capitalisation: GBP 34.2m**

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