



Amur Minerals

Summary

- Using conservative inputs based on SRK’s indicated costs, our own commodity price forecasts and a 4Mtp.a. operation commencing in 1Q 2012, we determine the 12-month forward NPV for the project, at 12% discount rate, to be US\$178 million. Going forward, this NPV gradually increases as the pre-production discount effect reduces to a maximum indicated level of US\$588 million in 2012.
- The corresponding IRR is 28%, with the US\$322 million capital requirement indicated to pay back in just under 2.5 years.
- Assuming 70:30 debt:equity funding and the next anticipated equity raise at £0.16 in 2008, we recommend an initial target price of £0.34 per share for Amur, giving over 100% upside to the current price.
- We have applied a substantial 50% discount to the per-share NPV to reach this target. We intend to gradually reduce the discount as the project is progressed through feasibility, permitting and construction.
- As expected for a low-grade bulk-mineable deposit, the valuation is very sensitive to the commodity price. A 10% increase in the nickel price forecast results in a substantial 44% increase in NPV (around US\$75 million).
- We believe that current share price weakness in Amur represents an excellent opportunity to invest in a well-leveraged nickel exploration company that is developing a rapidly-growing project in a new, potentially world-class, nickel district.
- Due to the highly prospective nature of the district, we believe that in 2008 Amur will continue their track record of delivering additional resources at the lowest cost per-tonne of nickel in their peer group. There is also excellent potential for higher grade (approaching 1% Ni) ore to be defined which will have a very large positive impact on project economics.
- We are confident that significant improvements are possible in most key operational areas from those suggested in the pre-feasibility study. In particular, we envisage improvements in metallurgical recoveries, pit optimisation, mine scheduling, alternative/cheaper transport routes and less onerous smelter charges (including the possibility to incorporate a smelting operation). With these factors in mind, we are confident that our valuation reflects a conservative base case scenario.

Assumptions

Assumption used in the model are detailed in Appendix 1.

The key assumptions which relate to the per-share valuation of the company concern project financing. We have assumed that the company is able to raise 70% of the capital requirement through debt finance. Significant equity raises are modelled as:

- (1) US\$5m at £0.16/shr in 2Q 2008 – for continuing exploration
- (2) US\$5m at £0.20/shr in 1Q 2009 – for the feasibility study, and
- (3) US\$94m at £0.25/shr in 3Q 2009 – for initial payments on capital items

Based on our estimates, pay-back of initial capital will be achieved in under 2.5 years of the commencement of operations. We assume full operations commence at 4Mt per annum in 2012, anticipating that both the permitting process and the long waiting list/delivery time of plant items such as ball mills will be the main cause of the long lead time.

As can be seen, most of the inputs have been directly taken from the SRK report. Our model is therefore in broad agreement, excepting the difference resulting from our commodity price forecast and reserve assumption. We believe that, due to the well-reported structural imbalances facing the nickel market, significantly higher prices than the flat US\$7.50/lb used by SRK can be expected over the near and medium term. Our forecast nickel prices are shown below:

Table 1: Fox-Davies annual nickel price forecast

		2010	2011	2012	2013	2014	2015	LT
Nickel price	USc/lb	1260.6	1166.0	1082.0	998.0	914.0	830.0	660.0

Source: FDC/Bloomberg/LME



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We have assumed that the up-coming exploration season continues to add to the reserve base and have incorporated a conservative additional 10Mt of ore in the reserve, which effectively extends the mine life by 2.5 years over the SRK base case. We believe the exploration potential at Kun-Manie is exceptional and see no reason why this expectation should not be met and, ultimately, significantly surpassed. We believe that, in the vicinity of the current reserves, the Ikenskoe deposit area in particular offers excellent exploration upside in terms of both tonnage and grade.

Sensitivities

Sensitivity analysis (see Appendix 2) shows that, as would be expected from a low-grade deposit, the commodity price forecast is a critical input to the base-case model. A 10% change in the nickel price results in a corresponding 44% change (around US\$75 million) in the NPV.

However, analysis shows that the most important variable is nickel head grade. Ultimately, as described below under 'Upside', it is likely that Amur will be able to discover higher-grade reserves in 2008 which could be processed in the early years of the mine life. Our valuation is extremely sensitive to this variable. Assuming that a 10% higher head grade is possible *for the first two years of operation only*, (0.65% average as opposed to our current 0.59% assumption), the NPV increases by a dramatic 22% (US\$39 million). If a 0.80% nickel average grade can be maintained over this initial period, the NPV increases by 74% (US\$ 131 million).

A 10% increase in capital costs reduces the NPV by around 15% (and, of course, vice versa). Operating costs contribute a 10% decrease to the NPV for each 10% increase.

Regarding metallurgy, a 10% increase in concentrate grade (to around 6.3% average) results in a 16% increase in the NPV of the project. A 5% increase in process plant recovery (to 79.6% average for nickel over the life-of-mine) results in a significant 18% increase in NPV.

Upside

Over and above these considerations, there remains considerable upside to our valuation of Amur. We believe that the SRK-based assumptions represent a conservative base-case scenario over which there is significant room for improvement in a number of areas. These are dealt with below.

- **Reserves** – We have already touched on the undoubted potential to add significant tonnage to the reserve base and have incorporated some of this into our model. Of much greater importance is the fact that there are a number of areas which could possibly deliver significantly higher grades. Amur's management has identified the Ikenskoe area as being a high-priority target for the 2008 drilling season. There are a number of prospective areas in the close vicinity of the existing pit design which have returned surface rock-chip samples in the region of 1% Ni. In general therefore, and throughout Kun-Manie, we expect to see the near-surface resource base expanded so that selective mining will allow higher grade ore to be scheduled in the early years of the mine life. The project economics will be improved dramatically under such a scenario.
- **Production rate** – If Amur is as successful as we expect with the 2008 exploration field season, then the additional tonnages defined may support a larger operation than the 4Mt per annum plant currently under consideration, with the associated additional economies of scale.
- **Pit optimisation** – Management is of the firm belief that there is significant room for improvement in the optimisation and production scheduling of the three pits. Following our review of the SRK results, our modelling has incorporated a general plan for preferentially mining higher-grade ore benches early in the mine life. Future mine plans will optimise production schedules in detail so that revenue can be moved forward as far possible in the mine life.
- **Metallurgy** – An average 5.7% nickel-in-concentrate grade appears to us to be very low. Mirabela Nickel's Santa Rita project has similar grades and mineralogy to Kun-Manie and yet has an indicated concentrate grade of >12%. Metallurgical test work has not yet been optimised and we believe there is room to (a) improve this grade, (b) increase the process plant recovery and (c) reduce the total MgO content in concentrate (which would reduce the penalty charge payable to the smelter). We are inclined to believe that there is considerable room to improve the project economics significantly in this area. See the previous section on sensitivities for a guide on how these

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improvements might affect the project economics. Additional metallurgical test work will be a high priority for Amur in the next work programme.

- **Smelting terms** – The smelter terms used in the pre-feasibility and our model have not been negotiated. Management has stated an intention to undertake negotiations with potential off-take partners at a later date. In particular, the company points towards Brook Hunt's research which predicts a global shortage of nickel sulphide concentrate from 2012 as smelter capacity increases while sulphide nickel production decreases. This would indicate that better terms for producers might be expected in the future than those currently prevailing in the market.
- **Transport** – The pre-feasibility study considered a 320km seasonal winter road in order to deliver concentrate to the rail head at Ulak, located on the Baikal Amur railroad. The total cost of this road was estimated to be US\$133 million, over 40% of the total capital requirement for the project. A new rail link is currently under construction between the Mechel-Sumitomo coal project and the Ulak rail head, which is scheduled to be in operation by September 2010. There is potential to reduce the overall capital costs on two fronts: (a) by selecting a more appropriate low-cost route for the road to Ulak (the pre-feasibility study was not exhaustive in this respect and only based the design on a 1:1,000,000 scale map and typical road profiles), or (b) by linking the road to the new rail line at a location along the proposed route which falls within a much closer radius to the mine site. The latter would be the preferred option, since the assumed distance is considerably less although this remains to be investigated in detail – geographical considerations may not permit. However, the potential for substantial cost savings in respect of this major capital item are potentially significant.
- **Taxation** – Bearing in mind the high royalty rate, there is a possibility that Amur may be able to negotiate profit taxes downward on the ground of developing industry in the Far East region of Russia. This potential was recognised by SRK in their report. Our modelling indicates that a reduction of the tax rate to 20% would add US\$14 million (8%) to the NPV of the project. Separately, should the company be allowed to reclaim taxes until the investment has been repaid, we estimate that this would add around US\$38 million (21%) to the NPV (using 24% tax rate).

Smelter Option

The option exists for Amur to build its own smelting/refining facility. The benefits to the project economics would include an elimination of penalty charges, removal of 'discount to spot price payable', reduced transport costs and recovery of minor metal constituents such as cobalt and platinum group elements.

The obvious location for such a facility would be near the Zeya hydroelectric dam as described above. This would appear to provide the ideal location regarding cheap power and optimal transport costs. The proximity to the rail link and port facility would allow efficient transportation of both the metal and by-product sulphuric acid to market.

It is worth noting here that Mirabela Nickel has just completed a scoping study to construct a smelter at its Santa Rita project in Brazil. Indicated costs are for US\$254 million capital requirement and an operating cost of US\$111/tonne of concentrate. Using these figures as a guideline for Amur, we estimate that such an operation could add around US\$140 million to the base-case NPV valuation, based on the current mining scenario. Obviously, any improvements that can be made to the metallurgical recoveries, as described above, will further enhance this figure. This approximate NPV is a guideline only and does not form part of our valuation of Amur.

Risks

We perceive the risks to our valuation and Amur to be as follows:

- **Sovereign** – There is a perceived political risk of operating within Russia and we have accounted for this through our 12% discount factor. The risk of appropriation and/or permit refusal is present in Russia as it is in many developing countries and we regard this as one of the primary risks to the project. Equally, however, a number of western mining companies have successfully operated in Russia for some time. Amur management has long experience of working in the country and have demonstrated over the years a commitment to the good working relationships it has developed with local communities and government officials. This will stand it in good stead as it enters the stage of development where detailed negotiations over permits and contracts takes place.



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- **Location** – The Amur region is a remote geographic location. This is not necessarily a problem as many mines have been built in such places. A risk to the project is that, due to the high capital dependency of such a project, costs get out of hand due to the inflationary forces which are prevalent throughout the industry.
- **Seasonal** – The weather will play a role in operations management, although we do not believe that there is any seasonal risk that cannot be mitigated with adequate planning and contingency. There are mines much further north in Russia, for example Kubaka (Polymetal, ex-Kinross). The SRK study indicated that delivery of concentrate by a seasonal, graded winter road to the rail head can only occur during 8 months of the year. This will have an effect on the revenue profile, but we have not taken this into account in our modelling other than our requirement for 6 months working capital at the commencement of mining in 2012. Any serious delays in delivery of supplies to the mine will pose a risk to a remote operation. However, we believe this risk to be one that can be managed effectively. It may be that the company will construct a crude airstrip close to the site, which will not be particularly expensive to build and would provide some alternatives for key spares and other just-in-time items when the road is closed.
- **Financing** – Amur may not be able to secure the financing that it requires and the current economic environment does not bode well in this respect. However, as our modelling has shown, the company is not likely to require significant levels of equity or debt funding until the second half of 2009. By this time, we expect that the financial backdrop to be greatly improved and this risk to be somewhat mitigated from its current level. This may especially be the case should the structural imbalances in the nickel market continue in the near- to medium-term, as Brook Hunt's research predicts. We expect that the financing risk will be greatly mitigated by mid-2009 following a successful '08 drilling season and a feasibility study at/ or near completion.
- **Geological** – Amur may not be successful in finding additional resources as outlined. We regard this risk to be extremely low and, in any case, the project has positive economics based on the current SRK base case. We believe this risk has been greatly reduced already and will be negligible once the current drill program is complete.
- **Commodity** – The project economics, as we have shown, are highly sensitive to the nickel price. We are long-term bullish on the nickel price, as with commodity prices in general and we believe that our current price forecast is reasonable and conservative.
- **Operational** – The low grade of the deposit means that there will need to be strict operational controls on the mining and treatment processes. We believe these risks to be both reasonable and manageable. Furthermore, as we have detailed above, there are a number of areas with considerable potential to improve the project economics beyond the conservative base case we have analysed.



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Appendix 1 – Assumptions In Valuation of the Kun-Manie Nickel Sulphide Project

Variable	Assumption	Justification
Commodity forecasts	See "Market Data Summary" in Appendix 2	FDC forecast
Capital expense	US\$322 million to end of first year of production.	SRK Consulting pre-feasibility. Includes feasibility study, EPCM, construction of a road to site, mining equipment, processing facilities, pre-production mining and contingency
Sustaining capital	US\$7.6 million per annum	Average of SRK Consulting figures over life of mine. Includes replacement of the mining fleet.
Working capital requirement	6 months operating expenses	SRK Consulting pre-feasibility
Power construction	320km power line to be constructed by Russian state power company.	SRK recommendation for most cost-effective solution.
Funding	70/30 debt/equity. Equity raises: (1) US\$5m at £0.16/shr in 2Q 2008 (exploration) (2) US\$5m at £0.20/shr in 1Q 2009 (for feasibility) (3) US\$94m at £0.25/shr in 3Q 2009 (construction)	FDC estimate – note that our NPV valuation is post-equity raise (1), net of implied share dilution.
Mining commences	1Q 2012	FDC estimate – feasibility commences in 2009 (following '08 exploration season) with construction during 2010/11
Production rate	4Mt per annum	SRK Consulting / Amur base case
Reserves	38.22Mt at 0.55% nickel and 0.15% copper – PLUS: additional 10Mt ore (2.5 years mine life) at same average grade to partly account for exploration upside	Reserves = SRK Consulting. Includes a portion of inferred resource. Mine production scheduling has been adjusted to reflect mining loss/dilution assumptions and grade variations between the three deposits (Vodorazdelny, Maly Krumkon and Ikenskoie) per conversations with Amur management.
Plant recovery	Variable per grade-recovery curve: nickel = 76% average over life-of-mine copper = 3% less than nickel recovery	SRK Consulting pre-feasibility
Concentrate grade	Variable per grade-recovery curve Nickel = 5.7% average over life-of-mine	SRK Consulting pre-feasibility
Operating Costs	Mining = US\$1.30 / tonne mined Processing = US\$6.62 / tonne ore treated G & A = US\$1.46 / tonne ore treated	SRK Consulting pre-feasibility
Transport costs – per tonne wet concentrate	Freight from site to rail head = US\$20.00 Rail freight of concentrate from rail head to smelter = US\$37.24 (50% shared with smelter)	SRK Consulting pre-feasibility. Seasonal roads will deliver concentrate from the site to the rail-head for 8 months each year.
Smelter payment terms	Concentrate grade- and spot price-dependent Average 64% of Ni spot price payable flat 50% of Cu price payable	SRK Consulting pre-feasibility
Smelter charges	US\$6.00 / tonne concentrate charged for each 1% MgO in concentrate over a 5% threshold. Assumption of 16% MgO equates to a charge of US\$66 / tonne concentrate	SRK Consulting pre-feasibility
Royalty	8% government royalty	SRK Consulting pre-feasibility
Tax	No tax payable until profit is made. 24% thereafter	SRK Consulting pre-feasibility

Source: FDC/Amur Minerals/SRK Consulting



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Current: £0.165

Recommendation: BUY (Target: £0.34)

AMC (AIM)

December year-end

	2009F	2010F	2011F	2012F	2013F	2014F	2015F
PROFIT & LOSS (US\$ M)							
Sales revenue	0.0	0.0	0.0	320.0	239.1	270.0	188.5
Dividends received	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating costs	2.0	2.0	2.0	94.6	89.7	92.4	85.6
Exploration write off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation/amortisation	0.0	0.0	0.0	58.8	50.2	59.6	46.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	(2.0)	(2.0)	(2.0)	166.6	99.3	118.0	57.0
Net interest expense	(1.8)	0.5	12.1	15.8	7.5	(6.0)	(14.3)
Pre-tax profit	(0.2)	(2.5)	(14.1)	150.8	91.8	124.0	71.3
Income tax expense	0.0	0.0	0.0	36.2	22.0	29.8	17.1
Minorities, pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (inc significant items)	(0.2)	(2.5)	(14.1)	114.6	69.7	94.3	54.2
NPAT (equity)	(0.2)	(2.5)	(14.1)	114.6	69.7	94.3	54.2
Significant Items (post tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (exc significant items)	(0)	(3)	(14)	115	70	94	54

DIVISIONAL EBIT (US\$ M)

Kun-Manie	0	0	0	169	101	120	59
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CASHFLOW (US\$ M)

EBITDA	(2.0)	(2.0)	(2.0)	225.3	149.5	177.6	102.9
Exploration write off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax paid	0.0	0.0	0.0	(36.2)	(22.0)	(29.8)	(17.1)
Working capital / other	0.0	0.0	0.0	(3.8)	(1.8)	1.4	3.4
Gross operating cash flow	(2.0)	(2.0)	(2.0)	185.4	125.6	149.3	89.2
Capex / exploration	(7.0)	(129.4)	(157.3)	(42.1)	(11.6)	(11.6)	(11.6)
Net investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flows	(9.0)	(131.4)	(159.3)	143.3	114.0	137.7	77.6
Net borrowings	(91.8)	130.0	171.3	(131.3)	(108.3)	(142.2)	(88.5)
Equity raised	99.0	1.9	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing	1.8	(0.5)	(12.1)	(12.0)	(5.7)	4.6	10.9
Financing cash flows	9.0	131.4	159.3	(143.3)	(114.0)	(137.7)	(77.6)

BALANCE SHEET (US\$ M)

Cash & deposits	350.6	220.6	49.3	180.6	31.3	173.5	262.1
Trade debtors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PPE	5.0	130.4	283.7	263.0	220.4	168.4	130.1
Exploration	22.5	26.5	30.5	34.5	38.5	42.5	46.5
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	378.1	377.5	363.4	478.0	290.1	384.4	438.6
Current borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-current borrowings	257.7	257.7	257.7	257.7	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	257.7	257.7	257.7	257.7	0.0	0.0	0.0
Total shareholders' equity	120.4	119.8	105.7	220.3	290.1	384.3	438.5

EQUITY PRODUCTION

Kun-Manie (t)	0	0	0	19,587	16,732	19,856	16,711
Other (t)	0	0	0	0	0	0	0
Total production (t)	0	0	0	19,587	16,732	19,856	16,711

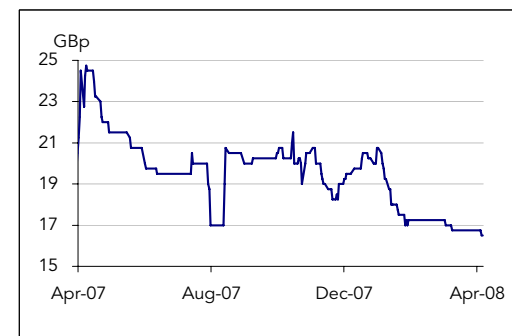
Total cash cost (US\$/t)	0	0	0	3,837	4,304	3,721	4,252
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ASSUMPTIONS

Capital requirement (US\$ M)	368
debt:debt+equity (%)	70%
major equity raise @ (£)	0.25

	2009F	2010F	2011F	2012F	2013F	2014F	2015F
Nickel (US\$/lb)	1,346	1,261	1,166	1,082	998	914	830
Copper (US\$/lb)	361	341	324	308	293	279	265
Prevailing Tax Rate (%)	24	24	24	24	24	24	24

SHARE PRICE PERFORMANCE



52-week low/high £ 16.50 / 24.75
Market value (£M) 19.1

NET PRESENT VALUE

		HD_08	% total
@ discount factor		12%	
Kun-Manie (US\$ M)	177.7		109%
Hedging (US\$ M)	0.0		0%
Exploration (US\$ M)	0.0		0%
Corporate/Other (US\$ M)	-14.5		-9%
Total (US\$ M)	163.2		100%
Less net debt (cash) (US\$ M)	-8.0		
Net Asset Valuation (US\$ M)	171.2		

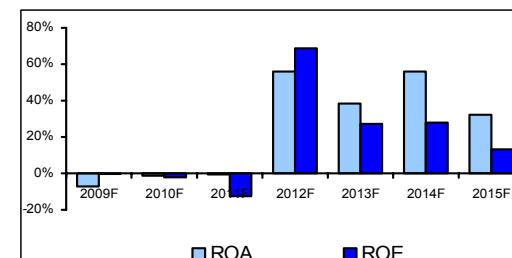
Diluted shares (estimate post-equity rais (M)	131.5
Valuation discount factor (%)	50%
Valuation per share (£/shr)	0.34
Internal Rate of Return (%)	28%
Capital payback (yrs)	2.3

SENSITIVITY

	-20%	-10%	+10%	+20%
% change in Kun-Manie NPV for % change in:				
Capex	-31%	15%	-15%	-31%
Operating costs	20%	10%	-10%	-20%
Nickel	-78%	-39%	44%	84%
Copper	-5%	-2%	2%	5%
Valuation per share for % change in:				
Nickel	0.07	0.20	0.49	0.63

	2009F	2010F	2011F	2012F
Diluted shares on issue	245.6	353.6	353.6	353.6
EPS pre amortisation (c)	(0.1)	(0.7)	(4.0)	32.4
EPS growth (%)	NA	7.3	4.6	(9.2)
PER (x)	0.0	0.0	0.0	0.0
Enterprise value (£M) *	(73.9)	56.1	227.5	96.2
EV*/EBITDA (x)	(0.7)	1.1	3.9	8.7
ROA (%)	-7.2%	-1.3%	-0.6%	56.0%
ROE (%)	-0.4%	-2.1%	-12.5%	68.8%
Effective tax rate (%)	0.0%	0.0%	0.0%	24.0%
Net debt/equity (%)	-77.2%	30.9%	197.1%	35.0%
Net debt/net debt+equity (%)	-339.1%	23.6%	66.3%	25.9%
Net interest cover (x)	1.1	-3.7	-0.2	10.6

* forecasts based on current market cap





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Peter Rose – Head of Mining Research

Peter Rose has had 20 years experience in equities as a resources analyst, most recently having spent 11 years with Deutsche Bank in Australia, with previous positions including three years with Prudential Bache and five years with James Capel. Peter's industry experience includes 16 years as a metallurgist, three years with De Beers in South Africa, and eight years in the uranium industry, five of which were spent at the Ranger Uranium mine. Peter has a Bachelor of Science in Applied Mineral Science from Leeds University UK, and a Bachelor of Commerce from the University of South Africa. Peter is a member of the Institute of Mining & Metallurgy and a chartered engineer.

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Andy Davidson – Mining Analyst

Andy has had over 7 years experience as a geologist in the mining industry. He worked for Ashanti Goldfields on the exploration and development of Geita, one of the largest new gold mines in Africa of recent years. He was also involved in projects in other parts of Africa and Mongolia. Prior to joining Fox-Davies Capital, Andy enjoyed a successful 4-year period of self-employment as a commodity-focused analyst and trader. He holds a Bachelor of Science in Geology with First Class Honours from the University of Southampton and also a Master of Science/DIC from Imperial College London in Mineral Project Appraisal.

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Research disclosure as of April 24, 2007

Company: Amur Minerals Corporation

Disclosure: 1, 2, 8, 9

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Amur Minerals

Research recommendations

Fox-Davies Capital uses a three-tier recommendation system for stocks under coverage: Buy, Hold, or Sell.

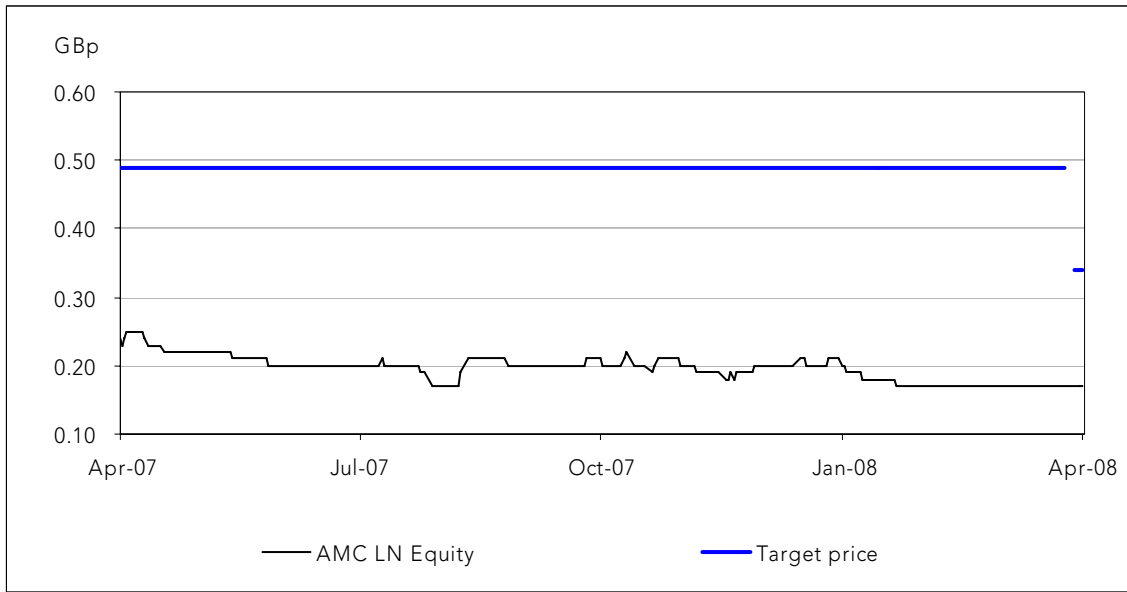
Buy recommendation means that expected total return of at least 15% is expected over 12 months between current and analysts' target price.

Hold recommendation means that expected total return of between 15% and zero is expected over 12 months between current and analysts' target price.

Sell recommendation means that expected total return expected over 12 months between current and analysts' target price is negative.

Disclosure charts

Exhibit 1: Amur Minerals share price.



Source: Bloomberg, FDC

Recommendation Summary

Date	Recommendation	Target Price (£)
6 Feb 2007	Initiate at Buy	0.42
26 Feb 2007	Target price increased	0.49
19 Nov 2007	Target price unchanged	0.49
13 Dec 2007	Target price unchanged	0.49
24 April 2008	Target price reduced	0.34

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