

Ariana Resources PLC

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How Ariana Resources turned a £5 idea into £50 million

"Figuring out how to turn a £5 idea into a company worth about £50m" - this is how Kerim Sener describes the process of transforming Ariana Resources (LON:AAU) from an upstart explorer into a gold producer over the last eighteen years.

There's been little stopping Ariana after it kicked off production at its first gold mine, Kiziltepe in western Turkey, four years ago.

As at end-2020 the mine had produced a total of 84,200 ounces of gold and 915,233 ounces of silver, recording US\$134 mln in revenue since operations commenced in early 2017.

But Ariana is now spreading its wings, with plans to open at least two more mines in Turkey (Tavsan and Salinbas), as well as expand its interests into Cyprus, through its Venus Minerals Ltd earn-in.

"Following the conclusion of our recent deal with Ozaltin Holding A.S. and Proccea Construction Co. in Turkey, we're now sitting on over £25mln in cash, and we are now planning to grow our market capitalisation another tenfold," says Kerim.

So, how did it all go right?

A shot at gold

It began eighteen years ago, with Kerim and his father driving 25,000km around Turkey in a second-hand car and sampling the ground for gold.

During 2004, they were surveying an area of hydrothermal alteration in volcanic rocks in western Turkey. The area had been broadly identified as having potential for gold by Kerim when he was reviewing satellite imagery and other remote-sensing data during his PhD in geology at the University of Western Australia a year earlier.

At first, they were discouraged by generally low-grade gold samples, but things quickly turned around when they caught wind of a local rumour that the world's largest gold miner, Newmont, had recently drilled a series of gold-bearing veins in an area to the north of the location they had been sampling, an area known as Kiziltepe. Ariana then discovered that Newmont was looking to sell all of its vein-type gold deposits worldwide, apart from Waihi in New Zealand.

Ariana was in the right place at the right time, and wasted no time in buying the Kiziltepe project from Newmont in early 2005, for US\$400,000 plus a royalty. This became the listing asset for Ariana, which completed its IPO in 2005, raising just £1.2mln.

Golden opportunity

The probability of discovering a gold deposit capable of becoming a mine is incredibly low. Estimates suggest that one

Price: 4.7

Market Cap: £50.27 m

1 Year Share Price Graph



February 2020 August 2020 February 2021

Share Information

Code: AAU

Listing: AIM

52 week High Low
6.6 1.7505

Sector: Gold & silver

Website: www.arianaresources.com

Company Synopsis:

Ariana Resources plc is an AIM-listed gold-silver exploration and development company with operations in Turkey. It has a proven strategy of identifying and developing mineral resources and advancing them to production through joint ventures.

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out of a thousand exploration targets becomes a prospect. Out of those, only one in a hundred goes on to become a mine.

From the start, and despite these odds, Kerim explains that there was a "resolute focus" on making Kiziltepe a success. And when it came to considering the possibility that Kiziltepe might fail, Kerim says his and the team's motto was always: "Plan B is to make sure that Plan A works".

A huge part of this tenacity came from selecting the right partners. In 2009, the first ore was mined from Kiziltepe and trucked on a trial basis to a processing plant located about 200km away. Following this first successful gold production, Ariana had considered signing an offtake agreement with the owners of the plant to fast-track the mine to production.

Ariana eventually decided against this course of action because it was clear that the relationship with the potential partner "wouldn't have worked" in the long-run.

However, it was during these negotiations that Ariana met the principals of a Turkish-owned company called Proccea Construction Co., who had designed and built part of the process plant. During the following year, Ariana and Proccea went on to strike up a joint venture, called Zenit Madencilik San. ve Tic. A.S.

"It seemed to be a marriage that made sense" Kerim says. The partners both realised they shared "a common vision to create a mining entity in Turkey".

Ariana brought the geological expertise, and Proccea the capital and capacity to design, build, and operate a processing plant.

"Both partners throughout were completely committed to making it happen, come hell or high water," he says.

Follow the deposit

Even with all the will in the world, the road to gold production is perilous.

Kerim says that mining companies don't always recognise that the "number one risk" to their project is the local community.

He explains: "You can't choose where your mine is going to be, nature just puts the deposit where it is, and you go wherever that is."

"It doesn't matter how good your mineral deposit is, it doesn't matter how many millions of ounces it is or what grade it is, because if you don't have the local community on your side, then your project will never happen and it is effectively worth nothing."

As an example of this, the Roşia Montană deposit in Romania has still not been developed, despite its potential to be one of the largest gold mines in Europe. Over a decade was spent by Canadian miner Gabriel Resources as it warred with Romanian authorities over permits, and residents refused to sell their houses.

Kerim says there's a "tendency among mining companies to come in with a robust approach to local issues, which usually doesn't go down well with the community".

Local partners

"The easy bit for a geologist is to take rock samples from the ground, and possibly do a bit of drilling, but then there are a whole series of things that are almost entirely out of your control."

Kerim says that Ariana itself "nearly came unstuck" between 2012 and 2015 when three years of permitting delays meant the company could not complete its feasibility study to go ahead with the Kiziltepe mine. During those years it

was touch and go before Ariana finally received its forestry permits for construction in 2015.

At approximately the same time, Ariana was seeking a US\$30m loan in order to build the Kiziltepe processing plant, but was not offered one with viable interest rates from a foreign bank.

This is because Turkey was being perceived as risky, based on the threat of terrorism and political uncertainty, which Kerim says were "not entirely fair given that terrorism is a global phenomenon".

In the end, with its partner Proccea Construction Co. Ariana reached a financing agreement with Turkiye Finans Katilim Bankasi A.S. in 2014, which provided a loan at an effective 7.5% interest per annum over a five-year term.

So, it came right in the end for Ariana.

For this, Kerim credits the fifteen years the company spent building relationships within the local community around Kiziltepe, during which time the site team had stayed largely the same, such that "the community had always seen the same faces".

Furthermore, Kerim and his wife moved to the local town shortly after getting married, in order to help drive the project forward during the early years and to become embedded in the local community.

More than just partnering with a Turkish firm on the project, Kerim is himself half-Turkish and able to speak the language. This, he says, allowed him to "get things done" in Turkey, giving him a better understanding of cultural sensitivities that other companies might have ended up bulldozing over.

As further evidence of this, Kerim has been instrumental in completing a three-way joint venture between Proccea and a new partner, Ozaltin Holding A.S. a major Turkish construction firm.

Ozaltin has now acquired 53% of the original joint venture with Proccea and the previously wholly-owned Salinbas project for US\$55m, in addition to a further US\$8m cash injection to bring the Salinbas project through feasibility.

To summarise the new joint venture and its positive impact for shareholders, Kerim states that "Ozaltin has committed US\$63m for about half of a JV we only owned half of previously, with the addition of Salinbas, valuing our projects in Turkey at about US\$130m."

Put another way, Ariana was valued at £50m prior to completion of the joint venture, and now holds about half of its market capitalisation in cash and still retains about a half of its joint venture holding.

Kerim says the new partnership "creates a formidable exploration, development and production group focused on Turkey".

Kiziltepe is, in the end, almost a fully Turkish project.

Next steps

Looking ahead, Kerim draws attention to the "war chest" of the company of over £25m, which he is planning to utilise in part to reward long-term shareholders with a substantial special dividend, with the remaining funds earmarked to develop the company strategy to target a further ten-fold multiplication in market capitalisation within the next decade.

"I remember vividly that, ten years ago, I outlined a plan to our shareholders at an AGM presentation to achieve a market capitalisation of £50m for the business within ten years. At the time our market capitalisation was about £5m and we had only recently emerged from the Global Financial Crisis. In many ways that was a tougher position to start from and I now see no obstacles to achieving our next target by 2030 and I encourage our shareholders to support this vision."

Plans include increasing gold production in Turkey to 50,000 ounces per annum, as the joint venture expands its resource base and production capacity.

Next, Ariana is expecting its Tavsan mine to begin producing, with a feasibility study and its associated Environmental Impact Assessment (EIA) to conclude in 2021. This is expected to be followed in a few years by the Salinbas project.

Kerim is also developing interests in other jurisdictions and is working up a strategy which will leverage the expertise and credibility of the Ariana team, built up over many years, to advance new project opportunities.

Given his location in Perth, Western Australia, the company is perhaps even better poised to act on new project opportunities, given the highly dynamic, deal-driven and globally oriented mining sector in Australia and the business-as-usual situation in the country.

And judging by the past eighteen years, Ariana is keeping its eyes firmly on the prize and as Kerim says "focused on turning the possible into reality".

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