

Ariana Resources

Update
15th November 2012

Exploration at Red Rabbit reveals significant potential for the discovery of additional resources

Ariana Resources, the Turkey-focused gold explorer, currently owns an 86% stake in the flagship Red Rabbit Gold project (decreasing to 50% once production starts), which pending permits could be in production in early 2014. A recent exploration update from Kepez West and Karakavak prospects, located along the Sindirgi Gold Corridor in the Kiziltepe Sector of the Red Rabbit Gold Project, pointed out that shallow depth reconnaissance drilling at Kepez West provided the best intercept of 9.60 metres at 3.02 g/t gold plus 188.89g/t silver. There was also good news from Karakavak where a large vein system has been identified. All in all this provides increasingly more evidence to back the board's view that Sindirgi Gold Corridor contains significant potential for the discovery of additional resources. Our recommendation on the stock firmly remains a speculative buy.

Could be a beneficiary of a major gold discovery in Turkey

Ariana has a well-diversified portfolio of gold projects in Turkey which is Europe's largest gold producer. The company not only offers the promise of near-term gold production and revenue generation but also the considerable uplift in value that would come from a major new gold discovery in Turkey. Ariana's own efforts are focused to the west with projects in other areas through its joint venture with Eldorado Gold in the NE Turkey and its 12.3% holding in Tigris Resources whose exploration interests lie in SE Turkey.

Red Rabbit Gold Project

The Red Rabbit Gold Project continues to increase in scale as further zones are being identified, which may serve to improve the economics of the project. Recent exploration work includes IP/resistivity geophysics both at Kepez West and Karakavak in the Kiziltepe Sector of the project which has confirmed the potential for down dip continuation of the mineralised systems and this work will help future target drill targeting.

Valuation

Based purely on the estimated value of Ariana's stake in the Red Rabbit Gold Project. Our model gives a Net Present Value of US\$51.3 million (£32.1 million) of which Ariana will have a 50% stake. Based on the number of shares on a fully diluted basis (342 million) we have a target price of 4.7p.

Table: Financial overview

Year to 31st March	2009A	2010A	2011A	2012E
Revenue (£m)	0.00	0.00	0.00	0.0
PBT (£m)	(0.40)	(0.52)	(1.35)	(1.50)
EPS (p)	(0.27)	(0.25)	(0.54)	(0.58)
Dividend (p)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0

Source: GECR and company.

Speculative Buy

Target price

4.7p

Key data

Share price	1.55p
52 week high/low	5.25p/1.48p
Primary exchange	AIM
EPIC	AAU
Shares in issue	317 m
Market Cap	£4.9 m
Sector	Mining

Valuation

NAV / Share	1.88p
TNAV / Share	0.42p

Share price chart



Previous note

Interim results show 6 months of solid progress towards gold production

Future event

Funding news on the Red Rabbit

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Well diversified portfolio in Turkey

Ariana Resources is an exploration and development company focused on epithermal gold-silver and porphyry copper-gold deposits in Turkey. The flagship asset without doubt is the Red Rabbit Gold Project in western Turkey, where production is expected to begin in late 2013, pending receipt of relevant permits. The board has developed a three pronged strategy which couples the promise of near term gold production and revenue generation but also offers considerable uplift in value that would come from a major new gold discovery in Turkey. On top of its own pipeline of exploration properties, Ariana also has a joint-venture deal with Eldorado Gold concentrating on the highly prospective Artvin Province of north-eastern Turkey, which is focused on the Ardala and Salinbas gold projects. In addition, Ariana also holds a significant investment in a private company, Tigris Resources, which is focused on gold and copper exploration in the frontier mining provinces of south-eastern Turkey.

An exploration update from the Kepez West and Karakavak prospects, that lie in the Kiziltepe Sector of the Red Rabbit Gold Project, made for good reading. The announcement pointed out that shallow depth reconnaissance drilling at Kepez West provided the best intercept of 9.60 metres at 3.02 g/t gold plus 188.89g/t silver. Gold grades from rock-chip samples within the Kepez West prospect area were found to yield results up to 9.77g/t, 9.73g/t and 6.30g/t from sulphide-rich quartz veins. Both the Kepez West and Karakavak prospects are located along the Sındirgi Gold Corridor. Widespread gold anomalism has been encountered within a zone of argillic alteration and stockwork veining which has been mapped over an area 1,800 metres by 200 metres at Kepez West. Mapping and sampling at Karakavak has indicated the potential for an extensive vein system contained within what is a large altered and mineralised halo – which seems to fit in with previous drilling in this location which presented results including 53 metres at 0.4g/t gold. IP/resistivity geophysics has been completed both at Kepez West and Karakavak which has confirmed the potential for down dip continuation of the mineralised systems and this work will help determine the drilling locations.

Dr Kerim Sener, Managing Director, commented that *“These early-stage exploration results demonstrate the potential of the wider Kiziltepe Sector of the Red Rabbit Gold Project. While it is clear a lot more work needs to be completed, the results obtained to date are consistent with our view that the Sındirgi Gold Corridor contains significant potential for the discovery of additional resources.”*

This exploration update follows news in the previous month that the licence containing the Kizilcukur Project was granted a 10 year operational status by the General Directorate of Mining Affairs in Turkey. This licence contains 2 kilometres of mineralised quartz veins containing high-grade gold and silver that have been delineated at Kizilcukur where surface assay results have been as high as 152g/t gold and 1,320g/t silver. In fact, Kizilcukur represents the most north eastern expression of the Sındirgi Gold Corridor which itself is contained by the Red Rabbit project area. Ariana has completed IP/Resistivity geophysics, which has confirmed potential down-dip continuation of the vein system and will be used for drill targeting. The company is planning a 1,500 metre drill programme on the property to begin in 2Q 2013.

Interim results

Good progress has been made so far this year, which was highlighted in the interim results for the six months to 30th June. Project development continues at the Red Rabbit Gold Project. While work remains underway on the Feasibility Study, Ariana has carried out exploration drilling at the Kiziltepe Sector which has led to the following intercepts being reported including 12.1 metres at 16.5 g/t gold equivalent, 7.6 metres of 7.60g/t gold equivalent and 5.8 metres of 5.71 g/t gold equivalent. During the period, Ariana took over the management of the Eldorado Joint Venture in NE Turkey from which intercepts of 9.5 metres at 7.20g/t gold equivalent, 11.3 metres of 5.76 g/t gold equivalent and 25 metres at 3.48 g/t gold equivalent from Salinbas have been recorded. The company also

made a further investment in Tigris Resources to maintain its stake during a fund raising which allowed Tigris to complete the drilling of its first target in SE Turkey where a channel sample returned grades of up to 37.8 g/t gold. In addition, exploration in western Turkey is in progress on new licences that were gained in the government auctions earlier on this year. The figures showed that the company made a pre-tax loss of £0.414 million which was less than half the loss of £0.855 million in the first half of the previous year (which was burdened with £0.478 million that which was deemed to be the cost to Ariana of issuing share options). The basic and diluted earnings per share came out at 0.15p compared with a loss of 0.35p at the interim stage in 2011.

Red Rabbit Gold Project

Bonanza gold and silver grades have been identified on the extension of the Derya vein at the Kiziltepe deposit. These included: 12.1 metres @ 13.1g/t gold & 187.6g/t silver including 3.2 metres @ 38.7g/t gold & 511g/t silver and including 1 metre @ 65.9g/t gold & 760g/t silver. Exploration drilling has allowed the team to learn a lot more about the deposit and now the Arzu North vein system is seen to extend to the southeast beneath cover rather than being truncated by an E-W structure; and intercepts from this drilling programme included 34 metres @ 1.04g/t gold equivalent, 7.6 metres @ 7.60g/t gold equivalent and 5.8 metres @ 5.71g/t gold equivalent. On top of that, additional results from the eastern most part of the Emel Vein have highlighted an additional prospective zone extending towards the Arzu South structure which has demonstrated an intersection of 7.4 metres @ 1.71g/t gold equivalent. Such results illustrate the significant potential within what is a 650 metre “gap zone” that lies between Arzu South and Arzu North where a follow-up deeper drilling programme is being planned. Managing Director, Dr. Kerim Sener has pointed out these grades and widths of mineralisation are greater than anything that Ariana has seen in the seven years that the team has been exploring this deposit.

The total resource inventory of the company stands at 448,000 ounces of gold equivalent, but it should be pointed out that Ariana also has a comprehensive exploration campaign underway across the wider Red Rabbit area which looks likely to increase the total resource base. The Red Rabbit Gold Project continues to progress as the team achieve operational and corporate milestones. Additional permitting for the project is presently underway, and pending these permits, the plant build has been planned for late 2013. Apart from the results of the 2,000 metre drilling programme, there is clear progress being made in a number of directions. Firstly, the initial stage has now been completed on the Tailings Storage Facility (TSF) design work, which will form part of the Feasibility Study, with the final TSF design and engineering study expected ahead of receiving permits for the construction start-up. Secondly, the acquisition of some strategically important freehold land has been completed in the vicinity of the planned Arzu South open-pit area. Ariana and its joint-venture partner, Proccea Construction Co., will be providing a US\$600,000 short-term loan to the project to cover any shortfall in the development budget for phase one, which is being shared on a 50:50 basis by the partners.

Towards the critical funding of the development of the Red Rabbit Project, Ariana has negotiated a US\$2 million loan with YA Global Master SPV Ltd. This loan comes with an interest rate of 10% and the outstanding balance on the remaining part of the loan can be converted into Ariana paper at 3.77p per share by YA Global at any time.

On 29 October 2012, the Company reported a positive interim Feasibility Study report which underlined the highly attractive economic fundamentals at the Kiziltepe Sector of the Red Rabbit Gold Project Report. The combined reserves in the designated pits in the Kiziltepe Sector is around 1.1 million tonnes at an average grade of 3.1g/t gold and 39.8g/t silver which equates to 115,460 ounces of gold and 1.468 million ounces of silver. A 150,000 tonnes of ore per annum would support average production of 21,000 ounces gold equivalent per year for five years. Using a then current gold price of \$1,650 per ounces and a silver price of \$25 per ounce provides NPV of US\$49.8 million using an 8% discount factor and an IRR of 47.8% and a 2.1 year payback period. The capital cost

estimate was US\$29.5 million with cash costs estimated in the range of US\$678-693 per ounce. Certainly the recent discoveries in the Kiziltepe area including bonanza grade intercepts from strike extensions of known veins strongly point to the longer term potential of the deposit.

Discoveries such as the Gamze Vein, where continuous high-grades of up to 10.7g/t gold equivalent have been identified and the Hande Vein with grades up to 7.74g/t gold equivalent, really serve to underline the team's confidence that the wider Red Rabbit Project region shows the potential for approximately 1 million ounces of gold equivalent. The strategy looks to make sure of near-term revenue generation, while at the same time letting Ariana benefit from the significant uplift potential that any new discoveries will bring. Apparently, geophysics suggests that the Gamze Vein, together with the previously discovered Fidan Vein system, is connected within the same mineralised structure, with a combined strike length of 1,800 metres. In addition, at Kepez, which is 6.5 kilometres away from where the Feasibility Study is underway, it was reported in November 2011 that high grade silver grades had been found from the Karakaya Vein, which complements the existing high gold grades. Apparently, the average silver grade was 65g/t with a maximum 277g/t giving gold equivalent grades of 8.32g/t with a maximum of 46.84g/t. It is little surprise that the team is reviewing the possibility of earlier production from Kepez in combination with Kiziltepe. This all adds up to significant potential to expand the current 448,000 ounce gold equivalent JORC resource for Red Rabbit. On top of that, 2,000 metres of drilling has been completed recently at Kiziltepe which has confirmed the presence of continuity between the Arzu North and Arzu South structures. It all goes to suggest increased resource potential which could further improve the long-term economics of this project.

The company has chosen a strong local joint-venture partner in the Turkish construction group Proccea Construction Co., which is earning a 50% stake in the project by spending US\$8 million. Proccea specialises in the design, construction and commissioning of gold and silver processing plants and has worked on such projects not just in Turkey but also in Kazakhstan, Azerbaijan, Algeria, Finland, Argentina and Saudi Arabia. Proccea is essentially financing the project beyond the construction decision stage which will leave the partners needing to source perhaps US\$24 million out of the estimated capital cost of US\$29.5 million, which includes US\$14.2 million for the processing plant and EPCM (Engineering, Procurement, Construction Management). Discussions have already begun with lenders both in Turkey and internationally for the remaining capital requirement.

Ariana is pursuing well-priced acquisitions with the goal of building a mid-tier multi-project gold exploration and development company. Turkey is an enormous country, which is highly prospective for a variety of metals as well as gold, and, sensibly, the directors have chosen to make progress via joint-ventures that allow others to fund exploration and share the risk. Ariana has a joint-venture deal with Eldorado Gold that covers north-eastern Turkey, where early work has focused on the Ardala copper-gold porphyry and adjoining tenements in Artvin Province. The Ardala Project contains exposed parts of a 600 metre by 700 metre porphyry drilled in the early 1990's which defined a non-JORC resource of 20 million tonnes of 0.25% copper and 0.45 g/t gold and 65 ppm molybdenum. The nearby discovery of the Salinbas epithermal gold system has added to the prospectivity of this area, with recent drilling reporting intercepts of 9.5m @ 6.48 g/t Au + 39.4 g/t Ag, 11.3m @ 4.98 g/t Au + 42.8 g/t Ag and 25m @ 3.34 g/t Au + 7.9 g/t Ag. The company intends to continue drilling at this location during 2012 to further define the extents of the mineralisation which is still open to the east and to the south.

Valuation

The Red Rabbit Gold Project remains economically robust and looks as though it could be further improved by the recent discoveries, and so the fall in the stock price over recent months looks like a good buying opportunity. Our model of the Red Rabbit Gold Project gives a Net Present Value of US\$51.3 million (£32.1 million) of which Ariana will have a 50% stake and based on the number of shares on a fully diluted basis of 346

million gives a target price of 4.7p. We recommend the shares as a Speculative Buy with a target price of 4.7p as the company moves decisively closer to gold production and due to a potential increase in the resources base.

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