

# Ariana Resources

Update  
18<sup>th</sup> March 2013

## Using Newmont's \$20m database of Turkey to evaluate gold projects in an underexplored country

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), where mine permitting is proceeding. Ariana does not just offer the promise of gold production in 2014 and revenue generation but also build a mid-tier multi-project gold exploration and development company; and to this end the company is seeking further opportunities in Turkey. These efforts will be significantly boosted by Ariana gaining a license to a Turkish exploration database built by Newmont over a twenty year period. Such an exploration database will provide Ariana with a key strategic exploration advantage in Turkey. Our recommendation on the stock is buy.

### Big potential uplift in value from a major gold discovery in Turkey

The company's own efforts are focused to the west, but Ariana also has interests in other gold projects in the region through its joint-venture with Eldorado Gold in NE Turkey (where exploration is currently being funded by Eldorado to the tune of \$1.77 million for the 2012-2103 period) and through its 11.5% holding in Tigris Resources, whose exploration interests lie in SE Turkey. Moving ahead the team also have the benefit of the Newmont database which is thought to be worth US\$20 million.

### Gold mining at Red Rabbit could begin in 2014

Ariana joint venture partner, Proccea, has committed to sole funding of the Red Rabbit Gold Project in advance of receiving Environmental Impact Assessment positive certification as the company progresses towards targeted production in 2014. Proccea is to contribute a further US\$6.6 million of funding to earn-in to 50% of the Red Rabbit Joint Venture prior to production commencing in 2014. Ariana is working together Proccea, to secure the estimated US\$23 million project capital required to build the mine.

### Valuation

Our valuation has been calculated just based on the company's stake in the Kiziltepe Sector of the Red Rabbit Gold Project and Ariana's 49% interest in the Joint Venture with Eldorado Gold Corporation. We have determined a combined valuation of £22.2 million, which on a fully diluted basis (433 million shares) gives a target price of 5.1p.

## Buy

Target price

5.1p

### Key data

Share price	1.45p
52 week high/low	4.00p/1.18p
Primary exchange	AIM
EPIC	AAU
Shares in issue	417 m
Market Cap	£6.1m
Sector	Mining

### Share price chart



### Previous note

Mine permitting proceeds at Kiziltepe

### Future event

Project financing for Red Rabbit

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**Important:** All disclaimer information can be found on the last page of this document

Table: Financial overview

Year to 31 <sup>st</sup> December	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)	(0.55)
Dividend (p)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0

Source: GECR and company.

## Good spread of gold interests 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 Kiziltepe Sector of the Red Rabbit Gold Project in Western Turkey, where production is expected to begin in 2014, pending the granting of 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.

The goal is to build a mid-tier multi-project gold exploration and development company; and to this end the company is seeking further opportunities in Turkey; and these efforts will be significantly boosted by news announced in March. Ariana has gained a license agreement with Newmont Ventures Limited granting access to a Turkish exploration database built by Newmont over a twenty year period. The company has been granted a 10-year non-exclusive licence on Newmont's Turkish exploration database providing Ariana with a key strategic exploration advantage in Turkey. Access to the database is in consideration for a 1% Net Smelter Return royalty and a Right of First Refusal on any discovery made by Ariana within 5 kilometres from any point data derived from the database, apart from tenements that the company already owns.

At the time, Dr Kerim Sener, Ariana's CEO, commented that *"These databases were compiled by Newmont over the course of two decades and contain approximately 18,000 Bulk Leach Extractable Gold ("BLEG") analyses, 24,000 stream-sediment analyses 25,000 rock-chip analyses, and 18,000 soil analyses, in addition to a variety of other data including drilling results from across Turkey. Further to our primary focus on the Red Rabbit Gold Project area, access to this strategically important database will enable the Company to evaluate gold targets across this underexplored country as we seek to identify new multi-million ounce deposits. The agreement underpins our long-term commitment to exploration in Turkey and the Newmont data complements our existing databases perfectly."*

Ariana's joint-venture exploration programmes with Eldorado Gold continue to produce more cracking drilling results. The story so far is that the partners have been concentrating exploration work on the highly prospective Artvin Province of north-eastern Turkey, which is focused on the Ardala and Salinbas gold projects. 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.

The latest news from Salinbas and Ardalas is that new drilling has identified additional mineralisation on the eastern margins of Salinbaş within a corridor trending away from the Ardala Au-Cu-Mo porphyry. The best intercepts from drilling in the Salinbaş area include 31.10 metres @ 1.38g/t gold, 17.90 metres @ 2.09 g/t gold and 9.20 metres @ 2.25 g/t gold. Apparently a lot of these mineralised intercepts were obtained from less than 100 metres below surface. Whilst the best intercepts from drilling in the Ardala area include 81.5 metres @ 1.28 g/t gold + 10.5 g/t silver, 34.5 metres @ 2.21 g/t gold + 10.7 g/t silver and 18.2m @ 2.20 g/t gold + 25.6 g/t silver. This area also shows an increase in base-metal content towards the Ardala porphyry. Moving ahead, in-fill drilling within the zone connecting Salinbaş and Ardala areas will allow for further refinements to the geological model and will allow the company to calculate a mineral resource estimate. This work on the projects is being exclusively funded by Eldorado out of the US\$1.77 million Eldorado committed in the 2012-2013 period.

## Red Rabbit Gold Project

Ariana's key focus is on taking the Kiziltepe Sector of the Red Rabbit gold project in Western Turkey into production in 2014. Financing the development of Red Rabbit is one of the prime goals of the board over the coming months. In early March, investors learnt that Ariana's joint venture partner, Proccea Construction Co., has committed to sole

funding of the Red Rabbit Gold Project in advance of receiving Environmental Impact Assessment (EIA) positive certification as the Company progresses towards targeted production in 2014. Proccea is to contribute a further US\$6.6 million of funding to earn-in to 50% of the Red Rabbit Joint Venture prior to production commencing in 2014. Ariana is working together Proccea, to secure the estimated US\$23 million project capital required to build the mine.

In February 2013, investors learnt that mine permitting is proceeding with the Environmental Project Summary Document submitted to the Ministry of Environment and Urban Planning for the Kiziltepe Sector of the Red Rabbit Gold Project. The formal process for the permitting of the mine concludes with an Environmental Impact Assessment positive certification which is expected no later than the beginning of 4Q 2013 and public consultation in March 2013. At the same time, the company reported that a further three parcels of freehold land totalling 36,460m<sup>2</sup> in the vicinity of the planned Arzu South open-pit were acquired, which increases the total land acquired at Arzu South to 234,432m<sup>2</sup>. Apparently, discussions with potential lenders to the project are to be advanced. Certainly the submission of the Project Summary Document to the Ministry of Environment and Urban Planning initiates the formal environmental permitting process at Kiziltepe, which is targeted to be the first gold-silver mine within the Red Rabbit joint venture project. The Board expects that permitting process to conclude during the second half of 2013 and to commence mine construction before the year end. With the additional land acquired and the permitting process in full swing, the joint venture partners can now advance discussions with potential lenders to the Project and to evaluate finance terms.

Announcements over the past six months or so have pointed out that early-stage exploration results demonstrate the potential of the wider Kiziltepe Sector of the Red Rabbit project and support the team's view that the Sındirgi Gold Corridor contains significant potential for the discovery of additional resources. An exploration update from the Kepez West and Karakavak prospects in the Kiziltepe Sector of the Red Rabbit Gold Project highlighted that shallow depth reconnaissance drilling at Kepez West had provided a 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 provided 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 new drilling locations.

The licence containing the Kizilcukur Project was granted in late 2012 with 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 easterly 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 interim Feasibility Study report, announced in late-October 2012, was highly positive underlining the highly attractive economic fundamentals at the Kiziltepe Sector of the Red Rabbit Gold Project. 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. Production of 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 ounce and a silver price of \$25 per ounce provides a net present value 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. 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. Today, 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.

Ariana has chosen a strong local joint-venture partner for Red Rabbit 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\$23 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 and Management). Discussions have already begun with lenders both in Turkey and internationally for the remaining capital requirement.

## 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. However, it is important to emphasise that this valuation represents only the value attributable to the Kiziltepe Sector of the Red Rabbit project.

Looking at the junior gold explorers, peer comparisons suggest an average valuation of approximately US\$40 or £25 per ounce of JORC resource contained gold. Looking at Ariana's Joint Venture with Eldorado Gold Corporation in north-eastern Turkey, we have placed a value on this interest on the basis that the Joint Venture partners delineate a JORC-compliant gold resource of half a million ounces; in light of the exploration results produced to date along with the fact that 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. On that basis Ariana's 49% stake in the Joint Venture has been valued at £6.2 million.

Our combined valuation is £22.2 million, and based on the number of shares on a fully diluted basis of 433 million, gives a target price of 5.1p. We recommend the shares as a buy with a target price of 5.1p as the company moves decisively closer to gold production and a potential increase in the resources base.

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