

Ariana Resources

Funded through to construction

£1.25m equity subscription

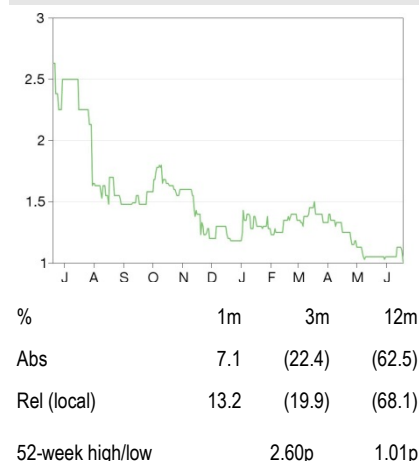
Metals & mining

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Price 1.01p
Market cap £4m

Net cash (£m)	0.6
Shares in issue	554.9m
Free float	66%
Code	AAU
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

Ariana Resources owns 50% of the 448koz AuE (Au-Ag) Red Rabbit project in Turkey, with partners Proccea Construction. It also has a 49% interest in the Salinbas JV in north-east Turkey with Eldorado Gold, which has a maiden resource estimate of 1.09Mioz (indicated and inferred) and numerous exploration targets near Red Rabbit.

Next events

EIA approval	Q313
Construction start	Q114

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Ariana has conditionally raised £1.25m via a subscription/equity swap agreement with Lanstead Partners. This funding will allow the company to progress its pre-development works (especially the critical approvals process with the Turkish authorities), finalise its (likely debt) funding for Red Rabbit and ultimately initiate construction, expected by year-end 2013/start-2014. We retain our development timeline, with first production occurring in the second half of 2014. Accounting for dilution of 137m shares at 1p each, our Ariana valuation is now 3.30p (at 10% discount rate and a US\$1,676/oz long-term Au price). Our unrisks valuation is 5.69p, which we consider better reflects its ongoing exploration successes close to Red Rabbit which could extend its current eight-year mine life.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/11	0.0	(1.3)	(0.5)	0.0	N/A	N/A
12/12	0.0	(1.2)	(0.4)	0.0	N/A	N/A
12/13e	0.0	(0.8)	(0.1)	0.0	N/A	N/A
12/14e	5.1	3.2	0.2	0.0	5.1	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Environmental approval key to final forestry permits

Ariana's most critical near-term work concerns the completion of its environmental impact assessment (EIA) and its approval by the Turkish authorities. Ariana's current target is to have obtained approval by September 2013. Following this, Ariana expects to submit further forestry applications and apply for other permits during Q413. The area requiring further forestry permitting is limited to the process plant site, tailings dam and waste rock dump in the near term. Mobilisation of machinery and pre-stripping at the mine site could start without the forestry permits (subject to financing).

Cash burn decreasing from September

We understand from management that, as a result of its current exploration and development work on its prospects in western Turkey, its cash burn rate is £120k per month over the summer, decreasing to c £70k per month from September, until it starts to ramp up development from very late-2013 and into 2014. We await clarity on Ariana's financing arrangements for Red Rabbit, which we expect to be announced by Q413.

Valuation: Revised for dilution

We revise our valuation to reflect the £1.25m Lanstead equity subscription (137m shares at 1p each) and an eight-month construction period, starting by end-2013. Therefore, we assume first gold production in H214 such that c 3.5koz Au and 28.5koz Ag is produced by the end of the year (ie a quarter of planned steady state production). On this basis, we revise our valuation of Ariana's eventual 50% share of Red Rabbit to 3.30p (previously 3.73p, both using a 10% discount rate and our long-term US\$1,676/oz Au and US\$28.15/oz Ag prices).

Ariana Resources is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£'000s	2011	2012	2013e	2014e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		0	0	0	5,147
Cost of Sales		0	0	0	(1,190)
Gross Profit		0	0	0	3,957
EBITDA		(1,398)	(1,080)	(769)	4,726
Operating Profit (before GW and except.)		(1,398)	(1,080)	(770)	3,174
Intangible Amortisation		0	0	0	0
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		(1,398)	(1,080)	(770)	3,174
Net Interest		51	(102)	0	11
Profit Before Tax (norm)		(1,347)	(1,182)	(770)	3,186
Profit Before Tax (FRS 3)		(1,347)	(1,182)	(770)	3,186
Tax		0	0	0	(1,115)
Profit After Tax (norm)		(1,347)	(1,182)	(770)	2,071
Profit After Tax (FRS 3)		(1,347)	(1,182)	(770)	2,071
Average Number of Shares Outstanding (m)		251.8	288.8	483.9	554.4
EPS - normalised (p)		(0.5)	(0.4)	(0.1)	0.2
EPS - FRS 3 (p)		(0.5)	(0.4)	(0.1)	0.2
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		5,119	6,028	6,027	16,881
Intangible Assets		4,627	5,320	5,320	5,320
Tangible Assets		323	482	481	11,335
Investments		169	226	226	226
Current Assets		1,248	1,149	1,451	6,243
Stocks		0	0	0	429
Debtors		340	894	894	423
Cash		908	255	557	5,391
Current Liabilities		(417)	(744)	0	(98)
Creditors		(417)	(506)	0	(98)
Short term borrowings		0	(238)	0	0
Long Term Liabilities		0	0	0	(13,478)
Long term borrowings		0	0	0	(13,478)
Other long term liabilities		0	0	0	0
Net Assets		5,950	6,433	7,478	9,549
CASH FLOW					
Operating Cash Flow		(626)	(860)	(1,274)	4,867
Net Interest		51	9	0	11
Tax		0	0	0	(1,115)
Capex		(1,139)	(1,023)	0	(12,406)
Acquisitions/disposals		201	(57)	0	0
Financing		1,691	1,020	1,813	0
Dividends		0	0	0	0
Net Cash Flow		178	(911)	540	(8,643)
Opening net debt/(cash)		(730)	(908)	(17)	(557)
HP finance leases initiated		0	0	0	0
Other		0	20	0	0
Closing net debt/(cash)		(908)	(17)	(557)	8,087

Source: Company accounts, Edison Investment Research

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