

# Ariana Resources

Update  
11<sup>th</sup> January 2013

## Red Rabbit joint-venture partner and Directors buy shares under SEDA share issue

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 permitting could be in production in 2014. Recently, £580,000 has been raised through the Yorkville SEDA facility, with the Directors buying 2.7 million shares at 1.1p, which we take as a very bullish sign. But even more bullish is Proccea, the company's joint-venture partner at the Red Rabbit Gold Project, taking a 2.45% maiden direct stake in Ariana. Recent months have seen several hurdles removed to allow Ariana a clear path towards developing a 150,000 tonnes of ore per annum gold mine at Kiziltepe, which equates to average production of 21,000 ounces per year of gold equivalent over the first five years of operation. Our recommendation on the stock firmly remains a speculative buy.

### Red Rabbit Gold Project to begin production in 2014

The scale of the Red Rabbit Gold Project continues to grow as exploration provides increasingly more evidence to back the board's view that Sindirgi Gold Corridor contains significant potential for the discovery of additional resources. The project is financially robust as the interim Feasibility Study determined a Net Present Value (NPV) of up to US\$ 49.8 million using an 8% discount factor and an IRR of 47.8% and a 2.1 year payback period (at a gold price of US\$1,650 per ounce). The capital cost estimate was US\$29.5 million with cash costs estimated in the range of US\$678-693 per ounce across the financial model range.

### Well-diversified portfolio of gold projects in Turkey

Not only does the stock offer 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.

### 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 (400m shares) the target price is 5.6p.

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)	(0.55)
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

5.6p

### Key data

Share price	1.43p
52 week high/low	5.00p/1.36p
Primary exchange	AIM
EPIC	AAU
Shares in issue	371 m
Market Cap	£5.3 m
Sector	Mining

### Valuation

EV/EBITDA	n/a
P/E	n/a
NAV / Share	1.87p
TNAV / Share	0.42p

### Share price chart



### Previous note

Key hurdle cleared towards commencing production at Red Rabbit Gold Project

### Future event

Project financing for 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 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. The country covers a large area which is highly prospective for a variety of metals as well as gold, and, sensibly, Ariana has chosen to make progress via joint-ventures that allow others to fund exploration and share the risk.

The new year kicked off with the news that Proccea, which is Ariana's joint-venture partner at the Red Rabbit Gold Project, and the Directors bought shares in the Company issued under the Standby Equity Distribution Agreement (SEDA), which was used to raise £580,000 at 1.1p in late-December 2013. By this move Proccea now have a 2.45% stake. The Ariana Board between them bought 2.7 million shares at 1.1p. At the time Dr Kerim Sener, Managing Director, commented that *"This financing solution provides the Company with sufficient capital to complete its technical studies on the Kiziltepe Sector of the Red Rabbit Gold Project and to initiate formal mine permitting procedures. With this crucial phase of pre-production development underway, we can secure the necessary finance to commence construction in the latter half of 2013, enabling the Red Rabbit Gold Project to move into production in the near term. Together with Proccea, Ariana is working to secure the estimated US\$23 million project capital required by Zenit Madencilik San. ve Tic. A.S., the Red Rabbit JV company, required to build the mine. Early discussions with potential project financiers have already generated encouragingly positive feedback, underpinning the highly attractive economic fundamentals achievable at Red Rabbit's initial sector of focus, including a Net Present Value of up to US\$49.8 million and Internal Rate of Return of 47.8%, with payback secured in 2.1 years."*

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. 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 2013 to further define the extents of the mineralisation, which is still open to the east and to the south. 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.

## 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. The latest news is that the company has been granted the necessary forestry permits, which looks like the final major hurdle ahead of the completion of the definitive feasibility study (DFS) and environmental impact assessment (EIA) works at Red Rabbit. The company is planning for the development of a 150,000 tonnes of ore per annum gold mine at Kiziltepe which equates to average production of 21,000 ounces per year of gold equivalent over the first five years of operation. The forestry permits give Ariana access to an area designated for the tailings

storage facility and will allow for the geotechnical and hydrological drilling at this location to be completed. Certainly this permitting grant coupled with strong local support and the highly attractive economic fundamentals demonstrated in the company's Interim Feasibility Study underline the potential of production beginning at Red Rabbit in 2014.

Recent announcements 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 Sindirgi 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 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 Sindirgi 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.

In the past few months, the licence containing the Kizilcukur Project was granted 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 Sindirgi 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 positive interim Feasibility Study report, announced in late-October 2012, underlined 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. 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. 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.

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. To date Ariana and its joint-venture partner, Procea Construction Co., have provided a US\$800,000 short-term loan to the project to cover

shortfall in the development budget for phase one, which is being shared on a 50:50 basis by the partners.

At Red Rabbit, Ariana 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\$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 Joint Venture with Eldorado Gold Corporation in north-eastern Turkey. Peer comparisons amongst junior gold explorers suggests an average valuation of approximately US\$40 or £25 per ounce of JORC resource contained gold. We have placed a value on his 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.

This gives a combined valuation of £22.2 million which based on the number of shares on a fully diluted basis of 400 million gives a target price of 5.6p. We recommend the shares as a Speculative Buy with a target price of 5.6p as the company moves decisively closer to gold production and due to a potential increase in the resources base. It has to be pointed out that no value has been placed on the remainder of the portfolio of prospective licences that have been selected on the basis of the company's own in-house geological and remote sensing database; nor of the stake in Tigris Resources which is focused on gold and copper exploration in south-eastern Turkey.

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