



Arian Silver Corporation (AGQ: AIM)

Sector: Mining
Sub-sector: Platinum & Precious Metals

08-03-10

Company data	
Stock data as of 03-03-10	
Price	GBP5.63
52-week range	GBP2.63- GBP8.00
Shares outstanding	235.4 million (mn)
Dividend yield	N/A
Last-12-month average daily trading volume (AIM)	138,928
Capitalization	
Market capitalization	GBP13.3 mn
Enterprise value	GBP8.6 mn
Net debt / equity	N/A
Price performance (%)	
	1M 3M 12M
AGQ	(8.2) 104.7 73.2
FTSE AIM ALL Share Index	0.8 3.4 80.1
12-month price volume performance	
Major shareholders	
Name	Capital
Grafton Resource Investment Ltd.	6.7%
Sprott Asset Management LLP	12.7%
Management	7.2%
Others	73.4%
Total shares	100%
TIDM code:	AGQ
ISIN number:	VGG0472G1063
Nominated advisor:	Grant Thornton UK LLP
Broker:	Haywood Securities (UK) Ltd
Bankers:	National Westminster Bank Plc
Auditors:	PKF (UK) LLP
Lawyers:	Charles Russell LLP
Country of incorporation:	British Virgin Islands
Head Office location:	United Kingdom
Principal area of operations:	Mexico
Company website:	www.ariansilver.com
Analyst:	Shazia Naik
Managing analyst:	Somatish Banerji
DOR:	Satish Betadpur, CFA

Source: Company data, Bloomberg

Company description

Arian Silver Corporation (Arian Silver) is a silver exploration and development company with a focus on "brownfield" projects in Mexico, enabling access to considerable ready infrastructure and additional resource areas. It owns/has rights/options on 29 mining concessions and currently has 2 major projects:

- **San Jose project (100% ownership and 2% NSR):** Located in Zacatecas, the project is spread over 6,500 hectares (Ha) and comprises 11 concessions. After an independent preliminary scoping study, Arian Silver identified 7 mining blocks, but will only use 3, which are expected to sustain an approximate 4yr lifespan using contract mining & milling, and to yield 125,000 tonnes per year. The company estimates 500,000 tonnes of production from the 3 blocks at San Jose to yield about 2.15 mn oz (Moz) of silver, 1,800 tonnes of lead and 3,100 tonnes of zinc over the 4yr lifespan. As of Sept 2009, the company had identified JORC and/or NI 43-101 compliant Inferred resources of 11.2 mn tonnes (Mt) grading 93.8 grams per tonne (g/t) silver, 0.39% lead and 0.83% zinc and Indicated resources of 2.2 Mt grading 127.7 g/t silver, 0.51% lead and 0.88% zinc at the property. It identifies that these resources are contained within only 10% of the known strike length of the San Jose Vein within the property, and anticipates a probable significant upside within the remaining 90+% of the Vein. The company expects production at the 3 blocks to start in 2Q 10 and, subject to the results of a feasibility study expected to be undertaken concurrent with the contract mining, expects full-scale commercial mining by the end of the 4th year of contract mining. The revenue generated from the initial relatively small-scale contract mining operation, forecast to occur within 6 months of the start of production, will be used for further exploration, including drilling on current resource blocks and to partly finance a feasibility study to evaluate larger-scale commercial mining on the San Jose property.
- **Calicanto project (100% ownership and 3% NSR):** This project, located in Zacatecas, covers approximately 80 Ha and consists of 7 contiguous concessions. Management has not yet identified any JORC / NI 43-101 compliant resources at the project but expects it to yield more than 25-50 Moz of silver plus gold and base metals.

In Sept 2009, Arian Silver granted an option to Geologix Explorations Inc. to purchase a 100% interest in its **Tepal project** for USD3 mn. Tepal is a polymetallic porphyry project. It covers approximately 14,000 Ha and comprises 6 individual concessions. On 29 Jan 2010, that option was exercised.

Exhibit 1: Key financials

All figures in USD '000, unless specified	FY 2007A	FY 2008A	FY 2007-08 (%change)
Revenues	0	0	N/A
Operating income	(4,955)	(3,720)	24.9%
Net income	(4,893)	(3,689)	24.6%
Fully diluted EPS (USD)	(0.05)	(0.03)	40.0%
Net cash	3,134	753	(76.0%)
P/E	N/A	N/A	

Source: Company data



SWOT

Strengths	Weaknesses
<p>JORC / NI 43-101 compliant resources</p> <ul style="list-style-type: none"> – Estimated Indicated and Inferred resources of 80M oz silver-equivalent at San Jose based on 43M oz silver, 120 Mlbs of lead and 250 Mlbs of zinc. <p>Strong concession portfolio</p> <ul style="list-style-type: none"> – The company owns/has rights/options on 29 mining concessions spread over approximately 8,000 hectares. <p>Experienced Management team</p> <ul style="list-style-type: none"> – The company has a strong Management team, with the CEO having more than 25 years of international mining and exploration experience and the Chairman with more than 35 years international mining industry experience. <p>Advantages offered by Brownfield projects</p> <ul style="list-style-type: none"> – The strategy of using previously mined sites offers the advantage of ready infrastructure and knowledge of probable resource locations. 	<p>No measured resources or proven reserves yet</p> <ul style="list-style-type: none"> – The company has not yet identified any reserves or measured resources, recognition of which is highly valued by the market. <p>Cash generation delayed</p> <ul style="list-style-type: none"> – Lack of funds resulted in no meaningful work being carried out between April 2009 and Jan 2010, in all projects including San Jose, where production in the 3 identified blocks was due to begin in 4Q 09, delaying prospective cash generation. <p>Lack of funds forces company to option lucrative property</p> <ul style="list-style-type: none"> – Lack of funds to meet its capital needs and the delay in cash generation plans forced the company to option the Tepal property.
Opportunities	Threats
<p>Production commencement in 2Q 10</p> <ul style="list-style-type: none"> – Management expects to commence production at San Jose in 2Q 10, helping the company move forward towards the targeted aim of cash generation, once commercial production begins. <p>Improvement in liquidity conditions</p> <ul style="list-style-type: none"> – The company has taken various measures including optioning its Tepal property, unravelling the bulk of the Grafton transaction and raising CAD3.5 mn in January 2010 through a private placement. All these measures have eased liquidity conditions and provide leeway for the company to carry-on with its core activities, accelerating efforts towards commercial mining. <p>Resources, the potential cash generators</p> <ul style="list-style-type: none"> – Resources and reserves act as potential cash generators as they attract investors. The company can also generate cash by selling the final product or its concessions. 	<p>Delay in production plans will impact liquidity position</p> <ul style="list-style-type: none"> – Any delay in plans to commercialize production will negatively impact the liquidity position and operations of the company. <p>Decline in metal (silver) prices may hamper operations</p> <ul style="list-style-type: none"> – Production plans of the company are dependent on metal prices as Management expects to support production with internal accruals. Subsequently the company's operations are dependent on metals prices and any decline in prices may hamper production plans and, in turn, operations.

Key recent news

01 March 2010: Arian Silver announces that it will conduct an informal presentation regarding the company's progress in Mexico by the company's President, Director & CEO, Jim Williams on 08 March 2010 at the Royal York Hotel, Mexico.

10 February 2010: Updated on progress at its San Jose property, highlighting completion of 100% stake acquisition, the strong balance sheet after raising CAD3.5 mn in a private share placement, the unwinding of its Grafton shareholding and a planned aggressive 2010 marketing drive. Necessary permits are in place for production, and contracts for initial contract mining and milling operations are in the process of being finalised. Road upgrading has begun.

Management

Jim Williams, Chief Executive Officer: A professional geologist with more than 25 years international mining and exploration experience and a Fellow of UK IMMM (FIMMM), a CEng and a CGeol. He is also a Eur. Ing. and Eur. Geol.

Tony Williams, Chairman: He has more than 35 years experience in the international mining and investment banking industry.

The company has reviewed a draft of this profile and factual amendments have been made.