

Auriant Mining

All aboard the Auriant Express

Initiation of coverage

Metals & mining

6 March 2018

Price **SEK1.905**

Market cap **SEK142m**

SEK8.2626/US\$

Net debt (US\$m) as at December 2017 70.2

Shares in issue 74.8m

Free float 33%

Code AUR

Primary exchange Nasdaq First North Premier

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (5.4) (5.0) (73.9)

Rel (local) (5.8) (2.2) (73.9)

52-week high/low SEK7.55 SEK1.87

Business description

Auriant is a Swedish junior gold mining company, focused on gold exploration and production in Russia. The company has two producing mines (Tardan in Tyva and Solcocon in Zabaikalsky), one advanced exploration property (Kara-Beldyr in Tyva) and one early stage exploration property (Uzhunzhul in Khakassia).

Next events

AGM 14 May 2018

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Auriant Mining is a research client of Edison Investment Research Limited

After five years of gold production via both gravitational and heap leach recovery methods, Auriant's Tardan plant is now being remodelled to a single carbon-in-leach (CIL) process flow route, which is expected to improve metallurgical recoveries by c 31% and halve total cash costs to c US\$523/oz. At the same time, Auriant is also completing a definitive feasibility study (DFS) on its greenfields Kara-Beldyr prospect. Combined, the two are expected to achieve management's goal of 3,000kg (or 96,453oz) of gold output per year from FY22 (vs 809.5kg, or 26,049oz, in FY17), when the company is forecast to achieve an EBITDA of US\$52.7m.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (US cents)	DPS (US cents)	P/E (x)	Yield (%)
12/16	43.4	7.8	36.4	0.0	0.7	N/A
12/17	33.5	(3.1)	(5.8)	0.0	N/A	N/A
12/18e	20.3	(7.3)	(5.6)	0.0	N/A	N/A
12/19e	40.4	11.1	6.6	0.0	3.3	N/A

Note: *PBT and EPS are normalised and diluted, excluding amortisation of acquired intangibles and exceptional items.

Western management and Auriantal nous

Auriant had net debt of US\$70.2m as at end-FY17, after its Q317 rights issue and management has indicated that it believes that it will require c US\$17.2m in cash funding from equity sources for it to bring the Tardan CIL project into production (initial capex US\$12m) and to complete a DFS on Kara-Beldyr (cost c US\$2m), after which initial capex (US\$75m) will be financed via internal cash flows and additional debt funding. Assuming that the company raises cash proceeds of SEK68.4m (US\$8.3m) in equity funding in Q118 – either via the exercise of warrants or a conventional equity raise (see page 18) – and an additional SEK74.1m (US\$9.0m) in late FY18/early FY19, we would anticipate the maximum net debt level required to fund the company's expansion to be US\$97.8m in FY21 (equating to a leverage ratio of 82.5%), before declining thereafter.

Valuation: Undervalued by any measure

On the basis that management executes the Tardan CIL project and the Kara-Beldyr project according to plan (and raises US\$17.2m in cash via equity in Q118 and late FY18/early FY19 combined), we estimate that Auriant is capable of generating average cash flows of US\$38.6m, average earnings of US\$31.5m and average EPS of 16.7 US cents in the 12-year period from FY22-33 (inclusive), thus allowing it to pay maximum average potential dividends to shareholders in the order of 20.6c per share in the period FY25-33 (inclusive). Discounted at Edison's customary 10% discount rate, such a stream of dividends has a value of US\$0.72/share in 2018 (assuming a conventional equity raise at the current share price), rising to US\$1.29/share (SEK5.95, rising to SEK10.66) on the cusp of the company's first substantive dividend in FY25. However, this valuation rises to US\$0.79/share (SEK6.53) in the event of the full exercise of Auriant's 57.0m outstanding warrants at a price of SEK2.50 in Q118 (a relatively anti-dilutive contingency as it involves the issue of fewer shares) and to a pre-money valuation of US\$0.84/share (SEK6.94) ahead of the second round of funding.

Investment summary

Company description: Swedish gold miner operating in Russia

Auriant is a Swedish junior gold mining company with two producing mines (Tardan in the Russian republic of Tyva and Solcocon in Zabaikalsky), one advanced exploration property (Kara-Beldyr in Tyva) and one early stage exploration property (Uzhunzhul in Khakassia). After five years of gold production via both gravitational and heap leach recovery methods, the Tardan plant is now being remodelled to a single carbon-in-leach process flow route with anticipated recoveries in excess of 90% (vs c 68.5% average total recovery currently) and cash costs approximately half those associated with previous recovery methods (eg US\$523/oz). While it is reconfiguring Tardan, Auriant is also completing a DFS on its greenfields Kara-Beldyr prospect, which will approximately treble production and achieve management's goal of 3t (96,453oz) of gold output in a year at comparable cash costs to Tardan (eg c US\$649/oz).

Valuation: 23.0% IRR to investors at the current share price

On the basis that management executes the Tardan CIL and Kara-Beldyr projects according to plan, we estimate that Auriant is capable of generating average cash flows of US\$38.6m, average earnings of US\$31.5m and average EPS of 16.7 US cents in the 12-year period from FY22-33 (inclusive), thus allowing it to pay average maximum potential dividends to shareholders in the order of 20.6c per share in the period FY25-33 (inclusive) or a total (undiscounted) distribution of US\$2.01 (SEK16.61/share). Discounted at Edison's customary 10% discount rate, such a stream of dividends has a value of US\$0.72 per share (SEK5.95/share), rising to US\$1.29/share (SEK10.66/share) on the cusp of the company's first potentially substantive dividend in FY25. As such, the shares offer an investor, acquiring Auriant's shares at the price of SEK1.905 (as per market close on 2 March 2018), or US\$0.231, an internal rate of return of 23.0% in US dollar terms over the course of the next 15 years. This valuation rises to US\$0.79/share (SEK6.53) in the event of the full exercise of Auriant's 57.0m outstanding warrants at a price of SEK2.50 in Q118 (a relatively anti-dilutive contingency as it involves the issue of fewer shares) and to a pre-money valuation of US\$0.84/share (SEK6.94) ahead of the second round of funding (at which price the issue of additional shares would be non-dilutive).

Financials: Half of net debt held by principal shareholder

Auriant had net debt of US\$70.2m as at end-FY17, after its Q317 rights issue (see Funding section on page 18) and management has indicated that it believes that two future equity issues, together raising US\$17.2m (US\$8.3m plus US\$9.0m, but with an additional US\$9.0m in debt cancelled for equity by the principal shareholder), will be sufficient for it to bring the Tardan CIL project into production, after which Kara-Beldyr will be financed via internal cash-flows and additional debt funding. This being the case, we anticipate Auriant's net debt evolving from US\$70.2m as at end FY17 to US\$97.8m as at end FY21, before declining thereafter and being eliminated in FY24.

Sensitivities: Critically dependent on financing pricing

A critical sensitivity to Edison's valuation is the price of its financing. At an equity price of SEK2.50/share (the minimum warrant exercise price) at the time of the first round of financing in Q118, our valuation rises by 9.7% to US\$0.79 (SEK6.53) per share, while at an equity price of SEK1.50 (a 21.3% discount to the current share price), our valuation declines to US\$0.65 (SEK5.37) per share. If the shares were actually to reach US\$0.79 ahead of the second round of financing, then our valuation improves to US\$0.95/share (SEK7.85/share). Similarly, if they were to

reach US\$0.65/share ahead of the second round of financing under these circumstances, then our valuation improves to US\$0.74/share (SEK6.11/share).

Company description: A Russian junior gold miner

Auriant Mining AB is a Swedish gold mining company, established in 2004 as Central Asia Gold. Auriant rapidly evolved through the acquisitions of several mines located in Russia, including Tardan (in 2004), Kopylovskoye, Artel Lena, Artel Tyva, Uzhunzhul and Kara-Beldyr (2006), as well as the acquisitions of five entities (including Solcocon) associated with the merger with NMC (2009). Following the latter, the Kopylovskoye project was spun off into a separate company called Kopylovskoye AB. In 2008, Auriant entered into a JV with Centerra Gold for the exploration and development of the Kara-Beldyr project. Then in 2010-11, the company sold its alluvial mining licences, including Artel Lena, and Artel Tyva, retaining only Borzya, which is now part of the Staroverinskaya (Solcocon) exploration and production licence. At the same time, the management board was reorganised, with the company adopting a new strategy and changing its name to Auriant Mining in 2012. Two years later, the Borzya licence was outsourced to an experienced alluvial operator (Urumkan) in 2014, with the company receiving a royalty on gold production. In the same year, Kara-Beldyr's exploration programme was completed and Auriant also acquired Centerra's 70% interest in the project, becoming the sole owner of this mine. According to the acquisition terms, Auriant is committed to paying Centerra a 3.5% net smelter royalty on any future mineral production from Kara-Beldyr.

Exhibit 1: Auriant's mining operations in Russia



Source: Auriant Mining

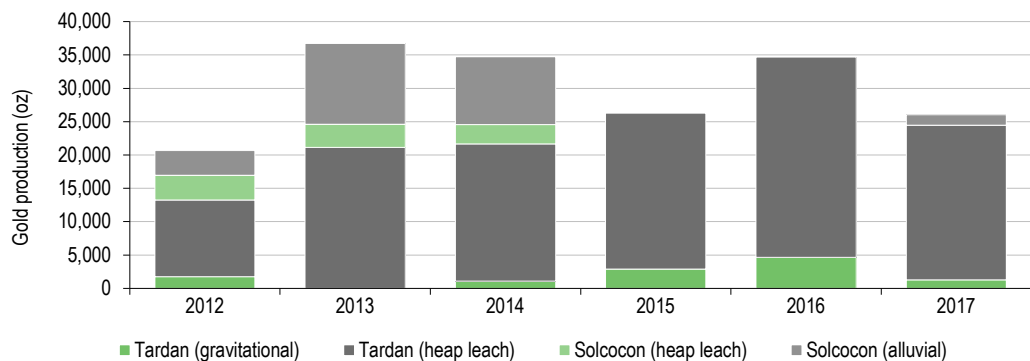
As a result, the group now comprises the Swedish parent, Auriant Mining AB, which fully controls six operating Russian subsidiaries, as well as two companies incorporated under the laws of Cyprus which form a group parent to the Kara-Beldyr project. Between March 2005 and July 2010, Auriant was listed on the Nordic Growth Market stock exchange in Sweden and since July 2010, it has traded on the Nasdaq First North Premier stock exchange, also in Sweden.

Currently, Auriant's mining projects are at various stages of the mining lifecycle. Tardan in the Republic of Tyva is Auriant's flagship mine which produced 761.7kg (24,489oz) of gold in 2017. Solcocon (Staroverinskaya) in Zabaykalskiy Krai is a site where alluvial production was resumed in Q317 after the heap leaching production was put on hold in 2014 due to lack of oxidized ore required for this method of processing. Kara-Beldyr and Uzhunzhul are considered exploration

properties – albeit with the former being at a more advanced stage, having delineated a JORC compliant resource and now progressing on to a definitive feasibility study.

In the period 2012-16, Auriant’s gold production fluctuated between c 640kg and 1,140kg (20,577-36,652oz), with a gradual ramp-up at the Tardan mine and initial progress in Solcocon contributing in 2013 before operations at this site were temporarily shut down in 2014. In 2017, Auriant’s production reached 809.4kg (26,049oz), which was 25% below 2016’s level. This was consistent with guidance provided at the time of the company’s Q317 results, but 140kg (4,501oz) below that provided at the outset of the year and was the result of several one-off factors, such as unseasonably high rainfall, lower grade ore and reduced throughput at the gravitational plant, as well as equipment issues.

Exhibit 2: Auriant’s historical gold production (oz)



Source: Auriant Mining

Tardan

Geography

The Tardan mine (contained entirely within the Greater Tardan licence area) is located in southern Russia in the eastern part of the Tuva Republic, around 78km from the state capital, Kyzyl, which is itself located c 300km to the southeast of Abakan, the capital city of the Republic of Khakassia. The mine is accessible via a 70km paved road from Kyzyl, followed by an 18km graded road. The surrounding area is mostly undeveloped with only small settlements between Kyzyl and Greater Tardan.

Auriant holds two exploration and mining licences, of which the first is a licence for the Greater Tardan licence area (valid until August 2032), while the second is for the Tardan deposit and current mine, covering 3.32km² (valid until October 2028).

The Greater Tardan deposit consists, among others, of the following sites: 1) **Barsuchy** located on the left bank of Bai–Syut river, 4km northeast of the Tardan deposit, 2) **Pravoberezhny** situated approximately 15km northwest of Tardan and 3) **Bai-Syut**, situated close to Pravoberezhny (neighbouring site), which is the next exploration target for Auriant (see Exhibit 3).

History

The Tyva (or Tuva) Republic in Siberia is one of the oldest regions of Russian gold mining. Between 1965 and 1971 the Tardanskaya and Koptinskaya exploration expeditions carried out prospecting and evaluation work in the Bai-Syut river basin at Kopto as well as at the Tardan deposit and successfully identified the Barsuchye, Soruglug-Kehm, Kopto and Pravoberezhny targets. Further

geological mapping and exploration between 1970 and 2015 then focused mainly on other targets within the Greater Tardan licence area.

In 2002 and 2003, exploration of the Tapsa-Kaa-Khem gold zone was carried out by the Tuva Geological Expedition. Following this, in the period 2004-08 Tardan Gold carried out exploration works of the central part of the Tardan and Kopto deposit with a view to securing approval for commercial development of the resources.

Auriant began exploration in the Greater Tardan area in 2013 and subsequently, mining operations commenced in the Barsuchy and then in the Pravoberezhny deposits in 2014 and 2015-16, respectively.

Geology

The Greater Tardan area features Lower Cambrian (metasandstones, chlorite schists, porphyries, limestones), and Silurian rocks (conglomerates with limestones). Intrusive rocks are represented by meta-gabbro, granites and gabbro. Most the gold occurrences at the Tardan deposit are located on the contact of the Kopto-Baisyutskiy intrusive massif of diorites and gabbro-diorites.

The regional tectonic structure comprises three fault systems striking east-west (Kaakhemsky, Bai-Syutskiy), northwest (Sorulug-Khem, Kyzltorgskiy and Tardanskiy), and northeast. The northwest faults are grouped into one tectonic zone controlling most the skarn gold mineralisation and represent the largest short-term potential for increasing reserves for the heap leach operations at the Tardan mine.

Within the Greater Tardan area, there are several gold mineralisation types:

- **Gold bearing skarns** - currently the best explored type of gold mineralisation within the area. These cover the Central zone including the Tardan deposit, Sorulug-Khem, Pravoberezhny, V. Bai-Syutskiy occurrences, as well as the Eastern zone with the Kopto, Barsuchy and Kopto-2 occurrences. In the short term, these represent the major prospect for reserves' increases at Tardan.
- **Porphyry type** - in the western part of the Greater Tardan area there are known occurrences of these type of ore bodies, mostly around Kara-Sug. The area is characterised by the presence of features of porphyry copper mineralisation: porphyry intrusions, argillitic alteration, halos of pyrite mineralisation and copper mineralisation (chalcopyrite, and the oxidation products malachite and azurite), which is often in economic concentrations. Porphyry copper deposits are one of the largest reservoirs of gold in the upper crust and also include economic amounts of other by-products, such as molybdenum or silver.
- **Black shale type** – there might potentially be black gold mineralisation in the northern part of the licence area, where the Severny prospect is located. Black gold is a term given to placer-derived gold, where dark material disguises the underlying gold colour. It is characterised by the presence of gold sulphide mineralisation (Sukhoi Log type). In addition to this placer gold, the area features gold soil anomalies, halos of altered rocks (beresite) and quartz veinlets. The long-term potential of the licence area is associated with the exploration of copper-porphyry (Kara-Sug, Kyzyl-Torg etc) and black shale formation (Severny) occurrences. These deposit types can usually be characterised by large-volume and low-grade.

Tardan mine

The Tardan deposit itself is a 4.0km² block bounded by tectonic fractures which are part of the Baisyutskiy shear fracture. It is underlain by volcanic and carbonate sediments of the Tummattayginskaya and Vadibalinskaya formations with intrusions of the Tannuolskiy complex. The most common rock type is marbleised limestone of the Cambrian Vadibalinskaya formation. Approximately 20-25% of the Tardan deposit area is underlain by granitoids of the Cambrian

Tannuolskiy complex of which diorites are the most common. The relatively simple structure of the deposit is influenced by the Changyssky fault zone, which defines the setting of the Tardansky graben and results in a pronounced asymmetry in the structural plan of the Tardan deposit ore field. The Tardansky graben is located in the central part of the deposit, and extends diagonally from Ore Zone 1 to the north-eastern part of the licence area and further to the northeast to the Barsuchy prospect. The width of the graben varies from 590m in the vicinity of Ore Zone 1 to 460m in the northeastern section. To the northwest, the graben is bounded by the Changyssky fault and, to the southeast, by the Vostochny fault. The Tardansky graben includes Ore Zones 1, 3, 6, 26, and 15 which constitute the main minable gold reserves of this deposit. The tectonic faults of the Tardan ore field are represented by thrusts and shifts.

Pravoberezhny site

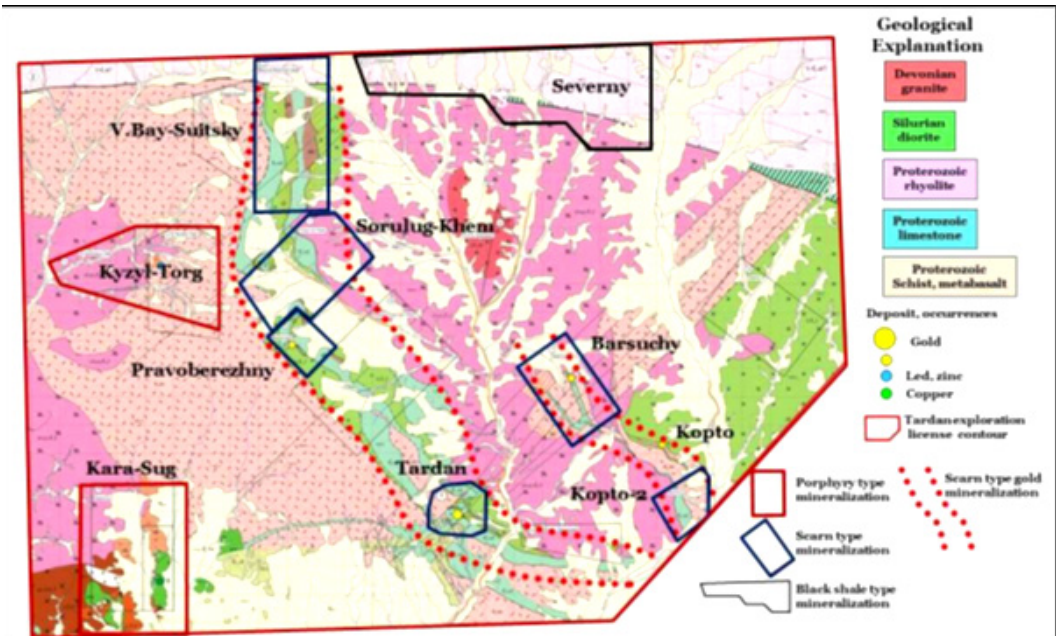
The Pravoberezhny site comprises Tummattayginskaya volcanics and Vadibalinskaya limestones, tuffs and dolomites that have been intruded by Kopto-Baisyutskiy dioritic rocks. The Tummattayginskaya volcanics and Vadibalinskaya units dip towards the north east at 30-60°.

Auriant has identified three zones of contact metasomatism (alteration of the host rock, in this case limestone), which extends over 1,000m along strike and 300m in width, where two of these have been evaluated as barren. Here, skarns have formed within a 60m thick layer of limestone on the contacts with two bodies of diorite, one located to the north and one to the south of the area. The skarns host most the gold mineralisation at Pravoberezhny with 13 distinct zones identified, though lower grade mineralisation is also seen in metasomatised volcanic rocks above and below the skarn zones. The majority of the area is covered by overburden sediments which generally range in thickness from 2-4m but can reach 10m in areas of lower elevation. A relatively simple morphology of the ore body and surrounding geology provides for a low stripping ratio, expected by the company to be less than 1:4.

Upper Bai-Syut site

Upper Bai-Syut site's gold mining potential is exhibited by the presence of lithochemical metamorphic zones of gold and alluvial gold mineralisation in the head of the Bai-Syut brook. The geology is characterised by skarn zones in contacts between intrusive rocks (diorites) and the host rock, limestone.

Exhibit 3: Geological map of Tardan



Source: Auriant Mining

Kara-Beldyr project

Geography

Kara-Beldyr is a 34km² site also in Tyva in the eastern part of the Altai-Sayan Orogenic belt and the western segment of the Mongol-Okhotsk trend, around 166km east-southeast of Kyzyl and c 110km from Auriant's existing mine in Tardan. This area is located in the upper headwaters of the Yenisei River at elevations of 1,050-1,750m. The gold mineralisation Kara-Beldyr is adjacent to the southeastern part of a zone with alluvial gold called Tapsa-Kacheemsk. Kara-Beldyr is accessible from Kyzyl via 100km of asphalt road or 85km of dirt road in all-terrain vehicles or on frozen ground in winter. There is no permanent settlement in the area. The Kara-Beldyr exploration and mining licence was issued on 26 June 2008 and is valid until 20 February 2027.

History

An alluvial gold deposit in the valley of the Kara-Beldyr River was identified as long ago as 1918. More recently, gold mineralisation was discovered in 1988 by the geological expedition in Tyva. An area of 27.4km² was surveyed, with detailed work being carried out along a 240km line network. During the period 2000-02 supplementary investigations were conducted in Gordejevskoye and Ezen.

In 2000, an ore sample of 100kg was taken for analysis at the Irgiredmed Institute in Irkutsk, which showed that 62% of the gold and 32% were free milling and that gold and silver yield of 93-94% and 70-75%, respectively, could be achieved based on a combination of gravimetry and cyanide leaching. Combined with the exploration work carried out in 2000-02, this allowed the geological expedition in Tyva to estimate a P1 and P2 resource at Kara-Beldyr.

Geology

The Kara-Beldyr project consists of two major zones: Gordejevskoye and Lagerny, which have been well explored. The major controlling structures to mineralisation are large sub-vertical

northeast-southwest trending fault structures, which are considered to be transform faults off the Baikal rift zone. The project consists of fault controlled Devonian age gold-silver mineralisation associated with metasomatised quartz diorites of Late Riphean age at Gordeyevskoye and Late Riphean and Cambrian-Vendian conglomerates and dolomites at Lagerny.

Mineralised zones are lens shaped and occur roughly parallel to the Glavny fault at Gordeyevskoye and are hosted in metasomatised zones within quartz-diorites. Metasomatic alteration forms a zone 40-110m thick and has been traced for a distance larger than 2km. Metasomatic intensity is reasonably constant along strike and can occur within the granodiorite intrusions and the quartz diorite host rocks but gold mineralisation can be sporadic. With increasing distance from the faults the metasomatic zones change from pyrite-ankerite-sericite-quartz to propylitic zones to a veinlet zone consisting of quartz and carbonate-feldspar-quartz veins.

Lagerny is located approximately 1.5km to the northwest of Gordeyevskoye with a similar structural trend and controlling fault structure. The Lagerny zone extends roughly 700m along strike and ranges from 50-150m thick. Host rocks are Late Riphean conglomerates and sandstones tectonically overlying Vendian-Low Cambrian dolomitic marbles with mineralisation occurring in metasomatic zones of quartz-sericitic alteration.

Solcocon (Staroverinskaya)

Geography

The Staroverinskaya area is situated in Zabaikalsky Krai, in the central part of the Argun micro-continent, part of the Mongol-Okhotsk belt. The Zabaikalsky Region has well-developed infrastructure with several active mining operations, such as Taseevskoye, Novoshirokinksoye (both operated by Highland Gold), Bystrinskoye (Norilsk Nickel) and Klyuchevskoye (China National Gold Group) all of which contain resources close to or in excess of 3Moz. The Staroverinskaya licence block is located at the confluence of the small Srednyaya and Nizhnyaya Borzaya rivers, 35km from the regional centre Kalga and 640km from Chita, the capital city of the Zabaikalsky region. The Staroverinskaya licence was awarded in May 2004 and is valid till 15 May 2029 and covers an area of 220.4km².

History

The Taseevskoye deposit was discovered in 1941 and during the period 1948 to 1994 it produced 6.4Moz of gold from 16.3Mt of ore at an average gold grade of 12.2 g/t derived from a swarm of epithermal gold bearing quartz fissure veins located within a circular area 1,000m in diameter. Mining operations were mostly conducted underground and focused on three principal vein systems, with a large, lower grade mineralised envelope contained within an argillic alteration halo surrounding the fissure veins remaining largely untouched. In 2004, Taseevskoye was acquired by Highland Gold with the intention of exploiting the potential for open pit mining of this large lower grade resource. In 2015, Highland Gold decided to launch a pilot project to test processing ore from the Sredniy Golgotay deposit at the Novoshirokinkskoye mill.

Novoshirokinkskoye is a gold, silver, lead and zinc deposit which was discovered in 1915 and initially explored between 1956 and 1962. Highland Gold acquired Novoshirokinkskoye in 2002 and developed it in partnership with KazZinc from 2006 onwards, until December 2011, when it redeemed shares from the latter to reconfigure it into a pure gold mining operation.

The Bystrinskoye mine is operated by Norilsk Nickel and is one of the largest gold mines in Russia and in the world. Finally, Klyuchevskoye is a gold deposit the bulk of which remains un-mined after it was mothballed c 20 years ago amid high costs and low gold prices. In October 2017, the Russian government approved an agreement on cooperation with China on the development of the

Klyuchevskoye gold deposit, which involves China National Gold Group acquiring 60-70% of the joint stock company, Zapadnaya-Klyuchi Mine.

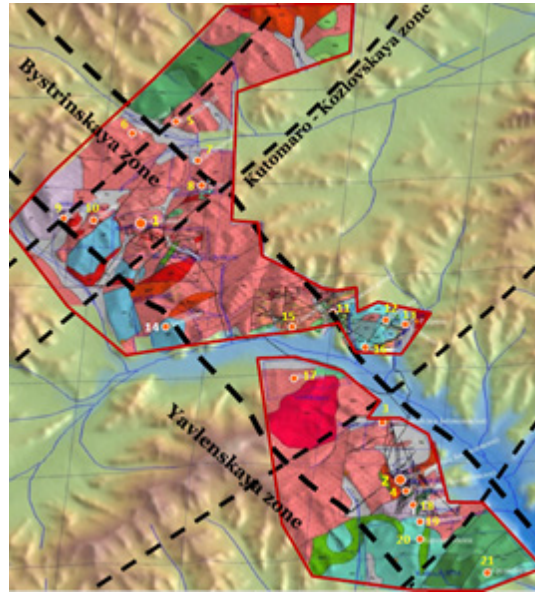
Hard rock mining at the Solcocon mine has been suspended since 2014 owing to a lack of oxidised ore suitable for heap leaching. In December 2016, the company completed laboratory tests of ore from the Bogomolovskoye deposit to establish expected gold recovery rates for different processing technologies. The tests indicated that a recovery rate for CIL technology is 84% and these tests were the basis for a re-launch of mining activities in 2017. Alluvial production was resumed in Q317 to generate revenue to fund the prospective re-launch of hard rock production based on new resources identified following the restart of exploration activity in 2017. In February 2018, the company announced preliminary exploration results which yielded 2.3t of incremental resources in the Bogomolovskoye deposit (pending GKZ approval – see Exhibit 7).

Geology

The Staroverinskaya licence area features sediments of different ages, from Precambrian to lower Cretaceous, characterised by different lithology. These are carbonate rocks and sediments (sandstones, siltstones and conglomerates), as well as volcanic deposits (rhyolites, tuffs, trachyandesites, and trachybasalts). The most promising formations for localisations of gold deposits are the Cambrian and Jurassic carbonate sediments. Intrusive rocks underlay a large part of the licence area and are represented by a Late Permian monzodiorite-granite complex and mid-late Jurassic Shahtaminskiy monzodiorite-granodiorite-granite complex. They are represented by quartz-diorites, diorites, monzodiorites and seem to be prospective for the mineralisation of gold bearing ore. The major tectonic features of the area (hundreds of kilometres long) are the northwest-southeast fault zones (Bystrinskoye) and the northeast-southwest fault zones (Kutomaro-Kozlovskaya and Smirnovsko-Mikhaylovskaya). These first-order fault zones are accompanied by second and third order faults which play an important role in the localisation of gold and polymetallic mineralisation. Exploration undertaken by Auriant has identified three highly prospective ore fields: Yavlinskoye, Bilbichan-Solkokonskoye, and Kozlovskoye. All the gold deposits and occurrences in the general vicinity can be divided into four types, depending on the composition of the ores and their localisation (though in a number of large gold deposits several mineralisation types are identified):

- **Gold skarn deposits** - includes the Zhelezny Kryazh deposit, which is located in the north-eastern part of the area outside the Solcocon area. Mineralisation is associated with magnetite skarns.
- **Gold-arsenic** – includes the Kozlovskoye deposit and several other nearby ore occurrences. Ore bodies are composed of beresites, mineralised with disseminated sulphides, with main ore minerals being arsenopyrite, pyrite, galena and gold.
- **Gold-polymetallic** – is represented by the Smirnovskoe deposit, located towards the far eastern part of the licence area. These ore types are located on the contacts of the dolomitic limestone and intruding Jurassic granites. The southern portion of the licence area primarily features deposits of this type.
- **Gold-quartz-tourmaline** – here gold occurrences are widely distributed and common in the licence area. They include the Podgornoye deposit, part of the Bogomolovskoye deposit, and several other occurrences.

Exhibit 4: Geological map of Solcocon



Source: Auriant Mining

Uzhunzhul

Geography

Uzhunzhul is a 135.5km² licence area located in the Republic of Khakassia (which adjoins the Republic of Tyva), 80km from the capital city, Abaka, which is an economically well-developed region, including the activities of several large mining companies. The Nemir-Chazygolskoye ore field, which covers the eastern part of the licence area, is located on the southeast flank of the Uybatsky gold bearing area. The Yurkovsky, Vostochny, and Paraspan occurrences have been discovered within the Uzhunzhul licence area, which also features placer deposits of gold. The ore field is in the contact zone of the Basino-Uzhunzhul granite massif and extends in a northeast direction for 20km with a width ranging from 4-10km. The licence for the exploration and mining of hard rock gold in the Uzhunzhul ore cluster was awarded in November 2008 and is valid until September 2031.

History

The significant potential of its raw materials now ensures that the Republic of Khakassia is classed among the resource-rich regions of Russia, which increasingly determines its role in the Russian economy. Placer mining on the current Uzhunzhul area started in 1835, with c 1.9t of gold mined to date. The most prospective occurrences within the Uzhunzhul area are Yurkovsky, Vostochny Flank, Vostochny and Paraspan.

Geology

The currently explored Nemir-Chazygolskoye ore field, covering the eastern part of the licence area, is located on the southeast flank of the Uybatsky gold bearing area. As per Auriant's internal estimates, the most promising prospects for discovering gold deposits within the Uzhunzhul area are the Yurkovsky, Vostochny Flank, Vostochny and Paraspan occurrences. In addition, the licence area features placer deposits of gold as well. The ore field is in the contact zone of the Basino-Uzhunzhul granite massif and extends in a northeast direction for 20km with a width ranging from 4-10km.

Intrusive rock covers a significant part of the licence area and is divided into five types, all of which form intrusive massifs extending in a northeast direction and small stocks of syenite, granite, granodiorite, gabbro, gabbro-diorite and diorite porphyry. The northeast strike faults trend in the same direction as the Uybatsky zone structures. Numerous faults are associated with mylonites and cataclastites, and are associated with dykes, alteration zones, gold, lead-zinc, copper and molybdenic mineralisations. Northwest and north-south faults are less developed. They cross and displace fault zones of other directions. Within the licence area, sulphidic metasomatites are located within fault zones, developing along contacts with granite massifs and are characterised by intensive pyrite mineralisation and silicification. The depth of the oxide zone is 130-150m from the surface, which should, when mined, bode well for processing. Beresitic and propylitic zones are widely represented in the intrusive rocks, developing along northeast and east-west faults. The width of such zones varies from tens of centimetres to tens of metres, and up to 3-4km in length.

The producing Kuznetsovskoye mine is located several kilometres southeast of the border of the Uzhunzhul area. The Igrgol fault zone controls the gold ore bearing structure on the licence area. It represents a set of faults running in a northeast and east-west direction. All the gold ore-bearing bodies occur within this zone. The licence area features predominantly two ore types: gold-quartz and gold-quartz-sulphide. Gold-quartz ore types are localized within the intrusive massif. Gold-quartz-sulphide ore types are found in the contact parts of the intrusive massifs. Gold-quartz ore types occur primarily in the Vostochny Flank and Yurkovsky occurrences. The Yurkovsky prospect contains 12 gold-bearing zones found in steeply dipping tectonic cracks that run in a northeast and east-west direction. The length of the zones varies from 400m to 2,500m and are up to 350m deep. The widths of the ore zones vary from 0.3m up to 150m. The main mineral found in the ore is pyrite, with occurrences of arsenopyrite, chalcopyrite, galena, and native gold. The maximum gold grade in the ore bodies is 150g/t, with averages from 3.0-35.3g/t depending on the zone. The Vostochny Flank occurrence incorporates ore bodies with widths varying from 4.2m and 47m and lengths up to 520m.

Reserves & resources

Auriant reports its reserves and resources according to both Russian (GKZ) and western (CRIRSCO) standards, depending on the deposit in question and its history. In general, more historic work tends to have been performed to Russian standards and more recent work to western standards. Current guidelines on the alignment of Russian (Categories A, B, C1, C2) and western (measured, indicated, inferred) mineral reporting standards are as follows:

Exhibit 5: Conversion of the Russian/GKZ system to CRIRSCO Reserves & Resources

Conversion of the Russian GKZ System to CRIRSCO Mineral Resources and Mineral Reserves

Russian "Balance Reserves", with consideration of all MODIFYING FACTORS, and after any adjustments for MINING LOSSES and DILUTION					Based on level of geological knowledge. Includes Russian "off-balance" material provided there are reasonable prospects for eventual economic extraction				
Complexity Group	CRIRSCO category of Mineral Reserves				Complexity Group	CRIRSCO category of Mineral Resources			
	C2	C1	B	A		C2	C1	B	A
1	PROBABLE	PROVED	PROVED	PROVED	1	INDICATED	MEASURED	MEASURED	MEASURED
2	PROBABLE	PROVED	PROVED	no	2	INDICATED	MEASURED	MEASURED	no
3	PROBABLE	PROVED	no	no	3	INDICATED	MEASURED	no	no
4	PROBABLE	PROBABLE	no	no	4	INDICATED	INDICATED	no	no

Source: Russian Code for Public Reporting of Exploration Results, Mineral Resources, Mineral Reserves (NAEN Code), 2011, S. Henley (2010), presentation at CRIRSCO meeting

While not interchangeable therefore, in general, it can be seen that Russian C₁ reserves fall within the Proven western category of reserves (and therefore typically into the Measured category of

resources), while Russian C₂ reserves fall within the Probable western category of reserves (and therefore typically the Indicated category of resources) – perhaps the substantive point being that both conform to western categories with relatively high levels of geological confidence (ie not the Inferred category) and should therefore engender a degree of confidence among investors.

Exhibit 6: Auriant reserves and resources					
		Tonnes (kt)	Grade (g/t)	Contained gold (kg)	Contained gold (oz)
Tardan					
Tardan	C ₁ +C ₂	893	4.92	4,390	141,129
Greater Tardan					
Barsuchy	C ₁ +C ₂	129	5.16	666	21,401
Pravoberezhny	Measured	0	0.00	0	0
	Indicated	1,480	3.23	4,780	153,695
	Measured & Indicated	1,480	3.23	4,780	153,695
	Inferred	30	3.48	104	3,357
	Total	1,510	3.23	4,885	157,051
Kara-Beldyr					
Kara-Beldyr	Measured	0	0.00	0	0
	Indicated	9,540	2.63	25,101	807,029
	Measured & Indicated	9,540	2.63	25,101	807,029
	Inferred	480	3.55	1,711	55,010
	Total	10,020	2.68	26,812	862,039
Solcocon					
Bogomolovskoe	C ₁ +C ₂	1,933	3.65	7,060	227,001
Kozlovskoe	C ₁ +C ₂	1,059	8.14	8,615	276,989
Alluvial	C ₁ +C ₂	811	1.17	946	30,411
	Total	3,803	4.37	16,622	534,400
Total	Measured	0	0.00	0	0
	Indicated	11,020	2.71	29,882	960,723
	Measured & Indicated	11,020	2.71	29,882	960,723
	Inferred	510	3.56	1,815	58,367
	Total	11,530	2.75	31,696	1,019,090
	C ₁ +C ₂	4,825	4.49	21,677	696,930
Grand total		16,355	3.26	53,373	1,716,020

Source: Auriant Mining, Wardell Armstrong, Edison Investment Research. Note: Totals may not add up owing to rounding.

The above statement of reserves and resources was effective as at end-FY16. Since then, Auriant has announced preliminary drilling results from its 2017 exploration campaign, which concentrated on the northeast flank of Solcocon's Bogomolovskoye deposit (which was previously the prime source of oxidised ore for heap leach processing in 2013 and 2014). The campaign comprised 4,100m of core drilling and 26,000m³ of trenching, which generated a total of 5,458 samples. In addition, Auriant carried out a cameral assessment of its previous exploration activities, carried out in 2014, on the south flank of the Bogomolovskoye deposit. A preliminary assessment of both exploration results is as follows:

Exhibit 7: Bogomolovskoye preliminary reserve and resource additions (February 2018)					
Campaign	Area	C₂ Resources (tonnes Au)	C₂ Resources (oz Au)	P₁ Reserves (tonnes Au)	P₁ Reserves (oz Au)
2014 Exploration	South Flank	0.3	9,600	0.5	16,100
2017 Exploration	Northeast Flank	1.5	48,200	0.0	0
Total		1.8	57,800	0.5	16,100

Source: Auriant Mining

Auriant will submit these resources to GKZ for approval once it progresses toward the goals of its comprehensive exploration programme on Solcocon, expected in approximately three years.

At a share price of SEK1.905 (US\$0.231), Auriant's enterprise value of US\$87.4m (based on net debt of US\$70.2m as at 31 December 2017) therefore equates to a resource multiple of US\$50.96

per total (combined western and Russian) resource ounce (albeit excluding the potential additional reserves and resources at Bogomolovskoye depicted in Exhibit 7).

For the two deposits on which western resource estimates have been compiled, the Kara-Beldyr mineral resource estimate is based on gold and silver estimates within a 5m x 20m x 5m block model. Grades are estimated from composited samples by ordinary kriging using modelled variograms (where possible) and inverse distance weighting (nearest-neighbour) where modelled variograms were deemed not to be robust. Modelled wireframes were treated as hard boundaries and top-cuts were applied to data where appropriate. The final model was verified visually and statistically by Wardell Armstrong (WAI) and classification was applied following the guidelines of the JORC Code (2012). Prospects for eventual economic extraction were tested by running open pit optimisation and the application of appropriate economic and technical parameters. The mineral resource shown in Exhibit 6 reflects the combination of both the Gordeyevskoye and Lagerny zones.

The Pravoberezhny mineral resource estimate is based upon data from surface diamond drill holes only. Exploration has been completed on roughly 20-40m profile sections with 20-40m intervals between holes down-dip. All logging, sample preparation and sample analysis was performed at Tardan. A comprehensive QA/QC programme was implemented to monitor the performance of the sample preparation and laboratory including the insertion of a range of duplicate samples, blank samples and certified reference materials. In addition, external check samples were sent to an independent laboratory. WAI assessed the results of this programme and identified limited concerns regarding sample quality, but concluded that there was “little risk” that the final global mineral resource estimate could be compromised by sample data quality. The mineral resource estimate itself is based on gold estimates using a block model with each block measuring 2.5m x 10m x 1m. Grades were estimated from composited samples by ordinary kriging using modelled variograms. Modelled wireframes were treated as hard boundaries and top-cuts were applied to data where appropriate.

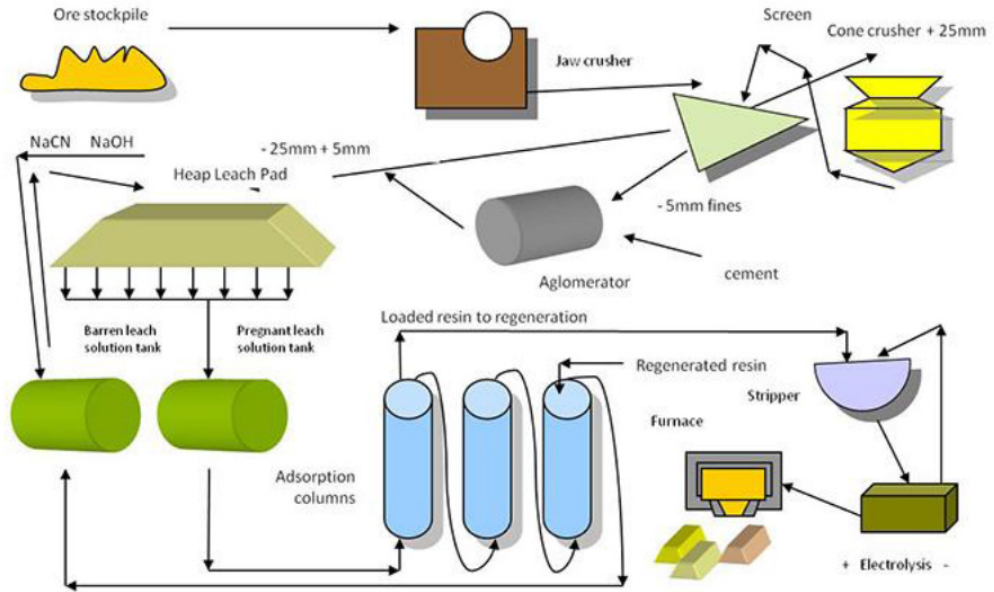
Mining & processing

Auriant is currently using two different methods for gold processing (heap leaching and techniques applicable to alluvial gold), with ongoing preparations for the imminent introduction of carbon-in-leach (CIL) processing at Tardan ahead of the development of Kara-Beldyr using CIL processing technology from 2020.

Heap leaching

The heap leaching plant is the second plant in the Tardan mine (the first being the gravitational plant, which has now been mothballed), which was commissioned in 2012. As part of the heap leaching process, the mined ore is crushed to a size of 10mm or less and then mixed with stockpiled gravitational tailings in a ratio of 60:40 ore to tailings. The mixture is then agglomerated with cement, which turns the crushed material into a granular form, which prevents ore particles from clogging the irrigation systems and the heap from collapsing. Following agglomeration, ore is then transported via conveyor to a radial stacker which stacks the ore on to the heap leach pad (up to height 7m). The heap is irrigated with pipes and sprinklers with a weak sodium cyanide solution, which percolates through the ore in a 120-day cycle and dissolves gold. The solution drains away at the bottom of the (lined) heap and is piped to the plant, where gold is finally extracted with the use of activated carbon in large adsorption columns. The recovered solution is then recycled to the heaps. From the columns, gold is desorbed using a hot caustic solution and is then deposited on cathodes, which are then smelted into doré bars containing at least 70% gold. Finally, the gold doré is then transported to specialised precious metals refiners, where it is re-smelted into refined gold.

Exhibit 8: Heap leaching process overview



Source: Auriant mining

Carbon-in-leach (CIL) gold processing

Currently, Auriant is in the process of constructing a CIL plant at Tardan, which is scheduled for commissioning in 2019. The CIL process is a variation of the carbon-in-pulp (CIP) process. In a simple CIP method, the ore is first crushed and/or milled to ensure that gold is readily accessible for cyanide leaching. Subsequently, the pulp is thickened to increase density to about 50% solids by mass. Leaching reagents in the form of cyanide and an oxidant (eg air or oxygen) are added and afterwards, the pulp is passed over a feed screen to ensure removal of tramp material such as woodchips, plastics and grit larger than c 0.6mm. After feed pre-screening the pulp goes through a cascade of well-mixed adsorption tanks. The gold auro-cyanide complex in the aqueous phase is readily adsorbed onto the activated carbon. The acid washed carbon is then eluted, resulting in the reversal of the adsorption process with most of the gold desorbing from the carbon back into solution. Gold is then typically recovered from the solution by electro-winning. In case of CIL, carbon is added directly to the leach circuit to run the leaching and adsorption processes simultaneously.

Exhibit 10: Edison gold price forecasts, 2018-2030 onwards (US\$/oz, real)

Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030 onwards
Gold price (US\$/oz)	1,320	1,263	1,482	1,437	1,304	1,303	1,264	1,235	1,319	1,428	1,500	1,574	1,401

Source: Edison Investment Research

Note that, as such, Edison's average (real) gold price forecast over the course of Auriant's mines' anticipated operations, from 2018 to 2033 inclusive, is US\$1,377/oz.

As discussed previously, production at the Tardan complex is being shifted from a gravity and heap leach process flow route to CIL only, with the subsequent opportunity to re-process 'exhausted' heaps. Forecasts for Auriant for FY17 are based on known production (809.5kg, or 26,049oz) and the assumption that costs that are consistent with those experienced in recent winter quarters (note that Auriant experiences notable seasonality in production, with relatively elevated production rates in Q2, Q3 and part Q4 and relatively depressed production rates in Q1 and part Q4). After mining 418kt of ore in FY16 at a grade of 4.04g/t and 394kt in FY17 at a grade of 2.36g/t, our forecasts for the remainder of the life of the operation – being increasingly sourced from the Praveberezhny deposit (see Exhibit 6) – are as follows:

Exhibit 11: Tardan mining, processing and cost schedule and estimates, 2018-2028

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Mining											
Tonnes mined (kt)	183	275	439	306	443	330	97				
Grade (g/t)	3.27	3.27	3.12	3.27	3.22	3.44	4.52				
Heap leach processing											
Ore stacked (kt)	200	0									
Grade (g/t)	3.19	0.00									
Recovery (%)	60	67									
Gold produced (kg)	329	153									
Gold produced (oz)	10,578	4,919									
CIL processing											
Throughput (kt)		280	330	335	335	330	290	450	450	450	450
Grade (g/t)		3.27	3.12	3.23	3.22	3.36	3.76	3.76	3.76	3.76	3.76
Recovery (%)		92%	92%	92%	92%	92%	92%	70%	70%	70%	70%
Gold produced (kg)		842	946	996	992	1,021	1,004	315	315	315	315
Gold produced (oz)		27,071	30,415	32,022	31,894	32,826	32,280	10,128	10,128	10,128	10,128
Heap re-mining											
Throughput (kt)								450	450	450	450
Grade (g/t)								3.76	3.76	3.76	3.76
Recovery (%)								70%	70%	70%	70%
Gold produced (kg)								315	315	315	315
Gold produced (oz)								10,128	10,128	10,128	10,128
Total gold produced (kg)	329	995	946	996	992	1,021	1,004	315	315	315	315
Total gold produced (oz)	10,589	31,990	30,415	32,022	31,894	32,826	32,280	10,128	10,128	10,128	10,128
Unit cash cost* (US\$/t)											
	48.77	53.33	54.92	48.77	56.80	52.30	49.63	25.26	25.33	25.80	25.88
	921	467	596	510	597	526	446	1,122	1,125	1,146	1,150
Initial capex (US\$000's)											
	**12,000										

Source: Auriant Mining, Edison Investment Research. Note: *Per tonne processed; **2017 and 2018.

Note the 3.20g/t average life-of-mine grade of material mined compares with the 3.23g/t in-situ grade of resources at Pravoberezhny (see Exhibit 6).

As such, FY18 will be the last year in which Auriant actively stacks its heaps at Tardan, although production from the heaps will inevitably spill over into FY19 as a result of the heaps' leach kinetics and the delay between stacking, irrigation and production. Note that the incremental capex of US\$12.0m for Auriant to construct the CIL circuit at Tardan equates to US\$26.67 per (maximum) annual tonne of throughput or US\$366 per (maximum) annual ounce of gold produced.

At the same time, Auriant will commence construction of its Kara-Beldyr mine. Unlike Tardan (from which it is c 110km, or 73 miles, distant), Kara-Beldyr has been designed using a CIL process flow route from the outset with correspondingly higher expected future metallurgical recoveries of gold.

Our expectations for mine scheduling, production, output and costs at Kara-Beldyr are similarly set out below:

Exhibit 12: Kara-Beldyr mining, processing and cost schedule and estimates, 2021-2033

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Mining													
Stripping ratio	10.64	9.27	6.11	5.40	4.96	3.62	2.93	2.32	2.07	1.97	2.00	1.47	0.56
Total rock mined (kt)	13,877	15,439	15,963	16,299	15,919	12,994	6,139	4,353	5,014	5,653	5,557	3,969	1,815
Waste mined (kt)	13,400	14,841	15,043	15,257	14,809	11,797	5,459	3,757	4,267	4,776	4,706	3,185	1,105
Ore mined (kt)	477	598	920	1,043	1,109	1,196	680	596	747	877	851	785	709
Grade (g/t)	1.89	2.18	2.40	3.74	2.74	2.82	2.61	2.90	2.26	2.01	2.04	2.20	1.91
CIL processing													
Throughput (kt)	0	1,075	920	1,043	1,109	1,196	680	596	747	877	851	785	709
Grade (g/t)	0	2.05	2.40	3.74	2.74	2.82	2.61	2.90	2.26	2.01	2.04	2.20	1.91
Recovery (%)	0%	91.8%	90.8%	89.7%	89.2%	88.6%	88.6%	88.6%	88.4%	88.4%	88.4%	88.4%	88.4%
Gold produced (kg)	0	2,024	2,001	1,963	2,715	2,990	1,574	1,533	1,494	1,559	1,538	1,523	1,199
Gold produced (oz)	0	65,082	64,348	63,113	87,302	96,118	50,620	49,296	48,037	50,137	49,435	48,951	38,558
Unit cash cost (US\$/t)	N/A	43.84	50.04	47.71	47.41	43.76	41.06	41.25	38.06	37.73	38.00	37.12	32.61
Total cash cost (US\$/oz Au)	N/A	722	706	771	592	538	548	499	590	658	654	595	600
Initial capex (US\$000's)	*70,000	5,000											

Source: Auriant Mining, Edison Investment Research. Note: *Years 2019-2021 (inclusive).

Note the 2.34g/t average life-of-mine grade of material mined compares with the 2.68g/t in-situ grade of resources at Kara-Beldyr (see Exhibit 6). Initial capital expenditure of US\$75.0m equates to US\$62.70 per (maximum) annual tonne of throughput or US\$780 per (maximum) annual ounce of gold produced.

The major underlying assumptions from which the above cost estimates have been derived include (but are not limited to) the following:

Exhibit 13: Tardan, Kara-Beldyr and Auriant underlying cost assumptions

	Tardan	Kara-Beldyr	Central
Mining			
Cost	RUB185/m ³	RUB200/m ³	
Dilution		6%	
Losses		3%	
Processing costs			
Heap leach	RUB1,123/t		
Gravity	RUB672/t		
CIL	RUB1,200/t	RUB1,200/t	
Centerra royalty		3.5% of revenue	
Refining costs	RUB7.37/g	*RUB11.70/g	
Sales charges		0.4% of revenue	
Selling, general & administrative expenses	RUB152.1m pa	RUB3,000/oz	
Tax			
Tax losses allowable for carry forward credit***	c US\$51m		
Income tax	20% on EBIT	20% on EBIT	
VAT	**18%	**18%	
Mineral extraction tax	6% on revenue from gold	6% on revenue from gold	
Property tax	RUB10m pa (fixed)	2.2% on fixed assets	
Other taxes		2.5% on revenue	
Central costs			
Moscow office			US\$1.5m pa rising to US\$2.0m pa in 2020
Stockholm office			US\$1.0m pa

Source: Edison Investment Research. Note: *Includes shipping; **excluding precious metals, which are zero-rated for VAT purposes; ***Amended on 1 January 2017 in Russia, but subject to special preferences on federal and regional taxes in Tyva.

Funding

Auriant had net debt of US\$82.8m as at end-June 2017, since which time it has undertaken a rights issue of SEK178m (US\$22.5m) between 23 August and 8 September. In total, subscriptions of shares with and without subscription rights amounted to c SEK142.4m (US\$18.0m), which corresponded to 80% of the offering. As a result of the issue, the number of shares in issue in the company increased by 57.0m, from 17.8m to 74.8m and Auriant received cash proceeds of SEK67.9m (US\$8.6m) before transaction costs. In addition, SEK74.5m (US\$9.4m) of the main shareholder's convertible debt was set off via a subscription for 29.8m shares (effectively an equity-for-debt swap). In the aftermath of the rights issue, Auriant's net debt, as at 31 December 2017, improved to US\$70.2m, after a quarter in which Auriant's operations are traditionally constrained by the Russian winter.

In addition to the rights issue, for every one subscribed and allotted share in the rights issue, the subscriber also had the right to subscribe for one additional warrant, free of charge, that entitled the holder to subscribe for one new share. The exercise period for the warrants is expected to be between 19 March 2018 and 30 March 2018 and the strike price of the warrants will be a 25% discount to the VWAP (Volume Weighted Average Price) of Auriant's share for the ten trading days prior to the exercise period of the warrants, subject to a minimum of SEK2.50/share and a maximum of SEK3.50/share. As a consequence, in addition to the funds raised in Q317 as a result of the rights issue, full conversion of the associated 57.0m warrants in issue at the minimum strike price of SEK2.50/share would result in the company's raising of a further SEK142.5m (US\$17.2m) in equity funding in Q118 – albeit 52% of the subscription rights will again be swapped for a

reduction of the main shareholder’s debt – to be directed towards financing the Tardan CIL construction and a definitive feasibility study at Kara-Beldyr (US\$2m).

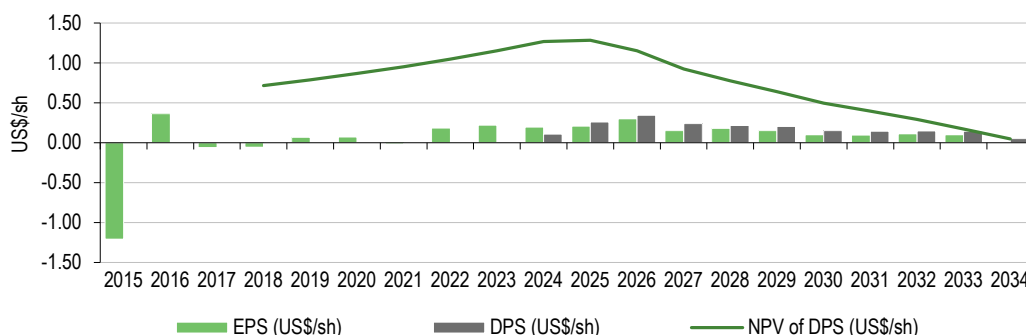
Management has indicated that it believes that equity fund of US\$17.2m will be sufficient for it to bring the Tardan CIL project into production, after which Kara-Beldyr will be financed via internal cash-flows and additional debt funding. In the first instance, this equity fundraising may be concluded in the form of the full exercise of outstanding warrants at the minimum price of SEK2.50. If this does not occur, it may be substituted by a more conventional equity raising at a price that is yet to be determined. Either way however, 52% of any equity funding will be swapped for a reduction of the main shareholder’s debt, such that the net proceeds to the company will be c US\$8.3m. That being the case, it suggests that an additional round of equity funding in the order of US\$9.0m is likely to take place towards the end of FY18 or the beginning of FY19. For the purposes of Edison’s valuation section (below), given Auriant’s current share price (ie below the minimum warrant exercise price), in the first instance (Edison’s ‘base case’), we have assumed that there will be a conventional equity issue of US\$8.3m in Q118 and then a further issue of US\$9.0m in early FY19 and that both will be conducted at the prevailing share price of SEK1.905. Variations from this scenario (including funding via the full exercise of outstanding warrants) and an enhanced share price for the second round of funding are then considered in the subsequent Sensitivities section below.

Valuation

In common with its standard practice, Edison’s valuation of Auriant has been performed via the discounting of maximum potential future dividends at a discount rate of 10%, assuming that all excess cash generated is distributed to shareholders only after all debt has been repaid.

On the basis that management executes the Tardan CIL project and the Kara-Beldyr project according to the operational and financial parameters set out in the previous section, we estimate that Auriant is capable of generating average cash-flows of US\$38.6m, average earnings of US\$31.5m and average EPS of 16.7 US cents in the 12-year period from FY22-33 (inclusive), thus allowing it to pay maximum potential dividends to shareholders in the order of 20.6c per share in the period FY25-33 (inclusive). Discounted at Edison’s customary 10% discount rate, such a stream of dividends has a value of US\$0.72 per share, as shown in the Exhibit below, rising to US\$1.29/share on the cusp of the company’s first substantive potential dividend in FY25:

Exhibit 14: Auriant forecast EPS and maximum potential DPS, FY15-FY33e



Source: Edison Investment Research

Sensitivities

In qualitative terms, the principal risks to which Auriant is immediately exposed include geographical/sovereign risk, geological risk, metallurgical risk, engineering risk, funding risk, financing risk and management risk. In general terms, these may be summarised as execution risk ie management's ability to bring the Tardan CIL and Kara-Belyr projects to account within its geographical jurisdiction and the required technical parameters. Once in production however, these risks will be perceived to have reduced and several other risks, such as commercial, commodity price, foreign exchange and global economic risks will become relatively more pronounced.

Five specific risks, in particular, are pertinent to Auriant and bear further consideration:

- Tranche 1 funding risk.** As discussed previously, a critical sensitivity to Edison's valuation is the price of the financing of its immediate US\$8.3m equity tranche (US\$17.2m gross, of which US\$9.0m, or 52%, is subject to an equity-for-debt swap by the company's main shareholder), which could range from SEK3.50/share (the maximum warrant exercise price) to a discount to the current share price. The following Exhibit demonstrates the effect on Edison's valuation of varying the price at which this financing is conducted (presuming that the price of the second tranche of funding is SEK1.905, or US\$0.231, regardless):

Exhibit 15: Valuation sensitivity to Q118 equity funding price						
Tranche 1 equity price (SEK)	1.50	1.905	2.00	2.50	3.00	3.50
Valuation (US\$/share)	0.65	0.72	0.73	0.79	0.84	0.87
Valuation (SEK/share)*	5.37	5.95	6.03	6.53	6.94	7.19

Source: Edison Investment Research. Note: *Converted at the prevailing forex rate of SEK8.2626/US\$.

- Tranche 2 funding risk.** Similarly, once the first tranche of equity funding has been successfully concluded, Edison's valuation of Auriant is then sensitive to the price of its second, subsequent US\$9.0m equity tranche (presumed, for these purposes, to be conducted at the start of FY19). On the basis that the first round of financing was conducted at a share price of US\$0.231 (SEK1.905) per share, we calculate a pre-money valuation of Auriant as at 1 January 2019 of US\$0.94/share, or US\$0.86 as at 1 January 2018, on which basis we have conducted a series of sensitivity calculations for varying second tranche pricing, as shown in Exhibit 16. Readers should note the point of equivalence between the pre-money and post-money valuations at a funding price of US\$0.84/share (the right hand column in Exhibit 16) and its similarity to Edison's pre-money valuation estimate of US\$0.86/share (above), which confers confidence in both these valuations and those in Exhibit 15.

Exhibit 16: Valuation sensitivity to late FY18/early FY19 equity funding price						
Tranche 2 equity price (US\$)	0.231	0.35	0.50	0.65	0.80	0.84
Tranche 2 equity price (SEK)	1.905	2.89	4.13	5.37	6.61	6.94
Valuation (US\$/share)	0.72	0.77	0.81	0.83	0.84	0.84
Valuation (SEK/share)*	5.95	6.36	6.69	6.86	6.94	6.94

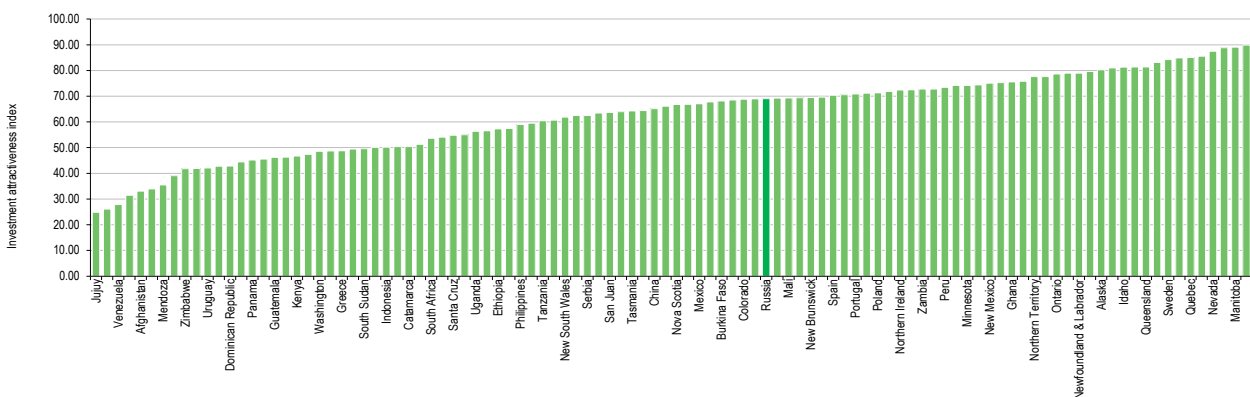
Source: Edison Investment Research. Note: *Converted at the prevailing forex rate of SEK8.2626/US\$.

- Geological and metallurgical.** In common parlance, mineralisation at Tardan might be described as "narrow, wiggly and lacking in continuity", which can make the deposit difficult to exploit from a mining perspective and subject to material swings in profitability. In addition, Tardan is composed of a number of different styles of mineralisation, which may be amenable to different forms of processing (eg gravity or heap leach), which has historically introduced an additional level of complexity to operations there. As a result, the Tardan deposit is often perceived as being 'difficult' from a commercial standpoint. However, much of this combined geological & metallurgical risk will be mitigated by the more consistent throughput and recoveries engendered by the adoption of universal CIL processing. In addition, some of the risk will be further mitigated by management's experience in successfully operating the project to date or by its operating similar projects nearby in the region. Nevertheless, management will

still need to oversee the careful blending of ore types from different sources through the CIL plant in future in order to optimise financial returns to shareholders.

- Stage of development.** While the Tardan CIL project represents a brownfields expansion of an existing operation (and risk is therefore mitigating by existing experience and acquired knowledge), Kara-Beldyr is effectively a greenfields development of a new prospect that is currently (effectively) only at the pre-feasibility (PFS) stage of advancement. While a degree of this risk will eventually be mitigated by the completion of a definitive feasibility study (DFS), until it is in production, this project will inevitably have a higher level of risk associated with it than Tardan. Moreover, given our funding assumptions (ie Auriant implicitly debt funded after the second tranche of equity funding in late FY18/early FY19), the success of the Tardan CIL project will be critical to the company's ability to then develop Kara-Beldyr.
- Financial risk.** As at 31 December 2017, Auriant had US\$70.2m in net debt on its balance sheet and US\$19.7m in negative equity (rendering gearing and leverage calculations effectively un-meaningful). This risk is mitigated by the fact that approximately half of Auriant's net debt is held by its largest shareholder, Preston Haskell IV. Nevertheless, Auriant's relationship with its lenders (in this case, Russia's third largest bank, VTB, with which it refinanced its debt in Q317) is of material importance to its equity investors into the immediate future. Note that, notwithstanding an anticipated US\$17.2m equity raise in Q118 (albeit 52% of the subscription rights will be swapped for a reduction of the main shareholder's debt), we estimate that Auriant will remain in a net negative equity position as at the end of FY18, but that this will revert to net positive equity after a second round of equity funding in the sum of US\$9.0m in early FY19 (as per Edison's 'base case' scenario).
- Geographical/sovereign risk.** It is assumed that investors are aware that there are certain risks inherent in investing in Russia at the current time, including the issue of sanctions, which could, among other things, complicate the import of capital goods. However, to date, management states that the issue of sanctions has had no material or discernible effect on its operations. In the meantime, from a quantitative perspective, Russia scores 69.02 in the Fraser Institute's 2016 survey of mining Investment Attractiveness (cf a mean score of 62.83) and ranks 44 out of a population of 104 (ie it scores within the upper half of the population of mining jurisdictions):

Exhibit 17: Fraser Institute 2016 survey of mining investment attractiveness (Russia highlighted)



Source: Fraser Institute

From a quantitative perspective meanwhile, Auriant's valuation varies with metals prices, costs, the discount rate and foreign exchange rates, as shown in the tables below.

Exhibit 18: Auriant discounted dividend NPV sensitivity to gold prices (US\$/share)

Metals prices change	-20%	-10%	Base case	+10%	+20%
NPV (US\$/share)	0.16	0.43	0.72	1.00	1.29
Change in NPV vs 'base case' (US\$/share)	0.56	-0.29	u/c	+0.28	+0.57
Percent change in NPV (%)	-77.8	-40.3	N/A	+38.9	+79.2

Source: Edison Investment Research

Exhibit 19: Auriant discounted dividend NPV sensitivity to unit costs (US\$/share)

Unit costs change	+20%	+10%	Base case	-10%	-20%
NPV (US\$/share)	0.45	0.58	0.72	0.85	0.99
Change in NPV vs 'base case' (US\$/share)	-0.27	-0.14	u/c	+0.13	+0.27
Percent change in NPV (%)	-37.5	-19.4	N/A	+18.1	+37.5

Source: Edison Investment Research

Exhibit 20: Auriant discounted dividend NPV at varying discount rates (US\$/share)

Discount rate (%)	0%	5%	10%	20%
NPV (US\$/share)	2.01	1.18	0.72	0.29
NPV (SEK/share)*	16.61	9.75	5.95	2.40

Source: Edison Investment Research. Note: *Converted at the prevailing forex rate of SEK8.2626/US\$.

Stated alternatively, Auriant's current share price of SEK1.905 (as of market close on 2 March 2018), or US\$0.231, implies a discount rate applied to its forecast future dividends of 23.0% ie at the current price the shares offer investors a potential investment internal rate of return of 23.0% (fully diluted).

With respect to foreign exchange rates, the relationship between the rouble and the US dollar has a direct causative effect on margins (costs typically being denominated in roubles, whereas revenues are denominated in US dollars) and is therefore significant in terms of its effect:

Exhibit 21: Auriant discounted dividend NPV at varying RUBL/US\$ rates (US\$/share)

RUBL/US\$ rate	51.0395	56.7106	62.3817
Change (%)	-10.0%	0.0%	+10.0%
NPV (US\$/share)	0.56	0.72	0.84
Change in NPV vs 'base case' (US\$/share)	-0.16	u/c	+0.12
Percent change in NPV (%)	-22.2	N/A	+16.7

Source: Edison Investment Research

Note the similarity in Auriant's valuation sensitivity to the rouble to changes in unit costs, which is consistent with its operational cost base being denominated almost entirely in local currency terms.

Financials

Auriant had net debt of US\$70.2m as at end-December 2017, after its Q317 rights issue (see Funding section on page 18, above). Assuming that the company raises an additional SEK142.5m (US\$17.2m) in cash via equity funding in Q118 and late FY18/early FY19 – either via the exercise of warrants or a conventional equity raise (as discussed above) – all other things being equal, we would then anticipate Auriant's net debt evolving as follows over the course of the next four years, before declining thereafter and being eliminated in FY24:

Exhibit 22: Auriant forecast net debt evolution, FY17-FY20e (US\$m)

End-year	FY17	FY18e	FY19e	FY20e	FY21e	FY22e
Net debt	70.2	58.5	44.9	60.8	97.8	75.3

Source: Edison Investment Research

Note that our estimate of Auriant's maximum net debt requirement of US\$97.8m as at end-FY21 equates to a leverage ratio (net debt/[net debt+equity]) of 82.5% in that year.

A private matter: Kronofogdemyndigheten (KFM) vs Preston Haskell IV

Owing to a tax dispute relating to the issue of residency, the Swedish tax enforcement authority (Kronofogdemyndigheten, or KFM) has taken possession of certain of the assets of Mr Preston Haskell IV (Auriant's major shareholder, a board member and, for accounting purposes, a "related party"), including ownership of a debt owed by Auriant to Mr Haskell. Auriant was informed of KFM's decision in a letter to the company during FY16. As of 31 December 2016, Auriant's loan liability to Mr Haskell was US\$6.063m. In 2017, Auriant reached agreement with KFM regarding a repayment schedule for the debt, whereby it will be paid by the company to KFM according to the following schedule: US\$1.0m in Q317, US\$1.0m in Q417, US\$2.0m in H218 and the remaining amount by the end of FY19. From 2017, the interest rate on the debt will be 2% per annum.

Ostensibly, the matter relates to a private dispute between Mr Haskell, his tax advisers and KFM and should have no material or deleterious effect on Auriant. It is disclosed here therefore only as a matter of course, since Mr Haskell is a "related party".

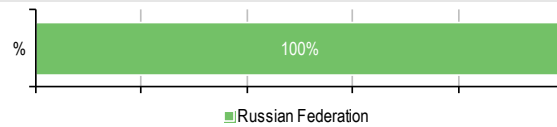
Exhibit 23: Financial summary

	US\$'000s	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		33,429	43,380	33,532	20,346	40,403	45,077	46,005	124,600
Cost of Sales		(19,360)	(19,391)	(25,061)	(14,447)	(17,389)	(20,569)	(37,298)	(68,470)
Gross Profit		14,069	23,989	8,471	5,899	23,014	24,508	8,707	56,130
EBITDA		10,242	21,987	8,846	2,933	20,048	21,042	5,241	52,664
Operating Profit (before amort. and except.)		919	15,416	2,487	(1,699)	15,809	17,163	1,691	42,550
Intangible Amortisation		0	0	0	0	0	0	0	1
Exceptionals		(14,216)	0	(104)	0	0	0	0	0
Other		0	0	1,027	0	0	0	0	0
Operating Profit		(13,297)	15,416	3,410	(1,699)	15,809	17,163	1,691	42,551
Net Interest		(7,081)	(7,577)	(5,567)	(5,616)	(4,681)	(3,594)	(4,863)	(7,822)
Profit Before Tax (norm)		(6,162)	7,839	(3,080)	(7,315)	11,128	13,569	(3,171)	34,729
Profit Before Tax (FRS 3)		(20,378)	7,839	(2,157)	(7,315)	11,128	13,569	(3,171)	34,730
Tax		(1,116)	(1,355)	(28)	0	0	0	0	0
Profit After Tax (norm)		(7,278)	6,484	(2,081)	(7,315)	11,128	13,569	(3,171)	34,729
Profit After Tax (FRS 3)		(21,494)	6,484	(2,185)	(7,315)	11,128	13,569	(3,171)	34,730
Average Number of Shares Outstanding (m)		17.8	17.8	35.6	130.8	169.0	188.4	188.4	188.4
EPS - normalised (c)		(40.9)	36.4	(5.8)	(5.6)	6.6	7.2	(1.7)	18.4
EPS - normalised and fully diluted (c)		(35.8)	35.1	(5.7)	(5.6)	6.6	7.2	(1.7)	18.4
EPS - (IFRS) (c)		(120.7)	36.4	(6.1)	(5.6)	6.6	7.2	(1.7)	18.4
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		42.1	55.3	25.3	29.0	57.0	54.4	18.9	45.0
EBITDA Margin (%)		30.6	50.7	26.4	14.4	49.6	46.7	11.4	42.3
Operating Margin (before GW and except.) (%)		2.7	35.5	7.4	-8.4	39.1	38.1	3.7	34.1
BALANCE SHEET									
Fixed Assets		56,192	53,684	49,397	56,453	58,752	87,410	122,399	119,823
Intangible Assets		32,197	32,638	30,183	31,221	32,259	33,297	34,335	35,373
Tangible Assets		23,995	21,046	19,214	25,232	26,493	54,113	88,064	84,450
Investments		0	0	0	0	0	0	0	0
Current Assets		10,460	17,062	19,102	11,762	27,622	12,794	11,648	29,054
Stocks		4,833	7,883	7,425	3,391	6,734	7,513	7,668	20,767
Debtors		2,272	186	5,148	1,115	2,214	2,470	2,521	6,827
Cash		43	4,173	5,069	5,796	17,215	1,351	0	0
Other		3,312	4,820	1,460	1,460	1,460	1,460	1,460	1,460
Current Liabilities		(36,001)	(34,149)	(6,179)	(4,936)	(3,004)	(3,266)	(4,641)	(7,203)
Creditors		(5,901)	(3,537)	(2,005)	(2,762)	(3,004)	(3,266)	(4,641)	(7,203)
Short term borrowings		(30,100)	(30,612)	(4,174)	(2,174)	0	0	0	0
Long Term Liabilities		(70,307)	(66,995)	(82,054)	(73,091)	(73,091)	(73,091)	(108,730)	(86,270)
Long term borrowings		(61,366)	(58,117)	(71,098)	(62,135)	(62,135)	(62,135)	(97,774)	(75,314)
Other long term liabilities		(8,941)	(8,878)	(10,956)	(10,956)	(10,956)	(10,956)	(10,956)	(10,956)
Net Assets		(39,656)	(30,398)	(19,734)	(9,813)	10,279	23,848	20,676	55,405
CASH FLOW									
Operating Cash Flow		6,347	19,359	9,751	11,758	15,848	20,268	6,410	37,820
Net Interest		(7,081)	(7,577)	(5,567)	(5,616)	(4,681)	(3,594)	(4,863)	(7,822)
Tax		(13)	(27)	(79)	0	0	0	0	0
Capex		(118)	(2,391)	(3,025)	(11,688)	(6,538)	(32,538)	(38,538)	(7,538)
Acquisitions/disposals		0	0	0	0	0	0	0	0
Financing		49	(10)	5,424	8,274	8,963	0	0	0
Dividends		0	0	0	0	0	0	0	0
Net Cash Flow		(816)	9,354	6,504	2,727	13,592	(15,864)	(36,990)	22,460
Opening net debt/(cash)		90,607	91,423	84,556	70,203	58,513	44,920	60,784	97,774
HP finance leases initiated		0	0	0	0	0	0	0	0
Other		0	(2,487)	7,849	8,963	(0)	0	0	0
Closing net debt/(cash)		91,423	84,556	70,203	58,513	44,920	60,784	97,774	75,314

Source: Company sources, Edison Investment Research. Note: Forecasts reflect the assumption that there are two additional rounds of equity funding, in Q118 and late FY18/early FY19. All additional funding is presumed to be raised from debt.

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Revenue by geography

Management team
Chairman: Lord Daresbury

Baron Daresbury is a title in the peerage of the United Kingdom and was created in 1927 for Sir Gilbert Greenall, 2nd Baronet and head of the family brewing business, Greenalls. The present Lord Daresbury (the fourth Baron) has held many directorships and chairs the mining industry, including Sumatra Copper & Gold, Evraz, Kazakhgold and Highland Gold. Currently, he is chairman of Stellar Diamonds, Nasstar and Timico Technology Group and on the board of Bespoke Hotels and Rusant. He is chairman of The Jockey Club's Haydock Park Racecourse, having held the same position at Aintree Racecourse for 25 years.

CEO: Sergey Ustimenko

Formerly the head of internal control at LUKOIL (Russia's largest private oil company), over the last 10 years, Mr Ustimenko has held the position of CFO at several significant Russian and international companies engaged in the sale and service of machinery and equipment. Prior to this, he graduated from Bauman Moscow State Technical University as an engineer and has seven years' experience as a certified public accountant at BDO, KPMG and Arthur Andersen. He is a Russian citizen and joined Auriant Mining in May 2014.

CFO: Alexandr Buchnev

Alexander graduated from the financial academy under the government of the Russian Federation in 2004 with a degree in crisis management. He also qualified as ACCA (Association of Chartered Certified Accountants) and has 10 years' financial and accounting experience in international audit and advisory companies, including eight years' experience at Ernst & Young. Alexandr joined Auriant in February 2013.

Deputy CEO: Maria Carrasco

Maria Carrasco is a Swedish citizen and joined Auriant as head of the Stockholm office and deputy CEO in 2016. Her previous experience includes working as CEO of the Ural branch of United Europe Holding group and as a key account manager for the LVMH Group. She has been head of sales at several large Russian and international health & lifestyle companies and has more than five years' experience as a tax specialist in the Swedish Tax Agency. She studied economics and business administration in Russia and graduated from Orenburg State University.

Principal shareholders

	(%)
Bertil Hldgs	52.27%
GoMobil Nu AB/Per Ahlgren	15.01%
Mangold Fondkommission AB	4.55%
Danske Bank International AB	3.12%
Forsakringsaktiebolaget, Avanza Pension	2.97%
Rikard, Akhtarzand	1.01%
Christoffer, Bergfors	1.01%

Companies named in this report

Auriant, Highland Gold, Norilsk Nickel, China National Gold Group, KazZinc.

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