

16 June 2008

GMA Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	6.3	(2.4)	(1.17)	0.0	N/A	N/A
12/06	3.9	(2.8)	(0.66)	0.0	N/A	N/A
12/07e	4.6	(8.0)	(1.74)	0.0	N/A	N/A
12/08e	16.0	(6.9)	(1.41)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Production update

After an encouraging start to the year, GMA Resources today announced that its operations at Amesmessa have been adversely affected by a lack of access to explosives for blasting. Despite requiring a quota of 80 tonnes per month (arriving at a frequency of every two weeks), GMA has had only one 40t delivery of explosives since 25 April, with the result that production has fallen back, as the company has been unable to generate ore for its leach pads. Given this shortfall, we now expect GMA Resources to record a loss in 2008, compared with previous expectations of a small profit.

Nevertheless overall appreciation of project unaffected

While this is disappointing in the short term, the history of GMA Resources has been one of overcoming significant logistical obstacles in south Algeria, of which this is merely the latest example. As a result, this disruption to production has done little to alter our overall valuation of the company or our assessment of the quality of the Amesmessa mine or the prospectivity of the surrounding desert.

Explosives deliveries expected to recommence imminently

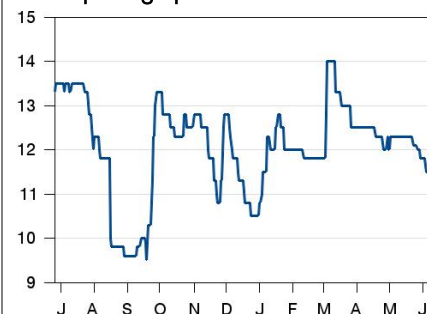
At the same time, after the intervention of the Minister of Energy and Mines, the Algerian state-run explosives company, ONEX, has already delivered a further shipment of explosives to GMA, with further shipments promised for later this month and in July.

Valuation: Shares at 39% discount to DCF valuation

As a result of the production shortfall, we expect net debt to peak this year at just over £18m – albeit this is within the company's ability to finance. Thereafter, assuming that the explosives supply problems are overcome and that operations at the mine return to normal, we expect earnings to ultimately rise to c 3p per share, with net debt being paid off by the end of 2010. Assuming a (conservative) 10-year mine life, we calculate that the discounted value of the company's cash flows to investors amounts to 16p per share at a 10% discount rate and a flat (real) gold price of US\$900/oz.

Price 11.5p
Market Cap £41m

Share price graph



Share details

Code GMA
Listing AIM
Sector Mining
Shares in issue 354.4m

Price

52 week High 14.5p Low 9.4p

Balance Sheet as at 31 December 2006

Debt/Equity (%) 35
NAV per share (p) 4.5
Net borrowings (£m) 4.5

Business

GMA owns a controlling 52% stake in ENOR, the Algerian operating company for the Tirek-Amesmessa gold project, comprising a heap leach mine and 1,417sqkm of exploration acreage.

Valuation

	2006	2007e	2008e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	13.0	14.8	4.7
ROE	N/A	N/A	N/A

Revenues on geography

UK	Europe	US	Other
0%	0%	0%	100%

Analyst

Charles Gibson 020 3077 5724
cgibson@edisoninvestmentresearch.co.uk

Explosives issue disappointing, but not a crisis

The shortfall in production in 2008 as a result of the difficulty GMA has had in procuring explosives is disappointing in terms of newsflow. However, the history of GMA Resources has been one of overcoming significant logistical obstacles in south Algeria, of which this is merely the latest example. As a result, this disruption to production has done little to alter our overall valuation of the company or our assessment of the quality of the Amesmessa mine or the prospectivity of the surrounding desert.

Explosives

At its base, the essential problem concerning GMA's explosives problems is the fact that it is 2,500km from Algiers with a difficult supply chain across the desert. The operations are approximately 60km from the border of Mali, and northern Mali has proved to be a less than stable region recently. In addition, it is difficult to import explosives into Algeria. The country's production of explosives is projected to be less than 20,000 tonnes. GMA's intended use of close to 150 tonnes per month by 2009 therefore equates to approximately 9% of the country's entire proposed production. Moreover, the only explosives currently available are ANFO style and not the more modern emulsion products. Finally, the explosives need to be transported to the mine by escort through three different wilayas (provinces). Nevertheless, GMA is encouraged by the fact that ONEX has announced that it is building a facility to produce emulsion and that it should be operational later this year. This will be safer and easier to handle than the current ANFO.

In mitigation of some of the supply chain issues, ENOR (GMA's majority-owned, local operating subsidiary) is building an airstrip at Amesmessa with two runways – one of 2,200 metres, and the other of 1,400 metres – which could support heavier transport planes and supersede the small strip at Tirek. ENOR has also built a 300 tonnes explosives magazine which should be certified as operational in the next few weeks.

GMA received a delivery of 40 tonnes of explosives from ONEX last week. In the immediate future, GMA has been promised a delivery of a further 40 tonnes of explosives in seven days' time, on 23 June, and a further 300 tonnes in July once the new explosives magazine is approved by the government.

Operations

Since hard-rock at Amesmessa occurs just two metres below surface, the absence of explosives for over a month has had a serious impact on operations. Under the mining plan, 90,000t (or approximately two months of production) of low grade ore was stockpiled, with the intention of blending it with higher grade run-of-mine or as and when conditions required. In the absence of any blasting, the company has therefore been able to continue to feed its leach pads with this ore only. As a result, instead of production continuing to ramp up to 4,000oz per month as planned, it has instead fallen off in the last two months from 1,196oz in January, 1,929oz in February and 2,781oz in March to 2,000oz in April and only 1,327oz in May. Given that production of approximately 3,000oz per month is required for the operation to break even financially, it is

therefore likely the mine has been operating at a loss for the first five months of the year and is likely to continue to do so for June and July as well.

Outlook

Despite the problem with explosives availability, leaching is reported to be progressing well and a second leach pad has been readied in record time, with a third now under construction. In addition, a second water pipeline to the mine is well underway, with 18km out of a total of 62km completed, meaning that water will no longer need to be trucked to site. As long as explosives are delivered as promised therefore, management is confident of reaching a production rate of 5,000oz per month by September.

In the longer term, the existing plant is capable of achieving a production rate of 72,000oz per year. This has the potential to increase to 8,000oz per month with an increase in crusher capacity, which is the subject of an ongoing study. In addition, the Tirek CIL plant (which was suspended in 2007 while the company determines whether or not it can be operated economically) has the potential to produce a further 15,000–20,000oz per annum. Ultimately, future plans at Tirek will be determined by exploration results.

Exploration

At the same time that production has been affected by a lack of explosives, exploration activities have been frustrated by local bureaucracy. As a result, there is no drilling currently underway in GMA's lease area. Nevertheless, exploration is continuing in the form of trenching and sampling, with approximately 13,000 samples having been taken from In Ouzzal and In Allarene South.

Financials

Compared with our previous expectation of a small profit in 2008, the shortfall in production at Amesmessa, as a result of GMA's explosives tribulations, will instead mean that the company will be both loss-making and cash flow negative in the current financial year. Coming at a time of continuing capital expenditure, we estimate this will result in net debt rising to a peak of just over £18m by the end of this year, pushing the company's gearing to over 200%. While high, this nevertheless remains within the company's ability to finance in the aftermath of its recent convertible issue.

The absence of meaningful resource figures for the company means that it is difficult to put a value on the company. However, a recent trip out to the operations by Edison confirmed that the Tirek-Amesmessa project area is highly prospective with many outcrops containing visible gold, leading us to conclude that (in the normal course of events) operations should easily be sustained until at least 2017. On this basis alone, we calculate that the discounted value of the company's future cash flows to investors is worth 16p per share at a flat, real gold price of US\$900/oz and discount rate of 10%.

Exhibit 1: Financials

Year end 31 December	£'000	2005	2006	2007e	2008e	2009e
		UK GAAP	UK GAAP	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		6,346	3,943	4,600	15,963	27,275
Cost of Sales		(8,189)	(5,457)	(7,958)	(17,923)	(15,196)
Gross Profit		(1,843)	(1,514)	(3,358)	(1,960)	12,080
EBITDA		(935)	(1,676)	(4,658)	(3,260)	10,780
Operating Profit (before GW and except.)		(2,302)	(2,784)	(7,112)	(5,884)	7,987
Intangible Amortisation		(453)	(457)	(648)	0	0
Exceptionals		0	0	0	0	0
Other		0	0	0	0	0
Operating Profit		(2,755)	(3,241)	(7,760)	(5,884)	7,987
Net Interest		(137)	(39)	(900)	(1,047)	(1,728)
Profit Before Tax (norm)		(2,439)	(2,823)	(8,012)	(6,931)	6,259
Profit Before Tax (FRS 3)		(2,892)	(3,280)	(8,660)	(6,931)	6,259
Tax		0	0	0	0	(1,878)
Profit After Tax (norm)		(2,439)	(2,823)	(8,012)	(6,931)	4,381
Profit After Tax (FRS 3)		(2,892)	(3,280)	(8,660)	(6,931)	4,381
Average Number of Shares Outstanding (m)		147.3	301.6	335.8	369.4	384.4
EPS - normalised (p)		(1.2)	(0.7)	(1.7)	(1.4)	0.9
EPS - FRS 3 (p)		(1.5)	(0.8)	(1.9)	(1.4)	0.9
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		(29.0)	(38.4)	(73.0)	(12.3)	44.3
EBITDA Margin (%)		(14.7)	(42.5)	(101.3)	(20.4)	39.5
Operating Margin (before GW and except.) (%)		(36.3)	(70.6)	(154.6)	(36.9)	29.3
BALANCE SHEET						
Fixed Assets		7,900	18,486	28,846	27,914	26,814
Intangible Assets		1,103	648	0	0	0
Tangible Assets		6,797	17,838	28,846	27,914	26,814
Investments		0	0	0	0	0
Current Assets		11,843	11,860	4,837	2,642	4,515
Stocks		2,622	1,792	657	1,330	2,273
Debtors		613	2,591	378	1,312	2,242
Cash		8,608	7,477	3,801	0	0
Current Liabilities		(5,725)	(6,152)	(5,017)	(5,955)	(5,283)
Creditors		(3,621)	(4,001)	(2,913)	(5,419)	(4,747)
Short term borrowings		(2,104)	(2,151)	(2,104)	(536)	(536)
Long Term Liabilities		(237)	(9,810)	(18,157)	(17,568)	(15,502)
Long term borrowings		(237)	(9,810)	(18,157)	(17,568)	(15,502)
Other long term liabilities		0	0	0	0	0
Net Assets		13,781	14,384	10,509	7,034	10,544
CASH FLOW						
Operating Cash Flow		(1,015)	(2,214)	(2,198)	(2,361)	8,235
Net Interest		(137)	(39)	(900)	(1,047)	(1,728)
Tax		0	0	0	0	(1,878)
Capex		(1,334)	(10,112)	(10,654)	(1,692)	(1,692)
Acquisitions/disposals		0	0	0	0	0
Financing		8,641	4,846	4,585	3,456	(871)
Dividends		0	0	0	0	0
Net Cash Flow		6,155	(7,519)	(9,167)	(1,644)	2,066
Opening net debt/(cash)		(112)	(6,267)	4,484	16,459	18,104
HP finance leases initiated		0	(3,232)	(2,808)	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(6,267)	4,484	16,459	18,104	16,038

Source: Edison Investment Research/company accounts

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
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