

## Australian Equity Research

8 May 2017

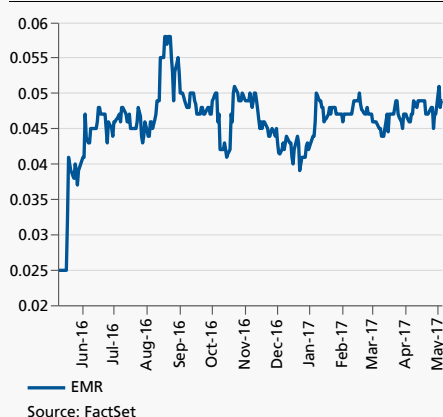
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## SPECULATIVE BUY

PRICE TARGET	A\$0.08
Price (5-May)	A\$0.05
Ticker	EMR-ASX

52-Week Range (A\$):	0.03 - 0.06
Avg Daily Vol (M) :	1.2
Market Cap (A\$M):	105
Shares Out. (M) :	2,108.0
Net Debt (Cash) (A\$M):	(10.7)
Enterprise Value (A\$M):	94.7
Cash (A\$M):	10.7
Long-Term Debt (A\$M):	0.0
NAV /Shr (AUc):	0.08
NAV /Shr (5%) (A\$):	0.10
Major Shareholders:	Management Ingalls & Snyder Confederate Capital



Priced as of close of business 5 May 2017

Emerald Resources (EMR:ASX) is a gold development and exploration company developing its Okvau gold project in Cambodia. A recent Feasibility Study demonstrated the potential for the project to become a +100kozpa, low cost operation with +7 year mine life. EMR is managed by a well-regarded ex-Equigold team which has developed and operated projects in Australia and overseas.

## Initiation of Coverage

## Crown jewel

We are initiating coverage of Emerald Resources with a SPEC BUY rating and A\$0.08 target price. Emerald Resources (EMR:ASX) is a gold development and exploration company with key assets in Cambodia. The company is spearheaded by ex-Equigold and Regis (RRL:ASX: A\$3.19 | HOLD) Executive Morgan Hart, who has consolidated a high-calibre technical team. A recent Definitive Feasibility Study (DFS) on the Okvau gold project highlighted the quality of the asset and its potential to deliver 106kozpa @ AISC US\$731/oz with a mine life of 7.2 years. Against a backdrop of diminishing quality of undeveloped gold projects on the ASX, we believe EMR offers a rare combination of a well-regarded management team with high ownership (~30%) and a high margin asset.

**Okvau highlights.** EMR recently delivered a DFS on the project, incorporating additional drilling, geotechnical and metallurgical work. Highlights include:

- A maiden Reserve of 907koz @ 2.0g/t
- Gold-only operation featuring stacked lodes from a single open pit
- A modest stripping ratio of ~5.7:1
- Competitive pre-production capex of US\$98m and AISC US\$731/oz
- Current mine life of 7.2 years with tangible upside

**Significantly de-risked.** EMR has further de-risked the project through additional technical work:

- The top ~120m has been in-fill drilled to ~25m x 25m spacing, beyond the requirement for an Indicated Resource, providing enhanced confidence during the first ~3 years of the operation.
- Internal/external dilutions and ore loss have been factored into the MIK Resource model, resulting in a head grade of 2.0g/t, which we consider prudent to compensate for the shallower dips of the orebody.
- Further metallurgical work confirmed a viable processing route through the flotation, regrind, CIL circuit to deliver an average recovery of ~84%.

**The gold team.** EMR has consolidated a proven development and operational team, comprising key technical personnel from Equigold (now Newcrest) and Regis. The team has an excellent reputation for building projects cheaply (e.g. Bonikro, Duketon) and superior operational delivery, even when the underlying assets are considered modest.

**Exploration upside.** Okvau is classified as an Intrusive Related Gold Systems deposit. These systems are responsible for the formation of multi-million ounce deposits in better explored belts (e.g. Tintina Gold Belt in Alaska). Whilst modern gold exploration in the project region is at an early stage, Okvau exhibits classic IRGS geochemical signatures and formed under similar geological environment in terms of age and host rocks. Systematic exploration effort is likely to be rewarded, given the prospectivity and under-explored nature of the tenements.

## Valuation

Our A\$0.08 price target is based on 1x NPV<sub>10%</sub> for the operating assets net of corporate and other adjustments.

## FINANCIAL SUMMARY

Emerald Resources NL

ASX:EMR

Analyst: Patrick Chang  
Date: 5/05/2017  
Year End: June

Rating:  
Target Price:

**SPEC BUY**  
**\$0.08**

### Market Information

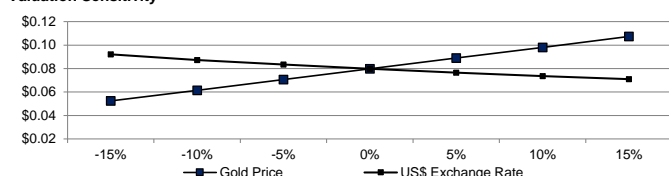
Share Price	A\$	0.05
Market Capitalisation	A\$m	105.4
12 Month Hi	A\$	0.06
12 Month Lo	A\$	0.03
Average daily turnover (3 month)	m	1.22
Issued Capital	m	2108
Options	m	63.62
Fully Diluted	m	2172

### Valuation diluted for funding

	A\$m	A\$/share	
Okvau	NPV @ 10%	170.0	0.05
Exploration & Projects		63.3	0.02
Corporate	(24.2)	(0.01)	
Forwards (inc spot deferred)	-	-	
Cash & Bullion	10.7	0.00	
Project funding	76.8	0.02	
Debt	-	-	
Unpaid Capital	-	-	
<b>TOTAL NAV</b>	<b>296.6</b>	<b>0.08</b>	
Price:NAV		0.62	
NAV at Spot US\$1,233/oz, AUDUSD \$0.74		0.06	
<b>Target Price</b>		<b>0.08</b>	

Assumptions	2016a	2017e	2018e	2019e
Gold Price (US\$/oz)	1,168	1,254	1,259	1,284
AUD:USD	0.736	0.754	0.757	0.755
Gold Price (A\$/oz)	1,586	1,663	1,663	1,702

### Valuation Sensitivity



Production Metrics (attributable)	2016a	2017e	2018e	2019e
<b>Okvau</b>				
Gold production (koz)	0	0	0	37
AISC (A\$/oz)	0	0	0	1,106

### Resources & Reserves (50% basis)

	Mt	Grade	Moz	
<b>Resources - Okvau</b>				
Measured	-	-	-	
Indicated	15.1	2.1	1.0	
Inferred	2.6	1.6	0.1	
<b>Resources</b>	<b>TOTAL</b>	<b>17.7</b>	<b>2.0</b>	<b>1.1</b>
<b>Reserves - Okvau</b>				
Proved	-	-	-	
Probable	14.3	2.0	0.9	
<b>Reserves</b>	<b>TOTAL</b>	<b>14.3</b>	<b>2.0</b>	<b>0.9</b>

### Directors & Management

Name	Position
Simon Lee AO	Non-Executive Chairman
Morgan Hart	Managing Director
Justin Tremain	Executive Director
Ross Stanley	Non-Executive Director
Ross Williams	Non-Executive Director

### Substantial Shareholders

	Shares (m)	%
Management	632.39	30.0%
Ingalls & Snyder	168.64	8.0%
Confederate Capital	105.40	5.0%

Source: EMR & Canaccord Genuity estimates

### Company Description

Emerald Resources (EMR:ASX) is a gold development and exploration company developing its Okvau gold project in Cambodia. A recent Feasibility Study demonstrated the potential for the project to become a +100kozpa, low cost operation with +7 year mine life. EMR is managed by a well-regarded ex-Equigold team that has developed and operated projects in Australia and overseas.

Profit & Loss (A\$m)	2016a	2017e	2018e	2019e
<b>Revenue</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>63.8</b>
Operating Costs	-0.8	0.0	0.0	-31.6
Royalties	0.0	0.0	0.0	-2.6
Corporate & O'heads	0.0	-6.0	-6.0	-6.0
Exploration (Expensed)	0.0	-4.8	-4.8	-4.8
<b>EBITDA</b>	<b>-0.7</b>	<b>-10.8</b>	<b>-10.8</b>	<b>18.8</b>
Dep'n	0.0	0.0	0.0	-8.2
<b>EBIT</b>	<b>-0.7</b>	<b>-10.8</b>	<b>-10.8</b>	<b>10.6</b>
Net Interest	0.5	0.2	-0.6	-3.6
Tax	0.0	0.0	0.0	-4.2
<b>NPAT</b>	<b>-0.3</b>	<b>-10.6</b>	<b>-11.4</b>	<b>2.8</b>
Abnormals	0.0	0.0	0.0	0.0
<b>NPAT (reported)</b>	<b>-0.3</b>	<b>-10.6</b>	<b>-11.4</b>	<b>2.8</b>

Cash Flow (A\$m)	2016a	2017e	2018e	2019e
<b>Cash Receipts</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>63.8</b>
Cash paid to suppliers & employ	-0.5	-6.0	-6.0	-40.1
Tax Paid	0.0	0.0	0.0	-4.2
Net Interest	0.5	0.2	-0.6	-3.6
<b>Operating Cash Flow</b>	<b>-0.0</b>	<b>-5.8</b>	<b>-6.6</b>	<b>15.8</b>
Exploration and Evaluation	-0.5	-6.0	-6.0	-6.0
Capex	-0.0	0.0	-106.8	-30.3
Other	-5.5	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>-5.9</b>	<b>-6.0</b>	<b>-112.8</b>	<b>-36.3</b>
Debt Drawdown (repayment)	0.0	0.0	77.0	-5.0
Share capital	0.0	76.8	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.3	-3.8	0.0	0.0
Others	0.0	3.5	0.0	0.0
<b>Financing Cash Flow</b>	<b>-0.3</b>	<b>76.4</b>	<b>77.0</b>	<b>-5.0</b>
Opening Cash	18.0	11.7	76.4	34.0
Increase / (Decrease) in cash	-6.2	64.6	-42.4	-25.5
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>11.7</b>	<b>76.4</b>	<b>34.0</b>	<b>8.5</b>

Balance Sheet (A\$m)	2016a	2017e	2018e	2019e
Cash + S/Term Deposits	11.7	76.4	34.0	8.5
Other current assets	6.4	10.5	0.4	21.1
<b>Current Assets</b>	<b>18.1</b>	<b>86.9</b>	<b>34.4</b>	<b>29.6</b>
Property, Plant & Equip.	0.0	0.0	106.8	128.9
Exploration & Develop.	0.5	1.7	2.9	4.1
Other Non-current Assets	0.6	0.6	0.6	0.6
Payables	0.4	0.1	0.5	5.1
Short Term debt	0.0	0.0	5.0	40.0
Long Term Debt	0.0	0.0	72.0	32.0
Other Liabilities	0.0	4.2	-6.3	9.7
<b>Net Assets</b>	<b>18.8</b>	<b>84.9</b>	<b>73.5</b>	<b>76.3</b>
Shareholders Funds	50.8	127.5	127.5	127.5
Reserves	3.2	3.2	3.2	3.2
Retained Earnings	-35.2	-45.8	-57.2	-54.4
<b>Total Equity</b>	<b>18.8</b>	<b>84.9</b>	<b>73.5</b>	<b>76.3</b>

Ratios & Multiples	2016a	2017e	2018e	2019e
EBITDA Margin	nm	nm	nm	30%
EV/EBITDA	nm	nm	nm	9.0x
Op. Cashflow/Share	\$0.00	\$0.00	\$0.00	\$0.01
P/CF	nm	nm	nm	nm
EPS	-\$0.01	-\$0.01	-\$0.01	\$0.00
EPS Growth	nm	nm	nm	-124%
PER	nm	nm	nm	nm
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-1%	-12%	-15%	4%
ROIC	-1%	-8%	-5%	4%
Debt/Equity	0%	0%	98%	42%
Net Interest Cover	nm	nm	-6.1x	2.8x
Book Value/share	\$0.01	\$0.04	\$0.03	\$0.04
Price/Book Value	3.5x	1.2x	1.4x	1.4x
EV/FCF	nm	nm	nm	nm

## Valuation

Our fully diluted price target of A\$0.08 is based on a 1x forward curve NPV<sub>10%</sub> for EMR's development assets, and valuation ascribed to exploration assets, net of corporate and other adjustments.

All earnings and cashflow forecasts are based on our production modelling, and the commodity price and FX assumptions outlined in Figure 2. Based on our model assumptions for a development scenario at Okvau, we estimate an IRR of ~38% and a payback period of ~32 months.

**Figure 1: CG Net-Asset-Valuation for EMR**

Valuation diluted for funding		A\$m	A\$/share
Okvau	NPV @ 10%	170.0	0.05
Exploration & Projects		63.3	0.02
Corporate		(24.2)	(0.01)
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Price:NAV			0.62
NAV at Spot US\$1,233/oz, AUDUSD \$0.74			0.06
<b>Target Price</b>			<b>0.08</b>

Source: Canaccord Genuity estimates

**Figure 2: Gold price and US\$/AUD\$ assumptions**

	2016a	2017e	2018e	2019e	Long term
Gold Price (US\$/oz)	1168	1254	1259	1284	1382
AUD:USD	0.74	0.75	0.76	0.75	0.75

Source: Canaccord Genuity estimates

### Okvau Gold Project - Development scenario

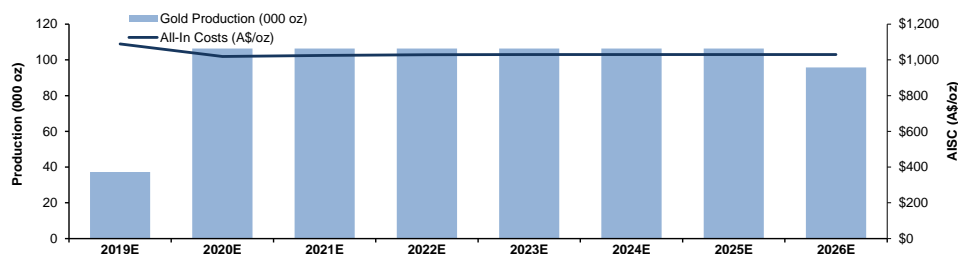
Given the demonstrated economics and management's track record of project delivery, we expect EMR to develop Okvau on a stand-alone basis, utilising in-house personnel and a number of external consultants and contractors.

The company could contemplate a conventional debt / equity mix for project funding. Our funding assumptions are discussed on page 5.

**Production scenario**

We have modelled total production of 771koz (v Okvau DFS of 762koz) over a 7-year period, averaging 103koz p.a. Our modelling assumes the production from a single, staged open pit. As the open pit is subject to further optimisation, we have assumed a flat grade / tonnage profile over the LOM.

In addition to the state royalty, we have factored in a 1.5% third-party royalty to OZ Minerals (OZL:ASX : A\$6.34 | SELL), capped at A\$22.5m.

**Figure 3: Okvau LOM modelled production and cost assumption**

Source: Company Reports, Canaccord Genuity estimates

Other key project assumptions are shown in Figure 4 below.

**Figure 4: Key physical assumptions**

Key assumptions (100% basis)		EMR FS	CG assumption
Recovered gold	koz	762	771
Capex required	US\$m	98	100
Sustaining capex LOM	US\$m	23	28
Processing rate	Mtpa	2.0	2.0
Head grade (LOM)	g/t	2.0	2.0
Recoveries	%	84%	84%
LOM production (average)	kozpa	106	103
LOM AISC	US\$/oz	731	771
Mine Life		7.2	7.2
OP strip ratio	:	5.7	5.7

Source: Company Reports, Canaccord Genuity estimates

Potential upside to our modelled scenario could include:

- Additional mineralisation at depth via further open pit cut-backs
- Potential for underground production
- Near-mine discovery/ies resulting in satellite feed options
- More favourable fiscal terms achieved through the signing of a fiscal stability agreement with the Cambodian Government
- Better-than-expected reconciliation due to conservative modelling and detailed grade control practices

To reflect this upside potential, we factor in an additional A\$63m (~1x annual FCF) in exploration and projects.

**Funding and capital structure assumptions**

We have factored in a total of A\$163m in capex and working capital required to bring the project to positive cash flow in FY19, and concurrently progress EMR's regional exploration pipeline.

The company's existing cash of A\$10m constitutes 6% of this mix. The additional requirements are modelled on a 50:50 debt equity split. The project could potentially carry more debt, and our conservative modelling reflects the company's first mover status in Cambodia.

We assume the equity raising is completed at A\$0.048 in FY17, which would result in 1,600m additional shares being issued.

**Figure 5: Funding and Capital structure assumptions**

	A\$m	Shares (m)
Project funding and Working Capital	163	
<b>Funding</b>		
Existing cash	10	
Dect facilities	77	
Additional Equity	77	
<b>Capital structure</b>		
Existing shares		2108
Post equity funding		3707

Source: Canaccord Genuity estimates

**Sensitivity on Capex and funding assumptions**

Sensitivities to +/- 20% changes in capex, debt/equity ratio and assumed equity raising price are presented below.

**Figure 6: NAV/share sensitivity on capex and funding assumptions**

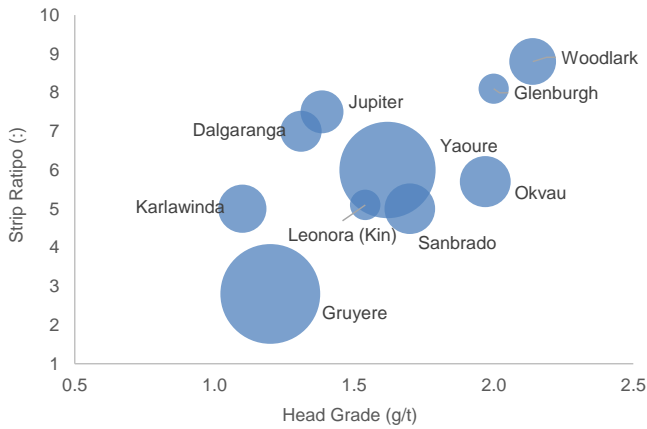
	-20%	-10%	0%	10%	20%
Capex	0.085	0.082	0.080	0.077	0.075
Debt (%)	0.075	0.077	0.080	0.083	0.087
Equity raising price (@4.8c)	0.072	0.076	0.080	0.083	0.086

Source: Canaccord Genuity estimates

# Peer Comparison

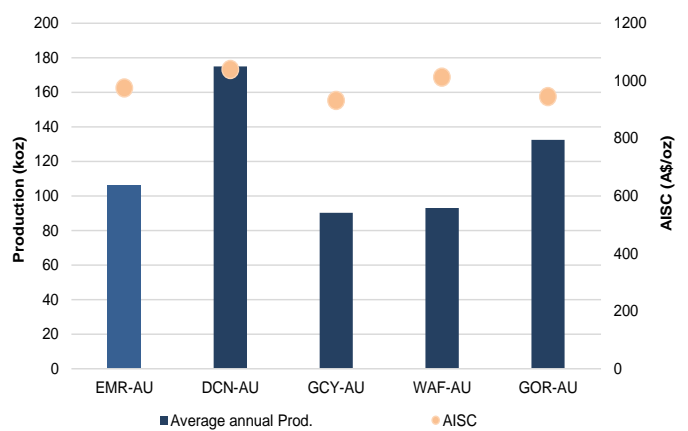
On an asset basis, when compared to ASX open pit gold development assets, Okvau compares well against peer projects with its modest strip and higher grades. The asset is also competitive in terms of mine life and AISC.

**Figure 7: Strip ratio vs head grade, project comparison**



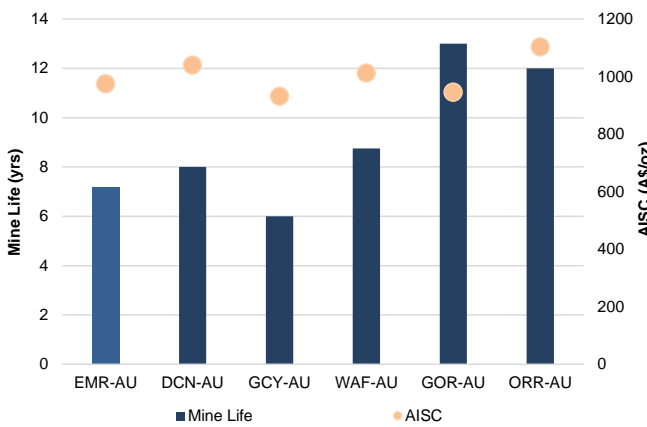
Source: Company Reports, Canaccord Genuity estimates

**Figure 8: Production v AISC**



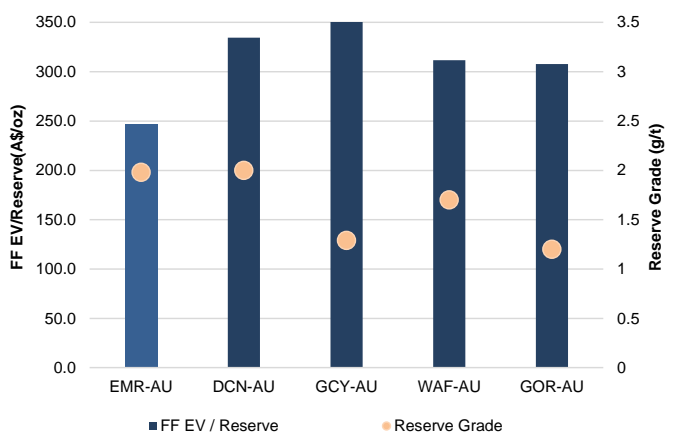
Source: Company Reports, Canaccord Genuity estimates

**Figure 9: Mine life v AISC**



Source: Company Reports, Canaccord Genuity estimates

**Figure 10: FF EV / Reserves**



Source: Company Reports, Canaccord Genuity estimates

EMR is trading at a discount on a Fully-Funded (FF) EV / Reserves basis against peers, despite having superior grades. In addition, we note management’s track record which could to translate to lower development and commissioning risks.

## Corporate & Finance

### Balance sheet and hedging

The company had a cash balance sheet of A\$10.7m and nil debt at 31<sup>st</sup> Mar'17 and remains unhedged. However, we expect the company to secure some form of hedging as part of the project financing.

### Funding requirement

Exploration, evaluation, development and administration costs are estimated at A\$1.5m in JunQ'17. The funding requirement for Okvau development is estimated at US\$98m, which we expect to be funded via a conventional debt and equity mix, as discussed in the previous section.

### Register and capital structure

EMR currently has ~2.1b shares on issue as a legacy of previously being a “shell” company. We expect the company to consider share consolidations in due course.

Figure 11 shows the distribution of the company's shareholding. Management owns ~30%, with the remaining owned by Institutional Investors (~15%) and Retail and High Net worth Investors (~55%).

Figure 11: EMR share register



Source: Company Reports

### Other projects

EMR has a 5% royalty interest in all potential future gas production from various oil and gas leases in Magoffin County, Kentucky.

## Company Background

EMR is an Australia-based gold exploration and development company with key assets in Cambodia. The company acquired these assets through a JV and subsequently a merger with Renaissance Minerals (RNS) in 2016. The flagship project, Okvau, is an ex-OZ Minerals asset, which was relatively advanced with:

- An open pit Reserve of 907koz @ 2.0g/t
- A DFS which was recently completed and demonstrated the potential for a 106koz @ AISC US\$731/oz for 7.2 years of operation

Significant milestones expected in the coming months include securing the necessary environmental and mining permits, project funding, as well as the signing of a fiscal stability agreement (Mineral Investment Agreement) with the Cambodian government.

**Figure 12: Project location**



Source: Company Reports

### Proven management

The board and management own ~30% of EMR and comprise ex-Equigold executives with demonstrated ability to develop and operate operations in Australia and frontier jurisdictions (e.g. Bonikro, Ivory Coast in 2008).



## Asset Overview: Okvau (100% owned)

### Background

A local prospector discovered the Okvau deposit in 2006. Oxiana, now OZ Minerals (ASX-OZL : A\$6.34 | SELL), entered into a JV agreement with its local partner Shin Ha in 2006, and progressed the project to an estimated Resource of 729koz @ 1.8g/t (Indicated and Inferred).

RNS subsequently acquired the assets from OZL which settled in May 2012. The assets comprised the Okvau deposit and a 1,100km<sup>2</sup> tenement package. The main licences (Okvau and O Chhung) are held 100%. OZL was understood to have spent ~\$38m on the project, before exiting Cambodia. The majority of the vendor cash payments to OZL have been made / settled, with the remaining vendor consideration being a 1.5% royalty to OZL (capped at A\$22.5m). The non-core assets outside Okvau and O Chhung have been relinquished by RNS.

EMR acquired the assets through a JV and subsequently a merger with RNS which was completed in 2016.

### Okvau DFS highlights

EMR recently completed a DFS at Okvau, incorporating additional drilling, metallurgical and geotechnical work. Key highlights include:

- A maiden Reserve of 907koz @ 2.0g/t
- Gold-only operation featuring stacked lodes from a single, staged open pit
- A modest stripping ratio of ~5.7:1
- Pre-production capex of US\$98m and AISC US\$731/oz
- Current mine life of 7.2 years

### Geology, Resources and Reserves

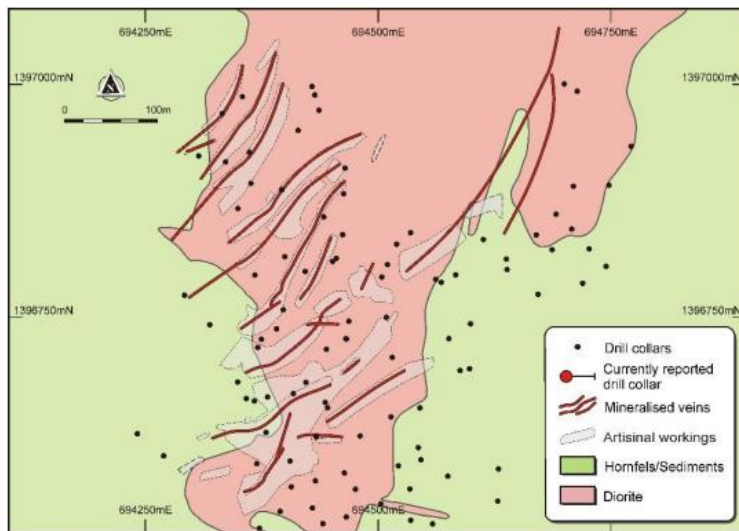
The geology of NE Cambodia features a series of flat-lying and folded sedimentary units of the Kontum Massif, intruded by a suite of granitic and dioritic intrusions. Gold mineralisation in the project area is interpreted to be associated with these intrusive bodies, in a style of deposit known as an Intrusive Related Gold System (IRGS).

IRGS is a relatively newly identified style of mineralised system generally characterised by a spatial association with granitic intrusives and specific metal assemblages. Okvau exhibits this classic geochemical signature including gold, bismuth, arsenic and tellurium. Specific styles of gold mineralization associated with IRGS include sheeted veins and stockworks, breccias, skarns and disseminated deposits. Analogies of such style of deposit include the Tintina Gold Belt in Alaska, which plays host to several multi-million ounce deposits including Fort Knox (10 Moz), Donlin Creek (38 Moz) and Pogo (6 Moz).

Locally, gold is typically associated with sulphide (arsenopyrite, pyrrhotite, pyrite) bands in shallow, stacked lodes. Hydrothermal alteration is localised, similar to observations made in other IRGS deposits. There is negligible base metal content at Okvau. Gold is primarily hosted within a Cretaceous diorite unit, although some mineralisation does extend into the surrounding Triassic / Jurassic sandstone / siltstone (metamorphosed to hornfels). Gold is predominantly hosted in:

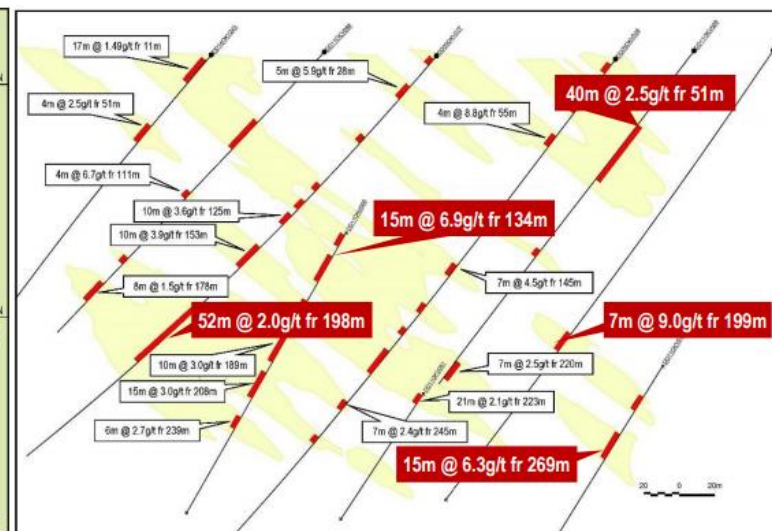
- NE-SW secondary brittle structures in between NW-SE shears
- Along the margins, particularly the SW margin of the diorite/sediment contact

**Figure 13: Okvau plan view**



Source: Company Reports

**Figure 14: Okvau cross section**



Source: Company Reports

The current Mineral Resource and Ore Reserve are presented below. The Resource area has been topographically surveyed to exclude depletion by historic shallow artisanal mining.

**Figure 15: Mineral Resource and Ore Reserve estimates**

<b>Resources - Okvau</b>				
Measured		-	-	-
Indicated		15.1	2.1	1.0
Inferred		2.6	1.6	0.1
<b>Resources</b>	<b>TOTAL</b>	<b>17.7</b>	<b>2.0</b>	<b>1.1</b>
<b>Reserves - Okvau</b>				
Proved		-	-	-
Probable		14.3	1.98	0.9
<b>Reserves</b>	<b>TOTAL</b>	<b>14.3</b>	<b>2.0</b>	<b>0.9</b>

Source: Company Reports

**Resources parameters**

The current Mineral Resource Estimate (MRE) is estimated by EGRM Consulting (Brett Gossage) using Multiple Indicator Kriging (MIK). The MIK model takes dilution (internal and external) and ore loss into consideration. This approach is, in our view, appropriate to reflect the shallow dipping nature of the lodes at Okvau. The MRE is based on 42.2km of drilling, ~74% of which is diamond drilling. A lower cut-off grade of 0.7g/t was used in the estimate based on DFS economic parameters.

The top ~120m has been drilled to a spacing of 25m x 25m, which is beyond normal requirement for Indicated Resource and Reserve estimates. While no Resources fall into the Measured Category, the enhanced data density supports the interpreted continuity of the mineralisation. In our view, this significantly de-risks the project in the first three years of the operation. Beyond this depth, the Resource drill spacing is predominantly 25m x 50m. The high drill density facilitated an MRE that is predominantly in the Indicated category, with a high Resource / Reserve conversion

rate of 90% (based on Indicated). A Selective Mining Unit (SMU) of 5m x 5m x 5m is used in the estimate.

### Reserve parameters

The Ore Reserve was estimated using a gold price of US\$1,250/oz and cut-off grade of 0.625g/t. No additional ore loss and dilution have been applied as they have been factored in to the Resource.

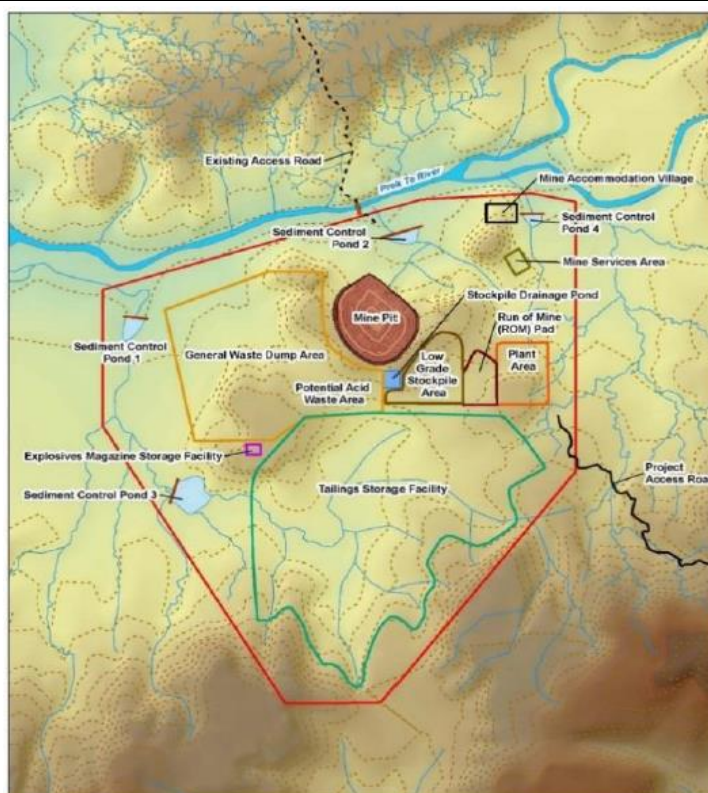
The current Reserve pit design has a maximum depth of 350m with a stripping ratio of 5.5:1. The Reserve was based on an overall pit wall slope of 52 degrees. Minimum mining width has not been applied but is reflected in the SMU in the Resource model, being 5m x 5m x 5m. No Inferred material reports to the Ore Reserve, although there is ~7koz in the optimised pit, which we have factored into our modelling.

### Open pit operations

The operation comprises a single, staged open pit, measuring ~650m x 600m x 350m. It is expected to be a conventional truck-and-shovel operation utilising contract mining. Technical inputs including mine schedules and grade control are expected to be carried out by EMR personnel. The mine is expected to utilise 5m benches and an average vertical advance rate of ~50m p.a. However, in the early years, we are assuming ~35m pa.

Further optimisation of open pit staging is ongoing. This is expected to ensure grade and other technical parameters, including sulphur content, are optimised in the mine and processing schedule, which is important for maximising metallurgical recoveries.

**Figure 16: Open pit and infrastructure layout**

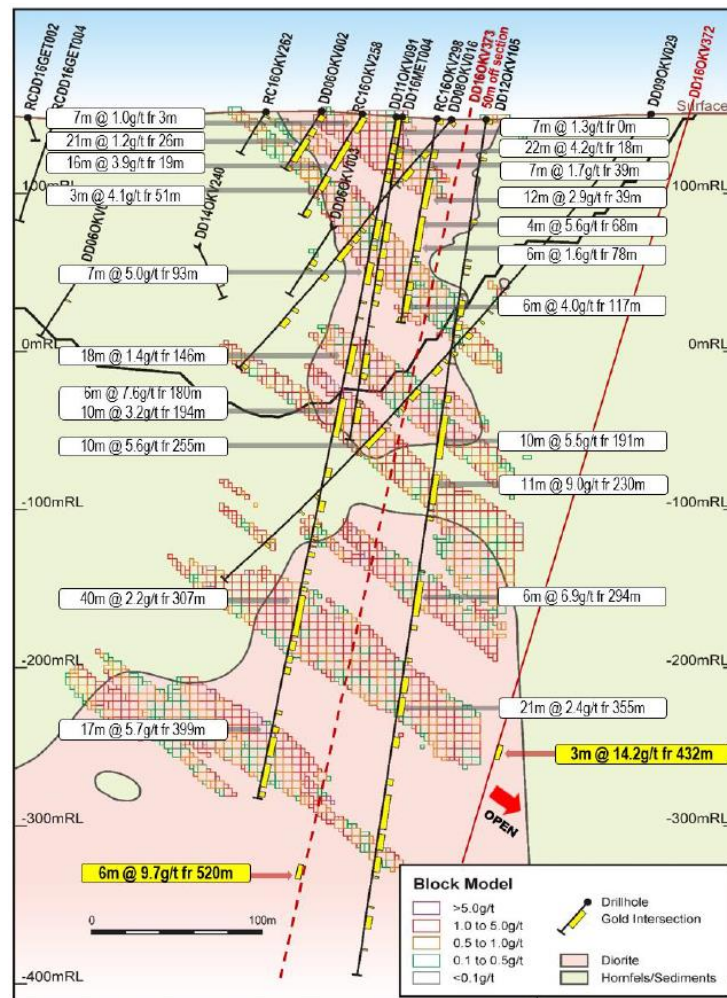


Source: Company Reports

**Potential further cut-backs and underground**

Significant mineralisation exists beneath the Reserve pit, which could translate to further cut-backs and longer life open pit, or a higher grade underground operation. There is also potential to delineate mineralisation along the more sparsely tested eastern contact, which could support an additional cutback.

**Figure 17: Okvau, high grade hits underneath the Reserve pit**



Source: Company Report

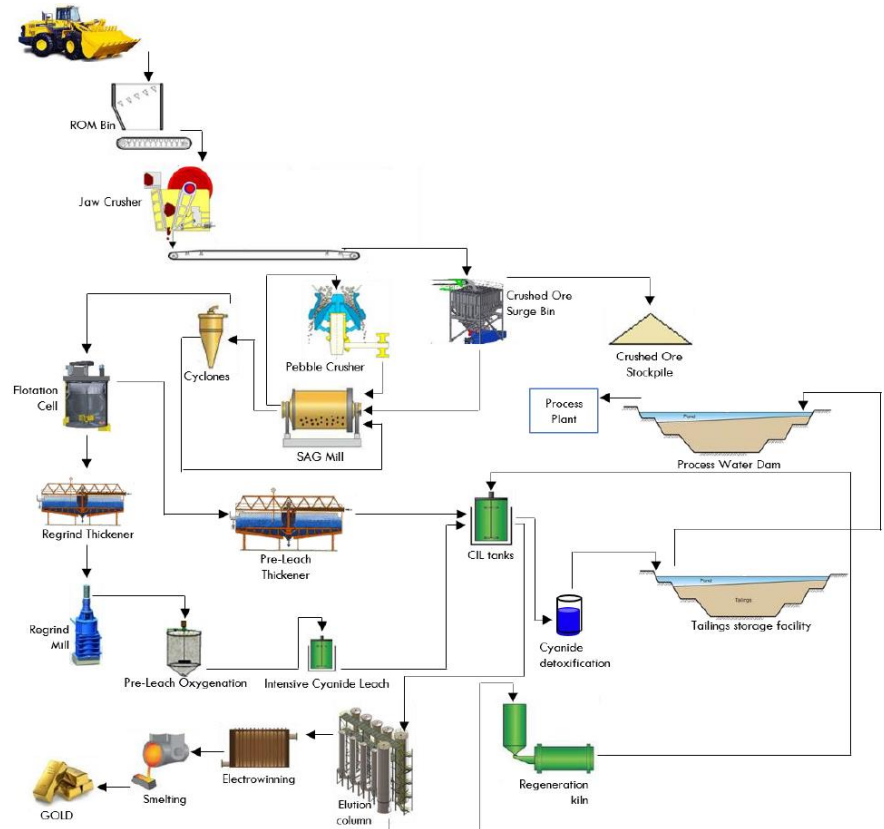
**Processing**

The 2.0Mtpa mill is planned to comprise a single stage jaw crusher, single SAG mill, a flotation and regrind circuit, and a conventional CIL circuit.

The primary grind size is expected to be relatively coarse at P80 106 µm. Regrind of the flotation concentrate (~8% of total ore volume) to P80 10 µm is carried out thereafter. While not yet prevalent, flotation / regrind technology is becoming increasingly common, and is featured in numerous operations within our coverage list, including Haile (OceanaGold [OGC:ASX : A\$4.24 | HOLD]), Edikan (Perseus Mining [PRU:ASX : A\$0.28 | Speculative Buy]) and Prominent Hill (OZL).

Average metallurgical recoveries are expected to be 84%. The ore is considered hard with a Ball Mill Work Index of 17.5kWh/t.

Figure 18: Proposed metallurgical flowsheet



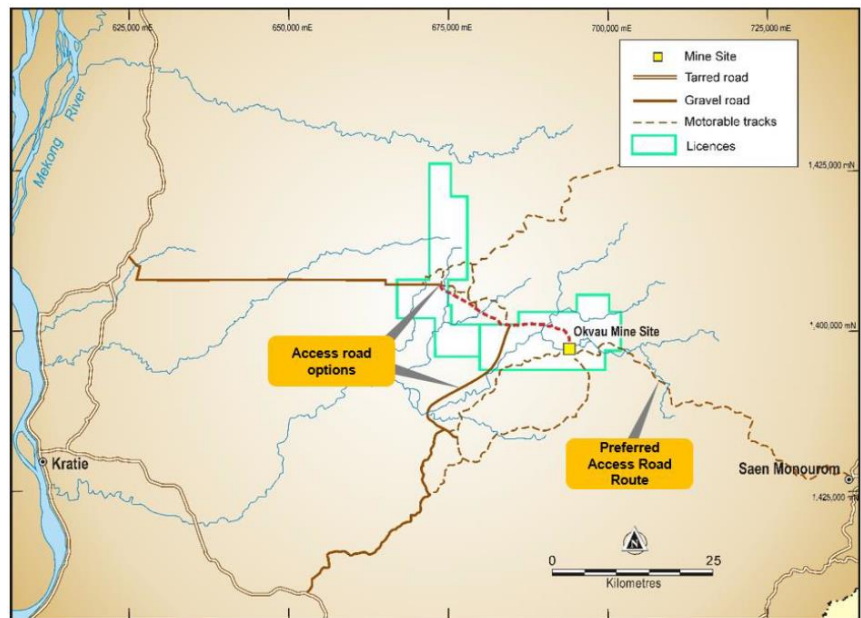
Source: Company Reports

### Infrastructure

The project location is remote and requires the construction of supporting infrastructure, including:

- Upgrades and extensions to the existing roads for site access. The preferred access is via Saen Monourom. Part of the road is being upgraded by the Cambodian government. On our estimate, EMR would need to widen 40km sections of this road and extend it by 20km to reach site.
- Water will be provided via a combination of water catchment, tailings decant and pit dewatering, with dry season supply supplemented from the nearby Prek Te River. The project is located in a moderate rainfall area ~2261mLpa which is expected to provide sufficient water.
- The project is expected to benefit from grid power. The Electricite du Cambodge (EDC) is rapidly expanding electricity coverage in Cambodia, and Kratie, ~80km west of Okvau, has been connected to grid power. It is understood that EDC intends to connect Saen Monourom (see Figure 19, next page) by extending power infrastructure from Kratie. This project is expected to see EMR being connected to grid by late CY18. As a contingency, EMR has completed a power supply study to construct an on-site diesel generator for the early years. The potential delay in grid connection by two years is expected to result in ~US\$5m pa additional opex.
- Supporting infrastructure, including tailings dam, helipad and an accommodation village will be constructed on site.

**Figure 19: Site access options**



Source: Company Reports

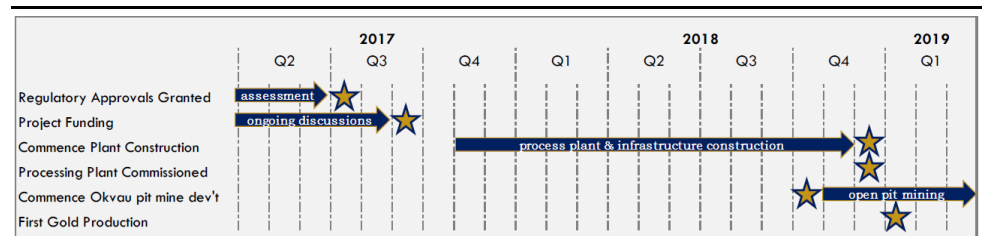
**Start-up capex**

The start-up capex assumption is US\$98m, comprising the treatment plant and associated infrastructure, earthworks, EPCM and owners’ costs, mining contractor mobilisation and pre-production mining costs. We note this includes resettlement costs for relocating 58 households, but excludes contingencies. We have factored in ~A\$20m in our financial assumptions.

**Pathway to production**

The project is advanced with a maiden Reserve and a DFS delivered. Additional milestones expected in the coming months include the securing of regulatory permits (Environmental and Mining), as well as a Fiscal Stability Agreement. Okvau is the first mining project owned by a foreign listed entity to go through the permitting process. As such, timing on permit grants is less certain.

**Figure 20: Development timing**



Source: Company Reports

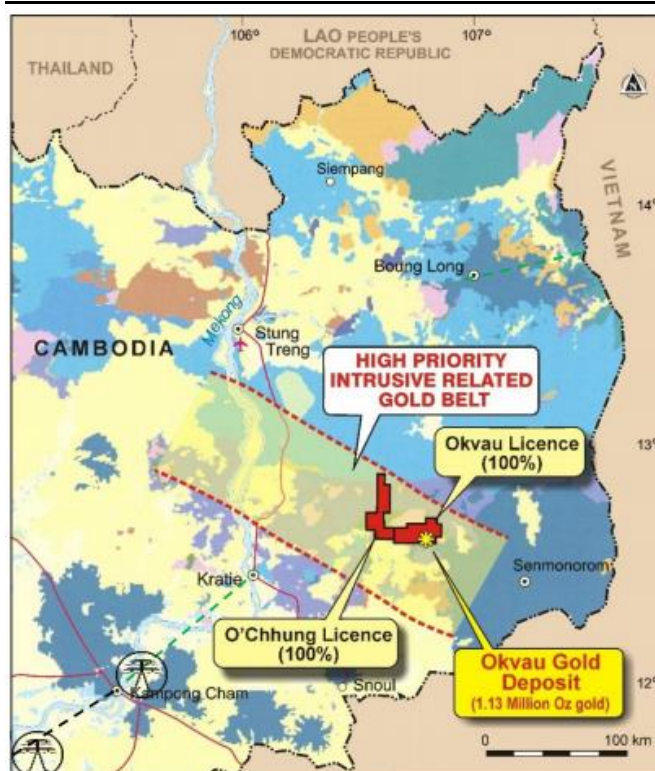
## Regional exploration

IRGS is significant in the global context, as such a system can host multi-million ounce deposits, including Donlin Creek (38Moz), Fort Knox (10Moz), Pogo (6Moz), and Livengood (20Moz). As such, the regional exploration potential around Okvau is considerable given the similar geological setting and the lack of systematic exploration. The widespread gold-in-soil anomalism throughout the tenements reinforces the potential for a large system and sizable deposits.

The newly identified Intrusive Related Corridor in Cambodia spans ~220km by 8km, within which 12 major intrusives and 20 minor intrusives have been mapped, some of which are elongated in an NE-SW orientation. Modern exploration within this belt is limited with the last systematic mapping done in the 1990s by Russian geologists.

Age dating suggests the mineralisation event was at ~100Ma, slightly older than the Yukon / Tintina Belt systems aged at ~90Ma. Base metal signatures are also much more subdued at Okvau with the host intrusive itself being more mafic in comparison.

**Figure 21: Intrusive Belt in Cambodia**



Source: Company Reports

### Prior exploration work

Limited modern exploration had been carried out in the project area prior to 2005, due mainly to Cambodia's history of conflict and civil war, poor outcrop, and low population density. OZL (then Oxiana) commenced exploration in the area in 2006, undertaking surface sampling and geochemistry programs focusing on the Okvau area. These programs were able to identify a number of large-scale geochemistry

anomalies, coinciding with interpreted intrusive bodies. Multi-element geochemistry returned results consistent with typical IRGS mineralisation.

On a regional scale, there are a large number of gold occurrences coinciding with the presence of interpreted intrusions, highlighting the general prospectivity of the project area. OZL undertook more than 25,000m of drilling on the properties prior to their sale to RNS, with a majority of this drilling undertaken on the Okvau deposit.

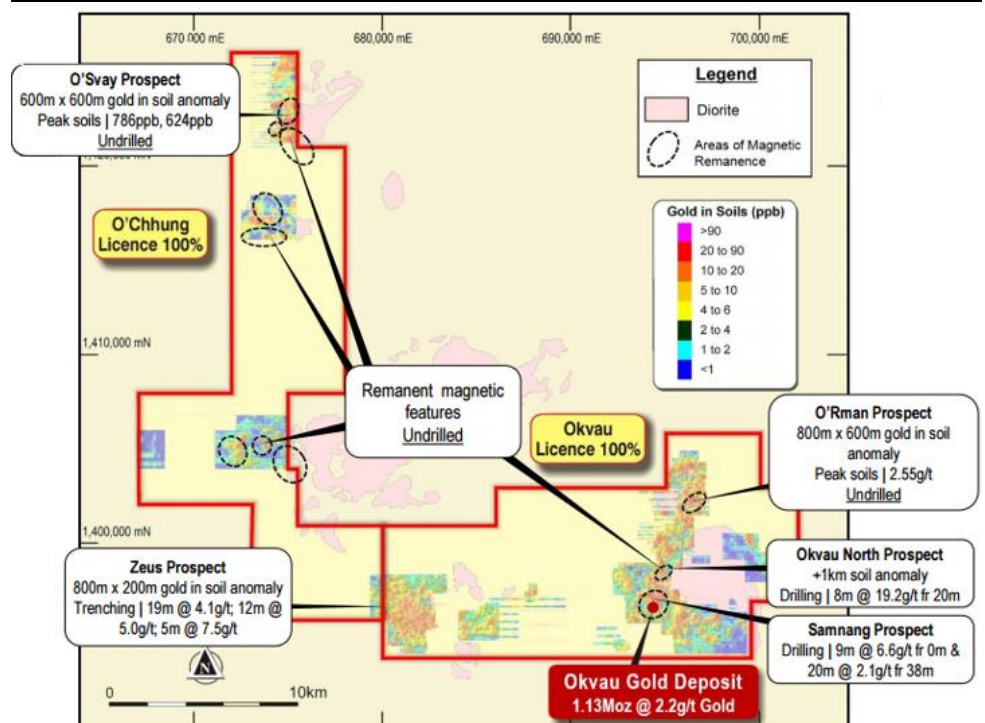
RNS followed on with further in-fill and extensional drilling, which identified an NE extension and extended the Resource at depth. In addition, RNS completed a number of geophysics programs, including airborne and ground magnetics, as well as IP surveys. RNS expanded upon the soil geochemistry dataset significantly and drill tested a number of targets.

### Targets

EMR has identified a number of targets within its Okvau / O'Chhung licenses. The targets are generated through a combination of geophysical surveys, soil geochemistry and geological interpretation.

High priorities including Samnang (strong IP anomaly <1km from Okvau) and O'Rman targets are expected to be drill tested in the near term.

**Figure 22: Okvau / O'Chhung targets**



Source: Company Reports



## The gold team

### Team and management

EMR has consolidated a proven technical team comprising key personnel from Equigold and RRL. The team has an excellent reputation for building projects cheaply and delivering superior operational outcomes from modest assets.

### Key personnel

Key ex-Equigold technical personal include:

- Morgan Hart – Managing Director
- Michael Evans – COO
- Bob Woollems – Construction
- Glenn Williamson – Scheduling and Mine Design
- Kevin Morgan – Hydrogeology
- Keith King – Resource (Mining)
- Ian McLennan – Health and Safety

### Track record

The team's development and operational team were involved in the following projects:

- Duketon  
Regis (ASX:RRL : A\$3.19 | HOLD) bought the Duketon project from Newmont in 2006 and subsequently developed a number of open pits and built two processing facilities with a total capacity of ~10Mtpa, producing +300kozpa. The assets are well managed and deliver sector leading margins despite its modest grades.
- Mt Rawdon  
Equigold acquired a 100% interest from Resolute Mining (RSG:ASX : A\$1.12 | BUY) and Sampson Exploration in 1998. Production commenced in 2001, averaging ~90kozpa, and Equigold operated the asset prior to its merger with Lihir in 2008.
- Bonikro  
Equigold acquired, constructed and operated the Bonikro mine in Ivory Coast (now owned and operated by Newcrest), then considered a frontier jurisdiction, prior to Equigold's merger with Lihir in 2008.
- Kirkalocka  
Equigold purchased the asset in 2001 and subsequently developed the mine in 2002. Production over the next six years totalled ~308koz before being placed on care and maintenance by Lihir following its merger with Equigold.

# Cambodia

## Mining 101 - Cambodia

Cambodia has a population of 16 million. The country has been ruled by former Khmer Rouge member, Prime Minister Hun Sen since 1985. The country is nominally a parliamentary, representative democracy. However, Cambodia's democratic foundation appears fragile with recent reports of increasing political violence on opposition politicians. The next general election is scheduled for 22<sup>nd</sup> July 2018.

According to the Heritage Foundation, Cambodia is ranked 94th out of 180 countries, on its Index of Economic Freedom. In context, this ranks the country above Vietnam but below that of Malaysia and Thailand. The country has bilateral investment treaties with >20 countries, with 11 agreements being enforceable. EMR could seek to utilise political risk insurance to reduce sovereign risks.

Cambodia is one of Asia's fastest growing economies, with GDP growth rates averaging ~7% in recent years. The main pillars of the economy are the tourism and apparel assembly.

## Legal / Judicial system

Cambodia has a hybrid legal system with French, Soviet and Vietnamese influences. With these legal legacies, the government has inherited a Civil Law tradition. In the Cambodian courts a single judge may hear all types of matters (civil, commercial, criminal and administrative). However, in practice, the principles of the Civil Law tradition concerning the separation of the courts are applied.

## Licensing

Mineral licenses are under the jurisdiction of the Ministry of Industry, Mines and Energy. Although largely untested, security of tenure is arguably better than other countries in the region with Cambodia offering a functioning title system and mining act.

Exploration licenses are negotiated and renewed on a bi-annual basis, up to a total of 8 years. An Environmental License and Mining Lease (22-year) for Okvau is expected in the near term.

## Infrastructure

Cambodia's infrastructure is generally poor but improving. The country has reached ~60% grid coverage and it is anticipated to achieve 100% by 2020, according to the General Department of Energy at the Ministry of Industry, Mines and Energy. The main power source includes grid power from neighbouring Vietnam, Laos and Thailand, as well as coal fired power plants and several hydro schemes on tributaries of the Mekong River.

## Fiscal regime

The current fiscal regime is considered attractive:

- 30% corporate tax
- 2.5% royalty (negotiated by OZL)
- No government free carried interest
- 100% foreign ownership allowed

## Investment risks

### Funding

As a pre-production company with no material income, EMR is reliant on equity and debt markets to fund development of Okvau and progressing EMR's exploration program. The total development and working capital requirement is estimated at ~A\$163m. Given the asset quality and management's track record, Okvau is likely to attract competitive debt and equity funding. The project funding is expected in mid-CY17.

### Technical

The Okvau ore requires a flotation/regrind stage before CIL leaching for achieving ~84% gold extraction. Whilst this adds another component to the circuit, the risk has been mitigated by the extensive amount of metallurgical testwork completed by OZL, RNS and EMR, the increasingly utilisation of fine grinding circuits in the mining industry, effective communication to the market, as well as management's demonstrated technical capabilities.

### Untested mining law

As the Okvau project is the most advanced gold project held by a foreign public listed company, the Cambodian mining law remains to be tested. Advancing the project requires the issuance of environmental and mining permits which are subject to approval. Given the lack of scalable producers in country, however, the fiscal regime is unlikely to alter in the near term once decided upon.

### Wildlife conservation zone

While Cambodia sets aside 26.3% of its land for conservation, this land (47,845km<sup>2</sup>) is hardly sacred, with illegal logging and small scale mining occurring regularly within. The Okvau and O'Chhung tenements are located outside the Core Zone of the Phnum Prech Wildlife Sanctuary, but within a 'sustainable use zone' where exploration and exploitation are allowed (Protected Areas Law 2008). Exploration areas that extend into the core zone areas were relinquished by OZL in 2009.

Whilst the proximity to the core zone could attract the attention of environmental NGOs, we note that Okvau has been the site of significant disturbance by artisanal miners, and the expected granting of environmental and mining licenses, as well as a fiscal stability agreement are expected to mitigate further risks on this.

### Corruption inquiry

The transaction of OZL buying out its partner is potentially subject to ongoing corruption inquiries by the Australian Federal Police. It was alleged that ~US\$900k from the deal went to three female Cambodian directors on the Shin Ha board, who were related to mining ministry officials. OZL stated in its CY15 annual report that:

*Since the end of the financial year, the Company has been advised by the Australian Federal Police (AFP) that the scope of the AFP's investigation is being extended to OZ Minerals' former Cambodian operations generally in relation to foreign bribery allegations. OZ Minerals is continuing to cooperate with the AFP in its investigation.*

The investigations are pertaining to OZL only and we do not expect this to affect EMR or its operations.

### Unexploded ordinances

During the Vietnam War a number of bombs were dropped by the US within and around the project areas, some of which could remain un-exploded. The coordinates of potential un-exploded ordinances have been well recorded. Surveys have been carried out by RNS within the licences and no major issues were identified.

### Illegal miners

A number of illegal artisanal miners are actively working at several areas within EMR's tenements, outside the immediate Okvau deposit. EMR had selectively allowed them to carry out activities in oxide only with no explosives.

The impact on the current Mineral Resource Estimate is low as it has excluded depletion through topographic surveys. Whilst properly managed and supervised, these workers could also potentially help with exploration.

### Logistics

Okvau is located in a remote region and there is limited infrastructure, with most facilities needing to be constructed on site. Logistics requirements (i.e. trucking of diesel) will be reduced once the project is on a grid connection.

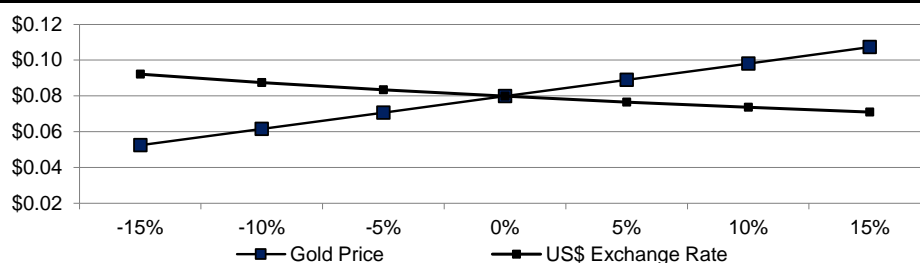
### Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with exploration techniques and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data. We note the DFS comprises ~3 years of material drilled to a 25m x 25m spacing which provides enhanced confidence. No assurance can be given that exploration will delineate further minable Reserves. We have ascribed a value of ~A\$63m for exploration upside in our valuation.

### Commodity price and currency fluctuation

The company as a gold developer is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

**Figure 23: Valuation sensitivity to gold price and FX movements**



Source: Canaccord Genuity estimates

## Directors and Management

### **Simon Lee AO (Non-Executive Chairman)**

Simon Lee has extensive management experience with a diverse range of business enterprises in a career based in Asia, England, Canada and Australia. He has a successful track record in the resources industry which includes building gold mining companies, Great Victoria Gold NL, Samantha Gold NL and Equigold NL.

### **Morgan Hart (Managing Director)**

Morgan Hart is a Geologist and experienced Mining Executive. He was formerly an Executive Director and COO of Regis Resources Ltd, responsible for the development of three gold mines in four years (Moolart Well, Garden Well and Rosemont). Prior to that, he was Executive Director COO of Equigold NL, responsible for the development and construction of the Bonikro Gold Project in Ivory Coast along with the management of the operation of the Mount Rawdon and Kirkalocka gold mines.

### **Justin Tremain (Executive Director)**

Justin Tremain has over 10 years' investment banking experience in the natural resources sector. He has held positions with Investec, NM Rothschild & Sons and Macquarie Bank and has extensive experience in the funding of natural resource projects in the junior to mid-tier resource sector. He has undertaken numerous advisory assignments for resource companies, including acquisition and disposal assignments and project advisory roles. He was formerly the Managing Director of RNS and is currently a Non-Executive Director of Berkut Minerals Limited.

### **Ross Stanley (Non-Executive Director)**

Ross Stanley is a well-respected mining executive with extensive experience both in Australian and African mining enterprises. He was formerly the majority shareholder and Managing Director of ASX listed Stanley Mining Services prior to its merger with Layne Christensen in 1997. Stanley Mining was the dominant drill services provider in Ghana in the 1990s. Mr Stanley also served as a non-executive director of Equigold NL.

### **Ross Williams (Non-Executive Director)**

Ross Williams is a founding shareholder of MACA Limited (ASX: MLD) and was Financial Director until his resignation in July 2014. He also has 16 years' banking experience having held executive positions with a major Australian Bank. He is a past fellow of the Australian Institute of Banking and Finance and holds a Post Graduate Diploma in Financial Services Management.

### **Mark Clements (Company Secretary)**

Mark Clements has 18 years' experience in corporate accounting and public company administration. He is Company Secretary for a number of diversified ASX listed companies. He is currently Executive Chairman of MOD Resources Limited and has previously worked for an international accounting firm. He is a Fellow of the Institute of Chartered Accountants in Australia and a Member of the Australian Institute of Company Directors.

### **Michael Evans (Chief Operating Officer)**

Michael Evans has over 20 years' experience in various mining and processing industries throughout Australia and Africa. Prior to joining the company, he spent seven years with Regis Resources Ltd (ASX:RRL), firstly as Projects Manager and in April 2014 he was appointed as Chief Development Officer and was responsible for the construction of the processing plant at the Moolart Well, Garden Well and Rosemont gold mines. Before that, he spent 10 years with Equigold NL where he was instrumental in the construction of the Bonikro processing plant in Cote D'Ivoire.

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### Investment Recommendation

Date and time of first dissemination: May 08, 2017, 16:34 ET

Date and time of production: May 08, 2017, 16:34 ET

### Target Price / Valuation Methodology:

Emerald Resources NL - EMR

Our A\$0.08 price target is based on 1x NPV10% for the operating assets net of corporate and other adjustments.

### Distribution of Ratings:

#### Global Stock Ratings (as of 05/08/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	573	60.44%	39.27%
Hold	277	29.22%	19.13%
Sell	26	2.74%	11.54%
Speculative Buy	72	7.59%	69.44%
	948*	100.0%	

\*Total includes stocks that are Under Review

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**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

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