EMR Research Note

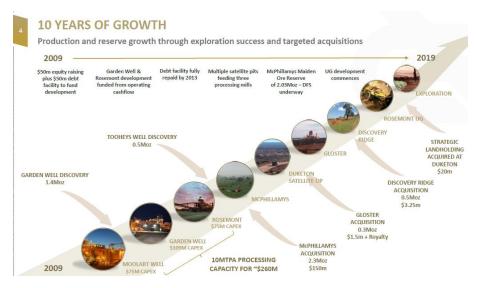
Date: 30/10/2020

- EMR operates the Okvau gold project in Cambodia. The mine is ~40% complete by spend with first gold pour expected in May 2021. The mine is expected to produce an average of 106koz p.a. at an average AISC of ~USD750/oz, however, these numbers are likely to prove conservative.
- Morgan essentially took over control of EMR in late 2014 after leaving RRL. EMR was rudderless and essentially
 a shell that Morgan could use to find a project and build a business around. In 2016 he singed a JV with RNS who
 owned the Okvau project in Cambodia, however, before the year was out, EMR merged with RNS.
- Simon Lee and Mick Evans also joined EMR with Morgan who were former running mates are RRL and Equigold before that. Amongst these ventures, they've been involved in building 6+ mines across Australia and West Africa, all of which were successful and profitable operations even through low gold price environments.
- EMR has a quality asset run by a quality team (Morgan still pulling people out of RRL). Simon and Morgan alone have put in \$12m+ along the way. No freebies given out. ESOP given out have strikes at a premium when issued so staff have to create value before benefiting from it. Insiders own ~22% of the company.
- EMR is essentially another reiteration of the prior build and sell approach Morgan and Co have done before with Samantha Gold (merged into RSG in the 90s), Equigold NL (bought out by Lihir Gold in 2008). Regis Resources was not bought out but was always valued at a premium which largely prevented it being an acquisition target.
- The build and sell approach is to use the development of the first mine to fund the acquisition and development of a few more and selling the company off to a larger producer looking for growth. Simon did this with Samantha Gold and Equigold NL. Morgan was with Simon at Equigold whilst I note Samantha Gold was full of people who were in Equigold and RRL as well which have joined EMR (i.e. Mick Evans, Ross Stanley and Bernie Cleary).
- The raise to build the first mine tends to be the last one on the way to a multi mine operator. This was the case for RRL outside of the issue of script to acquire the McPhillamys project in 2012. Appendix one is RRL history, whilst appendix 2 is from the Equigold AGM address in 2007 prior to acquisition in 2008.
- It's clear that the key people involved know how to find good gold projects, build them and build the well, and ensure that it translates into returns in the share price for investors.
- Okvau is the flagship asset for EMR and comprises of a reserve of 907koz of high grade gold from a mix of open pit and underground. It is the first gold mine in Cambodia and operates under a Mineral Investment Agreement (MIA) signed off by the government. Cambodia is considered to have modest sovereign risk, however, for EMR it is considered lower due to the MIA, whilst PRI rates are amongst the lowest in the SE Asian region (EMR has PRI for USD100m at a rate of less than 1%).
- The mine is expected to produce an average of 106koz p.a. on average at an AISC of USD750/oz making it a high margin operation that can survive through the cycle. However, I think these operating metrics will prove conservative for 3 reasons:
 - Grade control has shown grade to be higher than the reserve estimate by 22% within the first 25m at depth. The deposit should also benefit from the reverse nugget effect as the reserve has a top cut that limits value ascribed to high grade sections. The use of a MIK for R&R modelling is also conservative in a deposit like this.
 - Recoveries in the feasibility are likely conservative given they plan to leave ore in residence for up to twice as long, thus recoveries could be mid to high 80% range versus the modelled 84%.
 - They believe they can run the mill at 10% to 15% over nameplate whilst the mining contractor has capacity and the ability to bring in addition equipment to increase mining rates to match milling rates with limited issue. Note that RRL's first mill, Moolart Well ran at 25%+ above design throughput rate whilst Garden Well was designed for 4mtpa and ran at 5.5mtpa by 2013.
- With these 3 factors, the mine could produce anywhere up to a run-rate of ~150koz p.a. from the 106koz run-rate stated in the DFS. In addition, the higher production potential from grade and recovery comes with nil extra cost whilst running the mill at a higher rate would incur marginal extra mining and processing costs, thus AISC could be under USD600/oz range if the production run-rate is closer to the 150koz p.a. mark. The table in appendix 3 shows a matrix on potential production outcomes in the first year or two. The hardest thing to understand is how high the grade uplift could be over LOM but indications are it'll be higher in general. However, to what degree and consistency won't be known until they mine through the deposit.
- The project is about 40% completed by amount spent and slated to come into production in May 2021. They are currently tracking to budget but expect to come in slightly below given favourable steel and labour prices at current.
- The project is fully funded and cash should trough no lower than USD10m ahead of first cashflows, which I believe is a sufficient buffer in case some issues arise. However, the team has a history of not getting these things wrong.

- More broadly, exploration will likely add material ounces to the project from both near mine and regional
 prospects. Near mine drilling at depth will add more ounces as well as potentially upgrade inferred resource
 blocks which can be added to the mine plan. The expectation in 2021 is to at least replace production whilst more
 broadly EMR thinks this mine will run for 20yrs+ (current reserve is for ~8yrs) from both near mine and regional
 exploration.
- Project funding was USD60m in debt and this should be able to be mostly repaid withing the first year. In addition, EMR has access to a USD100m acquisition facility.
- The acquisition facility will be used to buy another asset that has at least got a PFS completed. The sweet spot is
 to find a company that has a mcap too low to fund their project easily and has a lot of fat in their feasibility
 numbers that Morgan and Co can work their magic on. By example of EMR, Morgan and Co pulled USD20m
 (~17% reduction) out of the capex from the PFS completed by RNS. Similarly, in RRL they engineered the
 Moolart Well mine tight and built that for about ~\$100m.
- Any project they buy would ideally be around a \$100m build cost so the equity component can be funded out of the cashflows from Okvau. The aim is that the project funding round to build Okvau is the last raise they need to do to become a 3+ mine operator. This is what they achieved with RRL and Equigold (from what I can tell as ASX history is shit still with the website upgrade).
- The preference is to buy an asset in Australia so EMR can pay out fully franked dividends.
- The valuation of EMR can range materially beyond gold price assumptions, however, the current SP is undemanding even if the gold price was to correct from here. What can help protect even in this scenario is the material production upside from higher grade and recoveries. As such, there is a compelling asymmetric risk/return opportunity from investing in EMR as it re-rates into first gold pour and steady state gold production through the middle of 2021. Given the conservatism of the operating metrics and the people involved, I believe EMR is a high conviction investment opportunity.

EMR Assumptions & Valu	ations						
Key Assumptions							
Share Price	0.625	Mcap	327.78	As at Sept 20			
Shares on Issue	515.0	Cash	20.9	Debt Dr U\$	60.00		
Options on Issue	9.5	Debt	0.0	Debt Dr A\$	88.49		
Rights	0.0	EV	306.88	Implied FX	0.68		
Discount Rate	8.0%			Net Dev Spen	50.21		
EV/FCF Multiple	3.5						
Debt Share	65.0%						
Debt Interest Rate	8.0%						
USD/AUD	0.720						
Inflation Rate	0.0%						
Corporate Tax	30.0%						
Ownership for Gov	0.0%						
Project JV, Share of Partner	0.0%						
Gold Price USD		NAV	TSR	EV/FCF	TSR	Average	TSR
Feasibility	1,250	0.35	-44%	0.28	-55%	0.32	-49%
Spot	1,900	0.95	52%	0.78	25%	0.87	39%
Spot, Op Sandbagging	1,900	1.66	166%	1.37	118%	1.51	142%
Low	1,400	0.47	-24%	0.41	-34%	0.44	-29%
High	2,250	1.27	104%	1.04	67%	1.16	85%
Spot, LOM to 15yr	1,900	1.67	167%	0.84	34%	1.25	101%
				CY22, discou	unted		

Appendix 1



Appendix 2

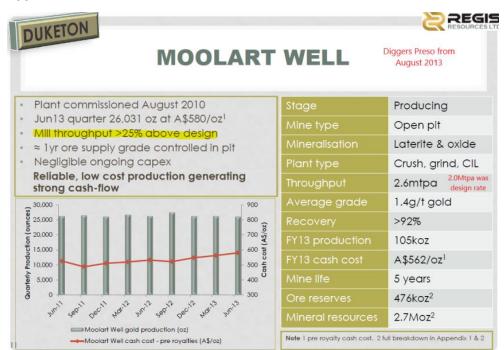
C	eledrating 11 years as a p	
ai use oniy	Managed gold production EQI share Cash cost	1.26Moz 1.05Moz \$348/oz
ror personai use oniy	Revenue Profit before tax Dividends paid	\$668M \$147M \$60.9M(38.5cps)
	Annualised compound return since IPO	22%

Appendix 3

	DFS Metrics	@ 20% grade	+20% grade @ 88% recovery	+20% grade & +12.5% Mill @ 88% recovery
Mill Rate	2,000,000	2,000,000	2,000,000	2,250,000
Head Grade	1.98	2.38	2.38	2.38
Recovery	0.84	0.84	0.88	0.88
Produced Ounces	106,946	128,335	134,447	151,252
Cost per Milled Tonne	34.72	34.72	34.72	36.94
Cost/oz	649.30	541.08	516.49	549.53
Royalty/oz	66.50	66.50	66.50	66.50
Total Cost/oz	715.80	607.58	582.99	616.03
Gold Price/oz	1,900.00	1,900.00	1,900.00	1,900.00
Margin/oz	1,184.20	1,292.42	1,317.01	1,283.97
Operating CFs	126,645,791	165,862,949	177,067,852	194,203,520
FX Rate	0.7200	0.7200	0.7200	0.7200
Operating CFs AUD	175,896,932	230,365,207	245,927,572	269,727,112
Multiple	3.50	3.50	3.50	3.50
Ent. Value	615,639,262	806,278,225	860,746,500	944,044,891
Sol	515,000,000.00	515,000,000.00	515,000,000.00	515,000,000.00
SP	1.20	1.57	1.67	1.83
TSR	94.4%	154.6%	171.8%	198.1%
*Run-rate production, Zero	o debt basis (in EV)			

EMR Research Note by Joshua Baker

Appendix 4



Appendix 5

GARDEN	WELL	Diggers Preso from August 2013
30km south of Moolart Well	Stage	Production
Virgin discovery by Regis in late 2009	Mine type	Open pit
itill exploring at depth Plant commissioned in Sept 12 quarter	Mineralisation	Mixed ultramafic- sediment shear
Capex \$112m for 4mtpa plant	Plant type	Crush, grind, CIL
Nameplate 4mtpa – current ≈ 5.5mtpa	Throughput	>5mtpa
Production Jun 13 qtr – 46koz at \$718/oz Production y/e Jun 13 – 163koz at \$562/oz	Reserve grade	1.27g/t gold
Jul 13 reserve increase 1.39Moz to 1.70Moz	Recovery	92-95%
	Mine life	7 years
	LOM forecast p.a. gold production	200-220 koz pa @ \$682/oz ¹
	Ore reserves	1.70Moz ²
	Mineral resources	3.0Moz ²