

# Emerald Resources NL

## (EMR \$0.042) Speculative Buy - Initiation of Coverage

EUROZ

| Analyst        | Date                      | Price Target |
|----------------|---------------------------|--------------|
| Andrew Clayton | 9 <sup>th</sup> June 2016 | \$0.08/sh    |

### A Company Making Deal

Emerald Resources NL ('EMR') is earning a 51% interest in the Okvau Gold project, located in Cambodia, by funding the project to DFS and spending US\$3m on exploration over 2 yrs. Renaissance Minerals Ltd ('RNS') currently has 100% of the project and is diluting to 49%.

This is an excellent deal for EMR – earning a controlling interest in an advanced gold development project with some US\$30m spent to date and excellent exploration upside.

EMR is a company run by Morgan Hart; a well credentialed mining executive, with a successful track record of low cost mine development over the past twenty years with Equigold NL and Regis Resources Ltd. Mr Hart is EMR's largest shareholder with a 19.6% interest.

Okvau has a current resource of 1.1moz@ 2.2 g/t Au. A Prefeasibility Study was completed in July'15 this shows a viable project with annual production of ~90koz @ AISC of US\$735/oz for ~7 years. Initial capital cost is estimated at US\$120m.

At a US\$1,250/oz gold price RNS calculated a pre tax NPV<sub>5</sub> of US\$171m (A\$230m).

We would expect some significant capital costs savings can be achieved by the EMR team and Okvau could be a ~US\$80-90m development. In addition, lower diesel prices than PFS estimates and consumable could see lower AISC than previous estimates.

We see significant exploration upside as the focus has been completing a PFS at Okvau. An Okvau 'look alike' IP anomaly called Samnang Prospect is likely to be drilled in the Sept'Q.

A recent site visit confirmed there were no major impediments to a successful development. The old EQI/RRL development/construction team is being put back to together and we were impressed with the work completed, infrastructure and genuine exploration upside.

We value EMR @ \$99m or \$0.07/sh based on the PFS numbers and a nominal exploration value. We assume EMR will earn its 51% interest and a lower capital cost of US\$105m.

Management is aligned with shareholders. EMR Directors own 45% of the company and have bought all shares either on market or via a placement and have invested some +\$8m to date.

Whilst EMR will be busy with Okvau we believe it does have potential to look for other opportunities with cash of >\$10m post Okvau expenditure.

We initiate coverage with a Speculative Buy recommendation. EMR has done a company making deal to gain control of an advanced development opportunity at the bottom of the cycle. Our PT of \$0.08/sh assumes some exploration success and capital cost reductions. Short to medium term catalysts include;

- Re start of exploration
- Revised PFS study due in Sept'Q
- DFS by end of CY'16 (our estimate) and progressing through to production.

| Emerald Resources NL  | Year End 30 June  |                     |
|-----------------------|-------------------|---------------------|
| Share Price           | 0.042             | A\$/sh              |
| Price Target          | 0.08              | A\$/sh              |
| Valuation             | 0.07              | A\$/sh<br>(npv 10%) |
| Shares on issue       | 1306              | m, diluted *        |
| Market Capitalisation | 56                | A\$m                |
| Enterprise Value      | 38                | A\$m                |
| Debt                  | 0                 | A\$m                |
| Cash + Investments    | 18                | A\$m                |
| Largest Shareholder   | Morgan Hart 19.7% |                     |

| Production F/Cast    | 2017f | 2018f | 2019f |
|----------------------|-------|-------|-------|
| Attrib. Prod'n (koz) | 0     | 45    | 90    |
| Cash Cost (A\$/oz)   | na    | 552   | 552   |
| Total Cost (A\$/oz)  | na    | 783   | 786   |

| Assumptions  | 2017f | 2018f | 2019f |
|--------------|-------|-------|-------|
| Gold US\$/oz | 1288  | 1300  | 1300  |
| AUDUSD       | 0.75  | 0.76  | 0.77  |

| Key Financials  | 2017f | 2018f | 2019f |
|-----------------|-------|-------|-------|
| Revenue (A\$m)  | 1     | 59    | 118   |
| EBITDA (A\$m)   | -2    | 28    | 61    |
| NPAT (A\$m)     | -1    | 5     | 17    |
| Cashflow (A\$m) | -46   | -70   | 49    |

|            |    |    |     |
|------------|----|----|-----|
| CFPS (Ac)  | -2 | -4 | 3   |
| P/CFPS (x) | na | na | 1.7 |

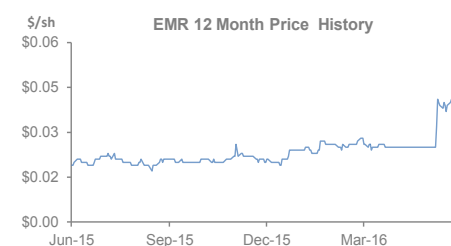
|                |    |     |      |
|----------------|----|-----|------|
| EPS (Ac)       | 0  | 0   | 2    |
| EPS growth (%) | na | na  | 241% |
| PER (x)        | na | 9.7 | 2.8  |

|               |       |     |     |
|---------------|-------|-----|-----|
| EV:EBITDA (x) | -19.1 | 1.4 | 0.6 |
| EV:EBIT (x)   | -19.1 | 2.2 | 0.9 |

|                    |     |     |     |
|--------------------|-----|-----|-----|
| DPS (Ac)           | 0.0 | 0.0 | 0.0 |
| Dividend Yield (%) | 0%  | 0%  | 0%  |

|                        |     |     |      |
|------------------------|-----|-----|------|
| ND:Net Debt+Equity (%) | 32% | 28% | 17%  |
| Interest Cover (x)     | na  | na  | 10.0 |

### Share Price Chart



### Disclosures

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This analyst declares that he has a beneficial interest in Emerald Resources Ltd.

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## Emerald Resources NL

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| Market Statistics   |                |               |                        | Year End 30 June |               |             |
|---|----------------|---------------|------------------------|------------------|---------------|-------------|
| <b>Share Price</b>  | <b>\$0.042</b> | <b>A\$/sh</b> | <b>Directors</b>       |                  |               |             |
| Issued Capital  |                |               | S.Lee                  | Chr'n            |               |             |
| FP Ord  | 1,306.0        | m             | M. Hart                | MD               |               |             |
| <b>Total Dil. FPOrd</b>                                       | <b>1,306.0</b> | <b>m</b>      | R.Stanley              | NE Dir           |               |             |
|   |                |               | R.Williams             | NE Dir           |               |             |
| Market Capitalisation   | \$56           | m             | <b>Shareholders</b>    |                  |               |             |
| Enterprise Value  | \$38           | m             | Dir & Mgt              | 45%              |               |             |
| Debt  | \$-            | m             | Confederate Capital PL | 10.5%            |               |             |
| Cash + Investments  | \$18           | m             |                        |                  |               |             |
| Hedging   |                | Nil           |                        |                  |               |             |
| <b>Asset Valuation</b>  |                |               |                        | <b>A\$m</b>      | <b>A\$/sh</b> |             |
| Okvau gold project (risk adj 75%) 51% interest                |                |               | 71                     | 0.05             |               |             |
| Hedging   |                |               | -                      | -                |               |             |
| Corporate   |                |               | (10)                   | (0.01)           |               |             |
| Okvau Exploration   |                |               | 10                     | 0.01             |               |             |
| Unpaid Capital  |                |               | 10                     | 0.01             |               |             |
| Debt  |                |               | -                      | -                |               |             |
| Cash + Investments  |                |               | 18                     | 0.01             |               |             |
| <b>Total</b>  |                |               | <b>99</b>              | <b>0.07</b>      |               |             |
| <b>F/Cast Production (A\$m) 2017f 2018f 2019f 2020f 2021f</b> |                |               |                        |                  |               |             |
| Okvau (100%)  | koz            | 0             | 45                     | 90               | 90            | 94          |
| Avg Cash Cost   | US\$/oz        | na            | 552                    | 552              | 557           | 535         |
| Avg Total Cost  | US\$/oz        | na            | 783                    | 786              | 795           | 767         |
| Avg All in Costs  |                | 778           | 731                    | 717              | 714           | 687         |
| Avg Spot Price  | US\$/oz        | 1,288         | 1,300                  | 1,300            | 1,300         | 1,300       |
| Avg Price Rec'd   | US\$/oz        | 1,288         | 1,300                  | 1,300            | 1,300         | 1,300       |
| <b>Ratio Analysis (A\$m) 2017f 2018f 2019f 2020f 2021f</b>    |                |               |                        |                  |               |             |
| CF (A\$m)   |                | (46)          | (70)                   | 49               | 50            | 54          |
| CF / Sh (Ac/sh)   |                | (2)           | (4)                    | 3                | 3             | 3           |
| CF Ratio (x)  |                | na            | na                     | 1.7              | 1.6           | 1.5         |
| Earnings (A\$m)   |                | (1)           | 7                      | 22               | 23            | 26          |
| EPS (Ac/sh)   |                | (0)           | 0                      | 2                | 2             | 2           |
| EPS Growth (%)  |                | na            | na                     | 241%             | 1%            | 17%         |
| Earnings Ratio (x)  |                | na            | 9.7                    | 2.8              | 2.8           | 2.4         |
| E'prise Val. (A\$m)   |                | 95            | 102                    | 84               | 51            | 15          |
| EV : EBITDA (x)   |                | (19.1)        | 1.4                    | 0.6              | 0.6           | 0.6         |
| EV : EBIT (x)   |                | (19.1)        | 2.2                    | 0.9              | 1.0           | 0.9         |
| Net Debt / ND+Eq (%)  |                | 32%           | 28%                    | 17%              | na            | na          |
| Interest Cover (x)  |                | na            | na                     | 10.0             | 17.8          | 87.3        |
| EBIT Margin (%)   |                | na            | 30%                    | 34%              | 34%           | 36%         |
| ROE (%)   |                | -1%           | 5%                     | 18%              | 16%           | 16%         |
| ROA (%)   |                | -1%           | 10%                    | 22%              | 20%           | 21%         |
| Div. (Ac/sh)  |                | -             | -                      | -                | -             | -           |
| Div. payout ratio (x)   |                | -             | -                      | -                | -             | -           |
| Div. Yield (%)  |                | 0%            | 0%                     | 0%               | 0%            | 0%          |
| Div. Franking (%)   |                | 0%            | 0%                     | 0%               | 0%            | 0%          |
| <b>Profit and Loss (A\$m) 2017f 2018f 2019f 2020f 2021f</b>   |                |               |                        |                  |               |             |
| Gold Revenue  |                | 0             | 59                     | 117              | 117           | 123         |
| Hedging Revenue   |                | -             | -                      | -                | -             | -           |
| Interest Revenue  |                | 1             | 0                      | 1                | 3             | 4           |
| Other Revenue   |                | -             | -                      | -                | -             | -           |
| <b>TOTAL REVENUE</b>  |                | <b>1</b>      | <b>59</b>              | <b>118</b>       | <b>120</b>    | <b>127</b>  |
| Operating Costs   |                | 0             | 25                     | 50               | 50            | 50          |
| Dep/Amort   |                | 0             | 10                     | 21               | 21            | 22          |
| W/O & Provisions  |                | -             | -                      | -                | -             | -           |
| Corp O/H  |                | 2             | 6                      | 6                | 6             | 6           |
| EBITDA  |                | (2)           | 28                     | 61               | 61            | 66          |
| EBIT  |                | (2)           | 17                     | 40               | 40            | 44          |
| Interest Expense  |                | -             | 5                      | 5                | 5             | 5           |
| NPBT  |                | (1)           | 13                     | 37               | 37            | 44          |
| Tax   |                | (0)           | 4                      | 11               | 11            | 13          |
| Minorities  |                | -             | 4                      | 8                | 9             | 10          |
| <b>NET PROFIT</b>   |                | <b>(1)</b>    | <b>5</b>               | <b>17</b>        | <b>18</b>     | <b>21</b>   |
| Net Abnormal Gain/(Loss)                                      |                | -             | -                      | -                | -             | -           |
| <b>NET PROFIT After Abn'l</b>                                 |                | <b>(1)</b>    | <b>5</b>               | <b>17</b>        | <b>18</b>     | <b>21</b>   |
| <b>Cash Flow (A\$m) 2017f 2018f 2019f 2020f 2021f</b>         |                |               |                        |                  |               |             |
| Net Profit  |                | (1)           | 5                      | 17               | 18            | 21          |
| + Working Capital Adj.  |                | -             | -                      | -                | -             | -           |
| + Dep/Amort   |                | 0             | 10                     | 21               | 21            | 22          |
| + Provisions  |                | -             | -                      | -                | -             | -           |
| + Tax Expense   |                | (0)           | 4                      | 11               | 11            | 13          |
| - Tax Paid  |                | (0)           | 3                      | 9                | 9             | 10          |
| - Deferred Revenue  |                | -             | -                      | -                | -             | -           |
| <b>Operating Cashflow</b>                                     |                | <b>(1)</b>    | <b>16</b>              | <b>40</b>        | <b>41</b>     | <b>45</b>   |
| -Capex + Development  |                | 34            | 69                     | 3                | 3             | 3           |
| -Exploration  |                | 1             | 4                      | 6                | 6             | 6           |
| -Assets Purchased   |                | -             | -                      | -                | -             | -           |
| +Asset Sales  |                | -             | -                      | -                | -             | -           |
| + Other   |                | -             | -                      | -                | -             | -           |
| <b>Investing Cashflow</b>                                     |                | <b>(36)</b>   | <b>(38)</b>            | <b>(9)</b>       | <b>(9)</b>    | <b>(9)</b>  |
| +Equity Issues  |                | -             | 15                     | -                | -             | -           |
| +Loan D'down/Receivable                                       |                | 40            | -                      | -                | -             | -           |
| -Other (share buy back)                                       |                | 0             | 0                      | 0                | 0             | 0           |
| -Loan Repayment   |                | -             | -                      | -                | -             | -           |
| -Dividends  |                | -             | -                      | -                | -             | -           |
| <b>Financing Cashflow</b>                                     |                | <b>40</b>     | <b>15</b>              | <b>-</b>         | <b>-</b>      | <b>-</b>    |
| <b>Period Sur (Def)</b>                                       |                | <b>3</b>      | <b>(7)</b>             | <b>32</b>        | <b>33</b>     | <b>36</b>   |
| <b>Cash Balance</b>   |                | <b>19</b>     | <b>12</b>              | <b>44</b>        | <b>76</b>     | <b>113</b>  |
| <b>Balance Sheet (A\$m) 2017f 2018f 2019f 2020f 2021f</b>     |                |               |                        |                  |               |             |
| <b>Assets</b>   |                |               |                        |                  |               |             |
| Cash  |                | 19            | 12                     | 44               | 76            | 113         |
| Current Receivables   |                | 5             | 5                      | 5                | 5             | 5           |
| Other Current Assets  |                | 10            | 10                     | 10               | 10            | 10          |
| Non-Current Assets  |                | 101           | 143                    | 123              | 104           | 84          |
| <b>Total Assets</b>   |                | <b>135</b>    | <b>169</b>             | <b>182</b>       | <b>195</b>    | <b>212</b>  |
| <b>Liabilities</b>  |                |               |                        |                  |               |             |
| Borrowings  |                | 50            | 50                     | 64               | 64            | 64          |
| Current Accounts Payable                                      |                | 5             | 5                      | 5                | 5             | 5           |
| Other Liabilities   |                | 15            | 15                     | 15               | 15            | 15          |
| <b>Total Liabilities</b>                                      |                | <b>70</b>     | <b>70</b>              | <b>84</b>        | <b>84</b>     | <b>84</b>   |
| <b>Net Assets</b>   |                | <b>65</b>     | <b>99</b>              | <b>98</b>        | <b>111</b>    | <b>128</b>  |
| <b>Reserves and Resources</b>                                 |                |               |                        |                  |               |             |
|   |                |               |                        | <b>mt</b>        | <b>g/t</b>    | <b>koz</b>  |
| Okvau (100%)  |                |               |                        | 15.8             | 2.2           | 1,130       |
| <b>Total (koz)</b>  |                |               |                        |                  |               | <b>1130</b> |
| <b>EV per oz</b>  |                |               |                        |                  |               | <b>34</b>   |

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## Emerald Resources NL

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#### Executive Summary

Emerald Resources NL listed on the ASX in June 1996 as Emerald Oil and Gas and after various incarnations, boardroom disputes and failed takeover offers, Confederate Capital Ltd took control via a proportional take over offer in 2013. In Feb'14, EMR sold its shares in Emerald Oil Inc, listed on the Nasdaq for US\$12.2m.

In June'14 EMR announced a capital raising of \$5.7m @ 1.25cps with Morgan Hart emerging with a 19.7% interest. Post issue EMR had cash of ~\$18m. A board restructure was announced in August'14 with Mr Simon Lee appointed Chairman, Morgan Hart as Managing Director and Ross Stanley as a Non Executive Director. Ross Williams stood down as Chairman but remains a Non Executive Director.

Since then EMR has looked at numerous projects around the world with a focus on its core strength of low cost mine development. Ideally it would be a project with a resource and some type of study on it which could not be financed or built in the current environment. Morgan has overseen the successful development of numerous gold projects for Equigold NL, including the development of the Bonikro Gold Project in Cote d'Ivoire and most recently as Chief Operating Officer for Regis Resources.

In Feb'16, RNS announced a JV with Emerald Resources NL ('EMR') whereby EMR will sole fund completion of:

- A DFS and Environmental and Social Impact Assessment ('EISA'); and
- US\$3m on a 2yr exploration program to earn up to a 51% interest.

In addition, EMR subscribed for 57.4m shares in EMR (cost \$1.7m) as part of a larger \$3.4m placement. EMR now has a 10% interest in RNS.

This project ticked many of the boxes that EMR was looking for; a quality project with a large resource, PFS completed, exploration upside and opportunity to reduce capital costs and review the project as experienced operators – not just consultants with typical layers of conservatism built in.

Since acquiring the Okvau project in Feb'12, RNS has spent ~\$15m. It grew the resource from 729koz @ 1.8 g/t Au to 1.1moz and completed a PFS study. The PFS showed a robust project capable of producing ~90koz pa at an AISC of US\$730/oz for ~8yrs with an initial capital cost of US\$120m. Due to the falling gold price and closed debt/equity market the project was essentially parked until a partner could be found.

In Aug'15 RNS successfully renegotiated the \$22.5m in milestone payments due to OZL in exchange for a 1.5% gross smelter royalty capped at \$22.5m, removing a potential impost for any incoming party.

EMR will be the Manager of the DFS. RNS and EMR will be Joint Managers of the exploration program until such time that EMR has earned a 51% interest. EMR may only withdraw from the JV after six months and spending a minimum of US\$0.5m.

We believe EMR has done an excellent deal when the US gold price was at 5 yrs low and the Okvau project had stagnated. The key is EMR is in control of the JV by earning a 51% and also having a 10% interest in RNS. Since the deal was announced the US\$ gold price is up 12% to US\$1,250/oz – the same price the PFS was based on.

We would expect the DFS will see a significant reduction in upfront capital cost from circa US\$120m to <\$90m. Longer term, if the DFS stacks up, we see potential for the two companies to merge.

In addition, exploration will become a priority to look for additional ounces. Whilst RNS did some exploration, its focus was more on resource drill out/development than greenfields exploration. A recent IP survey has identified a Okvau look alike called Samnang, located immediately to the NW of Okvau.

We initiate on EMR with a Speculative Buy recommendation and a \$0.08/sh PT based on the PFS inputs and assumes EMR earns it 51%. Exploration has recommenced and we expect an updated PFS by 3rd Q, and believe a DFS by year end is possible.

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#### Valuation and Balance sheet

We value EMR at \$0.07/sh. We have essentially the PFS assumptions but have reduced the capex from US\$120m to US\$105m as a base case.

| ASSET VALUATION                                | A\$m      | A\$/sh      |
|--|-----------|-------------|
| Okvau gold project (risk adj 75%) 51% interest | 71        | 0.05        |
| Hedging  | -         | -           |
| Corporate                                      | (10)      | (0.01)      |
| Okvau Exploration                              | 10        | 0.01        |
| Unpaid Capital                                 | 10        | 0.01        |
| Debt   | -         | -           |
| Cash + Investments                             | 18        | 0.01        |
| <b>Total</b>                                   | <b>99</b> | <b>0.07</b> |

This valuation is risk adjusted to 75% and assumes EMR earns its 51% interest. We assign a nominal \$10m to the exploration potential and assume that EMR will raise \$10m in equity at \$0.06/sh to fund its portion of the Okvau development and along with its cash balance should be sufficient for the equity funding component. We forecast the project can support -US\$60m in debt.

Our un risked valuation @ 10% dcf is \$187m - in line with the prefeasibility study estimates with our higher discount rate of 10% vs 5% offset by our higher LT gold price assumptions.

Our upside valuation for EMR is +\$0.09/sh if capex can be lowered to <US\$100m and more ounces can be added - both outcomes we believe are possible over the medium term.

#### JV with Renaissance Minerals Ltd

EMR can earn up to a 51% interest in the Okvau Project by sole funding;

- Definitive Feasibility Study
- Environmental and Social Impact Assessment ('EISA')
- US\$3m exploration outside Okvau Deposit

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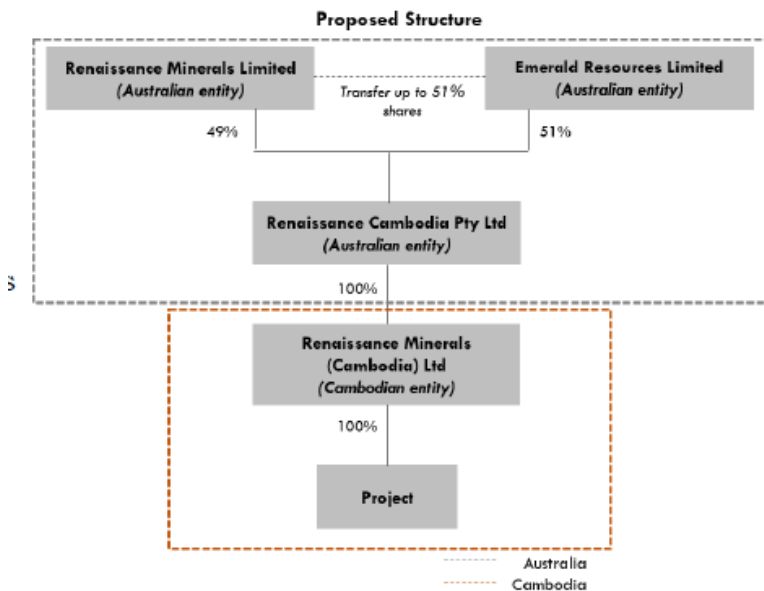
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The proposed structure is outlined below

RNS shareholders approved the JV in Mar'16 and after a six week suspension to re comply with Chapter 1 and 2 of the Listing Rules EMR was re-instated in May'16.



Source: Renaissance Minerals Ltd

We estimate the cost of completing the DFS will be in the order of US\$2m which includes the 7,000m infill drill program, further metallurgical testwork, geotechnical studies etc. This will be done in house utilising consultants that EMR have previously used at EQI and RRL.

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### Okvau (EMR earning a 51% interest)

#### Location

The Okvau Gold deposit is located in the eastern plains of Cambodia in the Mandulkiri Province approximately 265km NE of the capital Phnom Penh. The topography is undulating with low relief 80-200m above sea level and some scattered hills rising to around 400m. There are existing dirt roads and tracks that are sufficient for access for the exploration but will need to be upgraded if development occurs.

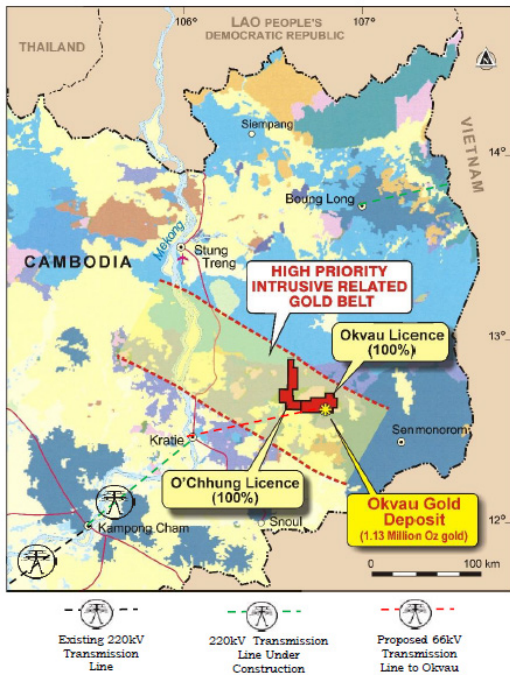


Figure 1 Okvau Location

Geologically, Okvau is classified as an Intrusive Related Gold ('IRG') deposit. This style of deposit is analogous with the Tintina Gold Belt in Alaska that hosts deposits such as Donlin Creek (38moz), Fort Knox (10moz) and Livengood (20moz).

At the time of acquisition from Oz Minerals Ltd ('OZL') the resource was 729koz @ 1.8 g/t with some 70% in the indicated category. Over the next three years RNS drilled -10,000m of predominantly diamond core into Okvau and upgraded the resource to 1.1moz as outlined in the table below

| July 2015 JORC Resource (0.6g/t gold cut-off) |               |                |              |
|---|---------------|----------------|--------------|
| Resource Classification                       | Tonnage (Mt)  | Grade Au (g/t) | Gold (Koz)   |
| Indicated                                     | 13.2          | 2.3            | 962          |
| Inferred                                      | 2.7           | 2.0            | 169          |
| <b>Total</b>                                  | <b>15.8Mt</b> | <b>2.2g/t</b>  | <b>1,131</b> |

| JORC Resource Estimate at Various Cut-Offs |              |                |            |
|--|--------------|----------------|------------|
| Cut-Off Grade                              | Tonnage (Mt) | Grade Au (g/t) | Gold (Koz) |
| 0.6  | 15.8         | 2.2            | 1,131      |
| 1.00                                       | 12.1         | 2.7            | 1,036      |
| 1.50                                       | 8.6          | 3.2            | 898        |
| 2.00                                       | 6.5          | 3.7            | 785        |

Source: Renaissance Minerals Ltd

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## (EMR \$0.042) Speculative Buy - Initiation of Coverage

### Prefeasibility Study

This resource formed the basis of a Prefeasibility Study that was completed in July'15. The key outcomes showed a robust project capable of producing ~90koz pa for 8 yrs at an AISC of \$740/oz. Capital cost was estimated at US\$120m. The outcomes at various gold prices is summarised below

Table One | Study Results<sup>1</sup>

|  |   |                     |                     |
|--|---|---------------------|---------------------|
| In Pit Mineral Resource                                      | 11.6Mt @ 2.2g/t gold for 829,000 ounces contained |                     |                     |
| LOM Strip Ratio (waste:ore)                                  | 7.7:1   |                     |                     |
| Throughput   | 1.5Mtpa   |                     |                     |
| Life of Mine   | 8 years   |                     |                     |
| Processing Recovery  | 85%   |                     |                     |
| Recovered Ounces   | 708,500 ounces                                    |                     |                     |
| Average Annual Production Target                             | 91,500 ounces                                     |                     |                     |
| Pre-production Capital Costs <sup>2</sup>                    | US\$120M  |                     |                     |
| Sustaining Capital Costs                                     | US\$10M   |                     |                     |
| <b>Gold Price</b>  | <b>US\$1,100/oz</b>                               | <b>US\$1,250/oz</b> | <b>US\$1,400/oz</b> |
| LOM Net Revenue (net of royalties <sup>3</sup> and refining) | US\$756M  | US\$860M            | US\$964M            |
| Operating Cash Flow  | US\$272M  | US\$376M            | US\$479M            |
| Project Cash Flow  | US\$142M  | US\$245M            | US\$349M            |
| NPV <sup>4</sup> (5%)  | US\$90M   | US\$174M            | US\$257M            |
| Payback  | 3.2 years   | 2.6 years           | 1.9 years           |
| IRR pre-tax  | 21%   | 35% pa              | 47%                 |
| IRR post-tax (30% corporate tax with no incentives)          | 19%   | 29% pa              | 38%                 |
| LOM C1 Cash Costs <sup>5</sup>                               | US\$684/oz  | US\$684/oz          | US\$684/oz          |
| LOM All-In Sustaining Costs ("AISC") <sup>6</sup>            | US\$731/oz  | US\$735/oz          | US\$738/oz          |

<sup>1</sup> All Renaissance has 100% ownership with no third party of Government equity interests and therefore economics are 100% attributable to Renaissance

<sup>2</sup> Capital Costs include working capital and 10% contingency

<sup>3</sup> Government royalty fixed at 2.5% of gross revenue

<sup>4</sup> After royalties but before corporate tax

<sup>5</sup> C1 Cash Costs include all mining, processing and general & administration costs

<sup>6</sup> AISC include C1 Cash Costs plus royalties, refining costs, sustaining capital and closure costs

Source: Renaissance Minerals Ltd

### Key points

- Project capable of producing ~90koz pa over an initial 8 yr mine life for a single open pit to be mined in three stages,
- C1 cash costs and ASIC of US\$561/oz and US\$611/oz respectively for the first two stages of the pit, providing +5 yrs mill feed at a strip ratio of 4.7:1,
- Conventional processing route with a 1.5mtpa comprising flotation and cyanide leaching to produce gold dore,
- 92% of the in pit resource in the Indicated category.

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# Emerald Resources NL

## (EMR \$0.045) Speculative Buy - Initiation of Coverage

### Capital and Operating Costs

The capital costs for the project was estimated at US\$120m as outlined below;

| Description  | US\$M        |
|--|--------------|
| Treatment Plant  | 48.9         |
| Infrastructure (Access Road, Power, Tailings, Water & Accommodation) | 30.2         |
| Site Establishment, mobilisation and demobilization                  | 7.5          |
| EPCM   | 11.6         |
| Owners Costs & Commissioning   | 8.2          |
| <b>Estimated Capital Costs</b>                                       | <b>106.4</b> |
| Contingency (~10%)   | 10.4         |
| Pre-production Mining  | 3.0          |
| <b>Total Capital Requirement</b>                                     | <b>119.8</b> |

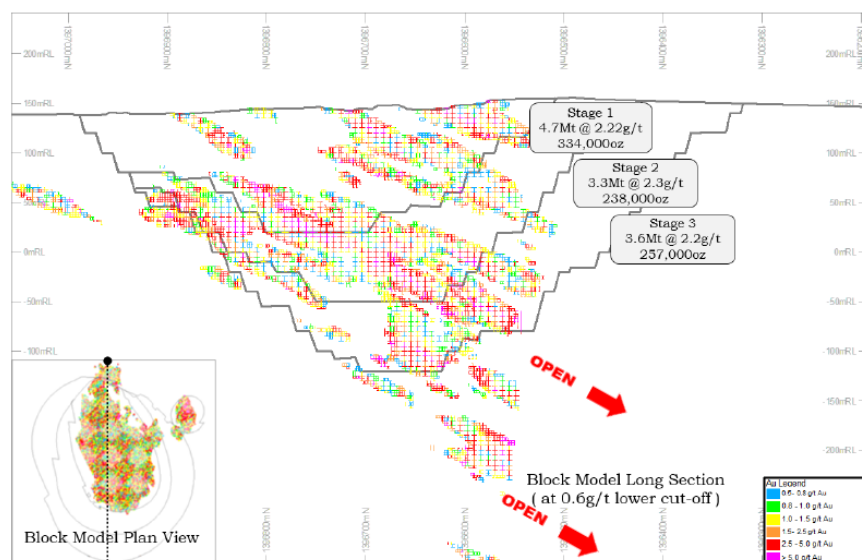
Source: Renaissance Minerals Ltd

Included in this is US\$10.4m contingency and full build of the Tailings Dam etc. We understand that RNS has already identified areas where costs savings were possible and a more realistic capex was ~US\$110m.

The average LOM C1 cost is US\$684/oz and with LOM sustaining capital of US\$10m the AISC of US\$735/oz is very competitive for this type of operation.

The open pit comprises a single pit with final dimensions of ~680m by 720m and to a depth of 280m to be mined in three stages. The table below shows the different stages.

| Open pit Stages         | Stage 1 | Stage 2 | Stage 3 | LOM     |
|-------------------------|---------|---------|---------|---------|
| Vertical Depth          | 120m    | 200m    | 280m    | 280m    |
| Waste Material          | 14.9mt  | 23mt    | 51.6mt  | 89.5mt  |
| In Pit Mineral Resource | 4.7mt   | 3.3mt   | 3.6mt   | 11.6mt  |
| Total Material          | 19.7mt  | 26.2mt  | 55.1mt  | 101.1mt |
| Strip Ratio             | 3.2:1   | 6.9:1   | 14.3    | 7.7:1   |
| Average Head Grade      | 2.2 g/t | 2.3 g/t | 2.2 g/t | 2.2g/t  |
| Contained Gold          | 334koz  | 238koz  | 257koz  | 829koz  |



Source: Renaissance Minerals Ltd

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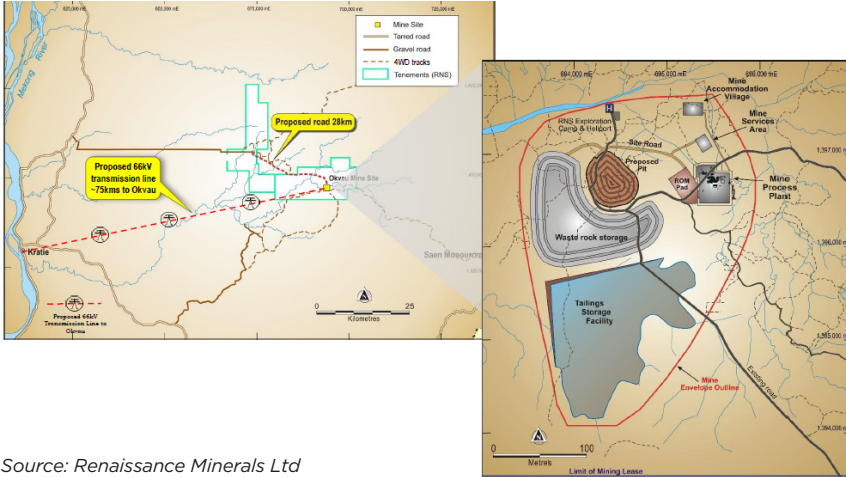
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Cashflow is front ended with low strip ratio and RNS estimate C1 costs and AISC of US\$561/oz and US\$611/oz respectively for the first two stages of the pit providing +5yrs mill feed at an average strip ratio of 4.7:1. In the stage 1 pit we estimate AISC of -\$500/oz.



Source: Renaissance Minerals Ltd

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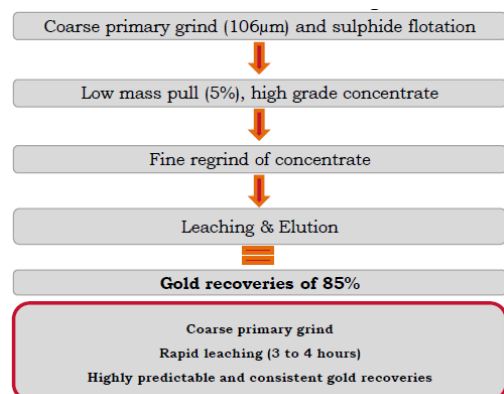
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### Metallurgy

Extensive metallurgical testwork has been performed on the Okvau primary ore. The average Bond ball mill work index is 17.5 indicating a moderately hard ore. The plant has been designed to utilise three stage crushing. Gold recovery of ~85% was achieved by coarse grinding (106µm) and flotation, fine grinding of a low mass (5.5%) concentrate and conventional cyanide leaching of concentrate and flotation tails.

The proposed flow sheet is outlined below.



### Processing Costs

|                          | US\$/t           | kW consumed    |
|--------------------------|------------------|----------------|
| Crushing & Primary Grind | US\$7.31         | 5,222kW (60%)  |
| Flotation & Regrind      | US\$1.83         | 1,325kW (15%)  |
| Leaching & Elution       | US\$4.77         | 555kW (6%)     |
| Tailings Treatment       | US\$2.31         | 273kW (4%)     |
| Services                 | US\$0.70         | 1,270kW (15%)  |
| Administration           | US\$2.55         | -              |
| <b>Total</b>             | <b>US\$19.47</b> | <b>8,645kW</b> |

Source: Renaissance Minerals Ltd

As part of the DFS, EMR will undertake further testwork with a view to refining the process and potentially improving recoveries, reducing capex and simplifying the flow sheet. A 600m drill program for detailed metallurgical testing is underway.

### Capital and Operating Cost Reductions

We expect EMR to make some significant reduction in the capital costs that were estimated in the PFS utilising its in house expertise and its track record of building similar sized or larger plants for 30-40% less than consultant estimates is well documented. The table below outlines some of the recent project builds Morgan Hart was involved in during his tenure at EQI and RRL, including Bonikro in the Ivory Coast.

| Date     | Project                   | Location                | plant size  | Cost    |
|----------|---------------------------|-------------------------|-------------|---------|
| Oct'2008 | Bonikro gold project      | Ivory Cost, West Africa | 2.0-2.5mtpa | US\$67m |
| Aug'10   | Moolart Well gold project | West Australia          | 2.0mtpa     | A\$67m  |
| July'12  | Garden Well gold project  | West Australia          | 4.0mtpa     | A\$112m |
| Oct'13   | Rosemont Gold project     | West Australia          | 1.5mtpa     | A\$55m  |

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Some of the opportunities to reduce capital from the PFS estimate include

- EPCM costs of US\$11m – Project management likely to be done in house
- Access Road – US\$3.6m – potential to be done cheaper
- TSF – US\$6.9m - modified and lower capital cost
- Accommodation Camp – US\$6.2m – potential for lower cost
- Transmission Line – US\$10.7m – may not be required if diesel fired power delivers similar cost.
- Contingency – US\$10.4m – Typically no contingency is budgeted in plant builds by EQI/RRL.

This total US\$49m and whilst these would not be zero items it does show the scope for significant cost savings.

We believe that the original PFS capex estimate of US\$120m can be reduced to ~US\$80-90m in the hands of the EMR team. In a recent presentation RNS's state a 20% reduction in capital cost would increase the NPV by 15%.

In addition the mining costs were estimated at US\$2.59/t based on a diesel price of US\$0.90/litre. Diesel price is currently at US\$0.55/litre so there is good scope to operating costs to reduce. Reagent pricing has also reduced.

EMR will also undertake some geotechnical drilling to determine final wall angles and look at the potential to steepen the walls from the current 45 degrees. Steeper wall angles could drive the pit deeper.

We also believe that EMR will investigate increasing the plant size to 2mtpa – this could see production at +100koz depending on overall grade.

#### Work Program

Metallurgical drilling has commenced and this will be followed by ~7,000m infill drill program at Okvau. Drilling will be done on a nominal 25m x 25m spacing to a vertical depth of ~110m with the aim of upgrading the top 110m from indicated resource to a measured resource and ultimately a proven reserve.

This should de-risk the first three-four years of production and will be important for project financing.

EMR aims to update the PFS by the end of Aug'16 and a DFS by the end of CY'16. It aims to submit an Environmental Impact Assessment in August'16 followed by a public consultation process for ~3months. Ideally the JV will have all approvals by year end.

However, as the first western world mine development in Cambodia it comes with both risks and opportunities. The govt is supportive with a recent project visit by both the Minister of Mines and Environment and with elections in two years' time we believe the govt will want to show some development has been made.

A recent trip confirmed the impediments to a successful development were low. EMR has already mobilised many of its key personnel who have been instrumental in the successful development at EQI/RRL. In addition, it has experience building the first western world development in an emerging country with the Bonikro development in the Ivory Coast.

The project is on a gazetted nature reserve, however, the expectation is the government will exclude the project area when it is time to grant the mining licence. Parts of the nature reserve have been extensively logged so this is not pristine forest as such. Nevertheless this is risk until the licence is granted

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### EMR vs RNS

The table below shows the EV of each company with the market ascribing a modest premium to EMR. We believe this is justified as EMR will be in a position of control on the JV by earning 51%. It will be able to direct the expenditure and likely obtain financing easier than its minority partner.

|                     |     | RNS   | EMR   |
|---------------------|-----|-------|-------|
| Share of issue      | m   | 574   | 1306  |
| Price               | cps | 0.055 | 0.042 |
| Mkt Cap             | \$m | 31.5  | 54.8  |
| Cash + Investments  | \$m | 4     | 18    |
| Enterprise Val      | \$m | 27.6  | 37    |
| % project           |     | 49    | 51    |
| Impiled project val | \$m | 56    | 72    |

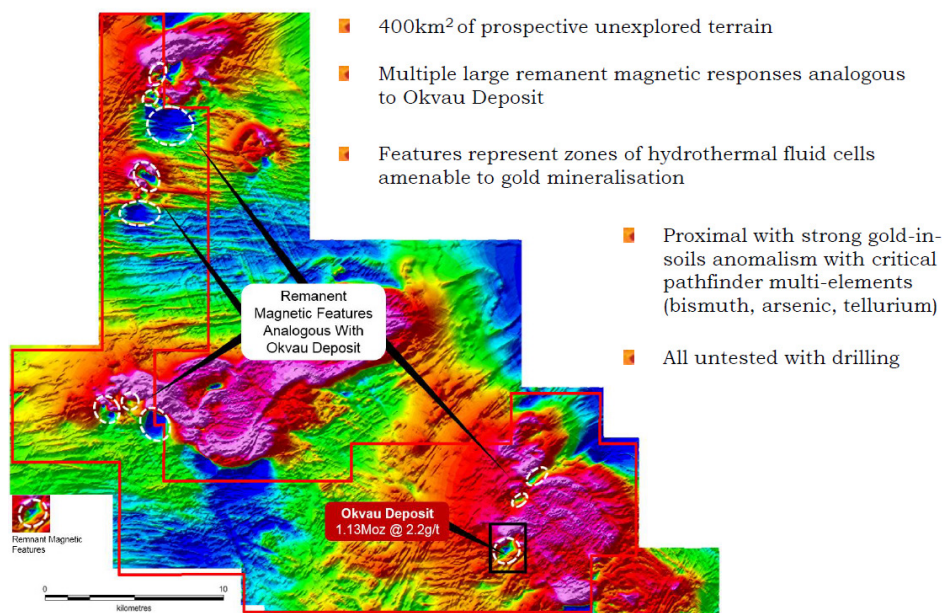
In addition we believe that EMR will continue to look for other opportunities in the resource sector with cash of >\$10m. The type of value accretive it did with RNS suggests if other deals can be done then the market is likely to reward this management team.

Ultimately we believe if the project stacks up - which we believe it does, then a merger to consolidate ownership is a possible outcome.

### Exploration Upside

RNS key focus since acquiring the project was to increase the resource at Okvau and complete a PFS. Whilst some exploration was completed, lack of sufficient funds and this different focus meant that many targets that were identified were not followed up.

As Okvau is an Intrusive Relative Gold deposit, this opens up the some 400 sqkm of prospective unexplored terrain. RNS has identified multiple large remanent magnetic responses analogous to Okvau with some that are proximal with strong gold in soil anomalism with critical pathfinder elements such as bismuth, arsenic and tellurium. Most of these targets have not been drilled. This is highlighted in the figure below and will be the target of drilling in the 2nd H of CY'16.



Source: Renaissance Minerals Ltd

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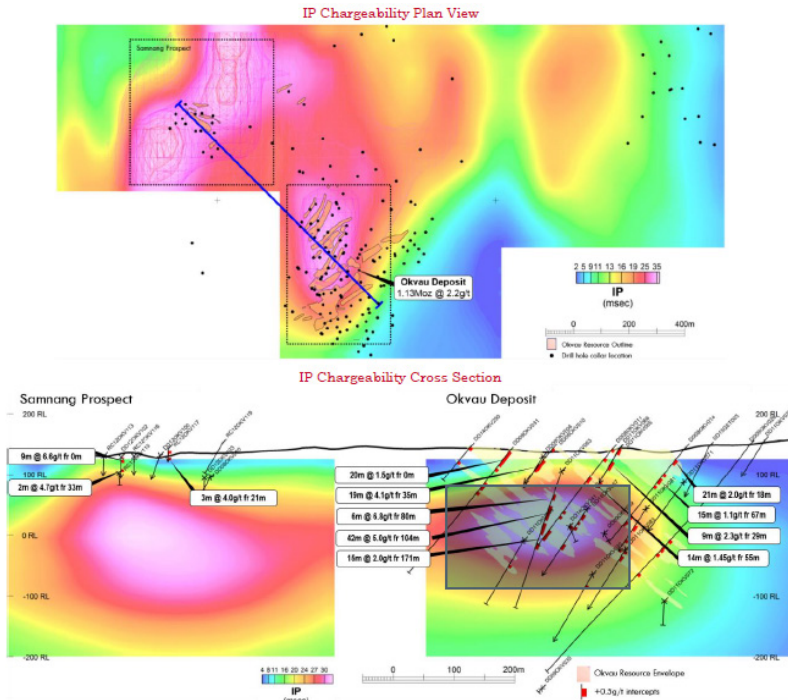


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A recent IP survey identified a high chargeable zone contiguous over at least 500m of strike and open. This is analogous with the Okvau deposit and remains a key exploration target that is likely to be drilled in the June'Q.

Shallow drilling at Samnang intersected 9m @ 6 g/t Au from surface and 20m @ 2 g/t Au which shows gold mineralisation is present. This shallow drilling did not intersect the interpreted anomaly and is an excellent first up target.



Source: Renaissance Minerals Ltd



Figure 1: Exploration Camp



Figure 2: Okvau Drill Core

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Figure 3: Coreyard



Figure 4: Metallurgical Drilling underway



Figure 5: Previous Artisanal Workings - Within Current Pit Design

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Figure 6: Drill Pad ready at Samnang



Figure 7: Prek Te River - 1km from project area

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### Cambodia

Cambodia is a constitutional monarchy with a constitution providing for a multi-party democracy. The population of Cambodia is approximately 14 million. The Royal Government of Cambodia, formed on the basis of elections internationally recognized as free and fair, was established in 1993. Elections are held every five (5) years with the last election held in July 2013.

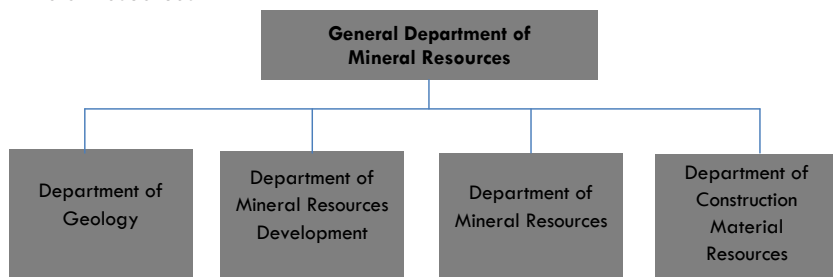
Cambodia has a relatively open trading regime and joined the World Trade Organisation in 2004. The government’s adherence to the global market, freedom from exchange controls and unrestricted capital movement makes Cambodia one of the most business friendly countries in the region.

The Cambodian Government has implemented a strategy to create an appropriate investment environment to attract foreign companies, particularly in the mining industry. Cambodia has a modern and transparent mining code and the government is supportive of foreign investment particularly in mining and exploration to help realise the value of its potential mineral value.

#### Mining in Cambodia

The Cambodian Government has sought to promote the research, exploration for, and exploitation of, mineral resources as a means for developing the national economy.

The Ministry of Industry, Mines and Energy is responsible for the development, implementation and management of a number of sectors including mines, water and energy. The mining sector is managed by the General Department of Mineral Resources.



Source: Renaissance Minerals Ltd

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#### Directors

##### **Mr Simon Lee (Non Executive Chairman)**

Simon has had extensive management experience with a diverse range of business enterprises in a career that has based him in Asia, England, Canada and Australia. Simon has held a number of positions, which included Board Member of the Australian Trade Commission (AUSTRADE) and President of the Western Australia Chinese Chamber of Commerce Inc. Simon has a successful track record in the resources industry which has included building gold mine companies, Great Victoria Gold NL, Samantha Gold NL and Equigold NL.

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

Morgan is a Geologist and experienced Mining Executive. He is formerly an Executive Director and Chief Operating Officer of Regis Resources Ltd, responsible for the development of three gold mines in four years ( Moolart Well, Garden Well and Rosemont) Prior to that, Morgan was Executive Director and Chief Operating Officer at Equigold NL, responsible for the development and construction of the Bonikro Gold Project in Ivory Coast West African in addition to the management of Equigold's Australian operations.

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

Ross is a well-respected mining executive with extensive experience both in Australia and African mining enterprises. Ross was formally 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 1990's. Ross also served as a Non-Executive Director of Equigold NL

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

Ross is a founding shareholder of MACA Ltd and up until July'14 held the position of CFO and Finance Director with responsibility for capital management, finance, financial reporting and corporate strategy. He played a key role in the highly successful IPO of MACA in 2010 and was pivotal to its subsequent success as a publicly listed company.

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### Directors Shareholdings

|                  | Shares      |
|------------------|-------------|
| S. Lee (NE Chrm) | 114,000,000 |
| M. Hart (MD)     | 257,318,823 |
| R. Stanley (NED) | 222,163,613 |
| R. Williams      | 25,000,000  |

### Top 20 Shareholders

| Shareholders                  | As at 13 May 2016 |              |
|-------------------------------|-------------------|--------------|
|                               | Shares (m)        | (%)          |
| 1 Hart Morgan Cain            | 257.32            | 19.69        |
| 2 Stanley Ross Francis        | 222.16            | 17.00        |
| 3 Confederate Capital Pty Ltd | 137.50            | 10.52        |
| 4 SHL PL                      | 114.00            | 8.72         |
| 5 Zero Nom PL                 | 49.39             | 3.78         |
| 6 Lennan B J B M + I J M      | 30.00             | 2.30         |
| 7 BNP Paribas Noms PL         | 24.07             | 1.84         |
| 8 Williams Ross Campbell      | 15.00             | 1.15         |
| 9 Seah Kee Khoo               | 11.37             | 0.87         |
| 10 Citicorp Nom PL            | 10.80             | 0.83         |
| 11 Attrition Holdings PL      | 10.50             | 0.80         |
| 12 Hart Garrick               | 10.02             | 0.77         |
| 13 Williams Ross C + N A      | 10.00             | 0.77         |
| 14 P & L Capital Inv PL       | 9.30              | 0.71         |
| 15 Desertfox PL               | 8.80              | 0.71         |
| 16 Wise Daniel Paul           | 8.80              | 0.67         |
| 17 Snowdon Susan Edith        | 7.70              | 0.67         |
| 18 Merrill Lynch Aust. Nom PL | 6.60              | 0.59         |
| 19 Inkese PL                  | 6.50              | 0.51         |
| 20 Murray Andrea              | 0.00              | 0.50         |
| <b>Total</b>                  | <b>949.83</b>     | <b>73.41</b> |

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| Jay Hughes - Executive Director        | +61 8 9488 1406 |
| Russell Kane - Executive Director      | +61 8 9488 1426 |
| Simon Yeo - Executive Director         | +61 8 9488 1404 |
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| Tim Lyons - Executive Director        | +61 8 9346 0324 |
| Lucas Robinson - Executive Director   | +61 8 9488 1424 |
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