

Emerging Gold Producers

Analyst

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Date

5th May 2017

Investment case

In the past six months, five ASX listed gold companies have delivered Definitive Feasibility Studies (EMR, DCN, GCY, GOR and WAF) and are at various stages of permitting, funding and development.

Whilst only two are under formal coverage; DCN and EMR there is enough public information to compare and contrast this group.

Our preferred exposure is EMR which delivered an excellent DFS with reduced capex (from PFS), increased production and reserves and a strong IRR. In addition, its management team are proven developers with a successful track record of development and significant owners of the business (30%).

The operation is a single open pit at a modest strip ratio with a grade of 2 g/t Au. A 90% conversion of Indicated resource to reserve demonstrates the robustness of this deposit. Whilst recoveries are lower than its peers, the higher grade offsets this.

It is cheap against its peers on fully developed EV per reserves oz, production oz and Life of Mine Cashflow.

As the first large scale development in Cambodia, permitting and timing of this remains the key risk. However, our valuation of \$0.087/sh more than compensates for this.

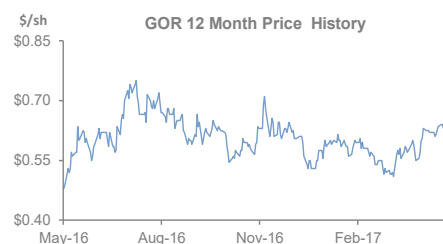
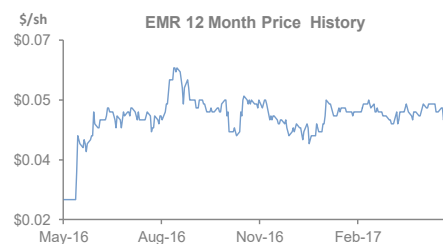
DCN is now fully funded and with the recent share price underperformance and likely potential to increase open-pit (Cameron Well) and underground inventories we maintain our Buy with valuation of \$2.80/sh on the expanded case scenario.

GOR is also fully funded after selling a 50% interest in Gruyere to Gold Fields Ltd for A\$350m cash. This was an excellent deal giving GOR more than enough cash to fund its 50% share of the \$507m capital cost.

WAF has commenced an DFS optimisation study to drill out the high grade M1 deposit and look at this as an underground development, not a high strip (35:1) open pit. Recent deep success at M5 augers well that additional ounces will be discovered. WAF is targeting 150koz pa for at least 5 yrs.

GCY has the lowest grade and reserve ounces of the peer group offset by the lowest capital cost. As a redevelopment of an old project it has the highest strip ratio and we are cautious that, based on the DFS study, the strip ratio of 15:1 in the first two years is likely to see cashflow back ended. Recent exploration success may change this.

Share Price Charts



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

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Market Statistics and Project location

	Emerald Resources NL	Dacian Gold Ltd	Gascoyne Resources Ltd	West African Resources	Gold Road Resource	
ASX Code	EMR	DCN	GCY	WAF	GOR	
Share	m	2108	201	377.1	484	871
Price	\$/sh	0.047	1.6	0.5	0.25	0.65
Mkt Cap	\$m	100	320	188	120	566
Cash	\$m	10	125	53	15	337
Debt	\$m	0	0	0	0	0
Enterprise Value	\$m	90	195	135	105	229
Fully funded EV	\$m	220	390	221	280	480
Project	Okvau	Mt Morgans	Dalgaranga	Sanbrado	Gruyere	
Location	Cambodia	Western Australia	Western Australia	Burkina Faso	Western Australia	
% Ownership	100%	100%	100%	100% -> 90%	50%	

Three of the companies projects are in Western Australia, one in West Africa and one in Cambodia. GCY and DCN have a 100% interest, GOR a 50% interest after the JV with Goldfields, WAF currently has 100% but will dilute to 90% with a 10% govt interest and EMR has a 100% interest.

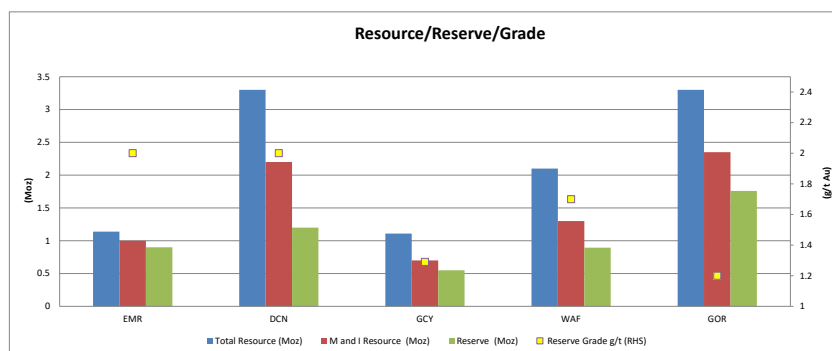
To compare the five companies you must look at them on a fully funded Enterprise Value.

DCN and GOR are both fully funded, whilst GCY has raised the equity component but not the debt. WAF is undergoing its optimisation study with results expected in the 3rd Q CY'17 and financing shortly after, whilst EMR is targeting project funding by Q3 CY'17.

Reserves, Resources and Grade

All five companies have global resources of >1moz with DCN and GOR the largest at 3.3moz. DCN is a split 1.6moz in the Westalia U/G with some 715koz in the inferred category and the balance in the open pits and small undergrounds. 93% of GOR's 3.3moz resource is at Gruyere.

The measured and indicated resource subset results in GCY resource reduction to 0.7moz, DCN to 2.2moz, GOR from 3.3moz to 2.35moz, WAF from 2.1moz to 1.3moz and EMR from 1.1moz to 1moz.



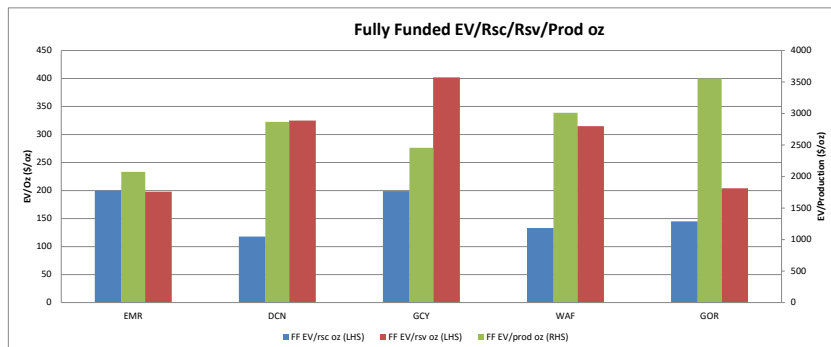
Resource to reserve conversion delivers EMR an impressive 90% with DCN the lowest at 54% which reflects 58% conversion on the open pits at Jupiter and a 52% conversion on the underground.

EMR is the cheapest on fully developed EV per reserve oz, with GOR at similar levels and a 50% discount to GCY current reserve.

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EMR has the highest open pit grade at 2 g/t. DCN open pit grade is 1.4 g/t with GOR the lowest at 1.2 g/t Au.

Gold Price assumptions, Capital Cost, Production and Costs

The gold price assumptions used in the feasibility studies are outlined below

WAF - US\$1,200/oz

GOR - A\$1,500/oz

EMR - US\$1,250/oz

DCN - A\$1,600/oz

GCY - A\$1,600/oz

For comparative purposes we use a gold price of US\$1,250/oz and an exchange rate of \$0.75 for a A\$1,666/oz gold price.

In terms of simplicity EMR and GOR projects are both just a single open pit. GCY is two open pits, WAF currently is four open pits, though we expect M1 Sth to develop into an underground operation and DCN is 1 large open pit comprising the DoubleJay pit, Heffernans pit and Ganymede pit and three underground mines; Beresford, Allanson and Transvaal.

The plant size varies from 2.0 to 7.5mtpa and all are conventional CIL/SAG plants. EMR will utilise sulphide flotation and regrind of low mass pull, high grade concentrate and then standard leaching etc.

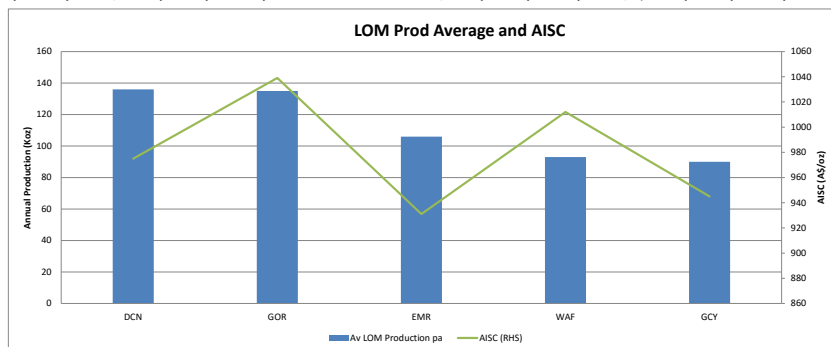
The capital costs varies from a low of \$86m for GCY to a high of \$507m for GOR.

Average LOM production ranges from 90koz to 136koz, however both DCN and WAF have peak production years of 224koz and 167koz respectively in Year 2 of operation, as high grade/underground ore is delivered.

Recoveries range from 84% (EMR) to 91% (GCY).

Strip ratio varies from 2.8:1 (GOR) to 7.5:1 (DCN Open pit)

Operating costs and AISC are similar for the group. C1 costs range from \$858/oz (GOR) to \$956/oz (WAF) and AISC from \$931/oz (GCY) to \$1,039/oz (DCN).



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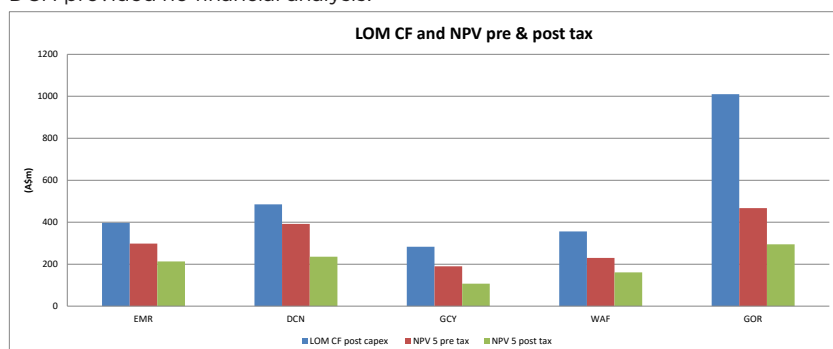
On a unit cost per tonne basis GOR is the lowest at \$30.3/t, driven by the scale of the operation, low strip (low mining cost per tonne of ore), whilst DCN is the highest at \$55/t driven by higher underground unit mining costs.

Financial Analysis

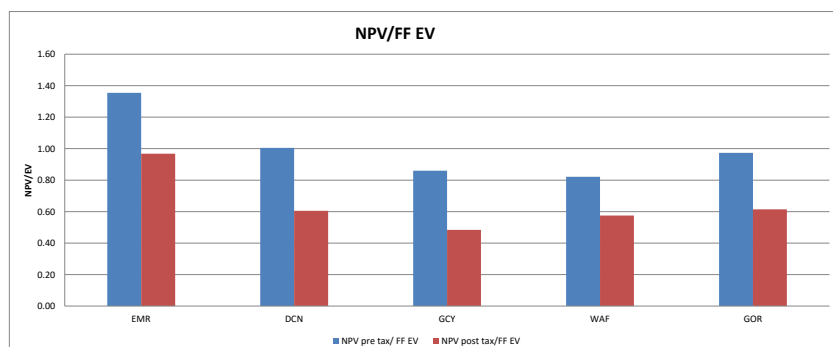
We do not formally cover WAF, GOR or GCY but did build relatively simple models to calculate NPV and IRR.

Using a gold price of US\$1,250/oz and a A\$ exchange rate of 0.75 for an A\$ gold price of \$1,666/oz we compare the companies.

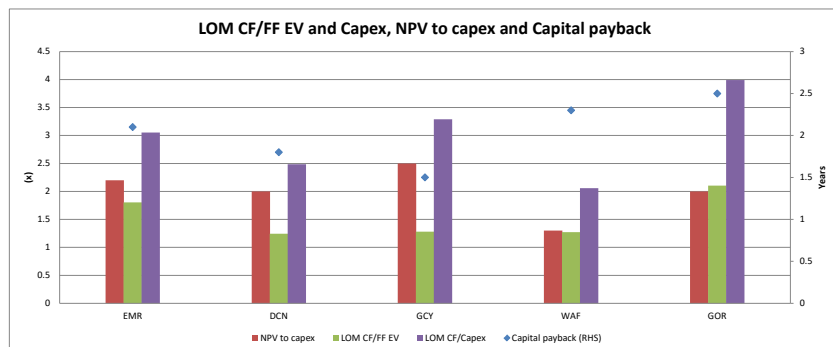
LOM cashflow post capex ranges from \$283m for GCY to \$1010m for GOR (EZL estimate). Only EMR, WAF and GOR delivered an pre and post tax NPV and IRR – albeit at different gold price assumptions, whilst GCY produced a pre tax NPV, DCN provided no financial analysis.



GOR and EMR compare favourably on LOM CF/Fully Funded EV at 2.1x and 1.8x respectively compared to the others at 1.2-1.3x.



Similarly, LOM CF/capex has GOR at 4x reflecting its 13yr mine life. EMR and GCY are both >3x.



We acknowledge that DCN did also put out a PFS in conjunction with the DFS showing potentially adding 0.5moz to reserve, lowering AISC, increasing LOM average production.

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Also, we do expect that with further drilling and optimisation that WAF will improve its production profile and significantly enhance its NPV.

Permitting, Funding and First gold

EMR is the only project that requires permitting both Environmental and Mining. It forecasts all permits will be in place by the 3rd Q CY'17.

DCN and GOR are the most advanced with construction underway. GOR is fully funded after the deal with Goldfields. DCN is now fully funded via a recent \$110m equity raising and an undrawn \$150m debt facility. GCY raised \$50m in Mar'17 and a debt package is expected shortly with construction to commence this Q.

WAF is optimising its feasibility studies and expect an updated study in the 3rd Q CY'17 to incorporate recent exploration success and evaluate M1 Sth as an underground operation. Financing in the 2nd H of the CY'17 is expected

Summary

Higher gold prices and/or new gold discoveries has resulted in five companies recently delivering DFS. All projects have various positive and negative attributes but as a group they all show that at current gold prices, good margins of +\$600/oz should be generated once in production.

Whilst we expect that DCN, WAF and GCY will optimise their studies in due course it is nonetheless interesting to compare now. Similarly, we believe that EMR will find more ounces at Okvau and surrounding ground and GOR's tenement package is highly prospective.

The next major challenge is project execution. Recent operational underperformance from newly commissioned mines at Wiluna (BLK), Deflector (DRM) and Karouni (TRY) show that building and operating gold mines can be tough.

This is where management is crucial and why our preferred exposure is EMR where they have built and operated mines successfully before.

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Location		Cambodia	Western Australia	Western Australia	Burkina Faso	Western Australia
% Ownership		100%	100%	100%	100% -> 90%	50%
Total Resource		1.14moz @ 2 g/t Au	3.3moz @ 2.3 g/t Au	1.11moz @ 1.4 g/t Au	2.1moz @ 1.4 g/t Au	3.3moz @ 1.34 g/t Au
M and I Resource		1moz @ 2.08 g/t Au	2.2moz @ 2.1 g/t Au	0.70moz @ 1.35 g/t	1.3moz @ 1.4 g/t Au	2.35moz @ 1.32 g/t Au
Reserve		0.9moz @ 2.0 g/t	1.2moz @ 2 g/t Au	0.55moz @ 1.29 g/t Au	894koz @ 1.7 g/t Au	1.76moz @ 1.2 g/t Au
Res. to Reserve	%	90%	54	78	70%	75%
FF EV/rsc oz		200	118	199	133	145
FF EV/rsv oz		198	325	402	315	204
FF EV/prod oz		2075	2868	2456	3011	3555
Mining method		Single open pit	O/C + U/G	2x open pit	3 x open pit	Single Open pit
Capex	A\$m	130	195	86	173	253
Strip Ratio		5.8:1	7.5:1 (open pit)	7.0:1	5.0:1	2.8:1
Throughput	mtpa	2	2.5	2.5	2	7.5
Grade	g/t	2	2	1.3	1.7	1.2
Recoveries	%	84	90.7	91.3	90.7	91
Av LOM Product pa	koz	106	136	90	93	135
Peak Production	koz	106	224koz in Yr 2	100koz in Yr 2	167koz in Yr 2	157koz in Yr 2
Mine life	Yrs	7	8	6	9	13
C1 Cost	A\$/oz	866	935	869	956	858
AISC	A\$/oz	975	1039	931	1012	945
Capital payback	yr	2.1	1.8	1.5	2.3	2.5
NPV to capex	x	2.2	2	2.5	1.3	2
LOM CF/FF EV		1.8	1.2	1.3	1.3	2.1
LOM CF/Capex		3.1	2.5	3.3	2.1	4
Mining Cost	A\$/t	23.6	34	19.1	21.1	13.4
Milling Cost	A\$/t	18.8	17.9	12	14.4	15.6
G & A Cost	A\$/t	3.76	2.9	2.3	6.56	1.3
Total	A\$/t	46.3	55	33.4	42.1	30.3
Royalties + Sus Cap	A\$/t	5.7	6.1	2.37	6.6	3
AISC	A\$/t	52	61.1	35.71	48	33.3
Financial						
LOM CF post capex	A\$m	397	485	283	356	1010
NPV 5 pre tax	A\$m	298	392	190	230	467
NPV 5 post tax	A\$m	213	236	107	161	295
NPV pre tax/ FF EV		1.35	1.01	0.86	0.82	0.97
NPV post tax/FF EV		0.97	0.61	0.48	0.58	0.61
IRR - pre tax	%	40	74	68	31	34
IRR - post tax	%	48	56	43	24	24
Financed		No	Yes	Equity no debt	No	Yes - 100% equity
Permitted		No	Yes	Yes	Yes	Yes
F'cast Construction		4th Q CY'17	2nd Q CY'17	2nd Q CY'17	4th Q CY'17	Commenced
1st Gold pour		4th Q CY'18	1st Q CY' 18	1st Q CY'18	1st Q CY'19	1st Q CY'19

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