

Gorno : Producing zinc in 2 years

€50m investment; first product end 2016
C1 zinc costs estimated 67c/lb (43c/lb site costs)

Recommendation

BUY, High Risk

Price

2.0c

Risked, NPV based valuation

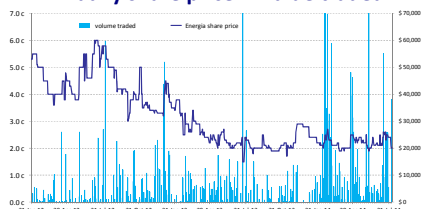
14.3c

- EMX holds 100% of the Gorno Zn-Pb project in northern Italy. It has an exploration target of 6 – 10Mt at 7% - 10% Zn + Pb, compared with recorded production of 6Mt at 14.5%.
- Beer & Co estimates US\$ 70m for feasibility plus project capital to produce 30kt/yr of Zn in conc, at an all-in cost of 74c/lb, starting in just over 2 years.
- Our base case valuation of Gorno, today, is \$A 97m, with upside to \$A 142m if it can achieve a mining rate of 750kt/yr

Snapshot

Last Price	2.0c
Market Cap	\$5.5m
Cash on hand (30 June, plus July raising)	\$0.9m
Shares on Issue	234.7m
52 Week High	2.9c
52 Week Low	1.5c
1 month / 6 month VWAP	2.4c / 2.3c

EMX : daily share price v. value traded



EMX first listed in December 2009. Carley Bore, about 210km N-W of Carnarvon in WA was its focus project.

EMX has progressively increased its JORC Resources at Carley Bore. Upon successful completion of field leach trials, EMX will commence the full feasibility study.

EMX has secured highly prospective base metal and uranium projects in Italy.

Gorno has an Exploration Target of 6Mt – 10Mt at 7% - 10% zinc plus lead. It has been mined previously, and the mine is fully developed for a quick re-start, subject to the processing plant being constructed.

Author : Pieter Bruinstroop
pbruinstroop@beerandco.com.au

EMX starts on zinc project; Carley Bore still valuable

Gorno was mined until the mid 1980s. Mining ceased as the Italian Government ordered ENI to exit mining and focus on its oil & gas operations, not because of any financial or resource related issues.

Zinc prices are rising and we expect that zinc prices will be very strong over the next 3 or so years, while Gorno is brought into production.

Beer & Co expects that while Carley Bore will continue to be progressed, EMX will focus on the Gorno zinc project, reflecting market preferences.

EMX will be in a position to develop Carley Bore when market conditions dictate that this should be done.

Beer & Co view

EMX's share price has been dictated by the spot U₃O₈ price. In our view, EMX's Carley Bore project is a very valuable project, but equity markets are not interested in a U₃O₈ project at this time.

In contrast, the zinc price has risen steadily through this year as inventories have declined with the closure of mines in Canada and Ireland due to exhaustion of reserves. More mines are projected to close in 2015 and 2016, which is expected to make zinc supply very tight when Gorno is expected to come into production.

There are NO zinc focussed producers listed on the ASX, very few developers, and not even many in pre-development.

Beer & Co conclusions

We affirm our BUY recommendation on EMX.

EMX's focus has changed from uranium, which has poor medium term market fundamentals, to zinc which will be very strong.

Our base case valuation of 14.3c/share, assumes that Gorno is developed expeditiously, while Carley Bore is delayed until the uranium price rises, sparking interest from equity markets.

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Energia Minerals – Gorno Zinc-Lead

Gorno Zinc-Lead

EMX has 100% of the Gorno Zinc-Lead project in northern Italy.

EMX has 100% of the Gorno Zinc-lead project in northern Italy.

Gorno has been mined since Celtic times. It is estimated to have produced 10 – 15Mt of ore grading 5% - 10% Zinc plus lead (Zn + Pb). It was mined by the Italian state owned enterprise, ENI, until 1985 when the Italian Government took a decision to force ENI to focus on its oil and gas business and exit its hard rock mining operations. As a result, the Gorno licence areas contain more than 230km of underground workings.

On 23 July, EMX announced an Exploration Target for Gorno, as shown in Figure 5, of 6 to 10Mt at 7% - 10% zinc plus lead.

Figure 1 : Gorno Exploration Target

	Volume range		Grade range		
	5Mt	8Mt	7%	10%	Zn + Pb
Panel 7	5Mt	8Mt	7%	10%	Zn + Pb
Colonna Fortuna	1Mt	2Mt	6%	7%	Zn + Pb
TOTAL	6Mt	10Mt	7%	10%	Zn + Pb

Source : EMX announcement, 23 July 2014

In our valuation, Beer & Co uses a mining inventory of 8Mt at 7.3% zinc + lead

Figure 2 shows the mining inventory assumed by Beer & Co in this analysis. The silver assumed for Panel 7 is consistent with historical production. While we expect that there is silver in Colonna Fortuna, we do not have any indication of the grade.

Figure 2 : Mining inventory assumed by Beer & Co

		grades			contained metal		
		Zinc	Lead	Silver	Zinc	Lead	Silver
		%	%	g/t	kt	kt	koz
Panel 7	6,500 kt	6.25 %	1.25 %	4.5g/t	406 kt	81 kt	941 koz
Collonna Fortuna	1,500 kt	5.50 %	1.00 %		83 kt	15 kt	0 koz
TOTAL	8,000 kt	6.11 %	1.20 %		489 kt	96 kt	941 koz

Source : Beer & Co estimates

Gorno - Operations

Beer & Co expects that Gorno can be brought back into production for €54m in feasibility and capital

Beer & Co expects it will take just over 2 year to get the mine back into operation, with about €4m to be spent on feasibility.

To bring the operation back into production, Beer & Co estimate will cost about €50m, as shown in Figure 4. We expect that Gorno could produce its first product in late 2016.

And be producing in a bit over 2 years.

Figure 3 shows the key assumptions made by Beer & Co in this analysis, and the outcome. We understand that historical production from Colonna Fortuna recorded recoveries of 98% and concentrate grades of 55% - 58% Zn and 1% – 1.5% Fe

Figure 3 : Beer & Co's projections for production from Gorno

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Ore Mined & processed	0 kt	275 kt	500 kt	500 kt	500 kt	500 kt	500 kt	500 kt	500 kt	500 kt	500 kt	225 kt
Head grade - zinc	6.25 %	6.25 %	6.25 %	6.25 %	6.25 %	6.25 %	6.25 %	6.25 %	5.84 %	5.50 %	5.50 %	5.50 %
Head grade - lead	1.25 %	1.25 %	1.25 %	1.25 %	1.25 %	1.25 %	1.25 %	1.25 %	1.11 %	1.00 %	1.00 %	1.00 %
head grade - silver	4.5 g/t	4.5 g/t	4.5 g/t	4.5 g/t	4.5 g/t	4.5 g/t	4.5 g/t	4.5 g/t	2.0 g/t	0.0 g/t	0.0 g/t	0.0 g/t
Recovery : Zn	81 %	87 %	95 %	95 %	95 %	95 %	95 %	95 %	95 %	95 %	95 %	95 %
Zn in conc	0 t	14,934 t	29,688 t	29,688 t	29,688 t	29,688 t	29,688 t	29,688 t	27,728 t	26,125 t	26,125 t	11,756 t
Conc grade	47 %	50 %	55 %	55 %	55 %	55 %	55 %	55 %	55 %	55 %	55 %	55 %
Zn conc	0 t	29,970 t	54,164 t	53,977 t	53,977 t	53,977 t	53,977 t	53,977 t	50,415 t	47,500 t	47,500 t	21,375 t
Recovery : Pb	81 %	87 %	95 %	95 %	95 %	95 %	95 %	95 %	95 %	95 %	95 %	95 %
Pb in conc	0 t	2,987 t	5,938 t	5,938 t	5,938 t	5,938 t	5,938 t	5,938 t	5,284 t	4,750 t	4,750 t	2,138 t
Conc grade	47 %	50 %	55 %	55 %	55 %	55 %	55 %	55 %	55 %	55 %	55 %	55 %
Pb conc	0 t	5,994 t	10,833 t	10,795 t	10,795 t	10,795 t	10,795 t	10,795 t	9,608 t	8,636 t	8,636 t	3,886 t
Recovery : Ag	64 %	70 %	76 %	80 %	80 %	80 %	80 %	80 %	80 %	80 %	80 %	80 %
Ag in Conc	0 oz	27,908 oz	54,622 oz	57,697 oz	57,878 oz	57,878 oz	57,878 oz	57,878 oz	26,045 oz	0 oz	0 oz	0 oz
Conc grade	0g/t	145g/t	157g/t	166g/t	167g/t	167g/t	167g/t	167g/t	84g/t	0g/t	0g/t	0g/t

Source : Beer & Co estimates

Gorno – Cost estimates

The major expenditure to get Gorno back into operation is a new mill. Being a carbonate hosted ore, it is expected to be relatively soft and a single ball mill is expected to be sufficient.

Beer & Co estimate €50m to get back into operation, as shown in Figure 4.

Figure 4 shows Beer & Co's estimated operating costs. In AUD/t terms, the costs may seem low; this is largely due to low wage costs assumed for Italy.

Figure 5 shows that if we assumed Australian costs for under-ground mining on a fly-in – fly-out basis, then the costs would be 50% higher at \$A 90/t compared with €41/t or \$A 61/t estimated by Beer & Co in this analysis.

Beer & Co estimate costs of €41/t, or \$A 61/t

Using Australian costs for a Fly-in – fly-out operation, our costs would be \$A 90/t

Figure 5 : Estimated operating costs

		in AUD terms	using AUD costs
Mining	€ 17.5/t	\$A 25.9/t	\$A 42.2/t
Processing	€ 19.1/t	\$A 28.2/t	\$A 38.3/t
Site S, G & A	€ 4.4/t	\$A 6.5/t	\$A 9.7/t
TOTAL	€ 41.1/t	\$A 60.6/t	\$A 90.1/t

Source : Beer & Co estimates

Figure 4 : Estimated capital

Process Plant	€ 30m
Infrastructure	€ 3.5m
Mobile equipment	€ 7.0m
Decline, TSF	€ 5.3m
Contingency	€ 4.1m
TOTAL	€ 50m

Source : Beer & Co estimates

Figure 6 shows that Beer & Co's cost estimates are US 66c/lb for C1 costs, of which 43c/lb are the site costs, or US 74c/lb for all in sustaining costs.

Figure 6 : Beer & Co projects C1 cash costs of 66c/lb for Gorno

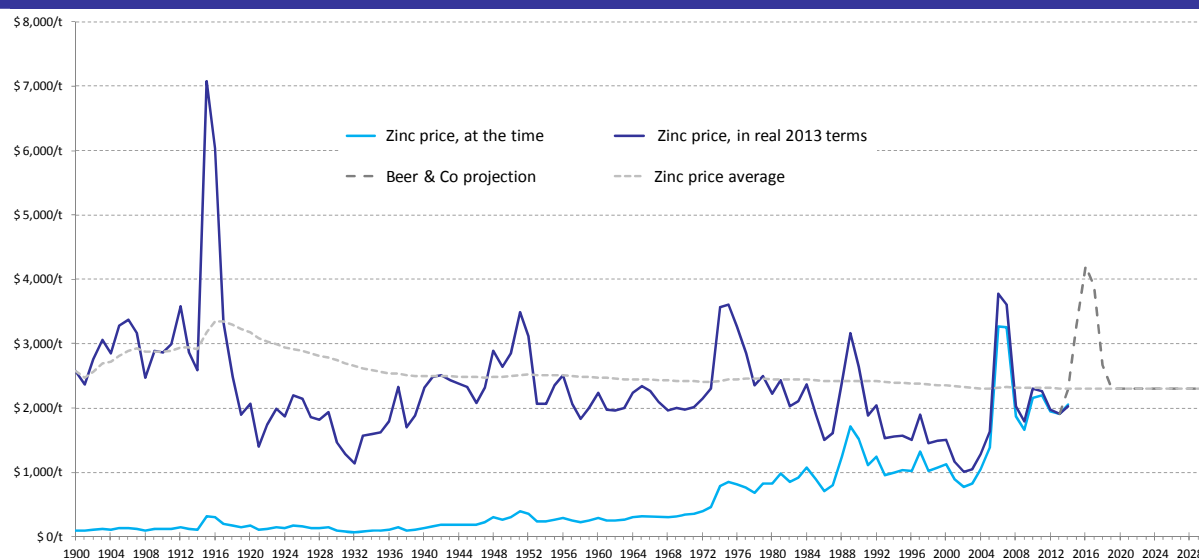
US c/lb	LoM	2015-16	2016-17	2017-18	2018-19	2019-20	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32
Mining	18 c/lb	21 c/lb	18 c/lb	18 c/lb	18 c/lb	18 c/lb	18 c/lb	18 c/lb	17 c/lb	16 c/lb	16 c/lb	17 c/lb
Processing	19 c/lb	22 c/lb	19 c/lb	19 c/lb	19 c/lb	19 c/lb	19 c/lb	19 c/lb	20 c/lb	22 c/lb	22 c/lb	22 c/lb
Site Admin	4 c/lb	6 c/lb	4 c/lb	4 c/lb	4 c/lb	4 c/lb	4 c/lb	4 c/lb	5 c/lb	5 c/lb	5 c/lb	5 c/lb
Transport	6 c/lb	7 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb
TC/RC	34 c/lb	54 c/lb	42 c/lb	33 c/lb	33 c/lb	33 c/lb	33 c/lb	33 c/lb	33 c/lb	33 c/lb	33 c/lb	33 c/lb
by-product credits	(16c/lb)	(17c/lb)	(16c/lb)	(16c/lb)	(16c/lb)	(16c/lb)	(16c/lb)	(16c/lb)	(15c/lb)	(14c/lb)	(14c/lb)	(14c/lb)
Royalties	2 c/lb	3 c/lb	2 c/lb	2 c/lb	2 c/lb	2 c/lb	2 c/lb	2 c/lb	2 c/lb	2 c/lb	2 c/lb	2 c/lb
Sustaining Capital	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	6 c/lb	7 c/lb	3 c/lb	0 c/lb
TOTAL	74 c/lb	101 c/lb	81 c/lb	72 c/lb	71 c/lb	72 c/lb	72 c/lb	72 c/lb	75 c/lb	77 c/lb	73 c/lb	71 c/lb

Source : Beer & Co estimates

Financial Projections for Gorno

Figure 7 shows 114 years of zinc prices, in both dollars of the day, or nominal, terms and adjusted to 2013 terms using the US CPI.

Figure 7 : A long run series of average annual zinc prices



Source : United States Geological Service (USGS), US Bureau of Labor Statistics, IRESS, Beer & Co

Beer & Co assume that zinc prices will be strong in the next 3 or so years and settle back to about current levels for the long run, of \$2,300/t

Figure 7 shows that the average price over this time has been \$2,306/t (if the average is taken from 1918, so eliminating the big spike in 1915 and 1916, then the average is \$2,112/t).

Figure 7 shows that Beer & Co has projected a near term price spike for zinc, as significant mine supply is shut between 2013 and 2016, while demand continues to grow.

Figure 8 shows the detail of our operational assumptions and resulting financial projections for Gorno.

Figure 8 : Beer & Co's projected financial outcomes for Gorno

EUR m		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Zinc	USD /t	3,775	4,275	3,275	2,350	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300
Lead	USD /t	2,475	2,400	2,225	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Silver	USD /oz	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5	22.5
EUR / USD		1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300
Zinc produced		14,934 t	29,688 t	29,688 t	29,688 t	29,688 t	29,688 t	29,688 t	29,688 t	27,728 t	26,125 t	26,125 t	11,756 t
Lead produced		2,987 t	5,938 t	5,938 t	5,938 t	5,938 t	5,938 t	5,938 t	5,938 t	5,284 t	4,750 t	4,750 t	2,138 t
Silver produced		27,908 oz	54,622 oz	57,697 oz	57,878 oz	57,878 oz	57,878 oz	57,878 oz	57,878 oz	26,045 oz	0 oz	0 oz	0 oz
Zinc Revenue		€ 48.2m	€ 74.8m	€ 53.7m	€ 52.5m	€ 52.5m	€ 52.5m	€ 52.5m	€ 52.5m	€ 49.1m	€ 46.2m	€ 46.2m	€ 20.8m
Zinc TC/RC		(€13.6m)	(€21.0m)	(€16.8m)	(€16.5m)	(€16.5m)	(€16.5m)	(€16.5m)	(€16.5m)	(€15.4m)	(€14.5m)	(€14.5m)	(€6.5m)
net by-product revenue		€ 4.3m	€ 8.3m	€ 8.3m	€ 8.3m	€ 8.3m	€ 8.3m	€ 8.3m	€ 8.3m	€ 7.0m	€ 6.1m	€ 6.1m	€ 2.7m
Cash Costs		(€12.4m)	(€20.6m)	(€20.7m)	(€20.7m)	(€20.9m)	(€20.9m)	(€20.9m)	(€20.9m)	(€19.9m)	(€19.0m)	(€19.0m)	(€8.8m)
Royalties		(€0.8m)	(€1.2m)	(€0.9m)	(€0.9m)	(€0.9m)	(€0.9m)	(€0.9m)	(€0.9m)	(€0.8m)	(€0.8m)	(€0.8m)	(€0.3m)
Dep'n & Amort'sn		(€1.9m)	(€3.5m)	(€3.5m)	(€3.5m)	(€3.5m)	(€3.5m)	(€3.5m)	(€3.5m)	(€3.5m)	(€3.5m)	(€3.5m)	(€1.6m)
E B I T		€ 23.8m	€ 36.7m	€ 20.1m	€ 19.2m	€ 19.0m	€ 19.0m	€ 19.0m	€ 19.0m	€ 16.4m	€ 14.5m	€ 14.5m	€ 6.2m
Interest Expense		(€1.9m)	(€1.5m)	(€0.9m)	(€0.3m)	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m
Tax Expense		(€6.9m)	(€11.1m)	(€6.0m)	(€5.9m)	(€6.0m)	(€6.0m)	(€6.0m)	(€6.0m)	(€5.2m)	(€4.6m)	(€4.6m)	(€2.0m)
N P A T			€ 15.0m	€ 24.1m	€ 13.1m	€ 12.9m	€ 13.0m	€ 13.0m	€ 13.0m	€ 11.2m	€ 9.9m	€ 9.9m	€ 4.3m
Feasibility / permitting	(€3.2m)	(€0.8m)											
Project Cap.Ex	(€40.2m)	(€10.0m)											
Sus. Cap. Ex	€ 0.0m	(€1.4m)	(€2.9m)	(€2.9m)	(€2.9m)	(€2.9m)	(€2.9m)	(€2.9m)	(€2.9m)	(€2.9m)	(€2.9m)	(€1.3m)	€ 0.0m
Un-gear'd Net Cashflow	(€3.2m)	(€41.0m)	€ 6.8m	€ 25.7m	€ 14.4m	€ 13.7m	€ 13.6m	€ 13.6m	€ 13.6m	€ 11.9m	€ 10.6m	€ 12.1m	€ 5.9m

Source : Beer & Co estimates

Figure 9 shows that Beer & Co's base case valuation for Gorno is \$A 97m.

Figure 9 : Beer & Co's valuation of Gorno

Beer & Co's base case valuation is \$A 97m

	Long Run zinc price					
	\$ 2,000/t	\$ 2,200/t	\$ 2,300/t	\$ 2,400/t	\$ 2,500/t	\$ 2,600/t
500 kt/yr	€ 43m	€ 56m	€ 63m	€ 69m	€ 76m	€ 83m
	\$A 67m	\$A 86m	\$A 97m	\$A 106m	\$A 117m	\$A 127m
600 kt/yr	€ 57m	€ 70m	€ 77m	€ 85m	€ 92m	€ 99m
	\$A 87m	\$A 108m	\$A 119m	\$A 130m	\$A 141m	\$A 153m
750 kt/yr	€ 70m	€ 85m	€ 93m	€ 100m	€ 108m	€ 116m
	\$A 108m	\$A 131m	\$A 142m	\$A 154m	\$A 166m	\$A 178m

Source : Beer & Co estimates

Beer & Co has assumed a production rate of 500kt/yr, reflecting a view of the relatively narrow development.

A higher production rate gives a valuation of \$A 142m.

However, Gorno has the potential to produce from 4 different areas – the 995, 940 and 600mRL, as well as from Colonna Fortuna, which gives the potential for a higher rate of production.

Figure 9 shows significant potential value upside to higher production rates.

We assume that EMX sells a 40% stake in Gorno.

Doing so means that EMX needs to raise equity only to complete its feasibility study.

Valuation of EMX

As shown in Figure 10, Beer & Co estimates that if EMX sells a 40% stake in Gorno, it will not need to raise any equity to construct the project.

Figure 10 : Funding

Project Capital		\$A 77m
Debt funding	60 %	\$A 46m
Equity required		\$A 31m
Project Value		\$A 96m
Stake sold	40 %	
Value received		\$A 31m

Source : Beer & Co estimates

As shown in Figure 11, Beer & Co assumes that EMX raises further equity during 2014-15 to fund the feasibility studies for Gorno.

Beer & Co's analysis assumes that EMX focuses on the Gorno zinc-lead project, and that the Carley Bore uranium is progressed slowly as a result. We further assume that EMX sells a 40% stake in that project.

Figure 11 : Beer & Co's projections for EMX

AUD m		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Uranium	USD /lb	33	38	48	58	65	65	65	65	65	65	65	65	65	65
Zinc	USD /t	2,775	3,775	4,275	3,275	2,350	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300	2,300
AUS-USD		0.916	0.863	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850	0.850
AUD-EUR		1.432	1.507	1.529	1.529	1.529	1.529	1.529	1.529	1.529	1.529	1.529	1.529	1.529	1.529
EMX share															
Zinc produced	' 000 tonnes	0.0	0.0	9.0	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8
U3O8 produced	' 000 pounds	0	0	0	0	0	97	1,037	989	871	871	871	436	0	0
Sales revenue		0	0	36	57	41	48	120	116	107	107	107	74	41	41
Cost of Goods Sold		0	0	(12)	(19)	(19)	(22)	(39)	(42)	(41)	(41)	(40)	(24)	(19)	(19)
Royalties		0	0	(1)	(1)	(1)	(1)	(5)	(5)	(4)	(4)	(4)	(2)	(1)	(1)
Corporate Costs		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0	0	0
Dep'n & Amort'sn		0	0	(2)	(3)	(3)	(5)	(17)	(17)	(15)	(15)	(12)	(3)	(3)	(3)
EBIT		(1)	(1)	21	32	17	19	58	52	46	46	50	44	17	17
Net Interest		0	0	(2)	(1)	(0)	(1)	(1)	0	1	3	4	4	4	4
Tax Expense		0	0	(6)	(9)	(5)	(5)	(17)	(16)	(14)	(15)	(16)	(15)	(6)	(6)
Other		0	31	0	0	40	0	0	0	0	0	0	0	0	0
NPAT		(1)	(1)	13	22	12	12	40	36	33	34	38	34	15	15
Shares on issue, y.e.	240.0m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m	556.7m
Earnings per Share		(0.2c)	5.5 c	2.4 c	3.9 c	9.3 c	2.2 c	7.1 c	6.5 c	6.0 c	6.2 c	6.8 c	6.1 c	2.7 c	2.7 c
Feasibility		(5)	(1)	(2)	(3)	(1)	0	0	0	0	0	0	0	0	0
Project Capital		0	(55)	(10)	(1)	(19)	(19)	0	0	0	0	0	0	0	0
Sustaining Capital		0	0	(1)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(3)	(3)	(3)	(3)
Equity Raised	1	8	0	0	0	0	0	0	0	0	0	0	0	0	0
Asset sale		0	31	0	0	40	0	0	0	0	0	0	0	0	0
Net Cash Balance		2	(27)	(6)	22	57	70	122	159	196	233	272	293	310	310

Source : Beer & Co estimates

Figure 11 shows that this will mean that EMX will not need to raise any further equity.

Figure 12 shows that the above analysis results in a risk adjusted valuation of 14.3c/share. Successful project executive (ie. removing the risk weighting) increases the valuation to over 22c/share.

Figure 12 : Beer & Co base case valuation of EMX is 14.3c/share

Beer & Co's base case, risk weighted, valuation of EMX is now 14.3c/share.

	discount rate = 12.0 %	30-Jun-13		11-Aug-14	
		risk :	100%	Product	per share
Gorno	50 %	\$ 27m	\$ 13m	2.5 c	3.2 c
Carley Bore	40 %	\$ 33m	\$ 13m	2.4 c	3.8 c
franking credits	26 %	\$ 15m	\$ 4m	0.7 c	1.3 c
Asset sale	50 %	\$ 42m	\$ 21m	3.9 c	5.8 c
Exploration	100 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Corporate	100 %	(\$6m)	(\$6m)	(1.1c)	(1.0c)
Cash / debt	100 %	\$ 2m	\$ 2m	0.3 c	0.0 c
cash to be raised	100 %	\$ 7m	\$ 7m	1.3 c	1.2 c
TOTAL		\$ 93m	\$ 41m	9.9 c	14.3 c
Shares on issue		176.3m	June 2013	32.2m	options
		57.8m	issued FY 14	0.0m	op. ex'd
		315m	issued FY 15		

Source : Beer & Co estimates

Conclusions

When EMX was floated, it had two potential projects in northern Italy, and many more in Australia. On 18 June 2014, EMX announced that it had purchased the Mining Lease within the Gorno zinc-lead project to facilitate its development.

Beer & Co projects that EMX will be able to bring the Gorno zinc-lead mine back into production by the end of 2016.

While EMX continues to progress the Carley Bore uranium project in WA, the Gorno project has now become its focus project as, over the medium term, the zinc market is more favourable than the uranium market.

Figure 7 clearly shows that Beer & Co projects that zinc prices will be strong over the next 3 years.

The estimated cost is about €54m, for feasibility assessment and capital.

Gorno is a previously operated mine, so to bring it into production requires drilling to develop a JORC compliant resource, and then a reserve, and construction of processing operations.

Beer & Co project that Gorno will produce about 30kt/yr of zinc in conc.

Beer & Co projects that EMX will be able to bring Gorno back into production in just over 2 years for a cost of about €54m.

Beer & Co estimate on-site costs of 43c/lb, with C1 costs of 66c/lb and all in costs of 74c/lb.

Beer & Co further projects that the pay-back period, after tax, will be about 2 years as zinc prices are expected to be very strong at the time it begins production.

We estimate a pay-back period of about 2 years.

Beer & Co expects that EMX will be able to raise equity to bring this project into production, reflecting the strong demand for zinc and weak supply. However, there is overwhelming uncertainty as to the price at which this equity will be raised. Our valuation assumes that EMX sells a stake in this project.

Our base case valuation is 14c/share.

Beer & Co assumes that EMX defers the Carley Bore project and will benefit from a similar momentum to the uranium price.

There are risks around our operating and capital cost estimates.

Risks

There are risks in our valuation. The major risk is the value at which EMX may choose to raise equity to develop its projects.

The major upside risk to our valuation is if the production rate is higher than 500kt/yr of ore.

Beer & Co assumes that Gorno processes ore at the rate of 500kt/yr. This is due to the tight configuration. Ore sources outside of Panel 7 offer scope for a higher throughput rate which will boost the valuation.

The downside risk is if EMX raise equity and the price to develop Gorno, and the price at which this is done.

Final Comment

Beer & Co initiates research on EMX with a BUY recommendation.

Our base case valuation, which is heavily risked, is a multiple of the current share price, and the change in focus to the Gorno zinc project adds significant potential value.

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

Report prepared by : Pieter Bruinstroop pbruinstroop@beerandco.com.au

BEER & CO PTY LTD ABN 88 158 837 186,
AUTHORISED REPRESENTATIVE MELBOURNE VENTURE SECURITIES PTY LTD AFSL No. 224 313

Melbourne Office:
Suite 4, Level 2, Bank House
11 - 19 Bank Place,
Melbourne, Vic, Australia 3000
Telephone: (+613) 9600 3599
Facsimile: (+613) 9602 2291
Email: info@beerandco.com.au
Web: www.beerandco.com.au