

EMX improves portfolio

EMX increases zinc and improves funding options

Recommendation

Strong BUY, High Risk

Price

5.8c

Risked, NPV based valuation

11c

Commodity :

Zinc

- On 1 June, EMX announced it had sold its Carley Bore uranium project to Paladin Resources (PDN.ASX) for 45m PDN shares plus \$1.6m in cash
- This reduces EMX's cash calls while enhancing the Carley Bore project and retaining EMX's exposure to the expected improvement in U₃O₈ prices.
- EMX lodged applications over 2 more areas in northern Italy, similar to Gorno, from which zinc was mined in the 1980s.
- Our valuation has fallen as the PDN share price does not incorporate the expected improvement in the uranium price, and we have no value for the new zinc assets. Our view of EMX's value is improved.

Snapshot

Last Price	5.8c
Market Cap	\$35m
Cash on hand (31 March 2015)	\$5.7m
Shares on Issue	609m
52 Week High	6.6c
52 Week Low	1.9c
1 month / 6 month VWAP	4.2c / 3.5c

EMX Sells its Carley Bore project to PDN for scrip plus cash.

Carley Bore, an ISL uranium project in WA, was EMX's foundation project. EMX announced the results of its scoping study in April 2014.

To progress further, would have required extra cash, some \$1.5m, and production was expected only in 2019.

EMX is now able to raise cash by selling its PDN shares, hopefully at a better price than at present as PDN shares are expected to rise with the U₃O₈ price.

EMX gets more zinc

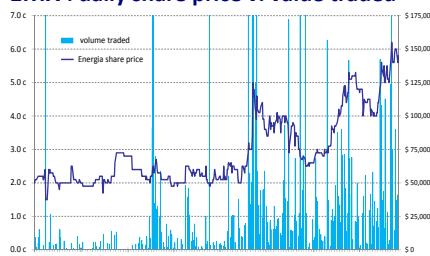
On 10 June 2015, EMX announced that it had applied for exploration permits covering two zinc-lead mines that were operating in northern Italy in the 1980s.

Predil (or Raibl) has a long production history and was closed in 1991 by ENI, having produced 30Mt of ore grading 5.0% Zn + 1.2% Pb.

Salafossa was operated from 1964 to 1986, producing 10.95Mt of ore grading 5.0% Zn + 1.0% Pb.

EMX will use some of the cash received from the sale of Carley Bore to drill these areas as soon as permits are granted.

EMX : daily share price v. value traded



EMX sold its Carley Bore uranium project to Paladin Resource in June 2015 for 45m PDN plus \$1.6m cash.

On 18 June 2014, EMX announced that it had purchased Mining Leases at Gorno.

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

EMX has applications over uranium at Val Vedello and Novazza, and over zinc at Perdil and Salafossa.

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Valuation now 11c/share

While the share price responded positively, adding 10% immediately and over 20% within 3 days, our valuation has fallen from 15.5c to 11c/share as :

- We have not given any value to the new zinc assets; and
- Our valuation incorporates the current PDN share price and so does not reflect the expected improvement in the U₃O₈ price.

Conclusions

EMX's portfolio is now simpler and stronger, with a lower cash call in the near term, greater zinc exposure and still retaining exposure to expected higher U₃O₈ prices. Hence, our view of the value in EMX has improved even though our valuation has fallen.

Beer & Co affirms our Strong BUY, High Risk, rating on EMX.

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EMX Sells Carley Bore

Carley Bore sold to PDN

When EMX first listed, in December 2009, its focus project was the Carley Bore U₃O₈ project, in WA. As shown in Figure 1, Carley Bore is about 100km from PDN's Manyingee project.

EMX sells its Carley Bore U3O8 project to PDN

For \$1.6m in cash

Plus up to 45m PDN shares.

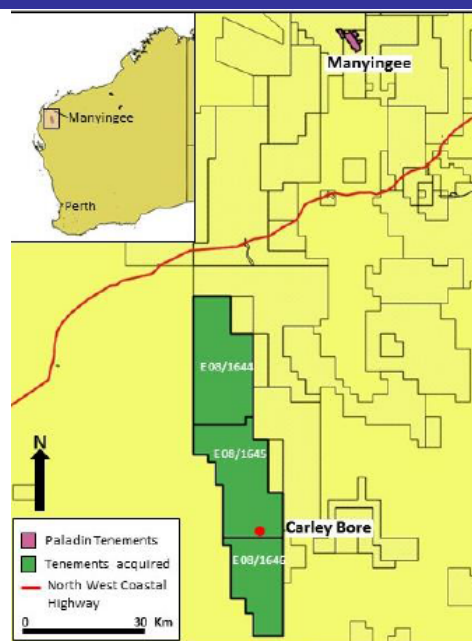
On 1 June, 2015, EMX announced that it had sold Carley Bore to Paladin Resources (PDN.ASX). Total consideration was reported, by EMX as being \$15.8m, comprising

- \$1.6m in cash, payable upon completion of the transfer; plus
- 40m PDN shares payable upon completion; plus
- A further 5m PDN shares payable when EMX's application for an expenditure exemption on E08/1644 has been approved.

Value of Carley Bore

EMX announced the results of a scoping study on Carley Bore as an In Situ Leach project, in April 2014.

Figure 1 : Carley Bore and Manyingee



Source : PDN ASX announcement, 1 June 2015

Beer & Co modelled the Carley Bore project based on this information. Key parameters included :

- \$5m in feasibility studies, leading to an investment decision in mid 2018;
- \$A 106m in project capital costs;
- Total Resources, across 5 different zones of mineralisation, totalling 14.2Mt at 370ppm U₃O₈, as shown in Figure 2;
- Assumed Mining Inventory of 13.6Mt, containing 11.6Mlb of U₃O₈, as shown in Figure 3, producing 8.1Mlb of product over an operational life of 6 years, or about 1.4Mlb/yr.

Figure 2 : Carley Bore, Mineral Resource Estimate

Cut-off	Indicated Resources				Inferred Resources				Total Resources			
	U3O8 grade	contained uranium		U3O8 grade	contained uranium		U3O8 grade	contained uranium				
100 ppm	5.5Mt	420 ppm	2.3 kt	5.1 Mlb	17.8Mt	270 ppm	4.8 kt	10.6 Mlb	23.3Mt	310 ppm	7.1 kt	15.7 Mlb
150 ppm	5.4Mt	420 ppm	2.3 kt	5.0 Mlb	17.4Mt	280 ppm	4.9 kt	10.7 Mlb	22.8Mt	310 ppm	7.1 kt	15.7 Mlb
200 ppm	5.1Mt	430 ppm	2.2 kt	4.8 Mlb	15.1Mt	290 ppm	4.4 kt	9.7 Mlb	20.2Mt	330 ppm	6.6 kt	14.5 Mlb
250 ppm	4.8Mt	450 ppm	2.2 kt	4.8 Mlb	9.4Mt	330 ppm	3.1 kt	6.8 Mlb	14.2Mt	370 ppm	5.3 kt	11.6 Mlb
300 ppm	4.1Mt	480 ppm	2.0 kt	4.3 Mlb	5.1Mt	380 ppm	1.9 kt	4.3 Mlb	9.2Mt	420 ppm	3.9 kt	8.6 Mlb
350 ppm	3.2Mt	520 ppm	1.7 kt	3.7 Mlb	2.5Mt	430 ppm	1.1 kt	2.4 Mlb	5.7Mt	480 ppm	2.7 kt	6.0 Mlb

Source : EMX ASX announcements, 12 and 27 February 2014

By focussing on the high grade Zone 6, the project achieves a quick pay-back, with estimated operating costs of US\$ 17.75/lb in Year 1

Figure 3 : Carley Bore mining inventory

	Cut-off	U3O8 grade	contained uranium		
Zone 6	250 ppm	2.3Mt	470 ppm	1.1 kt	2.4 Mlb
Balance	250 ppm	11.3Mt	370 ppm	4.2 kt	9.2 Mlb
TOTAL		13.6Mt	387 ppm	5.3 kt	11.6 Mlb

Source : Beer & Co estimates

Beer & Co's valuation is higher than the consideration received, as we assume higher U3O8 prices in the long term

Figure 4 shows Beer & Co's valuation of Carley Bore, under a range of scenarios.

Figure 4 : Beer & Co valuation of Carley Bore

NPV, Carley Bore AUD m	Assumed U3O8 price		
	spot	contract	Long-Term
	\$A 47.4/lb	\$A 59.4/lb	US\$ 65.0 /lb
as at 30 June 2015	\$ 2m	\$ 32m	\$ 102m
prior to construction	\$ 5m	\$ 47m	\$ 145m

Source : Beer & Co estimates

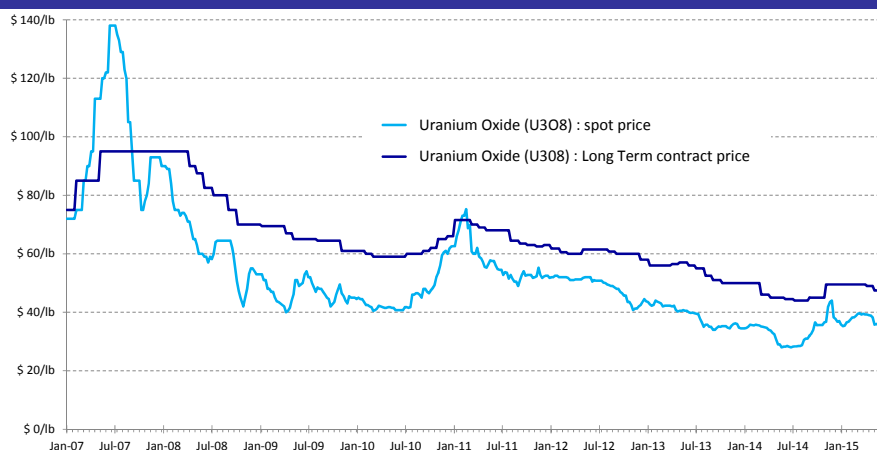
Figure 4 distinguishes between the value of the project today and the value of the project when construction is about to commence; nearly all announcements focus on the latter, ignoring the time and cost to get to that stage.

Compared with the consideration of \$15.8m, Figure 4 shows that the amount received by EMX

- is a premium to the project value, today, using current spot prices (US\$ 36.75/lb at AUD/USD of 0.775), which appears to be how U₃O₈ equities are priced in the market
 - the spot price has been at a discount to the contract price, but appears to be a leading indicator, as shown in Figure 5;
- is a discount to Beer & Co's value using current contract prices (US\$ 46.00/lb)
 - the discount, to 50%, is, however, consistent with the discount that Beer & Co applies to our valuation of such assets;
- a larger discount to Beer & Co's valuation of Carley Bore, based on Long Term prices of US\$ 65/lb, and AUD/USD of 0.75.

We expect that PDN's share price will rise when the U3O8 price rises

Figure 5 : Spot v Contract U₃O₈ prices



Source : Cameco, Beer & Co

Figure 4 shows that the consideration received by EMX is less than the Long Run value of Carley Bore estimated by Beer & Co.

As a result, our valuation of EMX is now lower than it was.

EMX has time to choose when it will monetise its PDN shares, so we expect it will be done at higher prices than present.

Beer & Co also believe that there is further value to PDN by

- **saving on required expenditure; and**
- **a better focus on its zinc projects**

Value to EMX

While Beer & Co’s valuation of EMX declined as a result of the value at which Carley Bore was sold to PDN, Beer & Co believes that there are important further points to understand the true value :

- The consideration included up to 45m PDN shares, which we have valued at their current price
 - Just as Beer & Co’s valuation is based on a U₃O₈ price that is higher than the present price, we believe that the PDN shares will be worth more at a higher a U₃O₈ price, as suggested in Figure 6
- The sale frees EMX of a commitment to spend \$1.5m at a time when that could require a dilutive equity raising;
- In addition to the financial relief, the sale frees EMX of the management commitment and the diversion from their valuable zinc focus;
- EMX was funded through to feasibility for Gorno and does not the cash at this time and has the option as to when it chooses to monetises its PDN shares;
- The sale to PDN, which is an established operator, enhances the value of the project.

Figure 6 : PDN share price moves with U₃O₈ price



Source : IRESS, Cameco, Beer & Co

Conclusions on sale of Carley Bore

As the consideration received by EMX was less than Beer & Co’s risked valuation, our valuation of EMX has fallen as a result of the transaction.

However, as shown in Figure 7, the share price rose, suggesting that the market appreciated the strategic value that EMX has the option to monetise its stake at a time suitable to EMX, retaining the upside potential to the U₃O₈ price by taking PDN scrip.

Beer & Co concurs with the market view.

Figure 7 : EMX share price reaction to news of Gorno sale

EMX's share price reacted favourably to the sale of Carley Bore



Source : IRESS, Beer & Co

EMX gets more zinc

On 10 June, 2015, EMX announced that it had applied for permits covering two historical zinc-lead mines, Salafossa and Predil, in northern Italy.

Figure 8 shows these are near EMX's Gorno project.

EMX has applied for permits over 2 areas that have been mined for zinc previously, similar to Gorno

Figure 8 : EMX's projects in Northern Italy



Source : EMX ASX announcement, 10 June 2015

Predil

Predil has a production history dating back to the eleventh century. It was closed in 1991 by ENI as part of the Italian government's strategy for ENI to contract its activities to oil and gas.

Perdil is estimated to have produced 30Mt of ore grading 5.0% zinc and 1.2% lead and, at the time of its closure, was mining and processing about 500kt of ore a year.

The deposit remains open at depth.

Salafossa

Beer & Co believes that these zinc areas have a positive value, but as they are applications only, we give no value in our EMX valuation

Salafossa was discovered in 1959 and was mined by from 1964 until 1986, producing 10.95Mt of ore grading 5.0% zinc and 1.0% lead at an average rate of about 500kt/yr.

Production was from a single flat-lying deposit with dimensions of 750m by 200m and up to 30m wide which facilitated mining by low-cost, large scale open stoping.

Beer & Co Assessment

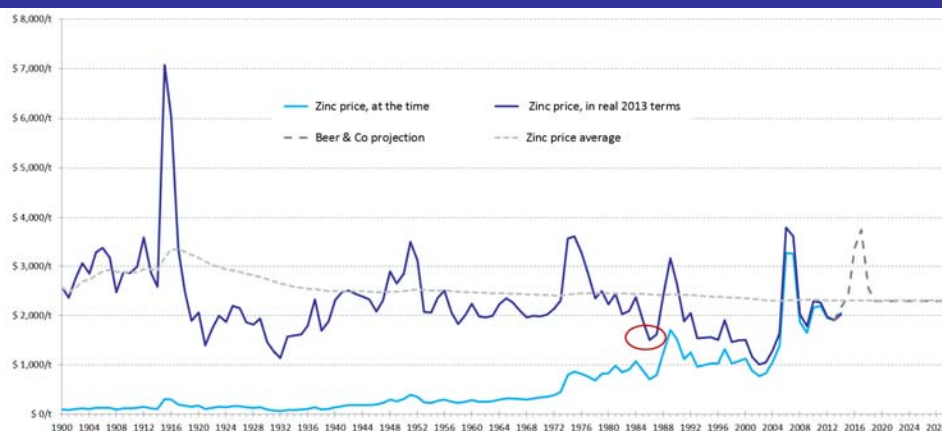
At this stage, we do not include any value for these assets.

We note that Perdil is a developed mine, as is Gorno.

Using our Gorno model, and adjusting the grades, and also assuming long run prices (ie. no benefit in terms of cashflow from our expected jump in zinc prices), we derive a value for Perdil of \$A 32m, assuming a mining inventory of 5Mt.

We can have less confidence about Salafossa; Gorno and Perdil ceased operations for reasons that had little or nothing to do with their economics. Salafossa was privately mined. However, as Figure 9 shows, the mid 1980s was a time of low zinc prices.

Figure 9 : Historical, and projected, zinc prices



Source : USGS, USBLS, Beer & Co

Figure 9 suggests that Salafossa is likely to generate value at current prices, if it was shut for economic reasons in the mid-1980s.

Beer & Co's indicative valuation is \$20m, using our Gorno model, but it is sensitive to prices, and we have little idea as to the capital required to re-start operations.

Beer & Co will give them a nominal value when the permits are granted.

Revised valuation of EMX

Figure 11 shows the detail of Beer & Co's revised valuation of EMX. Our valuation is now 11c/share, compared with 15.5c previously.

Figure 10 : Beer & Co valuation of EMX now 11c

	discount rate = 12.0 %	30 June 2014		17-Jun-15	
		risk :	100%	Product	per share
Gorno	50 %	\$ 59m	\$ 29m	4.8 c	6.9 c
Novazzo & Val Vedello	nom.				
Predil & Salafossa	nom.				
Asset sales	50 %	\$ 32m	\$ 16m	2.7 c	3.4 c
Exploration	100 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Corporate	100 %	(\$ 13m)	(\$ 13m)	(2.2c)	(2.2c)
45m PDN shares	28.0 c	\$ 13m	\$ 12m	2.0 c	2.0 c
Cash / debt	100 %	\$ 0m	\$ 0m	0.0 c	0.8 c
cash to be raised	100 %	\$ 8m	\$ 8m	1.3 c	0.0 c
TOTAL		\$ 40m	\$ 23m	8.6 c	10.9 c
Shares on issue		240.0m	June 2014	32.2m	options
		369.0m	issued 2015	0.0m	op. ex'd

Source : Beer & Co estimates

Beer & Co's valuation of EMX is reduced, from 15.5c to 11c/share

As we not, effectively, value EMX's U3O8 exposure at spot as opposed to Long Run prices

And we give no value to EMX's zinc tenement applications

nor its U3O8 tenement applications at Val Vedello and Novazzo

The lower valuation is due to the sale of Carley Bore, which we argued above, has value not captured in our valuation, and was done at a value that is consistent with Beer & Co's valuation of Carley Bore using current long term contract prices.

Figure 6 suggests that at a spot price of \$55/lb, which was the case until mid-2012 , after the Fukushima incident, then the PDN share price would be above \$1.00/share and the value of EMX's holding would be more than \$30m, or 5c/share, higher.

At our long run U₃O₈ price, the beneficial impact would be even greater.

In addition, we have no value for :

- EMX's recently applied for zinc exposures, at Perdil and Salafossa, which, when granted, could add \$20m, or 3c/share, in risked valuation; and
- EMX's other U₃O₈ permit applications, at Val Vedello and Novazzo
 - The former is a developed, high grade mine, with an Exploration target of 15 – 30Mbls of U₃O₈;
 - Beer & Co believes that the permits will be granted only after Gorno is in successful operation, to assure Governments, and others, of EMX's technical and social capabilities

Conclusions

We affirm our Strong BUY, High Risk, recommendation

While Beer & Co's valuation is lower, our view of EMX's value is improved.

We affirm our Strong BUY, High Risk, recommendation.

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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.

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