EMED Mining

BACK ON TRACK?

The subtext in EMED's 2008 results is more important than the numbers in the P&L or balance sheet.

- The company is close to triggering the re-start of the Rio Tinto mine ('Proyecto de Rio Tinto' or 'PRT') near Seville, bringing commercial reality to its resource base of 940,000 tonnes of copper (proved and probable reserves of 585,000 tonnes). The recovery in the price of copper (cash and forward) should enable EMED to sell forward sufficient of its production in the first few years to underpin the economics of the project and satisfy lenders of project finance.
- **EMED is also looking at possible crystallisation of value in its 1.1m ounce Slovakia gold discovery** by engaging in a JV or floating it separately. We have previously assigned a value of £44m to the Biely Vrch project: 50% of this would translate into 4.4p per share to EMED[1] - close to the present share price of the group as a whole.

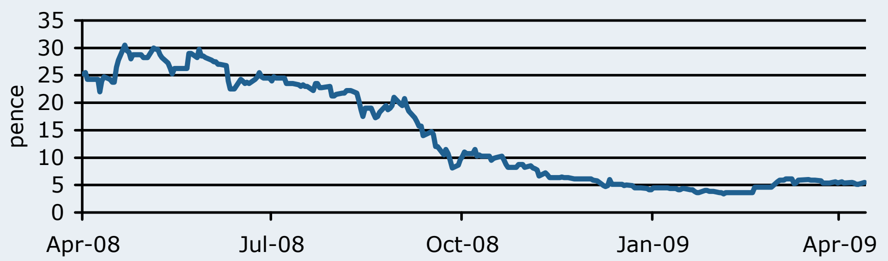
On this basis the value imputed by the market to the Rio Tinto project would be minimal.

In fact, the company estimates fully diluted NPV of more than 30p per share based on bankable studies of Rio Tinto reserves and existing plant, as well as verified conceptual studies of recoverable gold resources at Biely Vrch – at a discount rate of 10% and assuming permitting (of which it is confident).

We have not revisited our own numbers or estimated Fair Value or Price Target. The gap between market price and the figures produced by the company is so large that such an exercise is almost irrelevant.

With PRT now under 100% ownership, EMED is clearly confident that the remaining permitting hurdles will be cleared this year, and expects re-start of the Rio Tinto mine in 2010. **On the basis of a Cu price of $2/lb, it estimates EBITDA from PRT of about £30m or €40m per annum for 14 years** – and it has plans to extend the life of the mine to 20 years. EMED is currently capitalised at £13.3m (£28.5m on full dilution).

Figure 1: Price performance



ADVFN

[1] On capital of 505.9m shares, assumed to be fully diluted for conversion of the loan facility from Resource Capital Funds and RMB Australia and the YA Global Investments loan, also exercise of all warrants and options.

EQUITY DEVELOPMENT

EMED Mining

EMED

Date:	**11.05.2009**
Share price p	**5.63**
12 month Hi/Lo	30.5p / 3.625p
Ord 25p (m) issued	253.5
Market cap £m	**14.3**
Issued on full dilution	505.9
Market cap £m	**28.5**

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Share price versus copper price

That the market either has grave doubts about the Rio Tinto project or has simply overlooked EMED can be seen from the following chart:

Figure 2: EMED share price relative to copper price

ED

Gearing certainly worked on the downside as the copper price collapsed from a high of \$4.07/lb to a low of \$1.255/lb – below the PRT C1 costs.

But it hasn't worked so far on the upside. Copper has recovered 72% to \$2.162/lb[2], and is currently trading +/- \$2/lb, but the EMED share price has recently only tracked the Cu price, with no recognition of the geared rewards on the upside.

On the price of copper, we said in February that it was 'not unreasonable to look at a base case range of \$1.5-2.5/lb over the next year or so.' The following chart shows how strong the recovery has been:

Figure 3: Copper price

Various

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[2] *16 April 2009*

Much of this has been due to Chinese buying, but also to a tightening of supply: supply and demand this year appears to be more or less in balance, with the prospect of a resumption of Chinese stock-building to come.

So it is a question of calculating the odds on a PRT re-start based on a Cu price of $2/lb, not to mention the potential visibility of the value of Biely Vrch. We think the odds are so attractive that they are impossible to ignore.

2008 results

EMED's accounts are now denominated in euros: the euro is the currency of operations, although the copper price, and indeed that of gold, is normally stated in US dollars.

The results for calendar 2008 show a continuing loss from operations, largely accounted for by exploration costs – EMED is conservative in that it expenses all such costs through the P&L[3] and writes off all intangibles:

Table 1: 2008 results

Year to end December	2007	2008
	€m	€m
Revenue	**0.00**	**0.00**
Exploration costs	(3.58)	(6.73)
Administration	(2.18)	(1.55)
	(5.76)	**(8.28)**
Associates	(.75)	(2.00)
Loss before interest	**(6.51)**	**(10.29)**
Net interest	(.03)	0.24
Loss before tax	**(6.53)**	**(10.04)**
Tax	0.00	0.45
Net attributable	**(6.53)**	**(9.59)**
Excluded from above		
Evaluation costs of PRT	(5.29)	5.29
Goodwill impairment	(.10)	(9.33)
Forex gain (loss)	0.09	(2.48)

Company

The exclusions (by us) relate principally to the acquisition of the 50% of EMED Tartessus not already owned, and are non-cash and of accounting significance only.

At the beginning of February 2009 EMED announced a series of actions taken to reduce cash expenditure in response to the world economic downturn and the collapse in the price of copper. The measures include a reduction in staffing levels of 60% and substantial pay cuts for senior management personnel, split by area as follows:

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[3] *Although the 100% owned Spanish subsidiary EMED Tartessus has begun to capitalise costs, this is not reflected in the EMED consolidated accounts*

Table 2: Reductions in cash expenditure

Year to end December	2008		2009		Change	
	£m	€m	£m	€m	€m	%
PRT	7.5	8.3	3.6	4.0	-4.3	-52.0
Slovakia exploration	2.7	3.0	1.0	1.1	-1.9	-63.0
Other projects	0.4	0.4	0.1	0.1	-0.3	-75.0
Corporate	1.4	1.5	0.9	1.0	-0.6	-35.7
	12.0	**13.3**	**5.6**	**6.2**	**-7.1**	**-53.3**

Sterling figures converted at exchange rate ruling on date of announcement (2 Feb 2009, £1 = €1.10699). Company.

The impact of this in the current financial year will substantially ease the cash flow pressures on the company, which has secured funding for its planned activities during 2009 and has a standby facility in place for 2010.

EMED has also by negotiation reduced or eliminated by more than €40m the PRT deferred acquisition and settlement costs in the first three years.

Capital structure

Action taken to secure the future of the company has been painful in terms of equity. This has included a 50m share placing in May 2008: issue of 39.1m shares to MRI Group in October 2008 to acquire the remaining 49% of EMED Tartessus; and the approval by shareholders in March 2009 of an $8.5m convertible loan facility from Resource Capital Funds and RMB Australia. If this latter facility is fully drawn down it would lead to potential issue of a further 144.2m shares.

With the expected final repayment of the YA Global Investments convertible loan in 2009 (involving the issue of further shares), however EMED will be able to draw on the £10m standby equity distribution agreement (‘SEDA’) with YA.

EMED currently has 253.5m shares in issue. If all loans are converted and all warrants and options exercised this would rise to 505.9m, a full 50% dilution. This is, however, a maximum on the present capital structure, and may not happen in full.

I certify that this report represents my own opinions
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