Update

1 October 2008

EMED Mining

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/06	0.0	(2.8)	(2.9)	0.0	N/A	N/A
12/07	0.0	(8.3)	(6.8)	0.0	N/A	N/A
12/08e	0.0	(11.3)	(4.7)	0.0	N/A	N/A
12/09e	10.2	(4.9)	(2.1)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Taking control of Rio Tinto

EMED Mining's acquisition of the remaining 49% of the Rio Tinto Mine (PRT) in Spain is a significant step towards restarting copper production. The acquisition provides legal clarity to the ownership of land and mineral rights and is expected to facilitate permitting, which we understand is imminent. With an NPV_{10} for PRT alone of £170.7m (71p/share), there is considerable upside to the current share price of 19.5p.

100% ownership of Rio Tinto Mine

EMED Mining now owns 100% of the Rio Tinto Mine via its Spanish subsidiary, EMED Tartessus. The remaining 49% was acquired from MRI Group who took control of PRT's vendor company following judicial intervention earlier this year and is now set to receive deferred payments of £35m and 39.1m shares in EMED Mining.

Production in Q409

Now that legal ownership has been resolved, we are confident PRT will restart. It is understood to have strong support from the local regulatory authorities and community. Initial permit approvals are expected imminently and assuming this process completes by mid-2009, we anticipate first production in Q409. By 2012, we expect production of 8.3Mt pa of ore and annual EBITDA of approximately £40m.

Financials

We have updated our financial forecasts for 2008 and 2009 to account for a revised production schedule, reduced restart expenditure requirements and a modified funding structure. While the company has sufficient cash to last until early next year, it will need to subsequently either draw down its standby debt facilities or raise additional capital by mid-2009, prior to debt financing.

Valuation

Our NPV_{10} for PRT has increased marginally to £170.7m (71p/share), but ignores the company's Slovakian gold assets (21p/share) and 32% stake in Kefi Minerals plc.

Price	19.5p
Market Cap	£39m

Share price graph

Share details

Code	EMED
Listing	AIM
Sector	Mining
Shares in issue	239.7m

Price

	High	Low
52 week	31.75p	15.25p

Balance Sheet as at 30 June 2008

Debt/Equity (%)	N/A
NAV per share (p)	3.1
Net cash (£m)	4.9

Business

EMED Mining conditionally holds 100% of the Rio Tinto Mine in Spain. Elsewhere, the company's exploration in Europe has yielded gold discoveries in Slovakia with the potential to become a significant (>1Moz) resource.

Valuation

	2007	2008e	2009e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Revenues by geography

UK	Europe	US	Other
0%	100%	0%	0%

Analyst
Michael Starke 020 3077 5725
mstarke@edisoninvestmentresearch.co.uk

EMED Mining is a research client of Edison Investment Research Limited

Acquisition of 100% of Spanish subsidiary

EMED Mining has acquired MRI Group's 49% of EMED Tartessus, bringing the company's holding in its Spanish subsidiary to 100%. In return, MRI Group has been issued with 39.1m shares in EMED Mining, making it a 16% shareholder. This deal provides clarity to PRT's complex legal ownership which has largely been responsible for the delay to the restart of mining.

EMED Mining increases stake in PRT to 100%

Since announcing the option to acquire 100% of PRT in May last year, EMED Mining has worked to satisfy its 'conditions precedent' before seeking shareholder approval to exercise this option. Broadly, these conditions cover four main areas, namely technical feasibility, resolution of legal issues, regulatory approvals and financing of the restart. EMED Mining has engaged with the relevant stakeholders and partners in terms of all four conditions. The technical feasibility has been satisfactorily completed by independent mining consultants, while discussions with a number of potential financiers are at an advanced stage. However, without doubt, the resolution of legal issues has been the most time-consuming of all tasks. Furthermore, we understand that without legal clarity, the regulatory authorities have been reluctant to seriously engage in the permitting process. EMED Mining's acquisition of MRI Group's 49% interest in EMED Tartessus is therefore a critical step towards satisfying one of the most important 'conditions precedent' and exercising the company's option to acquire PRT. As part of the deal, MRI Group's stake will reduce to 13% as EMED Mining has agreed to find purchasers for 7.9m consideration shares it issued to MRI Group.

Production in Q409

Following clarification of legal ownership, we are confident PRT will restart, especially considering the potential benefits to the local economy. First permitting approvals are understood to be imminent and expected to be finalised by mid-2009. On this basis, we anticipate initial production in Q409. Before then, EMED Mining must agree bonding guarantees with the Government and finalise various commercial arrangements. The company estimates restart expenditure of £60m.

Remaining issues should resolve easily

Before mining can restart, the company must agree to the extent of bonding for environmental cover, personnel protection and social security obligations. As part of its revised restart expenditure estimates, the company has made allocations for these amounts, which are currently under negotiation. In addition, EMED Mining must resolve commercial agreements with private parties for the supply of water and the acquisition of a portion of surrounding land. Again, given the new legal clarity, we are confident the remaining steps will be resolved within the anticipated timeframes. EMED Mining has stated that initial permits are expected imminently, with the remainder to be issued over the next six months. With final permits issued, EMED Mining will be in a position to commit the necessary restart expenditure, following which we expect first production in Q409, assuming the permitting process completes by mid-2009. It's worth noting that EMED Tartessus is applying for the restart of PRT and not the development of an entirely new mining operation which should make the actual permitting process more straightforward.

Lower restart expenditure

EMED Mining estimates that expenditure of £60m will be required for the restart of PRT. This figure is lower than previous estimates of £75m - £85m. Of the £60m, MRI Group will receive approximately £35m in deferred payments, conditional upon PRT receiving regulatory approvals, sufficient restart financing and shareholder approval for the restart. The remaining amount will be used to fund settlements with the vendor's creditors, landholders and Government agencies as well as restart costs and working capital. Although the exact details are currently under discussion, the company plans to use a combination of funding arrangements, including its standby debt facilities and other forms of equity-style capital (ordinary capital, metal pre-sale or mezzanine) before final permitting. Once final permits have been issued, the company should be in a position to secure debt finance and guarantee facilities. We previously assumed the restart requirement would be entirely debt-funded, but now assume a 90:10 split between debt and equity financing.

PRT's valuation

Our NPV_{10} estimate for PRT alone is £170.7m (or 71p/share) based on an updated set of assumptions. This valuation excludes the company's Slovakian gold assets, its 32% stake in explorer Kefi Minerals plc and the potential for increased production from PRT.

According to our revised assumptions, our NPV_{10} for PRT has increased marginally from £169.4m to £171.0m (71p/share). Our assumptions are based on expectations of first production in Q409 (assuming permitting completes by mid-2009), lower restart expenditure of £60m (previously £75m-£85m), "base case" production of 5Mtpa for the first six months of production, 7.6Mt pa production for months 12 to 24 and 8.5Mt pa for the remainder of the 15 year life-of-mine. This accounts for a total of 511kt copper production cf. our previous estimate of 564kt over 20 years. It's worth noting that our revised NPV_{10} does not take into account the potential for increases in production above historic levels of 8.5Mt pa or copper prices above $2.75/lb. Nor does it take into account the realistic potential for increased metal recoveries with improved mining practices, enhanced grade control and plant optimisation.

Financials

We have updated our financial forecasts for 2008 and 2009 as a result of a revised production schedule, reduced restart expenditure requirements and taking into account the modified funding structure. At current cash burn rates, EMED Mining may need to raise additional capital by mid-2009.

At June 30, EMED Mining had cash of £7.4m which we expect to suffice until early next year at current cash burn rates. If necessary, the company has the option to draw down on a £10m standby debt facility arranged with Yorkville Associates. Although it's more likely EMED Mining will pre-sell metal, leveraging off its relationship with MRI Group. However, the company may also need to raise additional capital by mid-next year, prior to the debt financing. Nevertheless, we expect EMED Mining to generate positive earnings per share of approximately 9p by 2010.

Exhibit 1: Financials

£'000	2005	2006	2007	2008e	2009e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	0	0	0	0	10,185
Cost of Sales	(964)	(1,926)	(6,345)	(8,687)	(9,227)
Gross Profit	(964)	(1,926)	(6,345)	(8,687)	958
EBITDA	(1,469)	(2,746)	(8,309)	(10,852)	(307)
Operating Profit (before GW and except.)	(1,477)	(2,763)	(8,346)	(11,039)	(1,494)
Intangible Amortisation	(585)	0	(71)	0	0
Exceptionals	0	0	0	0	0
Other	10	328	0	0	0
Operating Profit	(2,052)	(2,435)	(8,417)	(11,039)	(1,494)
Net Interest	10	(13)	43	(250)	(3,430)
Profit Before Tax (norm)	(1,467)	(2,776)	(8,303)	(11,289)	(4,923)
Profit Before Tax (FRS 3)	(2,042)	(2,448)	(8,374)	(11,289)	(4,923)
Tax	(1)	(1)	0	0	0
Profit After Tax (norm)	(1,614)	(2,657)	(8,303)	(11,289)	(4,923)
Profit After Tax (FRS 3)	(2,043)	(2,449)	(8,374)	(11,289)	(4,923)
Average Number of Shares Outstanding (m)	56.6	92.7	122.5	239.7	239.7
EPS - normalised (p)	(3.0)	(2.9)	(6.8)	(4.7)	(2.1)
EPS - FRS 3 (p)	(3.7)	(2.7)	(6.9)	(4.7)	(2.1)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets	41	916	718	3,376	21,837
Intangible Assets	0	71	0	0	0
Tangible Assets	41	52	204	3,017	21,830
Investments	0	793	514	359	7
Current Assets	1,017	1,743	4,260	3,045	20,713
Stocks	0	0	78	78	1,256
Debtors	46	536	912	1,540	1,256
Cash	971	1,207	3,270	1,427	18,201
Current Liabilities	(130)	(324)	(893)	(1,298)	(3,093)
Creditors	(130)	(324)	(591)	(996)	(2,791)
Short term borrowings	0	0	(302)	(302)	(302)
Long Term Liabilities	0	0	(2,216)	(4,432)	(58,432)
Long term borrowings	0	0	(2,216)	(4,432)	(58,432)
Other long term liabilities	0	0	0	0	0
Net Assets	928	2,335	1,869	691	(18,975)
CASH FLOW					
Operating Cash Flow	(1,324)	(2,529)	(7,452)	(10,499)	(2,035)
Net Interest	10	8	2	50	76
Tax	(1)	(1)	0	0	0
Capex	(46)	(28)	(189)	(3,000)	(20,000)
Acquisitions/disposals	5	(272)	0	(197)	(21,267)
Financing	2,327	3,058	7,184	9,587	6,000
Dividends	0	0	0	0	0
Net Cash Flow	971	236	(455)	(4,059)	(37,226)
Opening net debt/(cash)	0	(971)	(1,207)	(752)	3,307
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(971)	(1,207)	(752)	3,307	40,533

Source: Company Accounts, Edison Investment Research