



## EURASIA MINING – Update Note

Key stats	
Company	Eurasia Mining
Ticker	LSE:EUA
Country	Listing: UK (AIM)   Operation: Russia
Sector	Mining: PGM – Palladium
Stage	Producing (ramp-up stage)
Market Cap	\$ 250m
Recommendation	BUY ( <i>maintain</i> )
Target price	70p GBP (+870% vs current share price of 7.20p GBP)

### INTRODUCTION

- Since our **initiation note on 7 March 2020** which provided an overall summary of the investment case for EUA, the company has released three releases - **RNS on 9 April 2020**, followed by releases on 30 April and 27 May, and a number of market developments have taken place since.
- Additionally, having been in suspension for close to 5 months, and due to contents of the latest RNS on appointment of new Nomad, it is **likely EUA will exit the suspension in the coming weeks**.
- This note was written in final weeks of June prior to RNS announcements released on 1 July 2020. Updates to the investment thesis in light of announcement of appointment of UBS on a formal sale process under the takeover code will be provided shortly.

### RNS READ – 9 APRIL 2020

- On 9 April 2020, EUA released an RNS, key takeaways from which are summarized below:

<b>Nomad</b> Switching to new Nomad	<ul style="list-style-type: none"> <li>EUA reported to be in 'advanced discussions' with a new Nomad and its original Nomad (in place since 2004) has resigned.</li> </ul> <p><b>PROPOSED CHANGE OF NOMINATED ADVISER AND BROKER</b></p> <p>The Company is in <b>advanced discussions</b> with a new Nominated Adviser ("Nomad") and Broker. <b>WH Ireland has given notice to resign as Nomad and Joint Broker</b> and the notice period is due to expire on <b>30 April 2020</b>. WH Ireland will be working with the Company to ensure a smooth transition to the new Nomad.</p> <p>The Board believes that the <b>appointment of the new Nomad will take place before the WH Ireland notice period expires</b>. However, pursuant to Rule 1 of the AIM Rules for Companies, if a Nomad is not appointed by <b>7am on 30 April 2020</b>, admission of the Company's shares to trading on AIM will remain suspended, and if a new Nomad is not appointed by <b>7am on 29 May 2020</b> admission of the Company's shares to trading on AIM will be cancelled.</p> <ul style="list-style-type: none"> <li><i>What does this mean? Why did it happen? Was it by mutual agreement, or either EUA or the Nomad took initiative? Is it positive or negative?</i></li> <li>RNS does not provide a reason, nor does it detail as to which side initiated the change. There could be a number of reasons for the change, with some of the possibilities outlined below:           <ul style="list-style-type: none"> <li>Dissatisfaction with service.</li> <li>Board using the switch to time when EUA comes out of suspension – the switch gives it greater flexibility to time the unsuspension.</li> <li>Moving to the main board of the LSE – EUA is upscaling to an advisor who could handle a switch to the LSE premium board. EUA is now the 3<sup>rd</sup> largest mining company on the AIM, and on the main market EUA would be 575<sup>th</sup> largest.</li> <li>Upscaling to an advisor with more expertise with larger companies, or focused on mining, or possibly with deeper expertise in Russia. WHI serves as Nomad for c. 50 companies, of which EUA is the 2<sup>nd</sup> largest (trailing the largest closely), and out of the 50, only 8 are in the mining space. WHI generally focuses on smaller companies – the average market cap of its customers is c. £ 30m.</li> </ul> </li> <li>We believe the <b>most likely scenario</b> is that EUA replaced the Nomad for either <b>a technical or a strategic reason</b> (switching to a larger firm with strong expertise in mining or in Russia, or in connection with a contemplated movement to the main board of LSE).</li> </ul>
<b>Flanks</b> Re-iterated that flanks are close to completion	<ul style="list-style-type: none"> <li>EUA re-iterated that the flanks application is close to being granted.</li> </ul> <p><b>MONCHETUNDRA</b></p> <p>As previously announced the application for the Flanks areas at <b>Monchetundra</b> received Ministry of Defence approval (see RNS dated 17 December 2019). Approval by the <b>Federal Security Service (FSB)</b>, the <b>last remaining federal body</b>, whose approval is required for the flanks licence application, was also subsequently <b>confirmed to the Company by Sevzapnedra</b>. The Directors expect the <b>license to be issued by Sevzapnedra soon as per standard process</b>.</p>



	<ul style="list-style-type: none"> <li>▪ The most <b>critical elements are FSB and MOD</b> – both of which have <b>approved</b> the license. FSB and Ministry of Defence are extremely influential in Russia, and both of these entities having approved is a sign of confidence.</li> <li>▪ MT is <b>strategic</b> to Russia, being located close to the Finnish border, and we believe any major issue would likely have surfaced by now, given requirements for approvals by heavyweight government agencies.</li> <li>▪ Russia has been in <b>lockdown since early April</b>, and the timeline for granting of the license has very likely been stretched somewhat as a result. <b>Government</b> entities are still <b>working remotely</b>, and with limited office coverage, however this has definitely <b>slowed the pace</b> of work.</li> <li>▪ Russian government system resembles a matryoshka doll in some ways – with federal, groups of regions, and regional entities looking after various levels of coordination of approvals – which is being further complicated by the lockdowns, and we believe the flanks approval should arrive in the coming weeks.</li> <li>▪ In the event, admin work in processing flanks gets delayed by time an offer is made, it can be made a condition precedent to the deals being negotiated.</li> </ul>
<b>Relationship with CITIC</b> Some information given, but	<ul style="list-style-type: none"> <li>▪ EUA has released some basic detail about its relationship with CITIC.                The Company <b>clarifies that its conversations with CITIC to date have been with CITIC Merchant Co. Limited ('CITIC Merchant'), the merchant banking arm of the CITIC Group Corporate Limited.</b> CITIC Merchant is 51% owned by CITIC International Assets Management Limited, which in turn is a 46% subsidiary of CITIC International Financial Holdings Limited (a wholly owned subsidiary of the CITIC Group).</li> <li>▪ <i>Has relationship with CITIC been clarified so far as the reason for the original suspension goes?</i> While the RNS provides some detail, we believe it does not clarify the reason for the original suspension (relating to the status of engagement letters and how that fits into the status of a potential transaction) – and EUA will need to provide full clarity in order to exit suspension.</li> <li>▪ The company is likely unable to provide the details needed to unsuspend due to NDAs prohibiting it from disclosing the information, till a deal is in more advanced stages.</li> <li>▪ I expect there will be a more detailed clarification as to the relationship with CITIC in an RNS immediately prior to the exit from suspension.</li> </ul>
<b>Board Appointments</b> New members to be announced soon	<ul style="list-style-type: none"> <li>▪ EUA is expecting to announce new Board appointments soon  <b>Corporate Governance Update</b>                The Company continues to work on strengthening its board and advisors while completing an update of its corporate governance procedures, reflecting the progress made in growing the business. As previously announced, Alexei Churakov joined the senior management team as a Strategic Advisor to the Board in September 2019, this was followed by the appointment of Alexander Sushchey as a Strategic Advisor in November 2019, and James Nieuwenhuys as a non-executive Director in November 2019. Progress is being made on <b>further proposed board changes, including new appointments, with an announcement expected shortly.</b></li> <li>▪ These are likely to be strategic, and could shed light on the direction of things going forward, for example Christian Schaffalitzky, Executive Chairman commented in further RNS of 27 May, that the appointment of Iain Rawlinson “a qualified lawyer and M&amp;A practitioner will strengthen our execution team, while we are making progress on our M&amp;A plans”.</li> </ul>
<b>West Kytlim</b> Resource upgrade underway and preparation underway to scale up production	<ul style="list-style-type: none"> <li>▪ RNS is heavily loaded with several positive pieces of news on West Kytlim, which is now in process of (1) resource upgrade, (2) expanding production.  <b>Machinery and equipment</b>                In addition to the existing machinery and equipment already owned by the Company as described in the announcement dated 26 November 2019, a lease agreement has been signed with Leasing-Trade in relation to the following:               <ul style="list-style-type: none"> <li>· <b>Two new Hitachi ZX330LC-5G excavators</b> that have already been shipped and are currently operating at site, and a further Hitachi ZX300LC-5A excavator awaiting shipment;</li> <li>· A 30 ton <b>Chetra T15</b> bulldozer arrived on site on 15 March 2020; and</li> <li>· The lease agreement also provides for the delivery to site during April 2020 of additional <b>4 Kamaz 20-tonne ore haulage trucks.</b></li> </ul> <b>A fuel truck</b>, that was purchased by the Company, completes the mobile fleet at site.                New <b>crew shelters for 56 people have arrived</b> and have been installed at the mining site, and the washplant with its associated pumps, generators and other peripherals that were utilised last year is now being serviced for use in this mining season, while mined ore is stockpiled in preparation for enrichment. Both the crew shelters and the mining equipment <b>allow people to operate in social isolation conditions thanks to the open pit mining</b> nature of the project. Eurasia has also purchased and delivered hand sanitisers and other precautions to provide individual protection for its employees. <b>Operations at site therefore currently continue as normal</b>, without any impact from COVID 19. Updates will be provided on this as required.</li> <li>▪ Stated in a Kommersant interview previously, EUA is targeting to eventually produce 30k oz at WK, equivalent to an annual profit of \$15m (assuming Pt price of \$900/oz and cost of \$400/oz), implying an equity value of \$100-150m, prior to taking into account any resource upgrades. Given a significant number of additional resource applications (Tipil and WK Flanks), and a recovery in medium-term Pt prices, once fully ramped up, WK could be worth around the value of the current market capitalization.</li> </ul>



	<p><b>Feasibility study</b></p> <p>The Company is working on a <b>Feasibility Study</b> for the <b>entire mining license area</b> at West Kytlim, instead of at the Bolshaya Sosnovka area only, as originally proposed. Due to reserve and operational data generated over several seasons of mining, the Company has been able to strengthen its geological knowledge and apply this information to all resources on the mining license. As a result, the <b>amount of drilling already undertaken is considered sufficient to raise the resources on the mining license to mineable categories pursuant to the Russian mining standard (GOST)</b>. The Feasibility Study now being worked on aims to raise all resources on the property to mineable categories within a single Feasibility Study and without further drilling. This is aimed to accelerate the development of multiple sites in parallel, which should <b>significantly increase production volumes</b>.</p> <p><b>Tipil Area at West Kytlim</b></p> <p>The <b>Tipil area is immediately adjacent and to the west of the West Kytlim Flanks</b> application area. The potential for further discoveries of palladium, platinum, rhodium, iridium and gold is supported by past exploration data and extrapolation of resource and exploration work on the neighbouring Ust-Tylai area of the current mining license. The <b>Tipil license area has achieved approval at all federal agencies</b> (see RNS dated 09 December 2019) and <b>awaits a formal issue of the appropriate license</b>.</p> <ul style="list-style-type: none"> <li>▪ WK is key to EUA repositioning itself as a producing play – which should drive a further re-rate as being valued as a producing asset. It also serves as proof of concept for the company being able to deliver an asset from pre-production to producing. Market often attaches a discount to companies seen as pre-production plays, and thus the above WK update is very important.</li> <li>▪ We look forward to finding out how much Rhodium exactly WK has – the metal has been mentioned several times now in WK news releases.</li> </ul>
<b>Related party transaction</b> Technical point	<ul style="list-style-type: none"> <li>▪ RNS notes that a related party transaction had not been disclosed as per rules. I view this as non-impact event – merely a technical point (possibly picked up by a potential acquirer in DD) the company has to disclose per regulations.</li> </ul>
<b>South Africa credit downgrade</b> Weakening competition	<ul style="list-style-type: none"> <li>▪ RNS emphasized the now-strengthened attractiveness of the asset to any South African player, and the lower level of competition as cost and availability of capital to South African miners will deteriorate.</li> <li>▪ Due to the lockdown in South Africa, Norilsk Nickel now effectively controls the market, giving it a lot of flexibility in how much inventory is released to market.</li> <li>▪ Having said this, Norilsk Nickel (as well as other major players in Russia such as Polyus) have reported a significant number of Covid cases - being a predominantly underground miner, social distancing is difficult in close confined spaces.</li> <li>▪ Palladium mining outside of Russia and South Africa is also underground (Zimbabwe, USA, Canada), leaving the industry highly exposed to Covid-19.</li> <li>▪ Eurasia <b>stands out</b> being an <b>open shallow pit producer</b>. The company has also demonstrated a highly responsible attitude to combating the virus - 56 new crew shelters have arrived and have been installed at the mining site. Both the crew shelters and the mining equipment allow people to operate in social isolation conditions thanks to the open pit mining nature of the project. The Company has also purchased and delivered hand sanitisers and other precautions (face masks, glasses and gloves) to provide individual protection for its employees. Operations at site continue as normal, without any impact from COVID-19.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Summary:</b> The RNS has provided several important pieces of information, with a very positive WK update, driving its shift from a pre-production play to a producing company, a heads-up on potential additions to the board, and re-iteration of work being underway on a couple of critical elements of the investment case – the flanks and the M&amp;A conversations. The update serves as a very encouraging intermediate update while we are waiting for the really big news.</li> </ul>	

## RNS READ – 30 APRIL 2020 AND 27 MAY 2020

<b>Termination of contract WH Ireland</b>	<ul style="list-style-type: none"> <li>▪ Per the prior RNS, EUA have confirmed the contract with WH Ireland has expired. At the time, the company had indicated they were in advanced discussions with a new Nomad, with the intention to appoint a new Nomad in line with AIM rules.</li> </ul> <p>Further to the announcement of 9 April 2020 the Company confirms that <b>WH Ireland has now ceased to act as Nomad and Joint Broker</b> for the Company with immediate effect.</p> <p>Pursuant to Rule 1 of the AIM Rules for Companies if a <b>new Nomad</b> is not appointed <b>by 7am on 29 May 2020</b> admission of the Company's shares to trading on AIM will be cancelled.</p> <p>The Company is in <b>advanced discussions with a new Nominated Adviser</b>, which has <b>substantially completed its due diligence</b> procedures and the Company will provide a further update <b>shortly</b>.</p>
<b>Appointment of SP Angel As Nomad</b>	<ul style="list-style-type: none"> <li>▪ The Nomad appointment has since been resolved.</li> <li>▪ EUA has appointed SP Angel – a mining specialist Nomad advising 30 mining companies. Notable clients include: Chaarat Gold (a \$200m mcap gold miner operating in former Soviet Union), SolGold (a \$500m mcap Australian gold miner), Anglo Asian Mining (a gold miner in former Soviet Union, with mcap of \$200m), and Amur Minerals (a Russian nickel business).</li> </ul>



### Appointment of Iain Rawlinson as BOD member

Eurasia has appointed SP Angel Corporate Finance LLP ("SP Angel") as its nominated adviser and joint broker with immediate effect. SP Angel is considered an expert in the mining sector and acts for more than 30 mining companies quoted on London Stock Exchange markets.

- EUA have appointed Iain Rawlinson as a non-executive BOD member. Iain is a strategic appointment, indicated in a previous recent RNS. We believe this is a strong indication of where things are headed in terms of M&A or JV partner interest – Iain is an experienced investment banker (Lazard is one of the most prestigious boutique M&A firms) and has deep connections in South Africa from his work with Fleming Family & Partners – a highly reputed global multifamily office advisory firm.

The Board of Eurasia Mining plc is pleased to announce the appointment of Iain Rawlinson as a non-executive director of the Company with immediate effect.

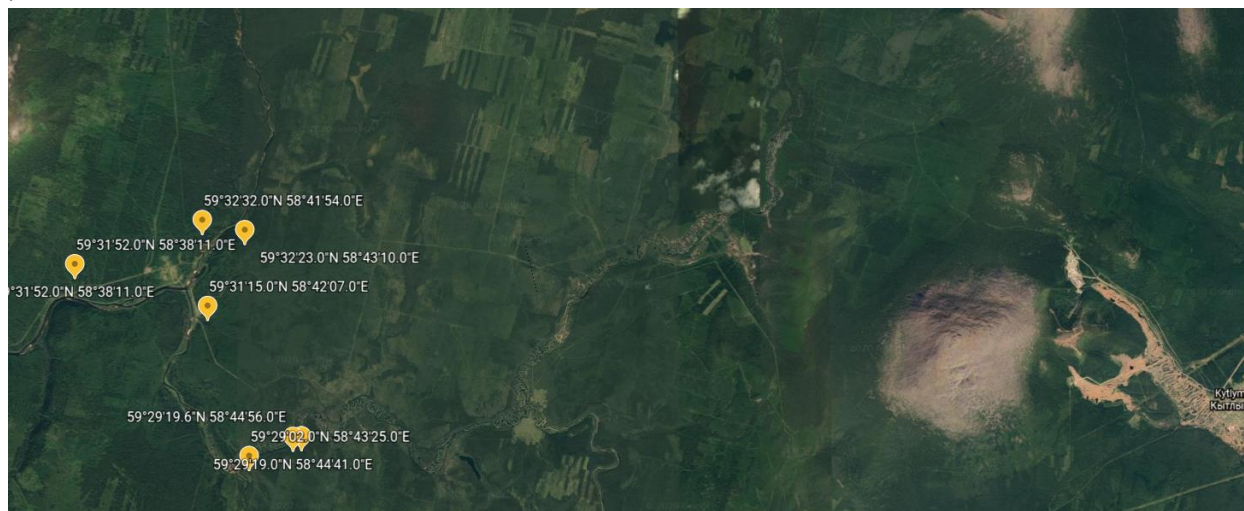
Iain is an experienced board member and a strategy consultant. He has a law degree from Cambridge University, is a qualified barrister, and is also an experienced corporate financier having started his career in investment banking with Lazard and Robert Fleming. Between 1994 and 2000 he developed Flemings' corporate finance team in South Africa, which advised on a wide range of mining sector M&A transactions in South Africa and London. He was one of the initial partners of Fleming Family & Partners (FF&P), leading the listing of Highland Gold PLC in 2002, and held a number of senior positions in FF&P until 2005.

- Additionally, Iain has a strong Russia connection – having led the listing of Highland Gold – one of the biggest Russian mining success stories on the LSE.

- Summary:** The round of news releases resolved a technical issue with appointment of Nomad – and, most importantly, strengthened the board with a new strategic appointment – an M&A specialist with a legal background and deep industry connections in South Africa, the UK, and Russia.

### OTHER RECENT NEWS

- Tipil license approval:** The Tipil license has been found to be approved as per the list on Rosnedra website – disclosed here: <http://www.rosnedra.gov.ru/data/Files/File/3273.xlsx>
- A reference to the license approval can be found with reference number 1719 around the line 48,542 – a 24.5 sq km area approved for exploration. On the bottom right hand corner of the map is the town of Kytlim – and the pins indicate coordinates of the Tipil license as per the Rosnedra website.



- WK Operational update:** On 11 May 2020 – EUA posted some photos + videos of machinery operating at the WK mine. The trucks are a ruggedized version of Russian KAMAZ trucks (a leading Russian heavy machinery brand) – 'Kamaz Vankor'. The trucks contain links to riatauto.ru – a dealer operated by Kamaz.

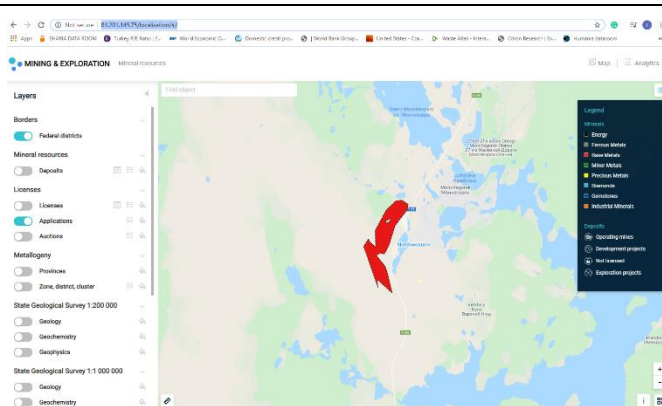


- Progress photos have been reported: <https://twitter.com/R1EXG/status/1269988099502813184>





- **PDAC:** Eurasia presented on the Rosnedra stand. This is a big sign of confidence, as in Russia being actively supported by government is important. Following PDAC, Rosnedra has put up a website showing Monchetunra flanks application: <http://84.201.149.75/localisation/#/>
- **VTB – Polymetal Veduga deal:** VTB has acquired a 40% stake for \$71m in Polymetal's 2.8m oz Veduga gold project. This is a very positive sign, because it shows: (1) VTB's ability to close deals even in lockdown conditions, and (2) high level of interest by a state-backed entity in developing greenfield mining projects. The valuation is \$56 / oz, which on a like-for-like basis could (on a very approximate calculation) value EUA at \$1.7bn. \$ 56 x 15m x 2 (gross margin from Palladium is 2x higher than refractory gold).
- **USDRUB depreciation:** RUB has depreciated from 60 to 70 USD – as a result of which AISC is now likely under \$300 / oz (vs original estimate of \$325 / oz).
- **Arctic Palladium cancelled:** On 10 March 2020, news came out that Norilsk Nickel's Arctic Palladium JV was voted down by Rusal, which holds a significant shareholding in NN, with Rusal wanting to NN to focus on dividends, rather than the \$12bn capex-heavy Arctic Palladium venture. This is a big positive for EUA, as any competition for capital has now fallen away. Arctic Palladium was from the beginning seen as a project which was capex heavy with doubtful economics. The project being off the map increases EUA's attractiveness to a whole range of potential suitors, some of which could be the same parties which had considered Arctic Palladium – such as the Russian SWF, which the government is now actively looking at deploying into investment projects.
- **EUA has not triggered the Sinosteel EPCF contract:** This is positive - by now, if EUA had been planning to go the route of mining the project, it would have made sense to trigger the Sinosteel, (or inform the market about its intention to do so) – implying that M&A talks are continuing and well underway.
- **Reopening:** Russia has gradually started to reopen international flights – with air connections with some countries to resume as of mid-July. Overall lockdown has been lifted, which should permit site visits across the rest of the summer.



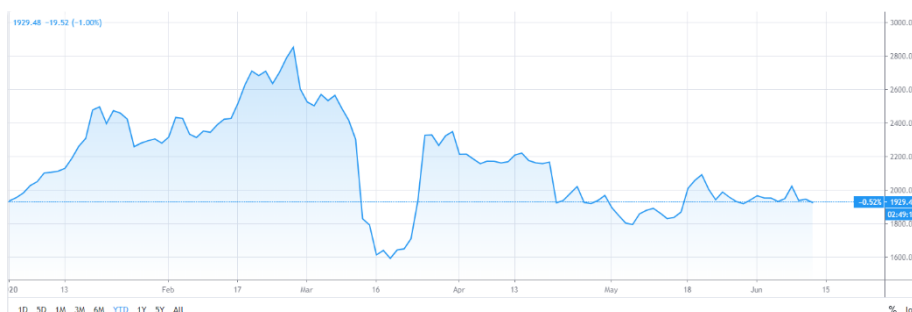
#### WHERE THINGS ARE HEADED NEXT

- **Institutional buying:** One tactic EUA are likely to employ is to strengthen the shareholder base with activist / mining specialists – private equity funds, activist hedge funds, or strategic shareholders who may want to enter through purchasing listed securities, but remain for the longer term. An example of a mining-focused activist investor is Turquoise Hill which holds a stake in the Oyu Tolgoi mine in Mongolia. A potential bidder is also very likely to start acquiring shares in the open market prior to making a bid, to strengthen their negotiating position. We likely saw such buying (although no one crossed the thresholds required for disclosure) at the Mining Indaba week, which doubled the share price from 3p to 7p.
- **How will share price behave on the open?:** There are a couple of scenarios, depending on the news flow. We expect the impact to be driven by the following factors:
  - Overall, markets have recovered significantly in recent week, especially in metals (many gold miners are at ATH) – so when they do unsuspend, majority of the Covid-19 impact of share prices of miners is likely to be gone
  - Institutional buys from either potential acquirers or new institutional shareholders
  - It is likely there will be some selling from existing shareholders, driven by liquidity requirements. We do not expect this to have a significant downward impact on price – any dip is likely to be short-lived (if any). We also expect short sellers to buy shares to cover their short positions frozen for over 4 months now.
  - If RNS contents are very strong, we may well see a gap up – anything ranging from flanks approval, heavy hitter board appointments, details of M&A could cause the price to continue creeping up
  - Price creeping up is likely to force buyers to speed up negotiations in an effort to avoid paying an even bigger premium
  - Board are very focused on ensuring share price stability as it gives them ammunition in the M&A negotiations – the next RNS will likely contain news specifically aimed at spurring further buying
- **Things to wait for:** Next RNS could contain either one or more of:
  - *Official announcement of Tipil license (positive)*
  - *Production update on WK (positive)*
  - *Flanks license approval (should be a major catalyst once announced, however, can take some time)*
  - *Details of any offers on the table (potential game-changer)*
  - *Resource upgrades at WK (positive)*

#### PALLADIUM MARKET – UPDATE



- **Palladium price has been very resilient:** Palladium price has held up remarkably well in the Covid-19-hit world. The price at time of writing is c. \$1,925/ oz, flat YTD, which is remarkable given performance of most other asset classes (except safe havens such as gold or treasuries).



- **Shutdowns of auto plants have been offset by shutdowns of mines:** Overall, the two factors outlined below have approximately offset each other, thus dampening price volatility. I see a return to \$2,500+ levels once car sales are back to normal in late 2020 or 2021.
  - **Demand has taken a hit due to Covid-19:** Lockdowns have slowed / stopped production at car plants and reduced car demand. In the EU car sales have dropped over 50% YoY in March, and it is likely that April will see an even larger hit. In the USA, Toyota recorded at c. 37% fall in YoY sales in March.
  - **Supply has taken a corresponding hit:** Correspondingly, supply has fallen due to a lockdown in South Africa, which produces up to 65% of global PGM supply. In general, because 2 producers dominate the market, they always have the flexibility to replenish inventory and manage price volatility. The lockdown took offline c. 60% of global PGM demand (Marketwatch, 24 April 2020)
- **Recovery of the Chinese auto industry:** Auto sales in China in April-May 2020 have reversed a trend of 21 months of declines (according to China Association of Automobile Manufacturers, reported on 11 June 2020 by Wall Street Journal). Sales in April 2020 were 4.5% higher YoY and in May, sales were up 14.5% YoY. Bloomberg Opinion on 26 April 2020 reported lockdowns may lead to a surge in demand for cars once lockdowns are lifted – driven by a combination of government incentives and higher demand for socially-distanced modes of transport – as evident from China's pick up in car demand despite continuing impact of Covid on the overall economy.
- On 10 March 2020, BASF has released a new tri-metal catalyst in a project which was supported by Implats and Sibanye. We believe the substitution effect is likely to be delayed (2023 onwards) and very limited. Maintaining a balanced market once car demand recovers without extreme shortages is positive for keeping Palladium demand sustainable through the 2020s.

## CONCLUSION

- **EUA shareholders have a number of very strong factors playing in favour:**
  - Resilient Palladium prices
  - Strong Board addition
  - Cancellation of Arctic Palladium: EUA is now the prime target for a deal
  - Catalysts to be released in foreseeable future: new Nomad + Flanks
  - Shift from a junior to a producing asset with ramp up of West Kytlim
  - Oil price environment: Russian government likely has a heightened interest in a sale going through
  - Depreciation of USDRUB: even lower AISC
- **Conclusion:** Re-iterate **BUY rating** ahead of unsuspension on EUA. EUA's fundamentals are supported by a number of factors, while the original **M&A-driven investment thesis remains in force**, supported by both resilience of the Palladium market, and indications in the recent RNS announcements.
- **Additional updates:** After RNS releases announced on 1 July 2020, additional updates will follow.