

MOY : Gold price PLUS self-help increasing value

Recommendation

BUY, High Risk

Price

24.5c

Valuation

27c

Commodity

Gold

- **MOY has shown strong operational performance with**
 - **AISC for the 6 months of \$A 1194/z, compared with guidance of \$A 1180 - \$A 1220/oz, despite higher royalties, drilling and other capital costs; and**
 - **Production of 45.9koz over the first 6 months of 2016, compared with guidance of 80 – 85koz for CY 2016.**
- **Drill results and the deeper drill program suggest that feed grades will be higher than assumed in Beer & Co's base case valuation.**
- **The gold price is helping and MOY adds value from its operational performance.**
- **Beer & Co has raised our valuation to 27c and we expect that MOY will better our modelled performance**

Snapshot

Market Cap	\$182m
Net Cash	\$20.4m
Shares on Issue	742.7m
52 Week High	12.5c
52 Week Low	2.6c
1 month / 6 month VWAP	20.2c / 13.9c

MOY : daily share price v. value traded



MOY began mining operations at Nullagine in September 2012. The operations were declared commercial in February 2013.

Following a change in management in December 2014, the operations have been turned around. MOY is now debt free with significant free cash.

MOY has over 1.0Moz in Resources, but only 160koz in Reserves. In late 2015, MOY began a \$10m a year program to boost Reserves and mine life.

The Nullagine area has more than 30 further shallow oxide prospects as well as, and prospects for deeper mineralisation and refractory material in Resources as a possible later option.

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MOY's has had strong operational performance

The rising gold price has lifted the prices of all gold producers, including MOY which has risen strongly due to

- Leverage, due to the cost of production;
- Higher than guided production, with 45.9koz produced in the first 6 months, compared with guidance of 80 – 85koz; and
- Better than expected costs, given higher royalties and higher capital investment.

Beer & Co sees more operational upside to MOY

In our last update, Beer & Co stated that MOY was being priced on reserves plus cash, with no value for the gold mineralisation at Nullagine.

Beer & Co believes that the market is now beginning to recognise some value for Nullagine and MOY's operational potential. There is significant upside to Beer & Co's base case valuation from

- Higher grade : Beer & Co assume that MOY's future feed is 1.5g/t, while increasing this by 0.1g/t adds 13% to our valuation, while MOY has reported much better grades than 1.6g/t from drilling;
- Higher throughput : Beer & Co assume 2.0Mt/yr as our base case now, while MOY's deep drilling will aid the decision to add mill capacity to treat refractory material, of which there is already a large inventory.

Gold price is also helping

There are many more bullish views on gold now than even 3 months back, with heightened uncertainty.

MOY has shown that it is a good exposure to higher gold prices.

Beer & Co affirms our BUY, High Risk, recommendation.

The gap between price and value would not normally justify a BUY recommendation.

Beer & Co maintains a BUY recommendation due to MOY's operational upside as well as gold price potential.

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MOY's operations are (out-)performing

45.9koz produced in first 6 months

MOY produced 45.9koz in the first 6 months of 2016

On 12 July, MOY announced that it had produced 45.9koz for the first 6 months of 2016. This compares with guidance of 80 – 85koz for 2016.

In our 16 June update on MOY, Beer & Co

- Stated that we expected MOY to upgrade guidance; and
- Increased our expected production for 2016 to 87.8koz.

This is well ahead of guidance of 80 – 85koz for 2016

Incorporating production for the June quarter has increased Beer & Co's projection for MOY's gold production for 2016 to 90koz.

Beer & Co expects that MOY will upgrade their 2016 guidance.

AISC \$A 1193/oz for June quarter

All In Costs are \$A 1193/oz

In their 12 July announcement, MOY stated that All-In Sustainable Costs for the June quarter were \$A 1,193/oz.

This is at the lower end of the guided range of \$A 1180 - \$A 1220/oz, despite

- Higher gold prices, and hence higher royalties, adding \$5/oz; plus
- Higher drilling costs, with \$3.2m spent, adding \$31/oz.

At the lower end of guidance of \$1180 - \$1220/oz

Compared with actual costs of \$A 1193/oz, Beer & Co's model had projected costs of \$A 1198/oz, BEFORE allowing for higher drilling costs and royalties.

Despite higher capital spend and higher royalties

MOY stated that cash balance was \$20.4m, which is more than \$4m higher than Beer & Co had originally modelled.

Beer & Co will adjust our model, and hence valuation, after we get more detail on how the higher production was achieved in MOY's quarterly.

Further Operational Potential

Beer & Co's valuation assumes MOY

- Invests \$10m a year in drilling
- To find 2.0Mt of reserves
- Grading 1.5g/t

There is upside to all of these parameters

Grade

Beer & Co's valuation assumes that :

- MOY invests \$10m in drilling for each of the next 7 years;
- MOY proves up 2.0Mt grading 1.5g/t in reserves each year; and
- MOY invests a further \$4m each year to develop these reserves, much of which is extensions to the existing operations.

Beer & Co believes that MOY has significant scope to

- Delineate more than 2.0Mt of reserves each year; or
- Invest less than \$10m to delineate 2.0Mt of reserves each year; and
- Feed material grading higher than 1.5g/t.

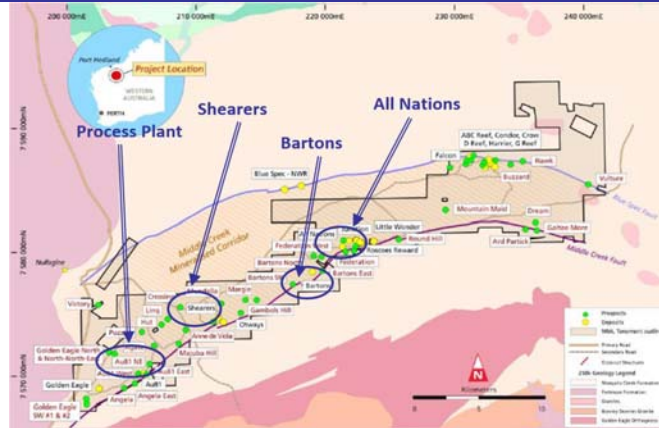
In our 16 June update on MOY, Beer & Co reported on the results from shallow drilling at Nullagine. All of these results suggest a higher grade than 1.5g/t.

Deeper Drilling

On 4 July, 2016, MOY announced that it was about to commence a programme to drill beneath existing operations at Bartons, Shearers and All Nations. Figure 1 shows the relevant locations within MOY's Nullagine tenement area.

MOY has started a deeper drilling programme

Figure 1 : MOY's operations at Nullagine



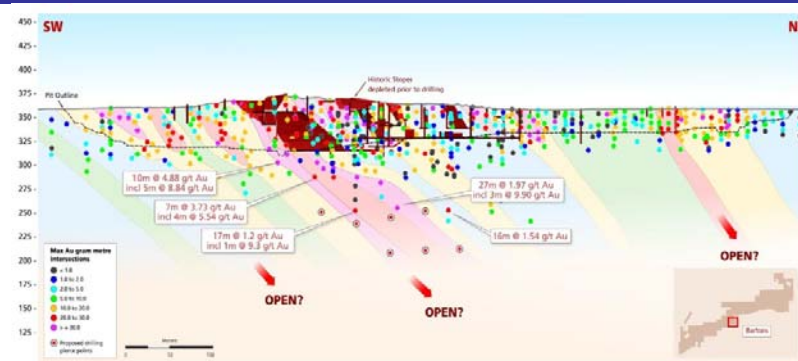
Source : MOY Presentation, March 2016, Beer & Co

Bartons

Figure 2 shows shallow and deeper drilling at Bartons. Note that orange is 10 – 20 gram-metres, red 20 – 30 with maroon being higher than 30 gram-metres.

MOY is chasing higher grades seen in earlier drilling

Figure 2 : Drilling below Bartons



Source : MOY ASX announcement, 4 July 2016

MOY reported that previous drilling below Bartons had reported :

- 10m at 4.88g/t, including 5m at 8.84g/t;
- 7m at 7.73g/t; and
- 3m at 9.90g/t.

At Bartons

None of these intersections had been followed up due to the focus on near surface oxide mineralisation.

Shearers

Figure 3 shows the Shearers pit and drilling, both shallow and deeper, on the same basis as for Bartons.

Figure 3 : Drilling below Shearers

At Shearers



Source : MOY ASX announcement, 4 July 2016

MOY reported that previous drilling below Shearers had reported :

- 41m at 4.2g/t, including 3m at 29.5g/t;
- 14m at 6.57g/t; and
- 5m at 7.5g/t.

All Nations

Figure 4 shows the All Nations pit and drilling, both shallow and deeper, on the same basis as for both Bartons and Shearers.

Figure 4 : Drilling below All Nations

At All Nations



Source : MOY ASX announcement, 4 July 2016

MOY reported that previous drilling below All Nations had reported :

- 19m at 6.15g/t, including 3m at 33.27g/t;
- 3m at 7.0g/t; and
- 8m at 2.29g/t.

The target depths are 50m to 170m below the floors of the existing pits

Impact of Deeper Drilling

The targets being drilled are vertical depths of 50m to 170m below the current pits.

It will depend on the grade and structures as to whether this material is mined by extensions of existing pits or by under-ground methods.

It is likely that the material will be primary rather than oxidised.

It may be refractory, but this will need to be tested.

If it is refractory, then this may give MOY the confidence to add a refractory circuit to its existing processing plant which will facilitate treatment of material from MOY's original Golden Eagle pit, which has been stockpiled as it gave poor recoveries through the oxide circuit.

Throughput volume

MOY started operations in 2013 targetting throughput of 1.5Mt/yr.

This was ramped up to 1.9Mt/yr during 2015 and in the March quarter was a rate higher than 2.0Mt/yr.

The higher gold production in June quarter may be due to continued higher throughput.

Beer & Co now assumes base case throughout of 2.0Mt/yr.

Beer & Co's valuation is sensitive to small changes in grade

Figure 5 shows that Beer & Co's valuation is sensitive to even relatively small changes in both throughput volume and feed grade.

Figure 5 : Sensitivity of valuation

	1.40 g/t	1.50 g/t	1.60 g/t
1.8 Mt/yr	19.8 c	22.8 c	25.8 c
2.0 Mt/yr	23.2 c	26.7 c	30.1 c
2.2 Mt/yr	26.8 c	30.7 c	34.7 c

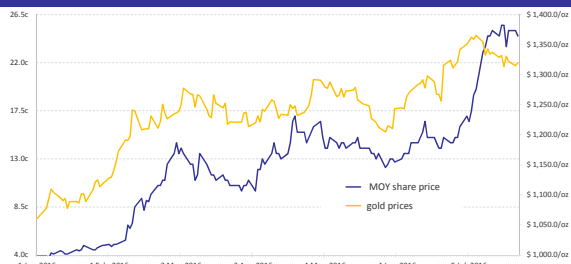
Source : Beer & Co estimates

Gold Price

MOY share price v gold price

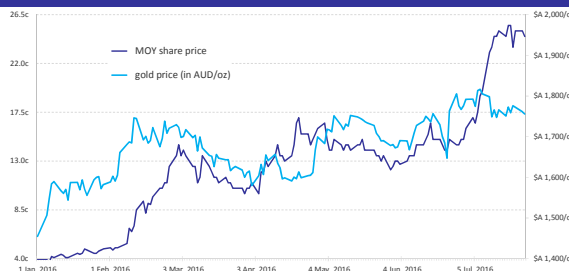
Figure 6 shows that the MOY share price lagged the rise in the gold price through June, and then caught up in a rush in early July.

Figure 6 : MOY share price v gold price



Source : IRESS, Beer & Co

Figure 7 : MOY share price v AUD gold price



Source : IRESS, Beer & Co

Figure 7 shows that the gold price, when measured in AUD terms, has not risen as strongly, as the AUD strengthened against the USD.

MOY is moving with and ahead of the USD gold price

It shows that the MOY share price tracked the AUD gold price from March through to mid-July, and recently has significantly out-performed the AUD gold price.

Beer & Co attributes this out-performance to :

- Overseas interest in gold producers filtering down to smaller companies, after the initial interest was met in the larger companies, such as NCM, then NST and EVN; and
- MOY's own operational out-performance.

Gold Price Projections

There are now many who are bullish on the gold price

In contrast with only 6 months ago, many major broking firms are now bullish on gold, with

- UBS projecting \$1400 by end 2016 and then rising further;
- JP Morgan projecting \$1400 by end 2016;
- Natixis projecting \$1450
- Commerzbank \$1350.

Compared to almost none 6 months ago

The following link to a report by ABN Amro, in which the bank projects

- \$1450/oz gold if Clinton wins the US presidential election; or
- \$1850/oz if Trump wins the US presidential election.

http://issuu.com/abnamro/docs/160722_-_precious_metals_watch/1?e=0/37385073

This is in addition to other risk factors, including the impact of Brexit and the impact of terrorist actions on global finances and other political risks that reduce confidence in financial systems.

Beer & Co's revised valuation

Base Case

As shown in Figure 5, Beer & Co has revised its valuation of MOY from 21c to 26.7c (rounded to 27c).

Figure 8 shows that our valuation is dominated by our view of the success of MOY's drilling programme, investing \$10m each year to find and delineate 2.0Mt of reserves grading 1.5g/t.

Beer & Co has revised our valuation to 27c

With better gold prices

Figure 8 : Beer & Co's revised valuation of MOY

	discount rate = 12.0 %	31 December 2015		27-Jul-16	
		risk :	100%	Product	per share
Nullagine Reserves	100%	\$ 73m	\$ 73m	9.5 c	5.7 c
franking credits	60%	\$ 11m	\$ 6m	0.8 c	0.9 c
Nullagine Extensions	70%	\$ 177m	\$ 124m	16.0 c	17.2 c
franking credits	42%	\$ 49m	\$ 21m	2.7 c	2.9 c
Exploration	100%	(\$ 52m)	\$ 0m	0.0 c	0.0 c
Hedge	100%	(\$ 6m)	(\$ 6m)	(0.8c)	(0.3c)
Corporate	100%	(\$ 27m)	(\$ 27m)	(3.5c)	(3.4c)
Cash / Debt	100%	\$ 8m	\$ 8m	1.0 c	3.8 c
Equity raisings	100%	\$ 1m	\$ 1m	0.1 c	0.1 c
TOTAL		\$ 233m	\$ 199m	25.7 c	26.7 c
Shares on issue		742.7m	F P O shares	32.0m	Options
				32.0m	Ops. Ex'd

Source : Beer & Co estimates

Revisions

Beer & Co has revised our model for

- Higher gold prices, with \$1325 for the balance of 2016 and \$1350 thereafter; and
- Throughput of 2.0Mt/yr.

Beer & Co retains a BUY recommendation

Normally, a difference of 10% between Beer & Co's valuation and the share price does NOT warrant a BUY recommendation, but a HOLD.

However, Beer & Co retains a BUY recommendation on MOY due to

Beer & Co retains a BUY on MOY

We expect some good results from drilling

Also, we expect that we will be revising our costs down after the quarterly

- Beer & Co is assuming basically spot gold prices, while there is a much more bullish tone and we believe gold prices will go higher, though we have not factored this into our analysis;
- The costs achieved by MOY for the June quarter are \$A 50/oz lower than those projected Beer & Co's modelling, revised for higher throughput, gold prices and hence royalties and the extra investment in drilling
 - Beer & Co will revise our costs after the MOY quarterly and we have more detail on the costs and the higher production
 - If we need to revise our cash costs down by \$50/oz, then this would add about 10% to our valuation
- There is scope for higher grades, with the impact as shown in Figure 5; and
- There is scope for MOY to add a refractory circuit, which will then treat material that has been mined and stockpiled from the Golden Eagle deposit.

For these reasons, Beer & Co retains a BUY, High risk recommendation on MOY.

Beer & Co Research
Millennium Minerals (MOY.ASX) July 2016

Year ended December	2014	2015	2016	2017	2018	2019	2020	2021
Section 1 - P&L								
Sales revenue	\$A m	107	142	155	163	160	160	160
Interest revenue	\$A m	0	0	0	1	1	2	3
Other revenue	\$A m	9	0	0	0	0	0	0
Total Revenue	\$A m	116	142	155	164	161	162	162
Cost of Goods Sold	\$A m	(88)	(85)	(86)	(86)	(85)	(85)	(86)
Royalties	\$A m	(4)	(4)	(5)	(8)	(5)	(5)	(5)
Corporate Costs	\$A m	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Exploration Expense	\$A m	0	0	0	0	0	0	0
Other Operating Expenses	\$A m	(17)	(5)	(7)	0	0	0	0
Total Operating Expenses	\$A m	(114)	(99)	(103)	(99)	(94)	(95)	(96)
EBITDA	\$A m	2	43	52	66	67	67	66
Dep'n & Amort'n	\$A m	(27)	(23)	(34)	(14)	(14)	(14)	(14)
EBIT	\$A m	(25)	20	18	52	53	53	53
Interest Expense	\$A m	(5)	(3)	0	0	0	0	0
Other	\$A m	(1)	0	0	0	0	0	0
Pre-Tax Profit	\$A m	(31)	17	18	52	53	53	53
Tax Expense	\$A m	(12)	(5)	(6)	(15)	(16)	(16)	(16)
NPAT	\$A m	(43)	12	13	36	37	37	37

Section 2 - Key Data								
Ordinary shares - year end	m	217.7	742.7	744.7	774.7	774.7	774.7	774.7
Fully diluted shares on issue	m	217.7	742.7	744.7	774.7	774.7	774.7	774.7
Weighted # shares	m	217.7	252.2	743.7	759.7	774.7	774.7	774.7
Earnings per Share		(5.6c)	4.8 c	1.7 c	4.8 c	4.8 c	4.8 c	4.8 c
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c

Section 3 - Balance Sheet								
Cash	\$A m	2	11	45	87	119	146	173
Receivables	\$A m	2	10	12	12	12	12	12
Inventory	\$A m	17	13	14	14	14	14	14
Other	\$A m	2	2	2	2	2	2	2
CURRENT ASSETS	\$A m	23	37	73	116	147	174	201
Receivables	\$A m	0	0	0	0	0	0	0
P, P & E	\$A m	43	27	8	5	4	4	4
Mining Properties / Exploration	\$A m	8	6	7	9	10	11	11
Other	\$A m	0	0	0	0	0	0	0
NON-CURRENT ASSETS	\$A m	51	34	15	14	15	15	15
TOTAL ASSETS	\$A m	74	71	87	130	161	189	216
Payables	\$A m	16	6	7	7	7	7	7
Debt	\$A m	20	4	0	0	0	0	0
Other	\$A m	1	0	0	0	0	0	0
CURRENT LIABILITIES	\$A m	36	10	7	7	7	7	7
Long Term Debt	\$A m	17	0	0	0	0	0	0
Other	\$A m	2	2	2	2	2	2	2
Provisions	\$A m	6	6	6	6	6	6	6
NON-CURRENT LIABILITIES	\$A m	26	8	8	8	8	8	8
TOTAL LIABILITIES	\$A m	62	19	15	15	15	15	15
NET ASSETS	\$A m	12	53	72	115	146	173	200
Accumulated Profit (Loss)	\$A m	(135)	(123)	(110)	(74)	(36)	1	38
Reserves	\$A m	3	11	17	24	18	8	(2)
Contributed Equity	\$A m	144	165	165	165	165	165	165
Total Equity	\$A m	12	53	72	115	146	173	200

Section 4 - Cashflow								
Net Cashflow from operations	\$A m	19	48	59	66	67	67	66
Hedging	\$A m	(7)	0	0	0	0	0	0
Interest Paid	\$A m	(5)	(3)	0	1	1	2	3
Taxes Paid	\$A m	0	0	0	0	(12)	(16)	(16)
Change in Working Capital	\$A m	(4)	(17)	(1)	(1)	0	0	0
Other	\$A m							
OPERATING CASHFLOW	\$A m	3	28	58	66	57	53	53
Exploration Expenditures	\$A m	0	(2)	(11)	(10)	(10)	(10)	(10)
Maintenance Capex	\$A m	(3)	(4)	(4)	(4)	(4)	(4)	(4)
Expansion Capex	\$A m	0	0	0	0	0	0	0
PPE Acquisitions (Total Capex)	\$A m	(3)	(6)	(15)	(14)	(14)	(14)	(14)
PPE Divestments	\$A m	0	0	0	0	0	0	0
INVESTING CASHFLOW	\$A m	(3)	(6)	(15)	(14)	(14)	(14)	(14)
Change in Equity	\$A m	0	21	0	1	0	0	0
Dividends Paid	\$A m	0	0	0	0	0	0	0
Change in Debt	\$A m	(2)	(34)	(4)	0	0	0	0
FINANCING CASHFLOW	\$A m	(2)	(13)	(3)	1	0	0	0
Free Cashflow	\$A m	0	22	44	52	43	39	40
Net Cashflow	\$A m	(2)	9	40	53	43	39	40

Commodity price assumptions						
Year ended December	2015	2016	2017	2018	2019	2020
AUD-USD	0.753	0.739	0.750	0.750	0.750	0.750
Gold	US\$ / oz	1,160	1,278	1,350	1,350	1,350
	AUD / oz	1,541	1,728	1,800	1,800	1,800

Mine Production						
Nullagine						
Ore processed '000t		1,824	2,007	2,000	2,000	2,000
Gold grade		1.78 g/t	1.49 g/t	1.53 g/t	1.50 g/t	1.50 g/t
Gold produced (ounces)		91,462	90,299	90,719	88,746	88,746

Resources							
Deposit	Measured	Indicated	Inferred	Gold			
Golden Eagle	10.6 Mt	0.9 g/t	4.4 Mt	0.9 g/t	4.3 Mt	0.9 g/t	564 koz
Bartons	1.7 Mt	1.2 g/t	1.4 Mt	1.2 g/t	0.6 Mt	1.1 g/t	141 koz
Shearers	0.6 Mt	1.3 g/t	1.5 Mt	1.0 g/t	0.3 Mt	1.0 g/t	81 koz
Otways	1.2 Mt	0.8 g/t	0.9 Mt	0.9 g/t	0.7 Mt	0.9 g/t	75 koz
All Nations	1.3 Mt	1.4 g/t	0.6 Mt	1.1 g/t	0.4 Mt	1.0 g/t	90 koz
Little Wonder	0.5 Mt	1.4 g/t	0.3 Mt	1.4 g/t	0.2 Mt	1.7 g/t	44 koz
Golden Gate	0.2 Mt	3.0 g/t	0.1 Mt	2.9 g/t	0.1 Mt	2.4 g/t	42 koz
Falcon	0.0 Mt	0.0 g/t	0.1 Mt	3.9 g/t	0.0 Mt	4.4 g/t	18 koz
Condor	0.2 Mt	2.6 g/t	0.0 Mt	2.8 g/t	0.0 Mt	3.7 g/t	19 koz
Harrier	0.0 Mt	0.0 g/t	0.1 Mt	1.7 g/t	0.0 Mt	1.8 g/t	8 koz
Crow	0.0 Mt	3.1 g/t	0.0 Mt	2.6 g/t	0.0 Mt	2.3 g/t	11 koz
G_Reef	0.0 Mt	0.0 g/t	0.0 Mt	4.0 g/t	0.0 Mt	3.9 g/t	5 koz
Au 81	0.4 Mt	1.6 g/t	0.3 Mt	1.2 g/t	0.9 Mt	0.9 g/t	57 koz
Camel Ck	1.2 Mt	1.3 g/t	0.7 Mt	1.2 g/t	0.7 Mt	1.1 g/t	105 koz
TOTAL	17.7 Mt	1.1 g/t	10.5 Mt	1.1 g/t	8.4 Mt	1.0 g/t	1,259 koz

Reserves, as at 31 December 2015			
Proved	1.9 Mt	1.5 g/t	91 koz
Probable	0.3 Mt	1.3 g/t	14 koz
Stockpiles	0.6 Mt	1.0 g/t	20 koz
TOTAL	2.9 Mt	1.34 g/t	126 koz

Costs, AUD / oz							
LoM	2015	2016	2017	2018	2019	2020	
C 1 cash costs	972	932	954	945	952	959	967
All-in	1,208	1,090	1,217	1,204	1,216	1,223	1,231

Asset based Valuation						
discount rate = 12 %	risk :	100%	Product	per share	31 December 2015	
Nullagine Reserves	100%	\$ 73m	\$ 73m	9.5 c	5.7 c	
franking credits	60%	\$ 11m	\$ 6m	0.8 c	0.9 c	
Nullagine Extensions	70%	\$ 177m	\$ 124m	16.0 c	17.2 c	
franking credits	42%	\$ 49m	\$ 21m	2.7 c	2.9 c	
Exploration	100%	(\$ 52m)	\$ 0m	0.0 c	0.0 c	
Hedge	100%	(\$ 6m)	(\$ 6m)	(0.8c)	(0.3c)	
Corporate	100%	(\$ 27m)	(\$ 27m)	(3.5c)	(3.4c)	
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Financial Ratios							
Year ended December	2014	2015	2016	2017	2018	2019	2019
Revenue	\$A m	116	142	155	164	161	162
EBITDA	\$A m	2	43	52	66	67	67
EBIT	\$A m	(25)	20	18	52	53	53
NPAT (reported)	\$A m	(43)	12	13	36	37	37
Adjusted EPS (cps)		(5.6c)	4.8 c	1.7 c	4.8 c	4.8 c	4.8 c
EPS Growth (%)				(64%)	174%	2%	(1%)
DPS (c)		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Dividend Yield (%)		0%	0%	0%	0%	0%	0%
PE adj. (x)	x	(0.7)	5.1	14.1	5.2	5.1	5.1
EV / EBITDA (x)	x	19.4	4.0	2.6	1.6	1.1	0.7
EV / EBIT (x)	x	(1.7)	8.6	7.5	2.0	1.3	0.8
Gearing (%)		50%	5%	0%	0%	0%	0%
Return on Assets		(34%)	28%	21%	40%	33%	28%
Return on Equity		(350%)	23%	18%	31%	26%	21%
EBITDA Margin (%)		2%	30%	34%	40%	42%	42%
Interest Cover (x)	x	n/a	n/a	n/a	n/a	n/a	n/a

Major shareholders				
IMC Resource Holdings			fully diluted	
existing	75.4m	34.6%	91.4m	39.1%
new	281.6m	53.6%	281.6m	53.6%
Total	357.0m	48.1%	373.0m	48.2%

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