

## 366koz just the start

### 10km of mineralised shear to be drilled

#### Recommendation

#### Speculative BUY

#### Price

0.3c

#### Indicative Valuation

1.0c

#### Commodity

Gold

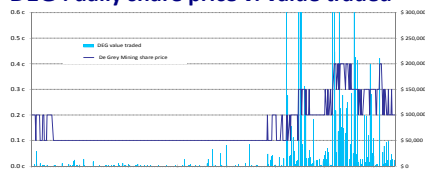
(plus lithium plus base metals)

- DEG has 366koz in 7.1Mt of JORC 2012 Resources at 3 deposits, at Turner River, 50km south of Pt Hedland.
- There is 10km of mineralised strike between 2 of these deposits, which has already recorded intercepts of 4m at 26.9g/t, 2m at 43g/t, 3m at 29g/t and 7m at 19.5g/t.
- DEG also has 2 polymetallic VMS deposits, with 3.5Mt in Resources, with 92koz gold included in Beer & Co's estimate of almost 450koz of gold equivalent.
- DEG's tenement area, of 980km<sup>2</sup>, contains over 50km of the mineralised Tabba Tabba thrust and 40km of the Mallina Shear.
- With one lode grading over 4g/t, from near surface, DEG already has a good start for a viable project.

#### Snapshot

Market Cap	\$10.0m
Cash on hand	\$1.25mm
As at 30 Sept. 2016, plus October placement, less payment to HAO	
Shares on Issue	3,323m
52 Week High	0.5c
52 Week Low	0.1c
1 month / 6 month VWAP	0.28c / 0.32c

#### DEG : daily share price v. value traded



DEG listed on the ASX in July 2002. It acquired Turner River (Pilbara) tenements in April 2003 and the discovery of Wingina Well was announced in December 2003.

After pursuing manganese and iron ore opportunities, DEG chose to focus on Argentina, farming down its Turner River interests. The farm-innees later withdrew.

After a change in management in Dec. 2015, DEG was left with 100% of the gold and VMS at Turner River from March 2016 and then began a geological program reviewing the geology of Turner River with a view to identifying project potential.

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#### DEG's November 2016 Resource estimate for Wingina Well

On 28 October, DEG announced a Mineral Resource Estimate, compliant with JORC 2012, of 288koz gold from 5.5Mt at an average grade of 1.6g/t.

Included within this is a high grade lode of 1.09Mt at 4.1g/t.

#### DEG has further Resources at Turner River

Within 10km of Wingina Well, DEG has a further 2 deposits, totalling 78koz, from 1.6Mt at 1.5g/t.

DEG has also defined Resource estimates for 2 polymetallic VMS deposits totalling 3.5Mt, with 3.2% Zn, 1.3% Pb, 109g/t Ag and 0.8g/t gold.

#### Significant further potential

DEG has many more areas showing good gold mineralisation outside of those areas included in the JORC resources estimates, including Wallareenya which has given very encouraging intercepts and from where many nuggets have been found in areas that have not been drilled.

#### DEG – The way forward

DEG has defined nearly 10Mt of Resources and has significant further mineralisation. In Beer & Co's view, DEG will be able to increase the total resource significantly over the next 6 months, with a feasibility study about end of 2017 and first gold end 12 months later.

#### Beer & Co's indicative valuation is 1.0c/share

Beer & Co has constructed a set of cashflows based on DEG's comparables. Using a gold price of US\$ 1300/oz and AUD-USD rate of 0.750, allowing for equity raisings, and the risking the result, we derive a risked valuation for DEG of 1.0c/share.

This is supported by a review of EV per resource ounce valuations of DEG's peers. DEG has significant further exploration potential.

#### Beer & Co initiates research with a Speculative BUY rating

Our indicative valuation, which is speculative, is a multiple of the current share price : Speculative BUY.

This report was produced by Beer & Co Research, an independent research and advisory firm.

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## De Grey Mining - Background

### A Brief History of DEG

**DEG listed in July 2002**

**In December 2003, DEG announced very good, first drill results from Wingina Well, part of the Turner River project**

**Many more good exploration results over the next 18 months**

De Grey Mining listed on the ASX in July 2002.

In October 2002, DEG acquired tenements around the Mallina Shear and in April 2003, tenements at Turner river. The tenements are now the basis of the company, which is focussed on Turner River, in the Pilbara region of WA, as shown in Figure 1.

On 8 December 2003, DEG announced the first results from drilling at Wingina Well, within Turner River, of :

- 32m at 8.4g/t gold;
- 26m at 8.39g/t gold; and
- 40m at 4.34g/t.

Many further good intercepts were reported in December 2013, 12 and 30 January, 17 March, 16 April and 15 June 2014, which led to the announcement, on 17 June 2004, of a staff appointment to develop a mining operation at Wingina Well.

Further good exploration results were announced in 2004 and 2005, and led to DEG being "Explorer of the Year", for 2004.

Figure 2 shows that DEG's share price and valuation peaked at this time.

**Figure 1 : Turner River, WA**

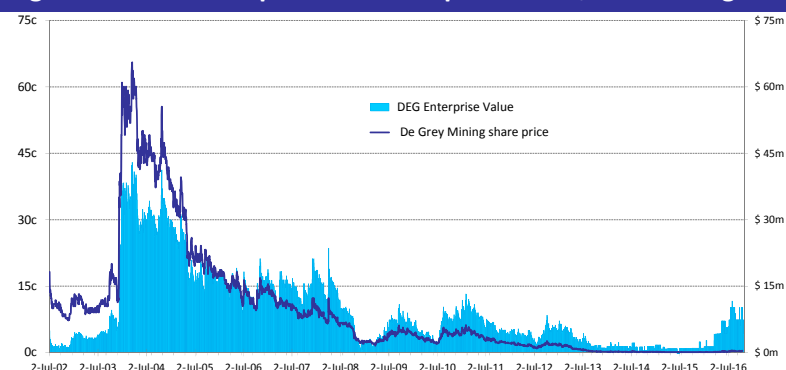


Source : DEG Presentation, September, 2016

**DEG was named "Explorer of the Year" in 2004**

**However, DEG probably spent too much time looking further**

**Figure 2 : DEG share price and Enterprise Value, since listing**



Source : IRESS, DEG ASX announcements, Beer & Co

DEG called itself "The Bold Explorer" and looked at a wide range of possibilities, including manganese, iron ore, PGMs and VMS / base metal potential near Wingina Well.

In May 2006, the founding Managing Director, Dennis O'Meara, stood down from that role and in July 2007, stepped down from the Board. From 2010, DEG focussed on a portfolio of tenements in Argentina until a decision to withdraw was made at the end of 2013, while it sought to farm down its interests in the Turner River region.

## Wingina Well history

**DEG tried to farm out its interest in Turner River.**

In April 2012, Resource estimates were announced :

- Wingina Well : 6.72Mt at 1.41g/t, Measured + Indicated + Inferred;
- Amanda : 687kt at 1.6g/t, Inferred;
- Mt Berghaus : 920kt at 1.4g/t, Inferred; and
- Discovery plus Orchard tank : 2.608Mt grading 2.7%zinc, 1.1% lead, 0.1% copper, 89g/t silver and 0.7g/t gold.

**The project reverted to DEG in February 2016.**

In January 2013, Polymetals (PLY.ASX) announced that it was going to execute a scoping study on Turner River, looking at both CIL and Heap Leach options.

On 8 April 2013, the intended merger of PLY and Southern Cross Gold (SXG.ASX) was announced, and after the merger was completed, the merged entity (SXG) focussed on its Marda gold project and withdrew from Turner River in December.

In March 2014, the TSX-V listed Rugby Mining (RUG.TSX-V) agreed to spend \$2m to go to an 80% share of the project.

In February 2016, DEG announced that RUG would not further proceed with the farm-in

**DEG is now focussed on the Turner River project**

## New Management

After Denis O'Meara stood down from the MD role in May 2006, the Turner River projects went through a series of JVs whilst the management also changed regularly. The Board is now led by Simon Lill who was appointed to the Board on 4 October 2013.

With the return of the Turner River project, following the withdrawal of Rugby Mining in February 2016, DEG has focussed on Turner River, where it already had 6.8Mt of gold resources, plus a further 2.9Mt in base metal resources.

## Turner River

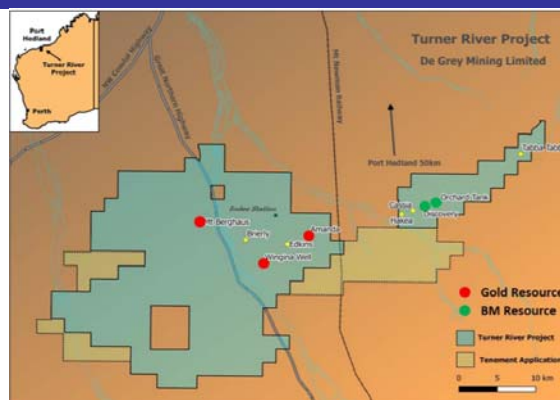
**DEG now has over 60km of continuous Tabba Tabba thrust**

**Plus 40km of the Mallina Shear**

### Introduction

As shown in Figure 3, DEG's 100% owned Turner River project is about 60km south of Port Hedland, in the Pilbara region of WA. The tenements covered an area of 980km<sup>2</sup>, until 27 October 2016 when DEG announced the acquisition of an area of approx. 29km<sup>2</sup>, as shown in Figure 6 to give DEG 60km of continuous Tabba Tabba thrust.

**Figure 3 : DFEG tenements, Turner River**

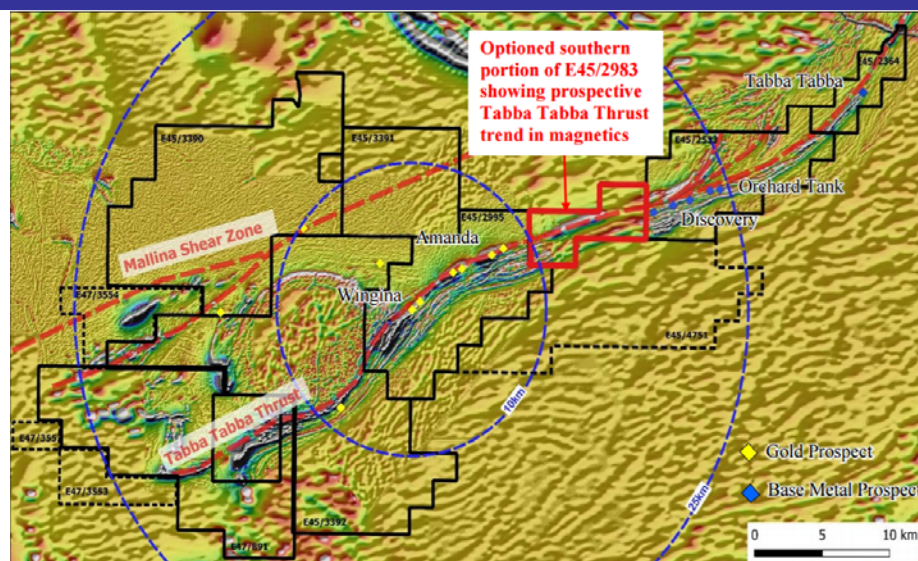


Source : DEG Presentation, September 2016

**Figure 6 : DEG now has 60km of continuous Tabba Tabba thrust**

DEG has identified 8 gold prospects along the Tabba Tabba thrust,

Plus a further prospect along the Mallina Shear



Source : DEG ASX announcement, 27 October 2016

DEG has JORC 2012 compliant resource estimates for 3 of these 9 prospects

DEG has further base metals prospects

## Resources

Figure 6 shows 8 gold prospects along the Tabba Tabba thrust, and a further prospect on the Mallina shear.

It also shows 5 base metal prospects towards the eastern end of the Tabba thrust.

The most significant of the gold prospects is Wingina Well, which is shown in Figure 6 as the centre of the blue dashed circles. Figure 7 shows the updated Mineral Resource Estimate, JORC 2012 compliant, for Wingina Well announced by DEG on 28 October, 2016, showing a total of 5.5Mt in Resources, containing 288koz of gold.

**Figure 7 : Mineral Resource Estimate, Wingina Well**

	Measured		Indicated		Inferred		TOTAL		
Lode	0.78 Mt	4.1 g/t	0.12 Mt	3.8 g/t	0.2 Mt	4.1 g/t	1.09 Mt	4.1 g/t	144 koz
Halo	2.30 Mt	0.9 g/t	0.86 Mt	1.0 g/t	1.2 Mt	1.2 g/t	4.39 Mt	1.0 g/t	144 koz
<b>TOTAL</b>	<b>3.08 Mt</b>	<b>1.7 g/t</b>	<b>0.99 Mt</b>	<b>1.4 g/t</b>	<b>1.4 Mt</b>	<b>1.6 g/t</b>	<b>5.49 Mt</b>	<b>1.6 g/t</b>	<b>288 koz</b>

Source : DEG ASX announcement, 28 October 2016

DEG's 3 gold prospects that have Resources total 7.1Mt for 366koz, or 1.6g/t

They are within 10km of each other

Of the other gold prospects shown in Figure 6, DEG has estimated Inferred Resources for only 2 of these :

- Amanda, which is about 8km to the east of Wingina Well, along the Tabba Tabba thrust; and
- Mt Berghaus, which is about 9km to the north-west of Wingina Well, on the Mallina shear zone.

As shown in Figure 8, Mt Berghaus and Amanda have combined Resources of 1.6Mt for 78koz of contained gold.

**Figure 8 : Mineral Resource Estimate, other gold prospects**

	Measured	Indicated	Inferred		TOTAL		
Mt Berghaus			0.9 Mt	1.4 g/t	0.9 Mt	1.4 g/t	43 koz
Amanda			0.7 Mt	1.6 g/t	0.7 Mt	1.6 g/t	35 koz
<b>TOTAL</b>	<b>0.00 Mt</b>	<b>0.00 Mt</b>	<b>1.6 Mt</b>	<b>1.5 g/t</b>	<b>1.6 Mt</b>	<b>1.5 g/t</b>	<b>78 koz</b>

Source : DEG ASX announcement, 28 October 2016



Figure 6 shows base metals prospects about 19km – 20km east of Wingina Well, at Discovery and Orchard Tank. Figure 9 shows the updated 2012 JORC compliant Resource estimates for these prospects.

**Figure 9 : Mineral Resource Estimate, base metals**

	Measured		Indicated		Inferred		TOTAL	
	grade	Contained	grade	Contained	grade	Contained	grade	Contained
<b>Discovery</b>				410 kt		980 kt		1,390 kt
Zinc	3.7 %	15.0 kt			2.6 %	25.1 kt	2.9 %	40.1 kt
Lead	1.7 %	7.1 kt			1.0 %	10.0 kt	1.2 %	17.0 kt
Silver	140 g/t	1,800 koz			108 g/t	3,396 koz	116 g/t	5,196 koz
Gold	1.6 g/t	20.4 koz			0.8 g/t	25.8 koz	1.0 g/t	46.2 koz
<b>Orchard Tank</b>						2,100 kt		2,100 kt
Zinc					3.4 %	70.8 kt	3.4 %	70.8 kt
Lead					1.4 %	29.8 kt	1.4 %	29.8 kt
Silver					105 g/t	7,000 koz	105 g/t	7,000 koz
Gold					0.7 g/t	45.5 koz	0.7 g/t	45.5 koz
<b>TOTAL</b>				410 kt		3,080 kt		3,490 kt
Zinc	3.7 %	15.0 kt	3.1 %		95.9 kt		3.2 %	110.9 kt
Lead	1.7 %	7.1 kt	1.3 %		39.8 kt		1.3 %	46.9 kt
Silver	137 g/t	1,800 koz	105 g/t		10,396 koz		109 g/t	12,196 koz
Gold	1.6 g/t	20.4 koz	0.7 g/t		71.3 koz		0.8 g/t	91.7 koz

Source : DEG ASX announcement, 8 November 2016

DEG has 3.5Mt in base metals resources, containing over 70koz of gold, and nearly 450koz of gold equivalent

## Prospects

Figures 6, 7, 8 and 9 taken together show that DEG has identified many areas of mineralisation that are not yet included in Resource estimates.

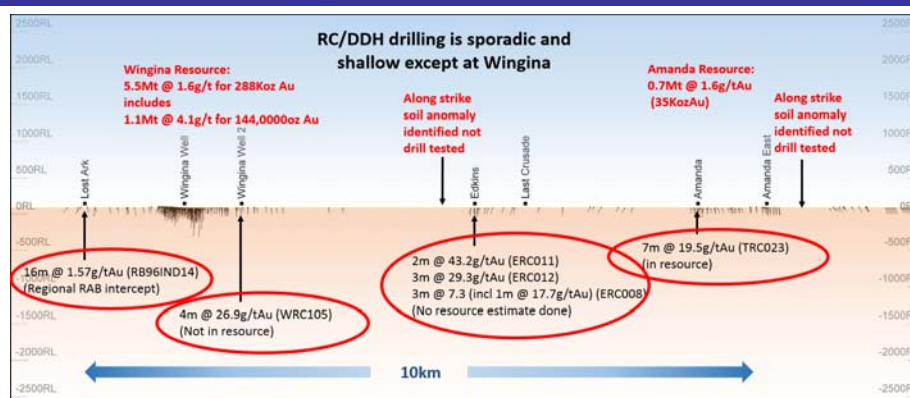
### Wingina Well - Amanda

Figure 6 shows that Amanda is about 8km to the east of Wingina Well, along the Tappa Tappa thrust. Figure 10 shows that historical drilling has yielded many good intercepts in the zone between Wingina Well and Amanda, including :

DEG has many gold prospects between Wingina Well and Amanda

- Edkins, which is about mid-way, with
  - 2m at 43.2g/t gold; and
  - 3m at 29.3g/t gold; and
  - 3m at 7.3g/t
- Lost Ark, which is west of Wingina Well, reported 16m grading 1.5g/t gold; and
- Wingina Well 2, to the east of Wingina Well, reported 4m at 26.9g/t gold.

**Figure 10 : Gold mineralisation along Tappa Tappa thrust**



Source : DEG presentation, September 2016

The distance from Lost Ark to Amanda is about 10km, all within easy trucking distance.

## Mt Berghaus / Mallina Shear

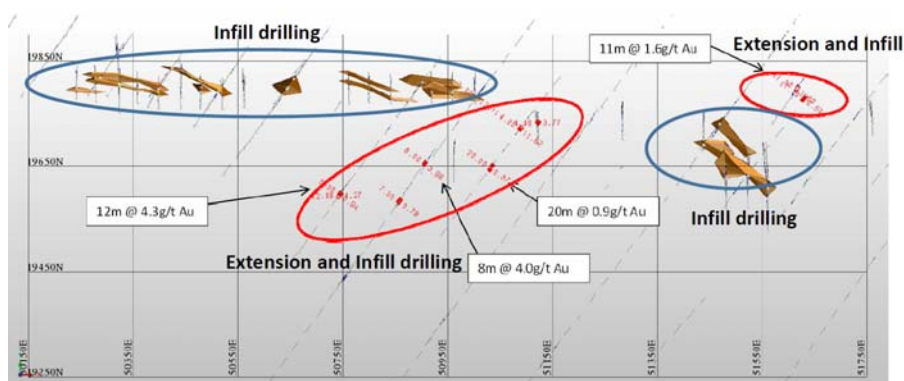
Figure 6 shows that Mt Berghaus is about 9km north-west of Wingina Well, while Figure 8 shows that it has 930kt in Resources with 43koz of contained gold.

Figure 11 shows that historical drilling has recorded many attractive, shallow intercepts, including :

- 12m at 4.3g/t gold; and
- 8m at 4.0g/t gold; and
- 11m at 1.9g/t gold from near surface.

DEG has significant potential to increase resources at Mt Berghaus

**Figure 11 : Mt Berghaus, Mallina Shear – further mineralisation**



Source : DEG presentation, September 2016

DEG has 40km of the Mullins shear. As shown in Figure 11, DEG has significant potential to add to resources with its current 5,000m drill program.

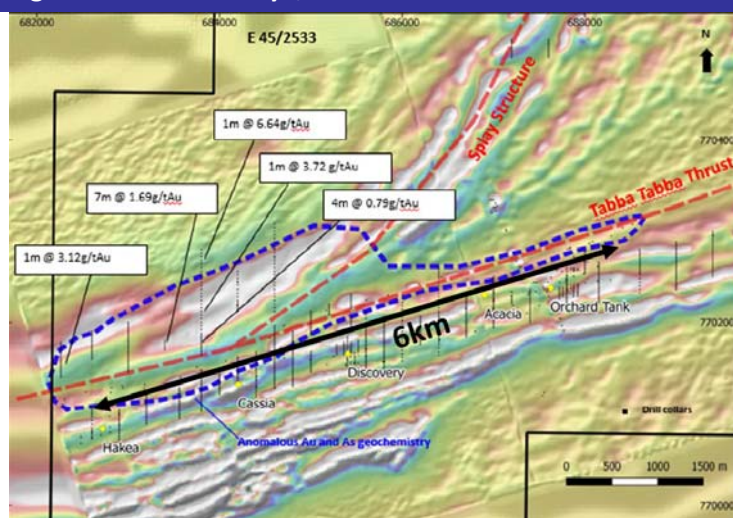
## Wallareenya

Figure 6 shows a gold prospect just to the north of the base metals prospects in the eastern portion of DEG's tenement area.

Figure 12 is an air-borne magnetic image of this area. It shows that the base metals prospects are off the Tabbata Tabbata thrust, while the gold prospects are hosted by a north-east trending splay of the Tabbata Tabbata thrust.

DEG has many good indications, including surface nuggets, at Wallareenya

**Figure 12 : Wallareenya, off the Tabbata Tabbata thrust**



Source : DEG presentation, September 2016

Figure 12 shows some very attractive results from first pass shallow drilling, including :

- 7m at 1.69g/t gold;
- 1m intercepts grading 3.12g/t, 6.64g/t and 3.72g/t gold.

Figure 13 shows nuggets collected by DEG from geological mapping at Wallareenya, in an area where there has been no drilling.

**Figure 13a : Nuggets at Wallareenya**



Source : DEG presentation, September 2016

**Figure 13b : Nuggets at Wallareenya**



Source : DEG presentation, September 2016

## DEG – Indicative Valuation

### Background

Beer & Co's analysis has shown

- DEG presently has over 10Mt in total Resources, comprising 7.1Mt in gold only and 3.5Mt in base metals;
- DEG's Turner River has 366koz in contained gold in the gold projects, a total of 458koz of contained gold and over 800koz of gold equivalent
  - Figure 14 shows this in summary
- DEG has significant prospects to increase the volume of Resources in many areas.

**DEG looks very cheap when compared with its peers on an EV / Resource ounce basis**

**In Beer & Co's view, DEG needs to increase its resources by drilling to define a project, and Beer & Co expects that this is able to be done over the next 6 – 9 months**

In Beer & Co's view :

- The fact that DEG has Resource estimates facilitates an estimate of DEG's indicative value on the basis of peer comparisons;
- The volume of resources is near, but not quite enough as yet to be confident that it will facilitate a project;
- DEG has sufficient prospects to give Beer & Co confidence that with 6 further months of drilling should increase the volume of resource to a level that will be viable for a project to be considered.

**Figure 14 : Resources summary**

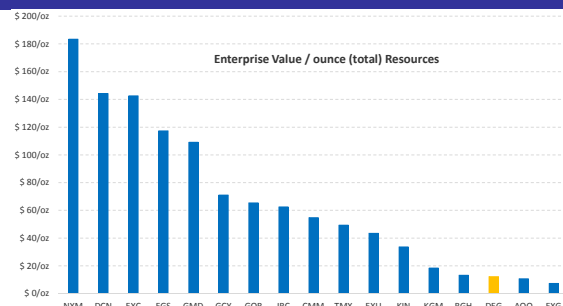
	Volume	Contained Gold
Wingina Well	5,490 kt	288 koz
Mt Berghaus	920 kt	43 koz
Amanda	680 kt	35 koz
<b>Gold Projects</b>	<b>7,090 kt</b>	<b>366 koz</b>
Discovery	1,390 kt	46 koz
Orchard Tank	2,100 kt	46 koz
<b>Total Gold</b>	<b>10,580 kt</b>	<b>458 koz</b>
Gold equivalent in other metals		
Discovery		139 koz
Orchard Tank		217 koz
<b>TOTAL</b>	<b>10,580 kt</b>	<b>813 koz</b>

Source : DEG announcements, Beer & Co

## Peer Comparisons

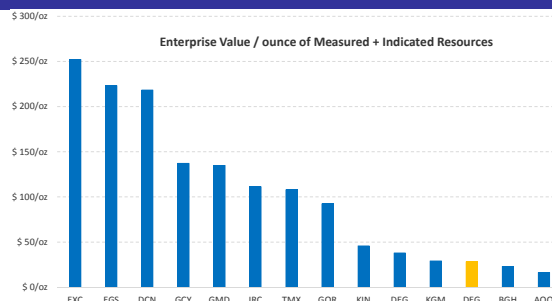
DEG has gold resources in WA; in this regards it has many peers, as shown in Figure 15 and Figure 16.

**Figure 15 : WA gold : Total Resources**



Source : IRESS, Beer & Co

**Figure 16 : WA gold : M + I Resources**



Source : IRESS, Beer & Co

Figure 15 includes those companies

- For which Beer & Co has been able to find reported Resources; and
- Are not yet in physical project development or actual gold production.

Figure 16 is restricted to those companies that have reported Measured and / or Indicated Resources; it excludes those which have only Inferred Resources.

The companies further to the left (ie. the higher value) will generally be closer to production.

In both cases, the analysis shows that DEG is very cheap on a comparative basis.

## Beer & Co Analysis

Figure 16 shows a significant jump in values from the right hand tail to the middle section, with values rising from

- \$8/oz to \$46/oz for those companies with Resources, but not a current, defined project, as shown by the publication of a feasibility study
- Those with a feasibility study but not on the threshold of development appear to have valuations ranging from \$92/oz to \$137/oz; and
- Those on the threshold of development are being priced in the market in a range of \$218/oz to \$252/oz.

Beer & Co is confident DEG will increase its Resources and be able to publish some form of assessment during 2017 Q2, with a DFS about end 2017 / early 2018 and production end 2018.

This will cause a significant re-rating of DEG's valuation, from \$28/oz (basis gold equivalent) to at least \$90/oz (the lowest level of the next step in Figure 16).

This is equivalent to a valuation of about 1.0c/share for DEG, compared with 0.3c/share at present.

## Further Analysis

Figure 17 shows further detail on the economic analyses published by relevant companies in Figure 16. Figure 17 focusses on those companies with essentially greenfield projects, as opposed to projects that either rent or otherwise acquire mill capacity very cheaply.

Using DEG's gold equivalents, Beer & Co believes that a fairer value for DGE would be about 3x the current share price.

Or about 1.0c/share



**Figure 17 : More detail on certain peers**

ASX code	Company Name	Resources		Mining inventory		Processing Rate	Project Capital	AISC	Status
		size	grade	size	grade				
CMM	Capricorn Metals	25.2 Mt	1.1 g/t			3.0 Mt/yr			Scoping study July 2016; DFS 2017 Q2
DCN	Dacian Gold	44.7 Mt	2.3 g/t	15.8 Mt	2.6 g/t	2.5 Mt/yr	\$A 157m	\$A 929/oz	Scoping study Sept 2015; DFS end 2016
KIN	Kin Mining	11.8 Mt	1.9 g/t	6.3 Mt	1.7 g/t	0.8 Mt/yr	\$A 55m	\$A 1,185/oz	Scoping study May 2016; PFS end 2016
GKY	Gascoyne Resources	23.7 Mt	1.4 g/t	12.1 Mt	1.4 g/t	2.5 Mt/yr	\$A 75m	\$A 913/oz	PFS March 2016; DFS Dec 2016
GOR	Gold Road	153.6 Mt	1.3 g/t	91.6 Mt	1.2 g/t	7.5 Mt/yr	\$A 507m	\$A 945/oz	FS October 2016

Source : Company ASX announcements, Beer & Co

These are the companies most relevant to a potential development project at Turner River. These show :

- DEG will need to roughly double its volume of resources
  - Beer & Co believes DEG's current and planned drill programs will make up most, if not all, of this gap;
- A 6 year life in terms of Mining Inventory is needed;
- DEG's average grade is better than 4 of the 5 open cut projects.

This gives Beer & Co confidence that DEG is not far from moving to the next stage; it just needs more tonnes and it has many prospects to do so.

## Indicative Cashflow Valuation

Beer & Co has developed a projected set of cashflows for possible operations at Turner River.

### Operations

Key assumptions include :

- DEG invests \$0.8m over the next 6 months to increase the volume of Resources to about twice the current level;
- DEG then invests \$0.5m to produce a scoping study during 2017 Q2;
- DEG further invests \$2.0m over the following 9 months to produce a DFS by March 2018;
- Beer & Co assumes that during the balance of 2018 DEG invests \$55m for an operation to process 1.0Mt/yr of oxide ore
  - Figure 17 shows that GKY, which is in a similar region, expects to spend \$75m for a 2.5Mt/yr operation

Figure 7 showed that DEG estimated a high grade core for Wingina Well, which Beer & Co assumes that this is mined first.

Beer & Co assumes that mining, processing and site costs to exploit the mining inventory is \$38.5m a year. Adding royalties increase the overall costs to \$A 1,000/oz, which is higher than most of the comparatives.

Beer & Co further assumes a mining inventory of 7.5Mt, which compares with 7.1Mt for total gold only Resources as shown in Figure 14.

The increase in volume is assumed to be at an average grade of 1.5g/t, which is slightly lower than the average grade of 1.6g/t for the Turner River gold resources.

Figure 19 shows the resulting projected cashflows, assuming commodity prices of

- US\$ 1,300/oz for gold; and
- AUD-USD rate of 0.750

Beer & Co has constructed a set of Indicative cashflows.

Influenced by DEG's peers

Expecting some exploration success

**Figure 19 : Beer & Co's projected indicative operations, MOY's Turner River**

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
AUD-USD	0.752	0.750	0.750	0.750	0.750	0.750	0.750	0.750
Gold Price	\$ 1,309/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz
Resource upgrade	(\$ 0.8m)							
Feasibility	(\$ 0.5m)	(\$ 2.0m)						
Mine development			(\$ 5.0m)					
Plant			(\$ 12.3m)					
Other Capital			(\$ 5.0m)					
Total Mining Inventory	7,585 kt	7,585 kt	7,023 kt	5,550 kt	3,550 kt	1,608 kt	608 kt	0 kt
Ore processed	0 kt	0 kt	563 kt	1,000 kt	1,000 kt	1,000 kt	1,000 kt	608 kt
grade	0.0 g/t	0.0 g/t	4.1 g/t	2.9 g/t	1.5 g/t	1.5 g/t	1.0 g/t	1.0 g/t
Recovery	92 %	92 %	90 %	91 %	92 %	92 %	92 %	92 %
Gold produced	0.0 koz	0.0 koz	27.3 koz	83.6 koz	44.4 koz	43.6 koz	30.8 koz	18.7 koz
AISC			\$A 39/oz	\$A 39/oz	\$A 39/oz	\$A 39/oz	\$A 39/oz	\$A 39/oz
<b>Financials</b>								
Revenue	\$ 0.0m	\$ 0.0m	\$ 47.4m	\$ 144.8m	\$ 77.0m	\$ 75.6m	\$ 53.3m	\$ 32.4m
Cash Costs	\$ 0.0m	\$ 0.0m	(\$ 22.5m)	(\$ 38.5m)	(\$ 38.5m)	(\$ 38.5m)	(\$ 38.5m)	(\$ 23.8m)
Royalties	\$ 0.0m	\$ 0.0m	(\$ 2.8m)	(\$ 8.7m)	(\$ 4.6m)	(\$ 4.5m)	(\$ 3.2m)	(\$ 1.9m)
Corporate	(\$ 0.8m)	(\$ 0.8m)	(\$ 0.8m)	(\$ 0.6m)	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m
Dep'cn	\$ 0.0m	\$ 0.0m	(\$ 2.7m)	(\$ 10.9m)	(\$ 10.9m)	(\$ 10.9m)	(\$ 10.9m)	(\$ 6.6m)
EBIT	(\$ 0.8m)	(\$ 0.8m)	\$ 18.6m	\$ 86.2m	\$ 23.0m	\$ 21.7m	\$ 0.7m	\$ 0.0m
Interest	\$ 0.0m	\$ 0.0m	(\$ 3.1m)	(\$ 2.9m)	(\$ 1.9m)	(\$ 0.8m)	(\$ 0.0m)	\$ 0.0m
Taxes	\$ 0.2m	\$ 0.2m	(\$ 4.6m)	(\$ 25.0m)	(\$ 6.3m)	(\$ 6.3m)	(\$ 0.2m)	(\$ 0.0m)
NPAT	(\$ 0.6m)	(\$ 0.6m)	\$ 10.8m	\$ 58.3m	\$ 14.8m	\$ 14.7m	\$ 0.5m	\$ 0.0m

Source : Beer &amp; Co estimates

## Indicative Valuation

Beer & Co assumes DEG raises further equity funds to complete the studies and then finances project development with a combination of project finance and debt, as shown in Figure 20.

And allowing fur further  
equity raisings

**Figure 20 : Beer & Co's possible projected cashflows per share**

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
AUD-USD	0.752	0.750	0.750	0.750	0.750	0.750	0.750	0.750
Gold Price	\$ 1,309/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz	\$ 1,300/oz
<b>Net Cashflow</b>	(\$ 2.1m)	\$ 0.0m	\$ 11.3m	\$ 64.4m	\$ 11.9m	\$ 11.4m	\$ 9.9m	\$ 6.5m
taxes paid	\$ 0.0m	\$ 0.0m	\$ 0.0m	(\$ 15.9m)	(\$ 6.3m)	(\$ 6.6m)	(\$ 1.5m)	(\$ 0.2m)
Cash Balance	\$ 1.6m	\$ 16.6m	\$ 27.9m	\$ 92.3m	\$ 104.2m	\$ 115.6m	\$ 125.5m	\$ 132.0m
Equity Raising	\$ 2.3m	\$ 15.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m	\$ 0.0m
Shares on issue	3,690m	5,286m	5,286m	5,286m	5,286m	5,286m	5,286m	5,286m

Source : Beer &amp; Co estimates

Plus project finance

The number of shares on issue in Figure 20 assumes that all options on issue, 815m, exercisable at prices of 0.8c by November 2017, 0.5c by October 2018 and 0.2c by June 2019, are exercised.

Figure 21 shows the resulting detail of Beer & Co's un-risked valuation of DEG.

**Figure 21 : Un-risked valuation of DEG**

NPV	12.0 %	30 June 2016	8 Nov. 2016
Operations, after tax		\$ 65.5m	\$ 68.8m
franking credits		\$ 13.4m	\$ 13.9m
Corporate		(\$ 2.3m)	(\$ 2.1m)
Equity Raising		\$ 12.0m	\$ 11.7m
Cash		\$ 1.2m	\$ 1.3m
		<b>\$ 90m</b>	<b>\$ 94m</b>
per share		<b>1.5 c</b>	<b>1.6 c</b>

Source : Beer &amp; Co estimates

Our un-risked valuation  
is 1.6c/share

Our risked valuation is  
1.0c/share

However, there is significant risk in our valuation.

Accordingly, Beer & Co ascribes a risked valuation of 1.0c/.share to DEG.

## Conclusions

### Summary

DEG acquired Turner River in December 2003 and announced many good drill intercepts were announced in December 2013 and early 2014. However, the gold price at the time, around \$400/oz, did not help.

DEG looked at (probably too) many other projects.

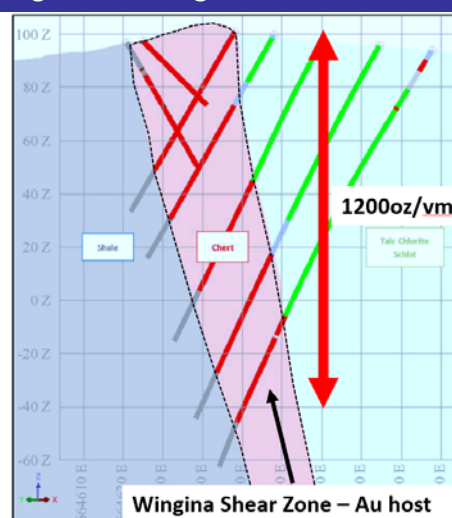
In December 2015, the current management of DEG was installed. In February 2016, DEG resumed 100% of the Turner River project and is now focussed on that.

DEG currently has gold resources totalling 7.1Mt at an average grade of 1.6g/t for a total of 366koz, with good prospects for increases, both along strike, as shown in Figure 10, and at depth, as shown in Figure 22.

DEG also has base metal resources of 3.5Mt containing over 90koz of gold, or nearly 450koz of gold equivalent.

DEG has many good intercepts and gold nuggets from geological sampling outside of the resource estimates.

**Figure 22 : Wingina Well Shear**



Source : DEG Presentation, November 2016

**Beer & Co's indicative valuation of DEG is 1.0c/share**

Reviewing DEG against its WA gold peers suggests that DEG is cheap on an EV / Resource ounce basis.

In Beer & Co's view, a fairer value would be around 1.0c/share.

A prospective set of cashflows can generate a value of 1.6c/share, but risking this gives a valuation of 1.0c/share.

Further, Beer & Co believes that DEG should be able to significantly increase its resource base with drilling over the next 6 to 9 months.

**Our recommendation is Speculative BUY**

### Conclusion

Beer & Co's risked valuation for DEG is 1.0c/share, which is supported by both a comparison with its peers and also projected cashflows.

This is a significant premium to the current share price, and Beer & Co sees significant upside potential.

Both of these methods are speculative.

As a result, Beer & Co initiates research on DEG with a Speculative BUY 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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Recommendation : Beer & Co's investment recommendation is driven by the difference between our base case, riskd valuation and the share price at the time. A Strong BUY recommendation means a very large difference (eg. over 100%), while BUY means a significant difference and Accumulate means a small, but positive difference. The recommendation is not independent of the uncertainty in Beer & Co's valuation.

Risk : Risk relates to the potential, over the long run, for an investor to lose money; it is a function of both the difference between our base case valuation and the uncertainty in our valuation due to the degree of estimation and/or uncertainties about project execution. Speculative means a high chance of loss; High risk means a good chance of loss and medium means some chance of loss, given the company size.

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