

Over 800koz in Resources

More to come; DEG now a developer

Recommendation

Strong BUY, Very High Risk

Price

5.0c

Risked, NPV based Valuation

25c

Commodity

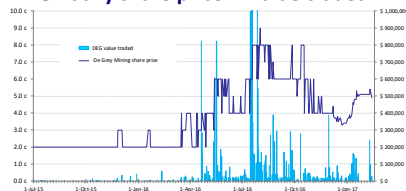
Gold

- On 8 February, 2017, DEG announced the acquisition of the Indee Gold project, for a deferred payment of \$15m.
- Indee has JORC (2004) Resources of 345koz, from 6.68Mt at an average grade of 1.6g/t, plus further high grade mineralisation evidenced by drilling that is not yet included in Resources.
- Indee is based on the Mallina shear, along strike from DEG's Turner River tenements, giving DEG over 160km of strike of the Mallina and Tabba Tabba shears.
- DEG now controls over 800koz, from 16Mt grading 1.5g/t, in Resources; Beer & Co expects this to increase.
- With this acquisition, DEG transitions from an explorer to a gold project developer, with granted MLs. Beer & Co expects first gold in about 2 years.

Snapshot

| | |
|----------------------------|-------------|
| Market Cap | \$8.7m |
| Cash on hand (31 Dec 2016) | \$0.95m |
| Shares on Issue | 173.4m |
| 52 Week High | 10.0c |
| 52 Week Low | 2.0c |
| 1 month / 6 month VWAP | 5.2c / 5.1c |

DEG : daily share price v. value traded



DEG acquired Turner River (Pilbara) tenements in April 2003 and the discovery of Wingina Well was announced in December 2003.

After a change in management in December 2015, DEG focussed on its Turner River project, which has gold and base metals (VMS).

DEG announced the potential acquisition of the Indee gold project in February 2017. Indee is along strike from Turner River.

Combined, Turner River and Indee have over 800koz of JORC Resources, with significant further potential.

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DEG Acquired Indee for deferred payment

On 8 February 2017, DEG announced acquisition of the Indee gold project. The consideration is an initial payment of \$50k, plus a further \$50k within 3 months, with the balance of \$15m to be paid by August 2018. In addition, DEG is required to spend \$0.6m on the tenements.

In Beer & Co.'s view, the timing of the payment of \$15m means it can be part of the project financing, rather than requiring significant equity at this time.

Indee is contiguous with DEG's Turner River tenements

Indee straddles the Mallina Shear, giving DEG over 100km of continuous strike. DEG is able to develop the previously separate projects as a single development, with multiple ore sources.

DEG now has over 800koz in Resources, grading 1.5g/t.

DEG now has nearly 10Mt in Measured + Indicated Resources, for a total of nearly 500koz, at an average grade of 1.6g/t, within a total of over 800koz, in more than 16Mt.

There is significant further mineralisation not yet included in Resources.

DEG – now a project developer.

Beer & Co expects a series of Resource upgrades over the balance of 2017, along with results of a scoping study and then a FS by then end of 2017.

The volume, grade and nature of mineralisation gives us confidence.

Beer & Co.'s risked valuation is 25c/share

Beer & Co has modelled DEG based on developing Indee – Turner River as a single project, at a rate of 2.0Mt/yr. Beer & Co has estimated capital costs from similar projects and we have estimated operating cost using our database, cross-checked with other public data.

Beer & Co has a Strong BUY rating; Very High Risk

Beer & Co.'s valuation is many times the share price. There is significant upside to our valuation, but it is based on our estimates.

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DEG : Turner River + Indee = Development

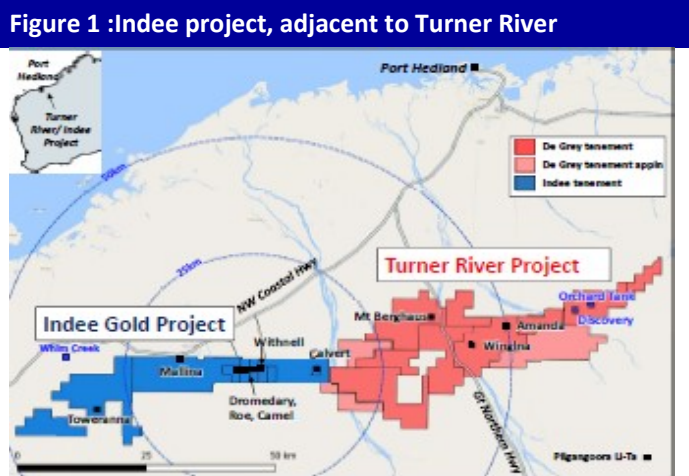
Resources

DEG to acquire Indee

On 8 February, 2017, DEG announced that it had secured an exclusive and binding option to acquire the Indee gold project in 12 months.

As shown in Figure 1, the Indee gold project comprises 414km² in area and is contiguous with DEG's Turner River project which comprises 823km² in area, and comprises many areas of mineralisation.

Indee extends DEG's existing tenement area, Turner River

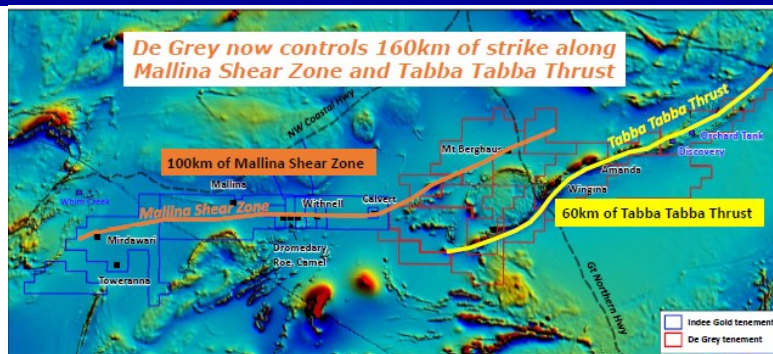


Source : DEG presentation, February 2017

Figure 2 shows that, with the acquisition of Indee, DEG now controls 100km of the Mallina shear and 60km of the Tabba Tabba shear, both of which are highly mineralised, with many further prospects.

DEG will now control 100km of the Mallina shear and 60km of the Tabba Tabba shear

Figure 2 :DEG now has over 160km of highly prospective shear zone



Source : DEG presentation, February 2017

With the acquisition of Indee, DEG has increased its total Resources in gold projects from Turner River plus Indee, as shown in Figure 3.

Figure 3 : JORC Resources currently controlled by DEG

| | Measured | | | Indicated | | | Inferred | | | TOTAL | | |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|----------------|----------------|
| Indee | 0.65 Mt | 1.5 g/t | 31 koz | 4.84 Mt | 1.5 g/t | 236 koz | 1.19 Mt | 2.0 g/t | 78 koz | 6.68 Mt | 1.6 g/t | 345 koz |
| Turner River | 3.08 Mt | 1.7 g/t | 172 koz | 1.20 Mt | 1.4 g/t | 56 koz | 5.40 Mt | 1.4 g/t | 236 koz | 9.68 Mt | 1.5 g/t | 464 koz |
| TOTAL | 3.73 Mt | 1.7 g/t | 203 koz | 6.04 Mt | 1.5 g/t | 292 koz | 6.59 Mt | 1.5 g/t | 314 koz | 16.37 Mt | 1.5 g/t | 809 koz |

Source : DEG ASX announcements, 28 October 2016, 25 January and 8 February 2017, Beer & Co

Further Potential

DEG will have 809koz in JORC Resources

Indee - gold

Beer & Co.'s previous research report on DEG ([DeGreyMining_2016November09.pdf](#)) showed many areas of further gold mineralisation at Wingina, Mt Berghaus as well as Wallareenya.

In their 25 January, 2017, announcement upgrading their Resource estimate for Mt Berghaus, DEG indicated that further drilling, to be in March / April, is expected to result in further upgrades to their Resource estimate

Beer & Co sees many areas in which the total Mineral Resource Estimate will be increased

Mallina

In their 8 February, 2017, announcement DEG gave an Exploration Target for Mallina (see Figure1; about 15km west of Withnell) of

- 1.4Mt to 2.6Mt in size;
- Grading 1.2g.t to 1.5g/t.

DEG will be drilling Mallina in about May / June and expect to report a Resource estimate soon.

Withnell Trend

At Appendix 3 of their 8 February, 2017, announcement DEG gave many very good intercepts of drilling around Withnell that are outside the Resource envelope. DEG showed details of 105 intercepts. Some of the results reported can be described as spectacular, with :

- 12m grading 28.5g/t gold, from 75m down-hole at Camel;
- 6m grading 11.5g/t gold, from 76m down-hole at Camel;
- 12m grading 10.8g/t gold, from 64m down-hole at Withnell;
- 11m grading 10.8g/t gold, from 84m down-hole at Camel;
- 3m grading 10.5g/t gold, from 65m down-hole at Withnell;
- 4m grading 10.5g/t gold, from 60m down-hole at Withnell;
- 5m grading 10.1g/t gold, from 129m down-hole at Withnell;
- 7m grading 9.8g/t gold, from 74m down-hole at Withnell.

Of the 89 intercepts to a depth of not greater than 160m :

- The total width is 796m;
- For 3,293gram-metres;
- Averaging 4.14g/t.

Further drilling will bring this into Resources.

Indee – base metals and spodumene (lithium)

Beer & Co.'s previous research report on DEG showed 3.5Mt of Resources from Volcanic Massive Sulphides, grading 0.8g/t of gold, for 3.6g/t of gold equivalent (Beer & Co estimate).

DEG has also shown pegmatites prospective for spodumene in its tenements.

Development Timetable

With this acquisition, DEG is transformed from an explorer to a developer.

In their 8 February announcement, DEG state that, after a scoping study, a feasibility study is expected to be started during the June quarter. Figure 4 shows Beer & Co.'s assessment of the timing.

Both in size and in confidence

The core of Indee is granted Mining Leases

Figure 4 : Timetable

| | | |
|-------------------|-----------|-----------|
| Scoping Study | 3 months | June 2017 |
| Feasibility Study | 8 months | Feb 2018 |
| Finance | 1 month | Mar 2018 |
| Construction | 10 months | Dec 2018 |
| Commission | 2 months | Feb 2019 |

Source : Beer & Co estimates

In our analysis, Beer & Co has allowed for costs as follows :

- Scoping Study : \$1.0m;
- Feasibility Study : \$3.5m'
- Corporate costs / overhead : \$0.25m each month.

DEG expects to begin a feasibility study by June 2017

Beer & Co expects DEG to be able to get into production from Indee relatively quickly as Indee is on a granted Mining Lease, with relevant environmental approvals, and as it has been an operating mine, has significant infrastructure in place.

Indee – Turner River Project Development**Mining Inventory**

Figure 5 shows that Beer & Co has started with the reported Measured + Indicated Resources, increasing the volume by 5% / 10%, but at a grade that is 2.5% / 7.5% lower than the Resource grade, to allow for mining dilution.

Beer & Co has estimated a Mining Inventory of over 1.0 Moz

With a key addition from drill results at Withnell reported by DEG, but not included in Resources

Figure 5 : Estimated Mining Inventory

| | Measured + Indicated Resources | | | Waste : Ore | Dilution | | Distance to mill | Recovery |
|---------------------------|--------------------------------|----------------|------------------|----------------|----------|----------|---------------------|----------|
| | | | | | tonnes | grade | | |
| Indee - Withnell, CCT | 5.77 Mt | 1.5 g/t | 274 koz | 5.0 : 1 | + 5 % | (- 2.5%) | 4.0 km | 94 % |
| Wingina Well Lode | 0.99 Mt | 3.8 g/t | 121 koz | 12.5 : 1 | + 10 % | (- 7.5%) | 40 km | 94 % |
| Mt Berghaus | 0.23 Mt | 1.7 g/t | 13 koz | 6.0 : 1 | + 10 % | (- 7.5%) | 35 km | 94 % |
| Inferred Resources | | | | | | | | |
| Indee - T + R | 0.71 Mt | 2.2 g/t | 51 koz | 6.0 : 1 | (- 15%) | (- 5%) | 35 km | 94 % |
| Mt Berghaus | 2.64 Mt | 1.1 g/t | 92 koz | 6.0 : 1 | (- 20%) | (- 10%) | 35 km | 90 % |
| Sub-Total | 10.34 Mt | 1.7 g/t | 550 koz | | | | | |
| ROM pad | 0.85 Mt | 1.0 g/t | 27 koz | 0.0 : 1 | | | 0 km | 90 % |
| Extensions - Indee | 3.89 Mt | 3.3 g/t | 413 koz | 10.0 : 1 | (- 25%) | (- 20%) | 5.0 km | 83 % |
| Mallina | 2.00 Mt | 1.4 g/t | 87 koz | 7.0 : 1 | | | 15 km | 85 % |
| Extensions - Turner River | | | | | | | 40 km | 85 % |
| TOTAL | 17.08 Mt | 2.0 g/t | 1,078 koz | | | | | |

Source : Beer & Co estimates

Similarly, Beer & Co has assumed that the Inferred Resources are upgraded by infill drilling, but at lower tonnes and lower grade. We have also made our own estimates for other mineralisation, as described above, with discounts to both volume and grade.

Figure 5 also shows the recovery assumed for each of the sources of mineralisation.

Capital Costs

Beer & Co has estimated a capital cost of \$84m for a 2.0Mt/yr operation, including EPCM, owner's costs, commissioning and working capital.

Projected Production

Figure 6 shows Beer & Co.'s projected production from DEG's Indee-Turner River project.

Figure 6 : Beer & Co.'s projected production for DEG's Indee-Turner River

| | Average / Total | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|-----------------|-----------------|-----------|-----------|------------|-----------|------------|------------|------------|-----------|-----------|-----------|
| Waste moved | 116 Mt | 0 kt | 9,750 kt | 15,808 kt | 10,000 kt | 10,581 kt | 19,501 kt | 20,000 kt | 12,060 kt | 13,342 kt | 4,607 kt |
| Ore Mined | 16.2 Mt | 0 kt | 1,575 kt | 2,000 kt | 2,000 kt | 2,000 kt | 2,000 kt | 2,000 kt | 2,000 kt | 2,000 kt | 658 kt |
| Ore processed | 16.6 Mt | 450 kt | 1,975 kt | 2,000 kt | 2,000 kt | 2,000 kt | 2,000 kt | 2,000 kt | 2,000 kt | 2,000 kt | 658 kt |
| Gold head grade | 1.9 g/t | 1.00 g/t | 1.65 g/t | 2.36 g/t | 1.48 g/t | 1.70 g/t | 2.90 g/t | 2.94 g/t | 1.10 g/t | 1.26 g/t | 1.35 g/t |
| Recovery | 91.9 % | 85 % | 92 % | 92 % | 92 % | 92 % | 92 % | 92 % | 92 % | 92 % | 92 % |
| Gold produced | 947 koz | 12,350 oz | 96,177 oz | 139,654 oz | 87,284 oz | 100,395 oz | 171,355 oz | 173,942 oz | 65,130 oz | 74,750 oz | 26,285 oz |

Source : Beer & Co estimates

Beer & Co has estimated production averaging just over 100koz/yr

Beer & Co expects that the operation will commence using the material presently on the RoM pad, and then focus on Indee material until Turner River is approved for mining, after allowing for environmental studies.

DEG has significant scope to improve Beer & Co.'s projected production profile

Beer & Co further assumes :

- Material is sequenced as shown in Figure 5, which offers potential upside from optimised sequencing following from DEG's subsequent drilling focussing on the higher grade areas; and
- Mill feed material from the Turner River area is sourced at a rate of no more than 1.0Mt/yr, with Indee feed providing the balance.

Operating Costs

Beer & Co has estimated production costs on a bottoms-up basis, strongly informed by our modelling of other operations. Figure 7 shows the results.

Beer & Co.'s estimated costs are low, due to the relatively high grade for shallow open cut mining.

Figure 7 : Beer & Co.'s projected production costs

| | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | |
|-------------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| TOTAL MINING COST | \$ 318m | \$ 38.0m | \$ 51.3m | \$ 33.4m | \$ 30.5m | \$ 41.1m | \$ 41.6m | \$ 35.1m | \$ 35.2m | \$ 12.1m |
| AUD /t ore | \$ 19.6/t | \$ 24.1/t | \$ 25.7/t | \$ 16.7/t | \$ 15.3/t | \$ 20.5/t | \$ 20.8/t | \$ 17.6/t | \$ 17.6/t | \$ 18.4/t |
| PROCESSING | \$ 156m | \$ 23.3m | \$ 23.5m | \$ 23.5m | \$ 16.0m | \$ 16.0m | \$ 16.0m | \$ 16.0m | \$ 16.0m | \$ 5.3m |
| AUD /t ore | \$ 10.0/t | \$ 11.8/t | \$ 11.8/t | \$ 11.8/t | \$ 8.0/t | \$ 8.0/t | \$ 8.0/t | \$ 8.0/t | \$ 8.0/t | \$ 8.1/t |
| SITE G & A | \$ 43m | \$ 5.0m | \$ 5.5m | \$ 4.9m | \$ 5.0m | \$ 5.9m | \$ 5.9m | \$ 4.6m | \$ 4.7m | \$ 1.6m |
| AUD /t ore | \$ 2.7/t | \$ 2.5/t | \$ 2.7/t | \$ 2.4/t | \$ 2.5/t | \$ 2.9/t | \$ 2.9/t | \$ 2.3/t | \$ 2.4/t | \$ 2.5/t |
| TOTAL | \$ 517m | \$ 66.3m | \$ 80.3m | \$ 61.8m | \$ 51.6m | \$ 63.0m | \$ 63.5m | \$ 55.7m | \$ 55.9m | \$ 19.1m |
| | \$ 32.3/t | \$ 38.5/t | \$ 40.2/t | \$ 30.9/t | \$ 25.8/t | \$ 31.5/t | \$ 31.7/t | \$ 27.9/t | \$ 28.0/t | \$ 29.0/t |

Source : Beer & Co estimates

Figure 8a shows that Beer & Co.'s estimated Life of Mine (LoM) All-In costs are \$A 684/oz, which is low. However, Figure 5 shows that the LoM average grade is 1.9g/t. Figure 8b shows that Beer & Co.'s expected AISC rises to over \$A 930/oz if a top cut of 1.5g/t is applied to material processed.

Beer & Co.'s estimated costs are in line with others if the grade is "normalised"

Figure 8a : Beer & Co.'s base case projected costs

| AUD / oz | Average | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|----------|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| C 1 | \$A 551/oz | 681 | 563 | 693 | 503 | 362 | 360 | 885 | 795 | 785 |
| A I S C | \$A 684/oz | 790 | 683 | 863 | 658 | 476 | 474 | 1,101 | 927 | 873 |

Source : Beer & Co estimates

Figure 8b : Beer & Co.'s projected costs, normalised for grade

| AUD / oz | Average | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|----------|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| C 1 | \$A 768/oz | 826 | 887 | 693 | 574 | 767 | 779 | 895 | 795 | 785 |
| A I S C | \$A 932/oz | 946 | 1,044 | 863 | 743 | 948 | 961 | 1,113 | 927 | 873 |

Source : Beer & Co estimates

In Beer & Co.'s view, this test shows that our cost estimates are in line with what should be expected, especially given that

- DEG's Indee-Turner River is less remote than many other projects, being less than 100km from Port Hedland, giving lower costs for supplies; and
- The project is "post-boom" so can expect lower labour and related costs.

Indee – Turner River Project Cashflows

Based on Beer & Co.'s projected production, shown in Figure 6, and costs shown in Figure 7, Figure 9 shows Beer & Co.'s projections for cash generated by DEG's Indee-Turner River project.

Applying a discount rate of 12% to the project cashflow shown in Figure 9 generates a Net Present Value for DEG's Indee-Turner River project of

- \$333m, as of 1 July 2016; or
- \$360m as of the date of this report.

Figure 9 : Beer & Co.'s projected cashflows, Indee-Turner River

Beer & Co projects
strong cashflows from
DEG's Indee – Turner
River project

| AUD m | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| AUD/USD | 0.741 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 |
| Gold price (USD/oz) | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz | \$ 1,225/oz |
| Gold sold | 0 oz | 0 oz | 12,350 oz | 97,299 oz | 142,690 oz | 89,181 oz | 102,578 oz | 174,101 oz | 176,304 oz | 62,990 oz | 70,258 oz | 24,285 oz |
| Revenue | 0.0 | 0.0 | 20.2 | 158.9 | 233.1 | 145.7 | 167.5 | 284.4 | 288.0 | 102.9 | 114.8 | 39.7 |
| Cash Costs | 0.0 | 0.0 | (7.3) | (66.3) | (80.4) | (61.8) | (51.6) | (63.0) | (63.5) | (55.7) | (55.9) | (19.1) |
| Royalties | 0.0 | 0.0 | (0.7) | (5.6) | (8.2) | (5.1) | (5.9) | (10.0) | (10.1) | (3.6) | (4.0) | (1.4) |
| Dep'n & Amort'sn | 0.0 | 0.0 | (6.2) | (27.0) | (27.4) | (31.3) | (24.4) | (5.0) | (5.0) | (5.0) | (5.0) | (1.3) |
| E B I T | 0.0 | 0.0 | 6.0 | 60.0 | 117.2 | 47.4 | 85.7 | 206.4 | 209.4 | 38.6 | 49.9 | 18.0 |
| Feasibility, etc | (1.0) | (7.5) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project Purchase | 0.0 | 0.0 | (15.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Construction, etc | 0.0 | (41.9) | (41.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sus Cap Ex | 0.0 | 0.0 | 0.0 | 0.0 | (3.9) | (5.0) | (5.0) | (5.0) | (5.0) | (5.0) | (1.3) | 0.0 |
| Project Cashflow | (1.0) | (49.4) | (44.8) | 87.1 | 140.6 | 73.7 | 105.1 | 206.4 | 209.4 | 38.6 | 53.6 | 19.2 |

Source : Beer & Co estimates

Valuation of De Grey Mining

DEG cashflows

The Indee-Turner River gold project is DEG's only active project, so Beer & Co.'s projection of DEG's cashflows is heavily based on Figure 9, adjusted for

- Corporate costs;
- Taxes, allowing for DEG's \$39m in carried forward tax losses; and
- Financing, with interest expense and debt and equity raisings.

This is shown in Figure 10, which shows Beer & Co.'s projections for changes in :

- DEG's debt levels, increasing as the project is developed, and then being reduced out of the cashflows from the project; and
- DEG's equity issued.

Figure 10 : Beer & Co.'s projected financial outcomes for DEG

| AUD m | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Sales revenue | 0.0 | 0.0 | 0.0 | 20.2 | 158.9 | 233.1 | 145.7 | 167.5 | 284.4 | 288.0 | 102.9 | 114.8 | 39.7 |
| Interest revenue | 0.0 | 0.0 | 0.1 | 0.0 | 0.4 | 1.8 | 2.7 | 3.3 | 4.9 | 7.3 | 8.7 | 9.1 | 9.7 |
| Total Revenue | 0.0 | 0.0 | 0.1 | 20.2 | 159.3 | 234.9 | 148.4 | 170.9 | 289.3 | 295.2 | 111.6 | 123.9 | 49.4 |
| Cash Costs | (0.4) | (1.2) | 0.0 | (8.0) | (71.9) | (88.5) | (66.9) | (57.5) | (72.9) | (73.6) | (59.3) | (59.9) | (20.4) |
| Corporate Costs | (0.4) | (1.8) | (3.0) | (5.0) | (5.0) | (5.0) | (5.0) | (5.0) | (5.0) | (5.0) | (5.0) | (4.0) | (0.8) |
| Interest Expense | 0.0 | 0.0 | 0.0 | (4.1) | (6.0) | (4.6) | (3.0) | (1.2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dep'n & Amort'sn | (0.0) | 0.0 | 0.0 | (6.2) | (27.0) | (27.4) | (31.3) | (24.4) | (5.0) | (5.0) | (5.0) | (5.0) | (1.3) |
| Pre-Tax Profit | (0.8) | (3.0) | (2.9) | (3.1) | 49.5 | 109.4 | 42.2 | 82.8 | 206.4 | 211.7 | 42.2 | 55.0 | 26.9 |
| Tax Expense | 0.0 | 0.0 | 0.0 | (0.1) | (13.8) | (30.6) | (11.8) | (23.2) | (57.8) | (59.3) | (11.8) | (15.4) | (7.5) |
| NPAT | (0.8) | (3.0) | (2.9) | (3.3) | 35.6 | 78.8 | 30.4 | 59.6 | 148.6 | 152.4 | 30.4 | 39.6 | 19.4 |
| Net Debt / (cash) | (1.2) | (0.5) | 4.8 | 57.7 | (18.8) | (132.9) | (183.0) | (271.7) | (434.2) | (586.9) | (593.5) | (639.4) | (652.9) |
| Change in Equity | 0.0 | 3.5 | 47.1 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ordinary shares - year | 166.2m | 215.7m | 791.1m | 815.0m | 815.0m | 815.0m | 815.0m | 815.0m | 815.0m | 815.0m | 815.0m | 815.0m | 815.0m |
| Earnings per Share | (0.5c) | (1.7c) | (0.7c) | (0.4c) | 4.4 c | 9.7 c | 3.7 c | 7.3 c | 18.2 c | 18.7 c | 3.7 c | 4.9 c | 2.4 c |

Source : Beer & Co estimates

DEG base case valuation

Figure 11 : Beer & Co.'s base case valuation of DEG

Beer & Co.'s risked base
case valuation of DEG is
25c/share

| | discount rate = 12.0 % | 30 June 2016 | | 20-Feb-17 | |
|---------------------------|------------------------|----------------|----------------|---------------|---------------|
| | | risk : | 100% | Product | per share |
| Indee-Turner River | | | | | |
| M + I Resources | 75 % | \$ 115m | \$ 86m | 10.5 c | 11.4 c |
| franking credits | 45 % | \$ 24m | \$ 11m | 1.3 c | 1.4 c |
| Other Resources | 60 % | \$ 18m | \$ 11m | 1.3 c | 1.4 c |
| franking credits | 36 % | \$ 15m | \$ 6m | 0.7 c | 0.7 c |
| Extensions | 40 % | \$ 125m | \$ 50m | 6.1 c | 6.6 c |
| franking credits | 24 % | \$ 44m | \$ 11m | 1.3 c | 1.4 c |
| Lithium, base metals | nom. | \$ 2m | \$ 2m | 0.2 c | 0.3 c |
| Corporate | 100 % | (\$26m) | (\$26m) | (3.2c) | (3.2c) |
| Equity raisings | 100 % | \$ 41m | \$ 41m | 5.1 c | 5.2 c |
| Cash / Debt | 100 % | \$ 1m | \$ 1m | 0.1 c | 0.1 c |
| TOTAL | | \$ 360m | \$ 192m | 23.6 c | 25.3 c |
| | | 166.2m | F P O shares: | 48.0m | Options |
| | | 619.9m | later | 28.9m | exercised |

Source : Beer & Co estimates

Our valuation is sensitive to grade

Figure 11 shows the asset by asset detail of Beer & Co.'s risked, base case valuation, showing the risking applied to mineralisation expected to be processed, but presently having less certainty.

Figure 11 also shows that Beer & Co has given a nominal valuation for DEG's 3.5Mt in base metal, VMS, resources, and for DEG's spodumene mineralisation.

but robust to all other estimated parameters

Figure 12 shows the sensitivity of our valuation to changes in key parameters :

- Gold price;
- Ore mined and processed each year, through the lower throughput also has a lower capital cost, which Beer & Co has estimated to be \$A 71m, compared with \$A 84m in the base case; and
- Average grade of ore treated, with the base case being 1.9g/t and the test case being 1.4g/t, as per the discussion around Figure 8.

Figure 12 : Sensitivity of Beer & Co.'s valuation

| Gold price | Base case grade | | Low grade | |
|--------------------|-----------------|---------------|---------------|---------------|
| | 1.5 Mt/yr | 2.0 Mt/yr | 1.5 Mt/yr | 2.0 Mt/yr |
| \$ 1,200/oz | 22.2 c | 24.4 c | 11.0 c | 12.8 c |
| \$ 1,225/oz | 23.1 c | 25.3 c | 11.7 c | 13.5 c |
| \$ 1,250/oz | 24.1 c | 26.3 c | 12.4 c | 14.2 c |
| <u>\$ 1,300/oz</u> | <u>25.9 c</u> | <u>28.3 c</u> | <u>13.9 c</u> | <u>15.7 c</u> |

Source : Beer & Co estimates

Figure 12 shows that while our valuation varies with changes in the gold price and the throughput, the key is grade; "grade is king".

Summary

Beer & Co.'s base case valuation is based on a mining inventory that includes Inferred Resources, and Exploration Target and Beer & Co.'s interpretation of announced drill results, all risk weighted to varying extents.

Beer & Co projects that DEG will produce over 100koz/yr for more than 8 years, at an All-In cost of just under \$A 700/oz, after total capital of \$91m.

Beer & Co is confident that DEG will, through the feasibility study process, improve the quality of the project through upgraded resource estimates and a focus on processing higher grade earlier in the mine life.

Beer & Co.'s estimated valuation is a multiple of the share price

Conclusion

Assuming current commodity prices, Beer & Co.'s risk weighted base case valuation is 25c/share. Our valuation is robust with respect to most parameters tested, though very sensitive to throughput grade.

Beer & Co.'s valuation is a significant premium to the current share price, and Beer & Co sees significant further upside potential.

As a result, Beer & Co initiates research on DEG with a Strong BUY as our risked valuation, based on current commodity prices is a multiple of the current share prices

Beer & Co has a Strong BUY recommendation on DEG

Beer & Co assesses Very High Risk, as our valuation uses many estimates made by Beer & Co

Beer & Co assigns a Very High Risk weighting as our valuation is based on Beer & Co.'s estimates for mining inventory, annual throughput, grade, production, capital costs and operating costs.

Beer & Co Research

De Grey Mining (DEG.ASX)

February 2017

| Year ended June | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | |
|---------------------------------|--------------|------------|------------|------------|-------------|-------------|-------------|-------------|
| Section 1 - P&L | | | | | | | | |
| Sales revenue | \$A m | 0 | 0 | 0 | 20 | 159 | 233 | 146 |
| Interest revenue | \$A m | 0 | 0 | 0 | 0 | 0 | 2 | 3 |
| Other revenue | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Revenue | \$A m | 0 | 0 | 0 | 20 | 159 | 235 | 148 |
| Cost of Goods Sold | \$A m | 0 | 0 | 0 | (7) | (66) | (80) | (62) |
| Royalties | \$A m | 0 | 0 | 0 | (1) | (6) | (8) | (5) |
| Corporate Costs | \$A m | (0) | (2) | (3) | (5) | (5) | (5) | (5) |
| Exploration Expense | \$A m | (0) | (1) | 0 | 0 | 0 | 0 | 0 |
| Other Operating Expenses | \$A m | (0) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Operating Expenses | \$A m | (1) | (3) | (3) | (13) | (77) | (94) | (72) |
| EBITDA | \$A m | (1) | (3) | (3) | 7 | 82 | 141 | 76 |
| Depr'n & Amort'n | \$A m | (0) | 0 | 0 | (6) | (27) | (31) | (31) |
| EBIT | \$A m | (1) | (3) | (3) | 1 | 55 | 114 | 45 |
| Interest Expense | \$A m | 0 | 0 | 0 | (4) | (6) | (5) | (3) |
| Other | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pre-Tax Profit | \$A m | (1) | (3) | (3) | (3) | 49 | 109 | 42 |
| Tax Expense | \$A m | 0 | 0 | 0 | (0) | (14) | (31) | (12) |
| NPAT | \$A m | (1) | (3) | (3) | (3) | 36 | 79 | 30 |

Section 2 - Key Data

| | | | | | | | | |
|-------------------------------|--------|--------|--------|--------|-------|-------|-------|-------|
| Ordinary shares - year end | m | 166.2 | 215.7 | 791.1 | 815.0 | 815.0 | 815.0 | 815.0 |
| Fully diluted shares on issue | m | 166.2 | 215.7 | 791.1 | 815.0 | 815.0 | 815.0 | 815.0 |
| Weighted # shares | m | 166.2 | 182.1 | 543.7 | 797.1 | 815.0 | 815.0 | 815.0 |
| Earnings per Share | (0.5c) | (1.7c) | (0.7c) | (0.4c) | 4.4 c | 9.7 c | 3.7 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 | 1 | 0 | 3 | 11 | 76 | 173 | 204 |
| Receivables | \$A m | 0 | 0 | 0 | 2 | 7 | 4 | 4 |
| Other | \$A m | 0 | 0 | 0 | 2 | 8 | 6 | 5 |
| CURRENT ASSETS | \$A m | 1 | 0 | 3 | 14 | 91 | 183 | 213 |
| Receivables | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| P, P & E | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Mining Properties / Exploratio | \$A m | 0 | 0 | 42 | 79 | 58 | 37 | 15 |
| Other | \$A m | 0 | 1 | 9 | 22 | 16 | 10 | 4 |
| NON-CURRENT ASSETS | \$A m | 0 | 1 | 50 | 101 | 74 | 47 | 19 |
| TOTAL ASSETS | \$A m | 1 | 1 | 53 | 116 | 165 | 230 | 232 |
| Payables | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt | \$A m | 0 | 0 | 0 | 0 | 18 | 19 | 21 |
| Other | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CURRENT LIABILITIES | \$A m | 0 | 0 | 0 | 0 | 18 | 19 | 21 |
| Long Term Debt | \$A m | 0 | 0 | 7 | 68 | 40 | 21 | 0 |
| Other | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Provisions | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NON-CURRENT LIABILITIES | \$A m | 0 | 0 | 7 | 68 | 40 | 21 | 0 |
| TOTAL LIABILITIES | \$A m | 0 | 0 | 7 | 68 | 58 | 40 | 21 |
| NET ASSETS | \$A m | 1 | 1 | 46 | 47 | 108 | 190 | 212 |
| Accumulated Profit (Loss) | \$A m | (45) | (48) | (51) | (54) | (18) | 60 | 91 |
| Reserves | \$A m | 0 | 0 | 0 | 4 | 29 | 32 | 24 |
| Contributed Equity | \$A m | 46 | 49 | 97 | 97 | 97 | 97 | 97 |
| Total Equity | \$A m | 1 | 1 | 46 | 47 | 108 | 190 | 212 |

Section 4 - Cashflow

| | | | | | | | | |
|---------------------------------------|--------------|------------|------------|-------------|-------------|-------------|-------------|-------------|
| Net Cashflow from operations | \$A m | (1) | (3) | (3) | 7 | 82 | 141 | 76 |
| Net Interest Paid | \$A m | 0 | 0 | 0 | (4) | (6) | (3) | (0) |
| Taxes Paid | \$A m | 0 | 0 | 0 | 0 | 0 | (19) | (18) |
| Change in Working Capital | \$A m | 0 | (0) | 0 | (2) | (5) | 3 | 0 |
| OPERATING CASHFLOW | \$A m | (1) | (3) | (3) | 1 | 72 | 123 | 58 |
| Exploration + Feasibility | \$A m | 0 | (1) | (8) | 0 | 0 | 0 | 0 |
| Maintenance Capex | \$A m | 0 | 0 | 0 | 0 | 0 | (4) | (5) |
| Expansion Capex | \$A m | 0 | 0 | (42) | (57) | 0 | 0 | 0 |
| PPE Acquisitions (Total Capex) | \$A m | 0 | (1) | (49) | (57) | 0 | (4) | (5) |
| PPE Divestments | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| INVESTING CASHFLOW | \$A m | 0 | (1) | (49) | (57) | 0 | (4) | (5) |
| Change in Equity | \$A m | 0 | 4 | 47 | 1 | 0 | 0 | 0 |
| Dividends Paid | \$A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | \$A m | 0 | 0 | 7 | 61 | (11) | (18) | (19) |
| FINANCING CASHFLOW | \$A m | 0 | 4 | 54 | 62 | (11) | (18) | (19) |
| Free Cashflow | \$A m | (1) | (4) | (52) | (56) | 72 | 119 | 53 |
| Net Cashflow | \$A m | (1) | (1) | 2 | 6 | 61 | 101 | 34 |

Commodity price assumptions

| Year ended June | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|
| AUD/USD | 0.741 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 |
| Gold price | USD/oz | 1,225 | 1,225 | 1,225 | 1,225 | 1,225 | 1,225 | 1,225 |

| Mine Production / Sales | 2016-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | |
|-------------------------|---------|---------|---------|---------|---------|---------|---------|---------|----|
| Gold | 000 oz | 12 | 97 | 143 | 89 | 103 | 174 | 176 | 63 |

Resources, Reserves and assumed mining inventory

Indee - Mineral Resources

| | Measured | | Indicated | | Inferred | | TOTAL | | |
|----------------|----------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|----------------|
| Withnell North | 0.65 Mt | 1.5 g/t | 1.12 Mt | 1.5 g/t | 0.09 Mt | 1.4 g/t | 1.86 Mt | 1.5 g/t | 88 koz |
| Withnell South | | | 0.74 Mt | 1.6 g/t | | | 0.74 Mt | 1.6 g/t | 38 koz |
| Withnell East | | | 0.12 Mt | 2.2 g/t | | | 0.12 Mt | 2.2 g/t | 9 koz |
| Withnell West | | | 0.74 Mt | 1.4 g/t | 0.27 Mt | 1.3 g/t | 1.01 Mt | 1.4 g/t | 44 koz |
| Camel 1 | | | 0.67 Mt | 2.1 g/t | | | 0.67 Mt | 2.1 g/t | 45 koz |
| Calvert | | | 1.25 Mt | 1.2 g/t | | | 1.25 Mt | 1.2 g/t | 47 koz |
| Dromedary | | | 0.20 Mt | 1.9 g/t | | | 0.20 Mt | 1.9 g/t | 12 koz |
| Toweranna | | | | | 0.44 Mt | 2.1 g/t | 0.44 Mt | 2.1 g/t | 30 koz |
| Roe | | | | | 0.39 Mt | 2.6 g/t | 0.39 Mt | 2.6 g/t | 33 koz |
| TOTAL | 0.65 Mt | 1.5 g/t | 4.84 Mt | 1.5 g/t | 1.2 Mt | 2.0 g/t | 6.68 Mt | 1.6 g/t | 345 koz |

Turner River - Mineral Resources

| | Measured | | Indicated | | Inferred | | TOTAL | | |
|---------------------|----------------|----------------|----------------|----------------|---------------|----------------|-----------------|----------------|----------------|
| Wingina Well - Halo | 0.78 Mt | 4.1 g/t | 0.12 Mt | 3.8 g/t | 0.19 Mt | 4.1 g/t | 1.09 Mt | 4.1 g/t | 144 koz |
| Wingina Well - Lode | 2.30 Mt | 0.9 g/t | 0.86 Mt | 1.0 g/t | 1.23 Mt | 1.2 g/t | 4.39 Mt | 1.0 g/t | 144 koz |
| Mt Berghaus | | | 0.21 Mt | 1.8 g/t | 3.30 Mt | 1.2 g/t | 3.52 Mt | 1.2 g/t | 141 koz |
| Amanda | | | | | 0.68 Mt | 1.6 g/t | 0.68 Mt | 1.6 g/t | 35 koz |
| TOTAL | 6.16 Mt | 1.7 g/t | 2.18 Mt | 1.4 g/t | 6.8 Mt | 1.4 g/t | 15.17 Mt | 1.5 g/t | 752 koz |

Beer & Co assumed mining inventory

| Measured + Indicated Resources | Waste : Ore | Distance to mill | | | |
|--------------------------------|-----------------|------------------|------------------|----------------|-------------|
| Indee - Withnell, CCT | 5.77 Mt | 1.5 g/t | 274 koz | 5.0 : 1 | 4.0 km |
| Wingina Well Lode | 0.99 Mt | 3.8 g/t | 121 koz | 12.5 : 1 | 40 km |
| Mt Berghaus | 0.23 Mt | 1.7 g/t | 13 koz | 6.0 : 1 | 35 km |
| Inferred Resources | | | | | |
| Indee - T + R | 0.71 Mt | 2.2 g/t | 51 koz | 6.0 : 1 | 35 km |
| Mt Berghaus | 2.64 Mt | 1.1 g/t | 92 koz | 6.0 : 1 | 35 km |
| Sub-Total | 10.34 Mt | 1.7 g/t | 550 koz | 0.0 : 1 | 0 km |
| ROM pad | 0.85 Mt | 1.0 g/t | 27 koz | 0.0 : 1 | 0 km |
| Extensions - Indee | 3.89 Mt | 3.3 g/t | 413 koz | 10.0 : 1 | 5 km |
| Mallina | 2.00 Mt | 1.35 g/t | 87 koz | 7.0 : 1 | 15 km |
| Extensions - Turner River | 0.00 Mt | 0.0 g/t | | | 40 km |
| TOTAL | 17.08 Mt | 2.0 g/t | 1,078 koz | | |

Asset based Valuation

| discount rate = 12.0 % | risk : | 100% | 30 June 2016 | Product | per share | 20-Feb-17 |
|---------------------------|--------|----------------|----------------|---------------|---------------|-----------|
| Indee-Turner River | | | | | | |
| M + I Resources | 75 % | \$ 115m | \$ 86m | 10.5 c | 11.4 c | |
| franking credits | 45 % | \$ 24m | \$ 11m | 1.3 c | 1.4 c | |
| Other Resources | 60 % | \$ 18m | \$ 11m | 1.3 c | 1.4 c | |
| franking credits | 36 % | \$ 15m | \$ 6m | 0.7 c | 0.7 c | |
| Extensions | 40 % | \$ 125m | \$ 50m | 6.1 c | 6.6 c | |
| franking credits | 24 % | \$ 44m | \$ 11m | 1.3 c | 1.4 c | |
| Lithium, base metals | nom. | \$ 2m | \$ 2m | 0.2 c | 0.3 c | |
| Corporate | 100 % | (\$ 26m) | (\$ 26m) | (3.2c) | (3.2c) | |
| Equity raisings | 100 % | \$ 41m | \$ 41m | 5.1 c | 5.2 c | |
| Cash / Debt | 100 % | \$ 1m | \$ 1m | 0.1 c | 0.1 c | |
| TOTAL | | \$ 360m | \$ 192m | 23.6 c | 25.4 c | |
| Shares on issue | | 166.2m | F P O shares | 48.0m | Options | |
| | | 619.9m | to be issued | 28.9m | exercised | |

Financial Ratios

| Year ended June | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | |
|--------------------|---------|---------|---------|---------|---------|---------|-------|
| Revenue | \$A m | 0 | 0 | 20 | 159 | 235 | 148 |
| EBITDA | \$A m | (3) | (3) | 7 | 82 | 141 | 76 |
| EBIT | \$A m | (3) | (3) | 1 | 55 | 114 | 45 |
| NPAT (reported) | \$A m | (3) | (3) | (3) | 36 | 79 | 30 |
| Adjusted EPS (cps) | | (1.7c) | (0.7c) | (0.4c) | 4.4 c | 9.7 c | 3.7 c |
| EPS Growth (%) | | | 59 % | 39 % | 1,156 % | 121 % | (61%) |
| 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 | (2.4) | (7.3) | (12.1) | 1.1 | 0.5 | 1.3 |
| EV / EBITDA (x) | x | (1.8) | (3.5) | 6.2 | 1.2 | 0.2 | (1.2) |
| EV / EBIT (x) | x | (1.8) | (3.5) | 44.8 | 1.8 | 0.2 | (2.0) |
| Gearing (%) | | 0 % | 14 % | 59 % | 35 % | 17 % | 9 % |
| Return on Assets | | (205%) | (5%) | 1 % | 34 % | 50 % | 19 % |
| Return on Equity | | (205%) | (6%) | (7%) | 33 % | 42 % | 14 % |
| EBITDA Margin (%) | | n/a | n/a | n/a | 35 % | 52 % | 61 % |
| Interest Cover (x) | x | n/a | n/a | n/a | 0.2 | 9.3 | 24.7 |

Important Information

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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, risked 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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