



DRX : More than Cyclone

Drilling Tick Hill gold; Cape Bedford silica and heavy mineral sands

<p>Recommendation BUY, High Risk</p> <p>Price 1.0c</p> <p>Valuation 7.5c</p>	<ul style="list-style-type: none"> ■ Beer & Co’s valuation of DRX gives only nominal value to its JV on Tick Hill and DRX’s potential at Cape Bedford. ■ DRX is on target to complete its DFS by September, including all permits. ■ DRX is to start drilling at Tick Hill in late June. ■ DRX has an application over Cape Bedford, which has both high grade silica sands as well as mineral sands.
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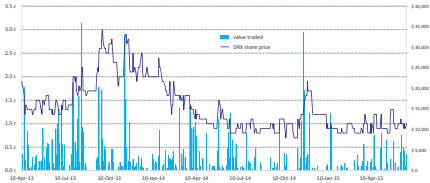
Snapshot

Market Cap	\$7.7m
Cash on hand (est 30 March 2015)	\$0.26m
Shares on Issue	809.75m
52 Week High	1.9c
52 Week Low	0.7c
1 month / 6 month VWAP	0.98c / 0.96c

Cyclone Definitive Feasibility Study by September, 2015

DRX has been granted the Mining Lease for the Cyclone project. To complete its DFS, DRX needs to complete all its final permitting, with the major outstanding issue being environmental approval for the access road. DRX is also undertaking a value engineering study to finesse capital and operating cost estimates. Beer & Co expect that the cap.ex of \$146m should be reduced, as should the annual op.ex of \$80m.

DRX : daily share price v. value traded



Drilling to start at Tick Hill

Tick Hill was mined by a subsidiary of MIM from 1991 to 1995, producing 513,333 ounces from 705kt of ore, at a recovered grade of 22.6g/t. DRX holds 3 granted MLs over the area. DRX, and JV partner Superior Resources (SPQ.ASX) will start of program of 60 air-core holes in late June, with the first 35 holes being in the tailings dam.

In March 2012, DRX announced the results of its Pre-Feasibility Study on the Cyclone mineral sands deposit, with a pay-back period of 2.1 years.

Cape Bedford : Silica and Valuable Heavy Mineral Sands

DRX has an application over Cape Bedford, which surrounds the existing Cape Slattery silica sands that is being mined by Mitsubishi, and is a much larger area. The mineralisation appears to continue into DRX’s area. DRX has draft agreements with the Traditional Owners.

While DRX had announced, in August 2010, an MOU with the largest end user of zircon in China, there were 4 key assurances required, and 3 have now been delivered, with the final, environmental clearance for an access road, now in train.

Beer & Co risked valuation 7.5c/share

Beer & Co assume that DRX sells a stake in the Cyclone project to assist in the financing of its development. The value of this stake will depend on the commodity prices assumed at that time, which will be in the fourth quarter of 2015.

DRX is now re-engaging with potential off-take partners and financiers.

While the market indications are positive for prices, we estimates that current prices are significantly lower than the long-run prices on which our valuation is based.

A formal commitment to project construction can be expected late in 2015, with first product in early 2017.

Beer & Co conclusions

Beer & Co believes that the Cyclone project will proceed, and that DRX is more than just this project.

DRX is farming down its interest in Tick Hill, which is a former gold mine.

DRX also has an application over Cape Bedford.

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We affirm our BUY, High Risk recommendation.

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DRX : Tick Hill

Drilling to Start

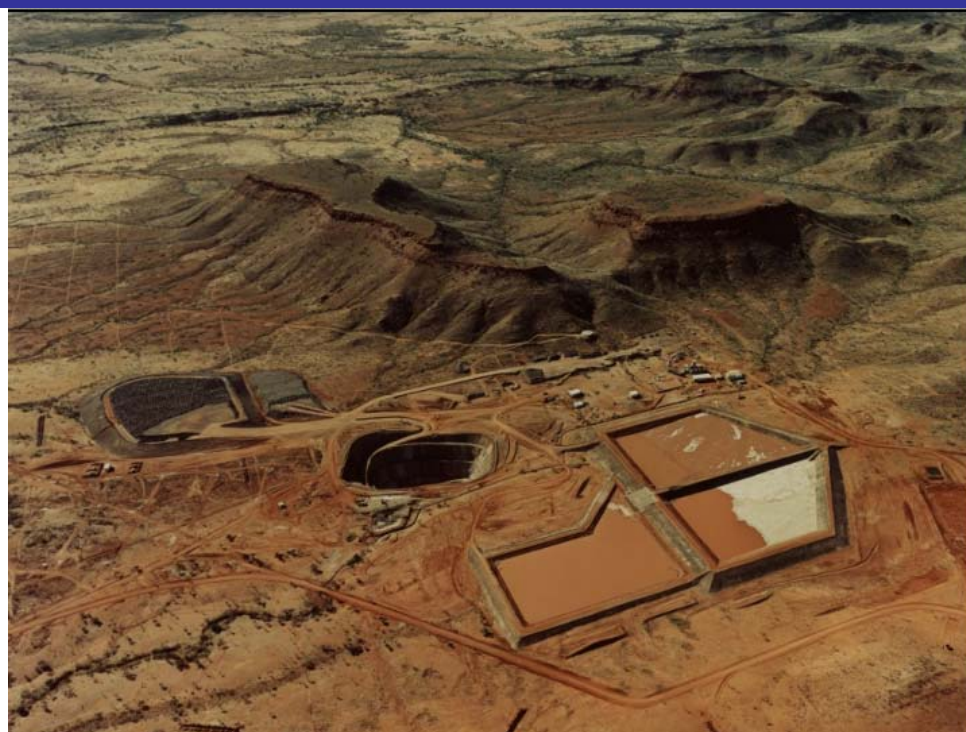
On 27 May 2015, DRX announced that its air core drill rig had been mobilised to site so that a 60 hole programme could be started from late June.

The first 35 of these holes will focus on the tailings dam, at 50m spacing. The recovered grade was reported as 22.6g/t and if 95% of the gold in ore was recovered, then this implies a tailings grade of 1.2g/t.

The balance of the programme, 25 holes, will test the alluvial potential over specific drainage areas near the open pit.

Figure 1 is an aerial view of Tick Hill showing the open pit and the tailings dams.

Figure 1 : Tick Hill gold mine



Source : DRX ASX announcement, 7 November 2014

DRX to start drilling at its Tick Hill gold project

DRX will use an air-core rig to drill the tailings dams

And nearby areas that have potential for alluvial mineralisation

If the drill programme is successful, Beer & Co estimates that re-processing the tailings could generate about \$10m

Which will be used to drill for fault offset extensions to the underground mineralised lode.

Tick Hill - Plan

The Tick Hill project is being managed on a day to day basis by Superior Resources, allowing DRX to focus on its Cyclone project.

The short term plan is to evaluate short term cash generation potential; if there is 600kt of tailings grading 1.2g/t and if 60% of this is recovered with re-processing, then a total of about \$10m can be generated.

The Tick Hill ore-body varied in width from 1m to 30m, and was mined over 140m of strike to a depth of 300m, with an under-ground extension of the open cut.

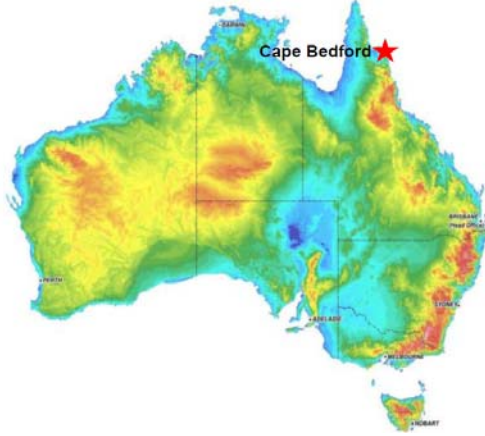
The mineralisation ceased abruptly, having shown good continuity over its length, and the theory is that depth extensions are offset by a fault. The cash generated can be used to test this theory.

DRX : Cape Bedford

As shown in Figure 2, Cape Bedford is in far north Queensland.

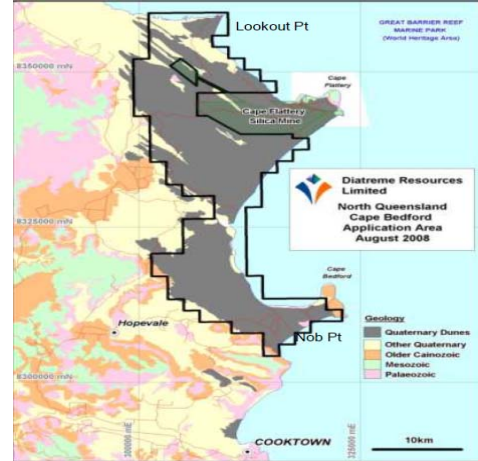
DRX has lodged an application for an Exploration Permit for Minerals over 554km² surrounding Mitsubishi’s Cape Slattery silica sands operations, as shown in Figure 3.

Figure 2 : Cape Bedford, in FNQ



Source : DRX presentation, March 2015

Figure 3 : Cape Bedford v. Cape Slattery



Source : DRX presentation, March 2015

Cape Bedford has high grade silica sands and valuable heavy minerals

DRX originally lodged the application in 2008. It has now reached agreement with the Traditional Owners to enable a permit to be granted.

In contrast, there is not agreement in place covering the Cape Slattery mining operations as this pre-dates Native Title.

As shown in Figure 4, Cape Bedford has a large sand dune system with known silica sand and mineral sand occurrences over an area 50km x 15km in dunes up to 100m high. High grade silica sands, grading up to 99.9% SiO₂, overlie valuable mineral sands assemblages.

DRX has agreement with the Traditional Owners to start work

Figure 4 : Cape Bedford mineralisation



Source : DRX presentation, March 2015

In the view of Beer & Co, progress is slow, reflecting DRX’s cash position and also the strategic need to get Cyclone up and operating before others may become interested in a second project.

DRX has the support of the Traditional Owners for development.

In our, at this stage relatively uninformed, view, this project looks to be a better project than Cyclone, as it is much less remote, much closer to markets with valuable silica sands as well as mineral sands.

DRX : Cyclone

Cyclone is still DRX's focus project

Cyclone remains the focus project for DRX.

DRX is currently executing a value engineering study to examine / reduce the capital and operating costs.

DRX is also still going through the environmental approval process for its haul road, to the Forrest rail siding.

The Cyclone project is supported by DRX's connections that wish the project to proceed

Beer & Co believes the project will proceed due to the support from its "Chinese connections", which puts it in a much stronger position than comparable projects.

In our analysis, we assume that part of the project capital is funded by the sale of stake in the project. The value of this stake will depend on the commodity prices assumed.

Beer & Co's valuation is sensitive to the commodity prices assumed.

Beer & Co's valuation assumes that the project stake is valued using our long run commodity prices.

However, despite the anecdotal evidence of improving prices and demand conditions, prices are still 25% - 35% lower than we have assumed in our analysis, as shown in Figure 5.

Figure 5 : Minerals Sands prices

USD/t	Zircon	Rutile
Spot	1,100	800
Long-Run	1,500	1,200

Source : Beer & Co estimates

While Cyclone will not produce rutile, our assumed prices for its titanium feedstocks are related to the rutile price.

Beer & Co's valuation is sensitive to the prices assumed.

Conclusions

DRX is more than just the Cyclone project

Beer & Co's valuation of DRX is sensitive to the commodity prices assumed in the project valuation for the purposes of the sale of a stake in the project.

Beer & Co retains a BUY, High Risk, recommendation on DRX

Beer & Co is strongly of the view that

- The Cyclone project will proceed, due to its connections with consumers of the product; and
- DRX is more than just Cyclone.

Beer & Co retains a BUY, High Risk, recommendation.

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