

## Potential Project Valuations

14<sup>th</sup> January 2010

### Dragon Mountain Gold (DMG)

Price: 13.0¢  
 Mkt Cap: \$23.5m  
 Enterprise Value: \$30.5m

#### Summary Information:

##### Capital Structure:

Share Price	\$0.13
Ord Shares	181.5m
<b>Market Capitalisation</b>	<b>\$23.6m</b>
Options	21.8m
<b>Market Capitalisation (dil)</b>	<b>\$26.4m</b>
Debt (incl Conv Notes)	\$5.0m
Cash (Sep 2009)	\$0.9m
<b>Enterprise Value</b>	<b>\$30.5m</b>
52 week Low/High	9.0¢ / 29.0¢

##### Directors:

Non-Exec Chairman	John Hopkins
Executive Director	Robert Gardner
Non-Exec Director	Paul Piercy

##### Major Shareholders:

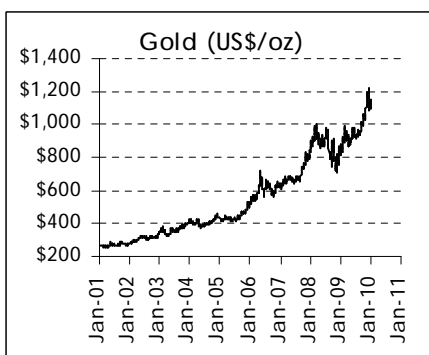
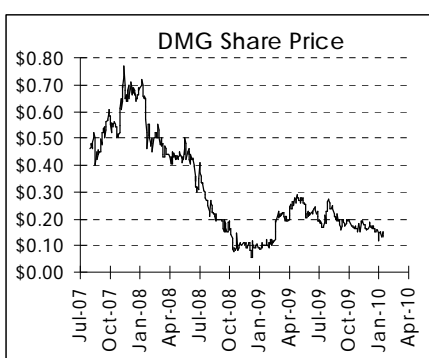
Hightime Investments	26.9%
Aurora Sky Investments	6.6%
Peter Meurs	6.3%

Top 20 Shareholders hold 70.8% of the issued stock

##### Resources\*: (100% basis)

LiBa	55.8mt @ 1.8g/t (3.0moz)
Jinshan	3.7mt @ 5.4g/t (0.7moz)
<b>Total</b>	<b>59.5mt @ 1.9g/t (3.7moz)</b>

\*JORC & Non JORC



#### Summary:

This note does not contain a recommendation or price target, but rather provides the reader with a comparison of five ASX listed gold companies the author believes are similar in nature to Dragon Mountain Gold's projects (although at different stages of development).

The comparison companies all control large low grade gold deposits, at various stages of development, ranging from operational (Kingsgate Consolidated & Allied Gold), commissioning (CGA Mining), and pre feasibility study stage (Perseus Mining).

#### Company Description:

Dragon Mountain Gold Limited (DMG) is an Australian company, headquartered in Perth, focused on the exploration and development of gold projects exclusively in China. DMG has a majority interest in a portfolio of gold projects held through JV's with Chinese companies. DMG has concentrated its attention on the development of the 1.6 million ounce Zhao Gou deposit, on the Company's Lixian leases, in China's Gansu Province, along with a number of other highly prospective deposits at Lixian as well as a significant grass roots exploration project at Xingjiang, in China's north west.

The Zhao Gou deposit has a JORC resource of 1.6 million ounces (open along strike and at depth). DMG plans to bring this project into production within the next 18 months, with construction of a processing plant planned to commence in 2010. DMG is also conducting development drilling on various other advanced deposits at its Lixian project.

DMG currently controls projects with over 3.7 million ounces in resource (combination of JORC and Non JORC Chinese Mineable Standard), with the intention of producing over 250,000 ounces per annum over the long-term.

#### Key Points:

- JORC compliant resources have increased to 2.8 million ounces (Zhao Gou 1.6moz and Ma Gou 1.2moz). Total resources at present within the Lixian project are over 3.7 million ounces (JORC & Chinese Mineable Standard).
- ASX listed gold companies with comparable resources to DMG (although at more advanced stages) range in market capitalisation from A\$300m up to in excess of A\$900m.
- Long-term, we would expect to see production at DMG's Lixian project achieve a level of 150,000 – 250,000oz per annum through the mining and treatment of 3.0 – 4.0mtpa from several large open pits, at a cash cost in the vicinity of US\$450 – US\$500/oz.
- To the right party we believe that DMG's Lixian Gold Project to be worth at least A\$150m at present, and potentially up to A\$450m – A\$650m once a sizable production facility has been constructed and commissioned to produce 150,000 – 200,000oz per annum.

## Brief Description of DMG's Resource Position

### Zhao Gou Resource

JORC resource increased to 1.6moz

Zhao Gou resource defined over 800m along strike length and at depth

More than trebled previous Chinese resource

High grade component expected to average 3.5g/t – 4.0g/t

DMG has announced a JORC-compliant resource of 1.62 million ounce at Zhao Guo. One million ounces of this resource falls within the indicated category, with the balance classified as inferred. The mineralisation at Zhao Gou extends over 650m and is open along strike and at depth with the deepest mineralised intercept to date around 375m below surface.

The results of the resource calculation at Zhao Gou are shown in the table to the right at various cut-off grades. This current resource has more than trebled the original Chinese resource of 5,650,000t @ 2.75g/t for 500,000oz.

Zhao Gou Resource			
Cut-off Grade	Tonnes	Grade	Ounces
0.3	37,740,000	1.4	1,680,000
0.5	32,780,000	1.5	1,620,000
0.7	28,280,000	1.7	1,530,000
1.0	21,950,000	1.9	1,360,000

While the overall resource averages around 1.5g/t, a sizeable component of higher grade material exists within the resource as can be seen from the following high grade drill intercepts generally contained within the broader mineralised zones: - 79m @ 4.62g/t, 84m @ 3.43g/t, 65m @ 3.02g/t, 28m @ 5.94g/t, 34m @ 4.16g/t, 32m @ 3.41g/t, 18m @ 8.21g/t, 12m @ 5.17g/t, and 11m @ 4.28g/t

This higher grade component is expected to average around 3.5g/t – 4.0g/t and will enable the treatment of higher grade material during the first phase of mining at Zhao Gou.

### Ma Gou Resource

Initial JORC resource of 1.2moz

Ma Gou resource almost trebled previous Chinese Resource

DMG has announced a JORC-compliant resource of 1.16 million ounce at Ma Guo, with the entire resource falling into the inferred category. The resource at Ma Gou covers both the northern deposit (No. 6), and the southern deposit (Ma Gou South), and is open along strike and at depth with the deepest mineralised intercept to date around 400m below surface.

The results of the resource calculation at Ma Gou are shown in the table to the right at various cut-off grades. This current resource has almost trebled the original Chinese resource of 2,600,000t @ 4.6g/t for 400,000oz.

Ma Gou Resource			
Cut-off Grade	Tonnes	Grade	Ounces
0.3	23,420,000	1.6	1,200,000
0.5	19,510,000	1.8	1,160,000
0.7	17,290,000	2.0	1,110,000
1.0	13,970,000	2.3	1,020,000

### Other Resources

Only two of known deposits converted to JORC status

Only the Zhao Gou and Ma Gou deposits, the first of the known deposits making up the Liba Project, at Lixian have been drilled out sufficiently to be converted to JORC status. DMG is planning to convert the remaining deposits to JORC standard in a staged manner over the coming 18-months.

The table below contains the three other deposits on DMG's leases that have Chinese Mineable Standard resources (non-JORC) making up DMG's total resource base of 3.7m ounces (3.0m ounces equity share). There is a high probability that the Chinese standard resources will have significantly larger resources than currently reported (although at a lower grade), if the experience at Zhao Gou and Ma Gou is repeated.

DMG controls over 3.7m ounces, with likelihood of further increase going forward

Deposit	Tonnes (million)	Grade (g/t)	Ounces (million)	Area	Classification
Zhao Gou	32.8	1.5	1.6	LiBa	JORC
Ma Gou	19.5	1.8	1.2	LiBa	JORC
Other Deposits	3.5	2.1	0.2	LiBa	Chinese
No. 30	2.1	5.2	0.4	Jinshan	Chinese
Other Deposits	1.6	5.7	0.3	Jinshan	Chinese
Total	59.5	1.9	3.7		
81% equity	48.2	1.9	3.0		

## Initial Scoping Study of Large Scale Open Pit

Initial studies suggest a strip ratio of 4 to 1 to mine the major of the Zhao Gou resource

Early stage open pit scoping studies indicate that a large proportion of the current resource at Zhao Gou (32.8mt @ 1.5g/t for 1,620,000oz) can be mined via an open pit with a strip ratio in the order of 4 to 1 indicating initial cash costs in the vicinity of US\$360 /oz. Long-term cash costs in the order of US\$420 – US\$480/oz (US\$18.75 per tonne of ore mined) would be attainable based on the following costs and assumptions:

Long Term Cash costs of US\$450 – US\$500oz, or US\$18.75t of ore milled

US\$1.25/t	Open pit mining costs
US\$12.50/t	Treatment costs
US\$0.50/t	Administration costs
4:1	Strip ratio
1.50g/t	Mill feed
85%	Mill recovery

**Cash cost margin of US\$500/oz at the current gold prices which exceeds US\$1,000/oz**

### Initial Scoping Study of Large Scale Open Pit (Cont.)

Large scale equipment enables low unit costs and larger mining benches

The large scale nature of the mineralisation at both Zhao Gou and Ma Gou, with typical ore widths of +50m and strike lengths of +700m, enables the use of large scale mining equipment, resulting in significant reduction in operating costs. Another advantage of large orebodies is the ability to operate with large mining benches. A 5m high mining bench with an ore zone 50m wide and 500m long would produce 325,000t of ore, meaning only six 5m benches (30m vertical height) are required per annum to feed a 2.0mtpa mill.

### Comparison to ASX listed Peers

There are a number of gold companies trading on the ASX that we believe have deposits or resources that are comparable to DMG's Lixian project, that is to say they are very large tonnage but low grade projects, and generally located in remote or 3<sup>rd</sup> world countries.

Below we have selected 5 companies that we believe can be used to determine an approx value for DMG's Lixian project in the current environment.

	Enterprise value	Resources	Stage
Kingsgate Consolidated (KCN)	A\$906m	3.1moz (1.2g/t)	Production
Allied Gold (ALD)	A\$151m	3.5moz (1.4g/t)	Production
Centamin Egypt (CNT)	A\$2,270m	13.7moz (1.5g/t)	Commissioning
Cga Mining (CGX)	A\$837m	8.4moz (0.9g/t)	Commissioning
Presus Mining (PRU)	A\$617m	5.3moz (1.1g/t)	Study
<b>Dragon Mountain Gold (DMG)</b>	<b>A\$40m</b>	<b>3.0moz (1.9g/t)</b>	<b>Exploration</b>

Ignoring capital structures and financial positions (which we acknowledge are very important), we believe that to the right party DMG's Lixian Gold Project to be worth at least A\$150m at present, and potentially up to A\$450m – A\$650m once a sizable production facility has been constructed and commissioned to produce 150,000 – 200,000oz per annum.

The valuation of A\$150m for DMG assumes no additions to the current resource base, which is extremely unlikely, as we would not be surprised to see the resource base more than double with adequate exploration and drilling (however we would also expect to see the average grade decline).

Below we have provided a brief description of the four companies we have used in our peer comparison.

### **Kingsgate Resources (KCN)      Mkt Cap: \$925m      Cash: \$19m      EV: \$906m**

Kingsgate Consolidated Limited (KCN) is a minerals exploration, development and mining company focused primarily on the Chatree Gold Project, located in northern Thailand. Chatree produces gold at the rate of around 100,000 oz per annum with a longer term target of 125,000 -150,000 oz per annum.

**CHATREE PROJECT:** The Chatree gold deposit is located 280km north of Bangkok, Thailand. In 2009, the Chatree mine produced 93,000 oz Au and 293,000oz Ag at a total cash cost of US\$405 per oz. KCN have received the mining lease for Chatree North which will extend the mine life for 7-10 years. Production for the FY10 year is forecast at approximately 150,000oz Au at a cash cost of US\$375/oz.

	Resources				Reserves		
	Tonnes	Grade	Ounces		Tonnes	Grade	Ounces
Measured	40.8mt	1.21g/t	1.6moz	Proven	24.6mt	1.2g/t	1.0moz
Indicated	28.2mt	1.18g/t	1.0moz	Probable	10.7mt	1.3g/t	0.4moz
Inferred	10.9mt	1.13g/t	0.4moz				
Stockpiles	1.9mt	0.91g/t	0.1moz	Stockpiles	1.9mt	0.9g/t	0.1moz
<b>Total</b>	<b>81.8mt</b>	<b>1.18g/t</b>	<b>3.1moz</b>	<b>Total</b>	<b>37.2mt</b>	<b>1.2g/t</b>	<b>1.5moz</b>

	Production Summary		
	2008/09	2007/08	2006/07
Tonnes milled	1.9mt	2.5mt	2.4mt
Ore Grade	1.7g/t	1.1g/t	1.2g/t
Oz Produced	93,000oz	74,100oz	86,000oz
Cash Cost (oz)	US\$405/oz	US\$457/oz	US\$440/oz
Cash Cost (t)	US\$18.90/t	US\$13.70/t	US\$15.75/t
Strip Ratio	2.5 : 1	6.7 : 1	8.0 : 1

#### Comparison to DMG

While KCN is at a much more advanced level to DMG, with the Chatree mine having been in operation for a number of years, the size and tenure of the remaining resource is not that dissimilar to what we would expect for DMG. The production figures for the last three years with a grade of under 1.5g/t Au and a strip ratios ranging between 2.5 : 1 and 8.0 : 1 is also what we would expect for DMG.

KCN is at a level that we would hope to see DMG with the next five years (if not sooner).

**Allied Gold (ALD)**

Mkt Cap: \$311m Cash: \$160m EV: \$151m

Allied Gold Limited (ALD) is an emerging gold producer with activities currently focused on Simberi Island in Papua New Guinea, and has gold and copper exploration activities in the adjacent Tatau and Big Tabar Islands. ALD is listed on both the Australian and London Stock Exchange.

**SIMBERI OXIDE PROJECT:** The Simberi gold deposit is situated on the northern most island of the Tabar Islands Group in the New Ireland Province of eastern Papua New Guinea. In 2009, the Simberi mine produced 72,600 oz Au at a total cash cost of US\$490 per oz. Production for the FY10 year is forecast at approximately 75,000oz Au at a cash cost of US\$600/oz.

	Resources				Reserves		
	Tonnes	Grade	Ounces		Tonnes	Grade	Ounces
Measured	20.0mt	1.40g/t	0.9moz	Proven Probable	12.1mt	1.20g/t	0.4moz
Indicated	38.6mt	1.45g/t	1.8moz		10.0mt	1.19g/t	0.4moz
Inferred	17.9mt	1.39g/t	0.8moz				
<b>Total</b>	<b>76.5mt</b>	<b>1.42g/t</b>	<b>3.5moz</b>	<b>Total</b>	<b>22.1mt</b>	<b>1.19g/t</b>	<b>0.8moz</b>

	Production Summary		
	2008/09	2007/08	2006/07
Tonnes milled	1.7mt	0.4mt	
Ore Grade	1.6g/t	2.9g/t	
Oz Produced	72,600oz	33,100	
Cash Cost (oz)	US\$490/oz	US\$415	
Cash Cost (t)	US\$21.50/t	US\$33.40/t	
<b>Strip Ratio</b>	<b>0.3 : 1</b>	<b>0.2 : 1</b>	

**Comparison to DMG**

While ALD is at a much more advanced level to DMG, with the Simberi mine being in operation for almost two years, the size and tenure of the remaining resource is not that dissimilar to what we would expect for DMG. The previous year's production figures, and production forecast for the next 12 months of 1.8mt per annum at a grade between 1.0g/t and 1.4g/t is at the lower end of what we would expect for DMG once up and operational. ALD's strip ratio however is substantially lower than we would expect from DMG's deposits.

ALD is at a level that we would hope to see DMG with the five years (if not sooner).

**Cga Mining (CGX)**

Mkt Cap: \$725m Debt: \$112m EV: \$837m

CGA Mining Limited (CGX) is an emerging gold producer with activities focused on the Masbate Gold Project in the Philippines, which has recently commenced production. The group also has exploration projects/interests in Zambia, Nigeria and the Philippines.

**MASBATE GOLD PROJECT:** The Masbate project gold deposit is currently ramping up to full production with steady state production forecast to produce over 200,000 ounces per annum from its 4.0 million tonne per annum plant. Quarterly production for the 2009 September period was ~30,000oz at a cash operating cost of US\$578/oz (before taxes).

	Resources				Reserves		
	Tonnes	Grade	Ounces		Tonnes	Grade	Ounces
Measured	153.4mt	0.92g/t	4.5moz	Proven Probable	92.2mt	1.0g/t	3.0moz
Indicated							
Inferred							
<b>Total</b>	<b>285.1mt</b>	<b>0.92g/t</b>	<b>8.4moz</b>	<b>Total</b>	<b>92.2mt</b>	<b>1.0g/t</b>	<b>3.0moz</b>

**Comparison to DMG**

While CGX is at a much more advanced stage to DMG, with the Masbate mine being in the final stages of commissioning, the size and tenure of the resource is not that dissimilar to where we would hope to see DMG in a few years (after extensive exploration and drilling). The grade at Masbate is significantly lower than that reported at Lixian to date, however the operating cost per tonne milled (US\$19.70/t) is inline with our estimated for Zhao Gou of US\$18.75/t. We suspect Masbate would have a lower strip ratio than that forecast for DMG's projects allowing it to operate profitable at a significantly lower grades.

CGX is at a level that we would hope to see DMG at within three to four years.

## Perseus Mining (PRU)

Mkt Cap: \$677m Cash: \$60m EV: \$617m

Perseus is an advanced West African gold explorer with its two most advanced projects at different stages of evaluation and development:

**Ayanfuri:** comprises a group of large gold deposits with reserves and resources totaling more than 5M ounces located in the central Ashanti gold belt in Ghana. The Ayanfuri feasibility study for Phase 1 development has been completed, with the project now at the pre-development stage.

**Tengrela:** is an underexplored project with a current initial 1.0 million ounce open-ended gold resource on one of a number of prospects and significant upside potential. A preliminary economic scoping study was completed in February 2009 and resource drilling will continue throughout 2009.

	Resources				Reserves		
	Tonnes	Grade	Ounces		Tonnes	Grade	Ounces
Measured	20.0mt	1.35g/t	0.9moz	Proven	18.4mt	1.40g/t	0.8moz
Indicated	65.1mt	1.09g/t	2.3moz	Probable	37.1mt	1.11g/t	1.3moz
Inferred	62.1mt	1.07g/t	2.1moz				
<b>Total</b>	<b>147.2mt</b>	<b>1.12g/t</b>	<b>5.3moz</b>	<b>Total</b>	<b>55.5mt</b>	<b>1.21g/t</b>	<b>2.1moz</b>

## Comparison to DMG

Probably 12 – 24 months more advanced than DMG, with the company having completed feasibility study on one of its projects, and has commenced the financing stage of development. The size of the resource is approx twice that of the current DMG resource, however as noted earlier we believe there is a high probability of DMG's resource base increasing significantly with additional drilling, the overall grade of PRU's resource is significantly lower than DMG's. PRU's forecast strip ratio of 2.5 : 1 is less than DMG's forecast of around 4.0 : 1 partly offsetting PRU's lower grade.

PRU is at a level that we would hope to see DMG with the next 12 – 18 months.

Final Thoughts

DMG potentially sitting on a 5 to 10 million ounce gold project at Lixian

DMG is sitting on a potential 5 to 10 million ounce gold project at Lixian, with time and lots of drilling required to determine its eventual size.

We believe DMG controls an extremely valuable asset in the form of the Lixian Gold project; however the financial position of the company (low cash balance, \$5m in debt including convertible notes) has made it difficult for the company to progress the project as quickly as it would like.

While we believe DMG offers exceptional value, at current stock levels, we acknowledge that until progress is made on either the funding front or a potential JV/sale of the Lixian project is announced, it is difficult to see a trigger for the stock to rally.

We believe there are three potential scenarios for the group going forward; 1) outright sale of Lixian project or company to a third party, 2) third party takes an equity position in the Lixian project or company, and 3) initiate a substantial capital raising to enable the project to progress.

Lixian project valued at A\$125m at present, potentially up to A\$650m when in full production

Based on the valuation attributed to its peers on the ASX, ignoring capital structures and financial positions (which we acknowledge are very important), we believe that to the right party DMG's Lixian Gold Project to be worth at least A\$150m at present, and potentially up to A\$450m – A\$650m once a sizable production facility has been constructed and commissioned to produce 150,000 – 200,000oz per annum.

Gold price forecast to consolidate around US\$1,000 – US\$1,100oz before running up to US\$1,500/oz mid year

With the price of gold now trading comfortably above the psychological US\$1,000oz level and consistently trading above US\$1,100oz level we believe the gold sector is the place to be. Many investors are currently basing their investment decisions on global themes rather than on the merits of individual company's, with the switch out of US dollars into real assets (precious metals, commodities, etc) remaining the major investment theme at present.

We forecast gold will continue to consolidate around the US\$1,050/oz - US\$1,150oz level over the coming months, before potentially rallying to around the US\$1,500/oz level by mid year.

*To the right party (and using current gold price around US\$1,000oz) we believe the Lixian Gold Project to be worth at least A\$150m, and potentially up to A\$650m.*

The author of this report currently owns shares (personally or by related parties) in ALG, ATQ, CEU, DMG, NQM, PMX, TAH, and TBR.

Carey P. Smith  
Research Analyst

Phone: 08 9223 9838  
Mobile: 0400 216 502  
E-mail: carey@altocapital.com.au

---

## Investment Managers

Stockley Davis  
Corporate Manager  
Phone: +618 9223 9835  
stockley@altocapital.com.au

Adam Belton  
Director  
Phone: +618 9223 9818  
adam@altocapital.com.au

Craig Brown  
Director  
Phone: +618 9223 9828  
craig@altocapital.com.au

Shane Wee  
Director  
Phone: +618 9223 9868  
shane@altocapital.com.au

Brendan Fogarty  
Investment Manager  
Phone: +618 9223 9810  
brendan@altocapital.com.au

Peter Hayes  
Investment Manager  
Phone: +618 9223 9836  
peterh@altocapital.com.au

Alan Lawson  
Investment Manager  
Phone: +618 9223 9878  
alan@altocapital.com.au

Maciej Rosiewicz  
Investment Manager  
Phone: +618 9223 9830  
maciej@altocapital.com.au

Brett Schreuders  
Investment Manager  
Phone: +618 9223 9825  
brett@altocapital.com.au

Cameron Bolton  
Investment Manager  
Phone: +618 9223 9832  
cameron@altocapital.com.au

Chris McGrath  
Investment Manager  
Phone: +618 9223 9822  
chris@altocapital.com.au

Ian Leete  
Authorised Representative  
Phone: 0415 707 065  
ian@altocapital.com.au

Mathew Walker  
Director  
Phone: +618 6460 4960  
mathew@cicerocorporate.com.au

Russell Lynton-Brown  
Authorised Representative  
Phone: +618 6460 4960  
ruslb@westnet.com.au

Nathan Barbarich  
Authorised Representative  
Phone: +618 9223 9848  
nathan@altocapital.com.au

Paul Poli  
Authorised Representative  
Phone: +618 9223 9888  
Paul.poli@matsa.com.au

James Robinson  
Authorised Representative  
Phone: +618 6460 4960  
james@cicerocorporate.com.au

Carey Smith  
Research Analyst  
Phone: +618 9223 9838  
carey@altocapital.com.au

Carrie Burns  
Office Manager  
Phone: +618 9223 9888  
carrie@altocapital.com.au

---

## General Advice Warning & Disclaimer

The contents of this document have been prepared without consideration of the clients' specific investment objectives, financial situation or particular needs. Those acting upon such information do so entirely at their own risk. Advice included in this document is general advice, based solely on consideration of the investment or trading merits of the securities alone. Do not act on this advice without first consulting your Investment Manager to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs.

Whilst Alto Capital believes information contained in this document is based on information which is believed to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by Alto Capital or any officer, agent or employee of Alto Capital.

If applicable, you should obtain the Product Disclosure Statement relating to the relevant financial product mentioned in this document (which contains full details of the terms and conditions of the relevant financial product) and consider it before making any decision about whether to acquire the financial product.

No part of this report may be reproduced, in whole or in part, without the specific written permission of Alto Capital. To obtain permission to reprint text or images, please contact the author on the number or email above.

## Disclosure

The directors of Alto Capital advise that they and persons associated with them may have an interest in the in the financial products discussed in this document and that they may earn brokerage, commissions, fees or other benefits or advantages as a result of a transaction arising from any recommendation mentioned in documents, including this report, to clients.