DACIAN GOLD LIMITED

Mt Morgans Scoping Study Confirms Standout Project

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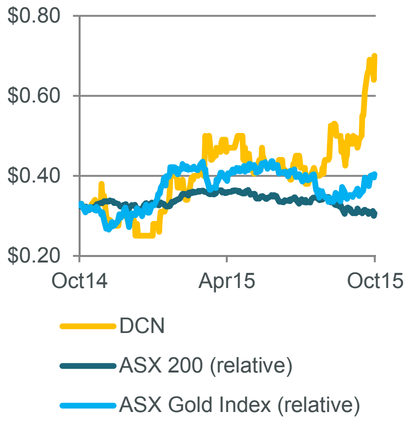
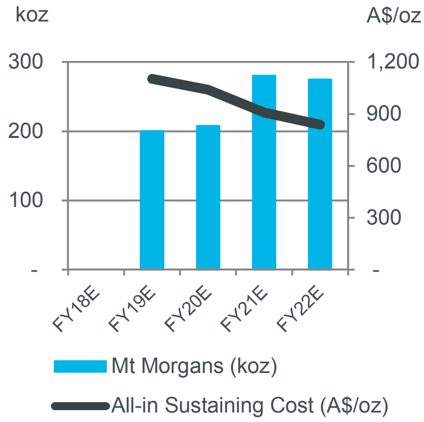
We say	Price	Target	Strategic Target
BUY	0.70	1.50	1.80

Dacian's Scoping Study for Mt Morgans exceeded our expectations on a number of fronts and in our view clearly demonstrates potential for a *very* robust project. The company is targeting a 220kozpa project over the first 5 years at a life of mine AISC of just A$929/oz, or >40% margins at spot prices. A 2.5mtpa stand-alone plant is expected to cost A$157m and first gold is targeted for CY18. Dacian remains our top pick of the ASX gold developers.

DCN SHARE PRICE (A$)



FORECAST PRODUCTION & COSTS



COMPANY DATA

Enterprise value	A$72m
Diluted market cap*	A$74m
Diluted shares*	106m
Free float	100%
12 month price range	0.25-0.70
GICS sector	Materials
Management holds ~14.1% (fully diluted)	

* Diluted for 10.1m options

IMPLIED RETURN

Total expected return	114%

SCOPING STUDY EXCEEDS OUR EXPECTATIONS

At spot prices and company assumptions, we estimate Mt Morgans has a compelling post-tax IRR of 60%, a payback of 1.8 years (on an initial 7 year life) and all-in sustaining margins of >40% or >A$650/oz. Furthermore, we believe the company is highly likely to increase minable ounces which could further bolster already outstanding project metrics.

THE HIGH QUALITY DACIAN TEAM

Dacian is run by the former Avoca Resources team which took Avoca from a junior explorer into a producing gold miner valued at ~A$1bn before its merger with Anatolia to form Alacer in 2011. In our view, the Dacian team has the requisite skill set, proven track record and market credibility to attract the necessary capital to bring Mt Morgans into production.

WHY GOLD FIELDS IS HIGHLY LIKELY TO MAKE A BID FOR DCN

Gold Fields owns the 3.5mtpa Granny Smith mill which sits only 15-25km from DCN's ground and has 1.8mtpa of underutilised capacity. Gold Fields also has stated it is "actively seeking M&A opportunities". **On our forecasts, DCN's assets could be worth A$400-500m to Gold Fields and we believe an approach is more a case of *when* rather than *if*.**

CONTENTS

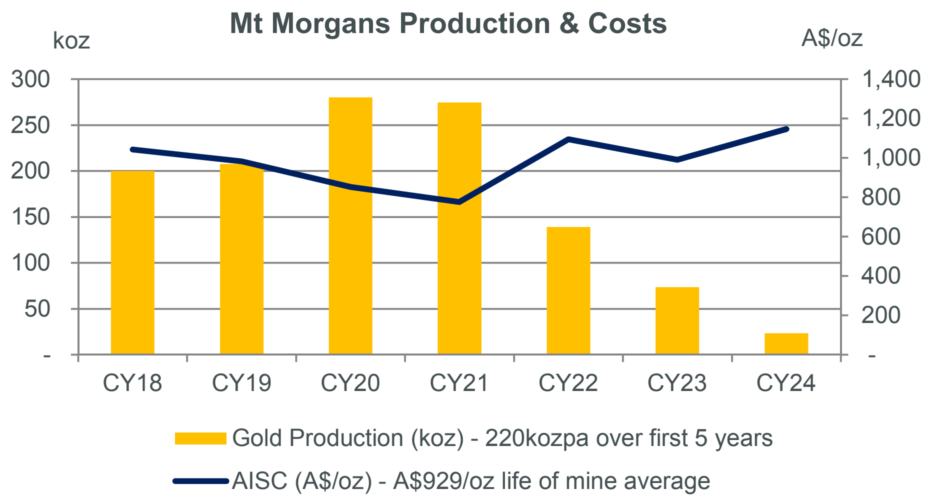
MT MORGANS SCOPING STUDY

On 30 September 2015, Dacian delivered a Scoping Study for its Mt Morgans gold project which exceeded our expectations on a number of fronts, with higher production, lower costs and a longer mine life:

Mt Morgans – Key Scoping Study Metrics	
Initial Capex	A$157m
Plant Size	2.5mtpa
Gold Production	220kozpa over initial 5 years
All-in Sustaining Cost	A$929/oz average life of mine
Initial mine life*	7 years

Source: Company. *Subject to infill drilling. Based on 49% M&I resources and 51% Inferred

The chart below shows the company's planned production profile and our estimate of the company's All-in Sustaining Cost profile based on the information in the Scoping Study.



Source: Company, Blue Ocean Estimates

While infill drilling is still required, **in our view the Mt Morgans Scoping Study clearly demonstrates the potential for a *very* robust project** at spot gold of ~US$1,115/oz and spot A$/US$ of 0.70. The table below summarises key financial metrics on company assumptions:

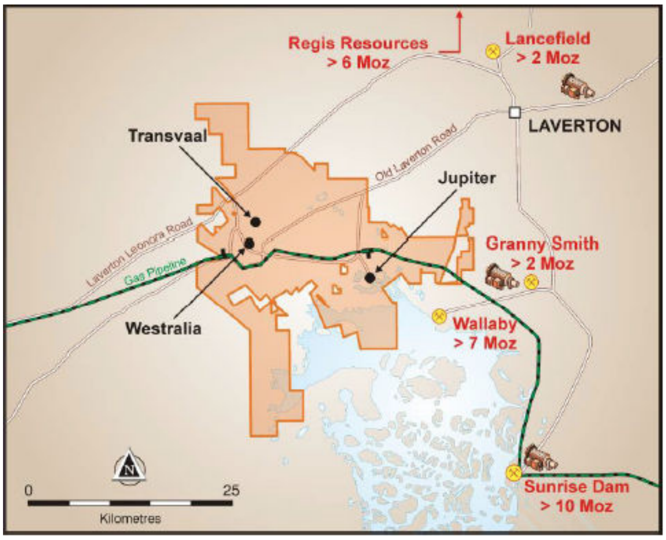
Mt Morgans Financial Metrics – A very robust project at spot prices	
Post-Tax IRR	60%
Payback	1.8 years
Average AISC Margin	41% or >A$650/oz
Post-Tax NPV	A$328m

Source: Blue Ocean estimates

We provide project sensitivities for key financial metrics on p9 of this report.

OVERVIEW

The planned Mt Morgans gold project will consist of a 2.5mtpa process plant, constructed near the Jupiter open pitable deposits, 25km southwest of Laverton in Western Australia.



Source: Company

The process plant will be fed by:

- 3 underground mines (Westralia, Morgans & Transvaal)
- 4 open pits (Heffernans, Doublejay, Ganymede and Morgans cutback)

MINE SCHEDULE

Dacian intends to use contract mining at Mt Morgans. Open pit mining will be undertaken by conventional truck and excavator mining involving normal drill, blast load and truck haulage to the processing facility.

Underground mining will be undertaken using narrow sub-level open stoping (or bench stoping) in a top-down sequence. Pillars will be left behind to ensure ground stability. The company also provided the detailed mine schedule below:

			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Jupiter Prospect Open Pits (HG)	tonnes	7,874,876	1,186,684	1,603,801	1,717,831	647,346	2,151,807	567,407	
	grade	1.65	1.60	1.86	1.84	1.25	1.47	1.65	
	ounces	416,526	61,103	96,066	101,665	26,024	101,599	30,070	
Jupiter Prospect Open Pits (LG)	tonnes	3,330,192	827,382	855,816	603,005	385,244	490,249	168,496	
	grade	0.62	0.64	0.64	0.62	0.55	0.59	0.73	
	ounces	66,825	17,141	17,485	12,104	6,812	9,353	3,929	
Westralia Prospect Underground	tonnes	4,230,209	638,049	800,454	1,228,710	1,259,581	303,414		
	grade	5.47	4.43	4.56	5.92	5.97	6.20		
	ounces	744,606	90,876	117,365	233,909	241,962	60,494		
Westralia Prospect Open Pit	tonnes	101,246	101,246						
	grade	3.03	3.03						
	ounces	9,871	9,871						
Transvaal Prospect Underground	tonnes	507,134	440,918	66,216					
	grade	4.52	4.38	5.52					
	ounces	73,777	62,020	11,757					
TOTAL	tonnes	16,043,657	3,194,279	3,326,287	3,549,547	2,292,171	2,945,469	735,903	-
	grade	2.54	2.35	2.27	3.05	3.73	1.81	1.44	-
	ounces	1,311,605	241,011	242,673	347,678	274,798	171,447	33,999	-
Ore Treated	tonnes	16,043,657	2,273,288	2,500,000	2,506,849	2,500,000	2,500,000	2,500,000	1,263,520
	grade	2.54	3.00	2.82	3.81	3.75	1.89	0.99	0.63
Gold Produced		1,198,592	200,160	207,628	280,179	274,608	139,087	73,548	23,381

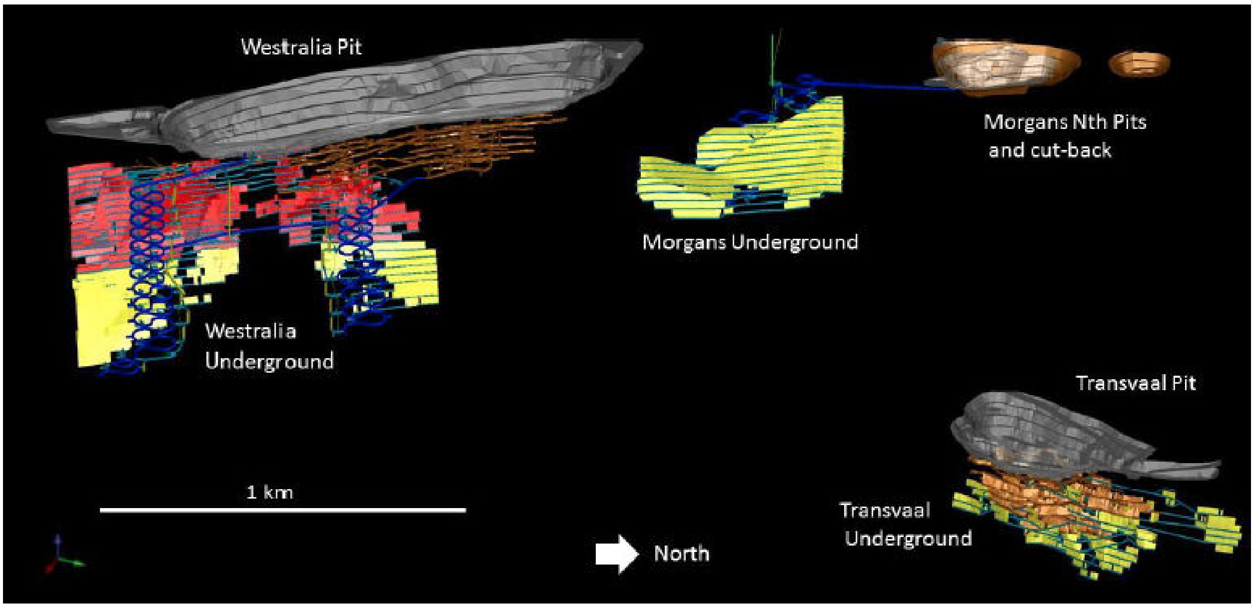
Source: Company

UNDERGROUND MINES

The picture below shows the three planned underground mines at Mt Morgans, namely:

- the Westralia underground (below the southern end of the Westralia pit)
- the Morgans underground (targeting the high-grade footwall BIF mineralisation)
- the Transvaal underground (north of Westralia, see map on p4)

In the picture the red zone shows measured and indicated ore, while the yellow zones show inferred resource which will need additional infill drilling.



Source: Company

In terms of decline access to each mine:

- the Westralia underground will be accessed via two declines from the Westralia pit
- the Morgans underground will be accessed via a decline from the Morgans pit
- the Transvaal underground will be accessed via the existing historic decline

The mining inventory considered in the Scoping Study for each underground mine is summarised below:

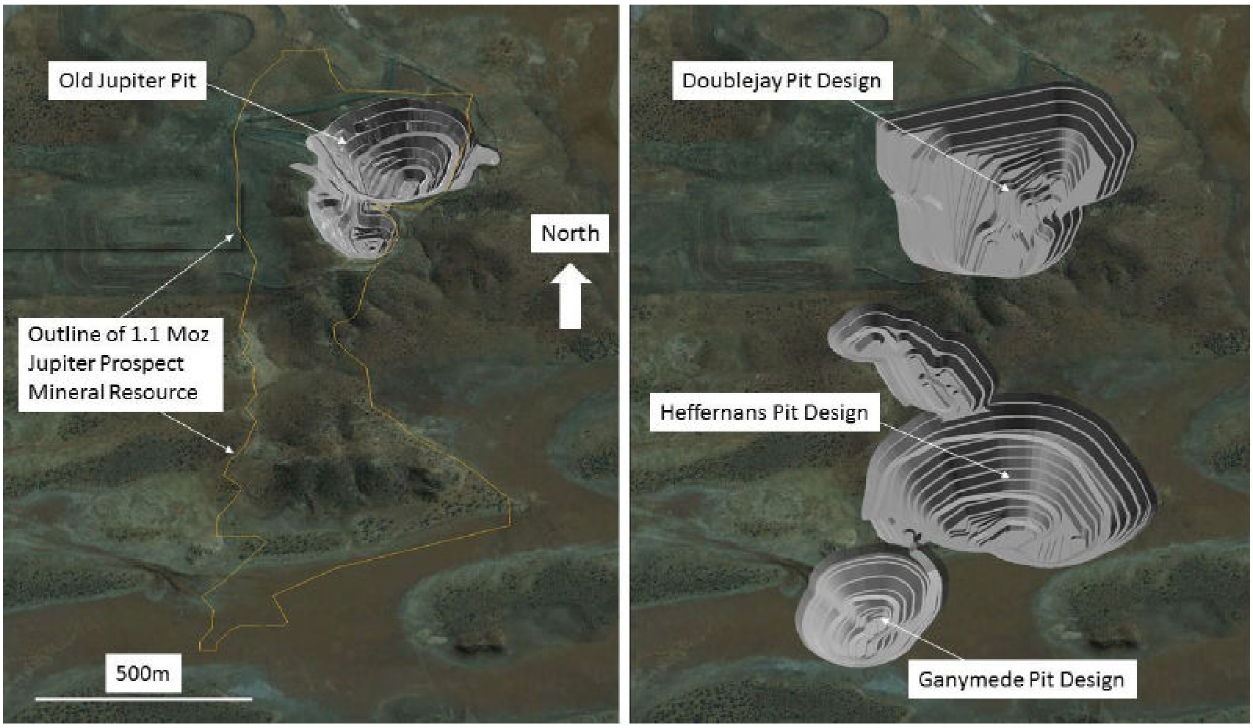
Underground Inventory	mt	g/t	koz
Westralia	3.1	5.0	491
Morgans	1.1	6.8	254
Transvaal	0.5	4.5	74
Total	**4.7**	**5.4**	**818**

Source: Company

OPEN PITS

In the picture below, the left hand picture shows the existing Jupiter pit, while the right hand shows the 3 planned open pits at the Jupiter prospect, which comprise:

- Heffernans (the largest pit)
- Doublejay (essentially a cutback of the historic Jupiter pit)
- Ganymede (the smaller southernmost pit)



Source: Company

Dacian plans to defer processing of low grade ore to the end of the mine life, and thus the Jupiter pits are split into a high grade inventory and low grade inventory.

The first table below summarises the high grade open pit inventory, planned depth and strip ratio of the 3 planned pits at Jupiter. The second table shows the low grade open pit inventory.

High Grade Open Pit Inventory	mt	g/t	koz	Strip	Depth (m)
Heffernans	4.5	1.79	259	6.7	200
Doublejay	2.9	1.40	133	5.2	170
Ganymede	0.4	1.74	25	8.0	90
Total	**7.88**	**1.65**	**417**	**6.5**	

Low Grade Open Pit Inventory	mt	g/t	koz
Heffernans (LG)	2.3	0.64	47
Doublejay (LG)	0.9	0.57	16
Ganymede	0.2	0.73	4
Total	**3.35**	**0.62**	**67**

Source: Company

There is a fourth modest open pit source at Westralia in the Morgans pit which will allows for the portal for the Morgans underground. A modest 101kt will be mined at 3g/t for 10koz.

PROCESSING

Dacian is planning to construct a 2.5mtpa CIL processing plant, adjacent to the Jupiter prospect, since that is the source of the higher volume of lower grade open pit ore.

While additional metallurgy work will be undertaken in subsequent studies, all of the proposed ore sources are in very close proximity to historic mines which have a demonstrated history of free-milling ores, with recoveries in the range of 90-93%. The average recovery assumed in the Scoping Study was 91%, which in our assessment is defensible.

As part of the Scoping Study, the company engaged an independent process engineering company to estimate capital and operating costs. The conventional CIL flowsheet will comprise crushed ore being fed to a large SAG and ball mill configuration, followed by gravity concentrator, leach circuit, electrowinning and smelting to produce a gold dore.

OPERATING COSTS

Operating costs were estimated by independent mining and process engineers as per the table below and assume power is supplied from a gas-fired power station.

LOM Mt Morgans Operating Costs	A$/t	A$/oz C1	A$/oz AISC
Open Pit			
Mining	$25	$621	$621
Sustaining Capital	-	-	$4
Processing	$18	$240	$240
G & A	$2	$32	$32
Total	$45	$893	$897
Underground			
Mining	$77	$490	$490
Sustaining Capital	-	-	$115
Processing	$18	$240	$240
G & A	$2	$32	$32
Total	$97	$762	$877
Project			
Royalties	-	-	$44
Refining	-	-	$1
Total	-	-	$45
LOM Mining Total	$61	$812	$929

Source: Company

Given the life of mine strip ratio of open pit sources is 6.5:1 and the open pit mining cost per tonne of ore is A$25/t, the implied mining cost per tonne of material is A$3.33/t (25/(1+6.5)). In our view, this mining cost should be achievable.

To calculate royalties, the company used a gold price of A$1,500/oz (vs. spot of ~A$1,590/oz).

REQUIRED CAPITAL

The initial capital of A$157m was also estimated by independent mining and process engineers and a breakdown is provided in the table below.

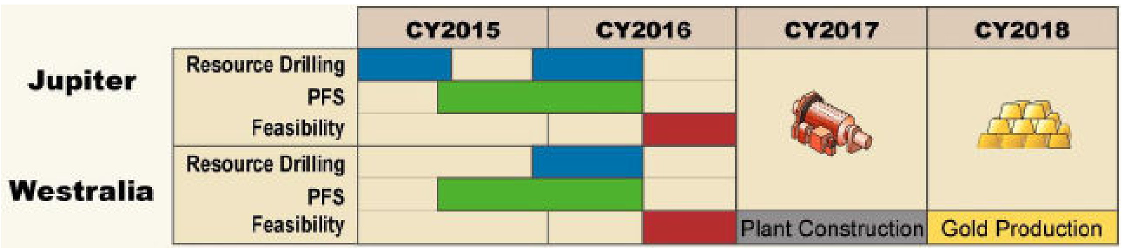
The estimated plant cost of A$131m has been undertaken to a scoping study level (i.e. ±30%) and includes treatment plant, tailings storage facility, borefield refurbishment and expansion as well as **20% contingency**.

	A$ million
Treatment plant & TSF	$130.6
Accommodation village	$14.5
Mine service areas	$7.9
Power distribution	$1.9
Communications	$1.5
Roads	$0.9
	$157.3

Source: Company

DEVELOPMENT TIMETABLE

The picture below summarises Dacian's planned development schedule for Mt Morgans.



While we believe this timetable is achievable, our estimates provide an additional 6-month buffer to complete studies, obtain permits and to arrange project finance. i.e. We assume first gold is poured in mid CY18 (as opposed to early CY18).

SENSITIVITES – A VERY ROBUST PROJECT

While we continue to see a risk the US$ gold price pulls back towards US$1,000/oz near-term, particularly if the Fed raises rates late this year, we also believe the A$ is also likely to head toward 0.65 and potentially lower.

The three tables below use the company's Scoping Study figures to assess the key financial metrics of the Mt Morgans gold project.

In our view, the outcomes below demonstrate that Mt Morgans is shaping up as a *very* robust project.

Post-Tax IRR (%)		US$ Gold Price		
		1,000	1,100	1,200
A$/US$	0.70	44%	58%	72%
Exchange	0.65	55%	69%	84%
Rate	0.60	67%	83%	98%

Source: Blue Ocean estimates

LOM AISC Margin (%)		US$ Gold Price		
		1,000	1,100	1,200
A$/US$	0.70	35%	41%	45%
Exchange	0.65	40%	45%	49%
Rate	0.60	44%	49%	53%

Source: Blue Ocean estimates

Post-Tax NPV* (A$m)		US$ Gold Price		
		1,000	1,100	1,200
A$/US$	0.70	219	314	409
Exchange	0.65	292	395	497
Rate	0.60	378	488	599

* NPVs assumes 7% nominal discount rate (5% real)

Source: Blue Ocean estimates

KEY NEAR-TERM CATALYST

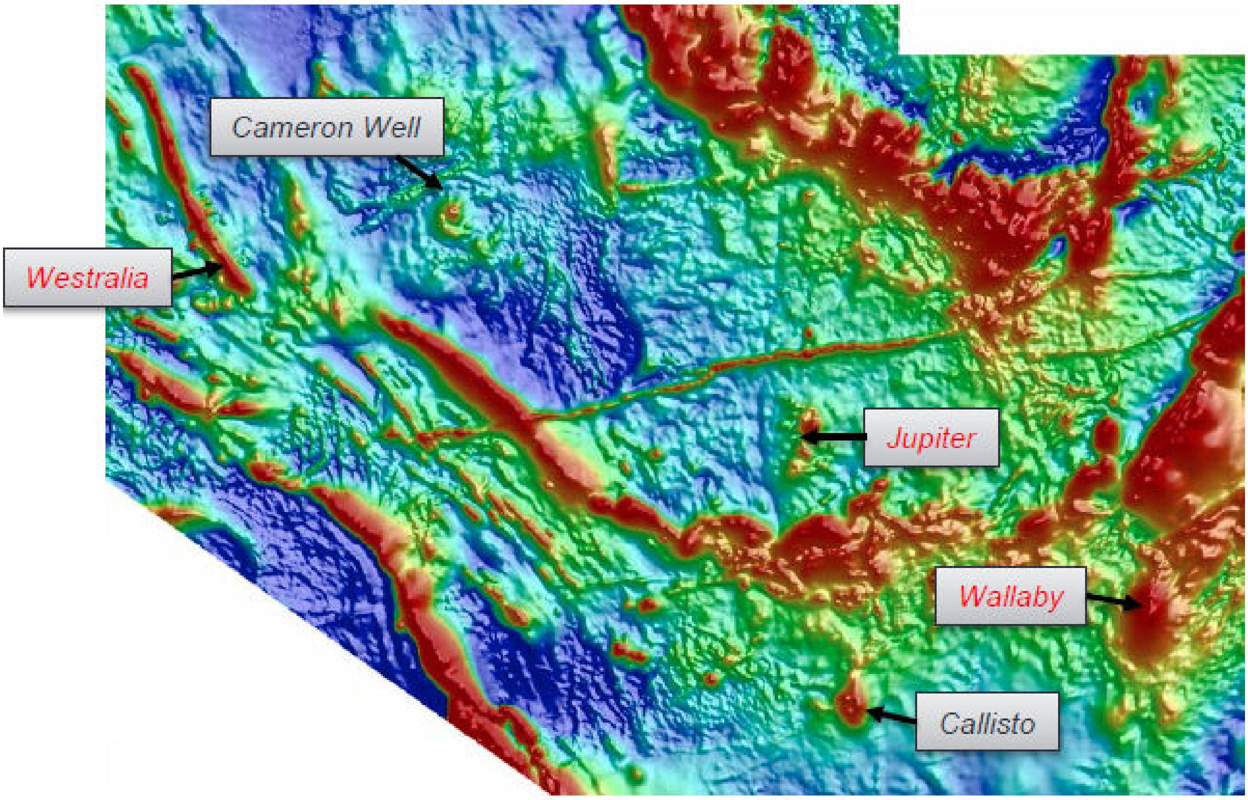
Dacian is planning to drill the promising Callisto target this month (Oct 2015), and the company's Executive Chairman, Rohan Williams has made no secret about the fact he is very excited about it's potential.

Callisto is a donut-shaped magnetic anomaly which Dacian believes is a "Wallaby look-a-like" (Wallaby is a nearby 7moz gold deposit).

Last Friday, the company was presenting at the Resources Rising Stars conference in the Gold Coast and Mr Williams had the following to say about Callisto and the upcoming drill program:

> *"The ground at Laverton is elephant country"*
>
> *"[Callisto] is probably one of the best exploration targets I have seen in my lifetime"*
>
> *"If we have success at Callisto or Cameron Well, well the game changes completely"*

Dacian see a Significant Exploration Potential at Callisto & Cameron Well



Source: Company

Cameron Well is another donut-shaped magnetic anomaly and historic RAB drilling includes a hit of 7m @ 15g/t.

PRICE TARGET, RISKS & MODEL SUMMARY

This section provides more detail on how we derive our price target and the key risks for DCN.

PRICE TARGET & RATING

We largely endorse Dacian's Scoping Study forecasts for Mt Morgans, but add **a 6-month buffer to first gold production** and **a material 40% higher sustaining capex** until higher confidence studies are completed.

As a result of higher production, lower costs and a longer mine life, our NAV increases by a material 54% to A$1.66, which includes **a 50% discount to the NPV for Mt Morgans** given the early stage of the project.

We increase our price target by 43% to $1.50, an implied return of 114%. **Maintain Buy.**

STRATEGIC TARGET

To derive our longer-term $1.80 Strategic Target we assume Dacian is able to define a longer mine life of 8-9 years (vs. our base case of 6-7 years) based on a mining inventory of ~1.65moz (vs. our base case of ~1.2moz) or ~55% of the current 3moz resource base.

KEY RISKS

Dacian is exposed to all the normal risks associated with developing and operating mining projects, including permitting, funding and construction risk.

Given the early stage nature of the Mt Morgans project, other key risks for Dacian include metallurgical recoveries (albeit somewhat offset by the fact Mt Morgans is a brownfields operation), as well as a successful infill drilling program to confirm ore bodies are sufficiently continuous to support a viable mining operation.

Many investors may also expect ongoing exploration success (and in our view that is likely) and thus Dacian also carries exploration risk.

Assuming the company makes the transition into production, the company's revenues will be derived from the sale of gold. Fluctuations in the gold price as well as the Australian dollar could impact the company's cash flow, profitability and share price.

Dacian's shares also carry an embedded Australian sovereign risk as the company's development projects are based in Western Australia.

MODEL SUMMARY – FINANCIALS & VALUATION

Stock Details					
Recommendation:	**BUY**			Enterprise Value	$72m
Target	$1.50	Share Price	$0.70	Diluted MCap	$74m
NAV	$1.66	52 Week High	$0.70	Diluted Shares	106m
Implied Return	114%	52 Week Low	$0.25	Free Float	100%
				Avg Daily Value	$0.04m

Macro Assumptions	**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**
Exchange Rate (A$/US$)	0.84	0.70	0.69	0.68	0.68
Gold Price (US$/oz)	1,224	1,100	1,100	1,100	1,100
Gold Price Realised (A$/oz)	1,464	1,563	1,595	1,611	1,622

Profit & Loss (A$m)	**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**
Revenue	-	-	-	-	325
Operating Costs	-	-	-	-	(194)
Operating Profit	**-**	**-**	**-**	**-**	**131**
Corporate & Other	(1)	(2)	(2)	(2)	(4)
Exploration Expense	(7)	(8)	(5)	(4)	(2)
EBITDA	**(8)**	**(9)**	**(7)**	**(6)**	**125**
D&A	(0)	(0)	(0)	(0)	(35)
EBIT	**(9)**	**(9)**	**(7)**	**(6)**	**90**
Net Interest Expense	0	0	0	0	(6)
Pre-Tax Profit	**(8)**	**(9)**	**(7)**	**(6)**	**84**
Tax Expense	0	-	-	-	(25)
Underlying Profit	**(8)**	**(9)**	**(7)**	**(6)**	**59**
Signficant Items (post tax)	-	-	-	-	-
Reported Profit	**(8)**	**(9)**	**(7)**	**(6)**	**59**

Cash Flow (A$m)	**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**
Operating Cashflow	(1)	(2)	(2)	(2)	127
Tax	-	-	-	-	-
Net Interest	0	0	0	0	(6)
Net Operating Cash Flow	**(1)**	**(1)**	**(2)**	**(2)**	**121**
Exploration	(6)	(9)	(6)	(4)	(2)
Capex	(0)	(4)	(1)	(160)	(21)
Acquisitions / Disposals	-	-	-	-	-
Other	(0)	0	0	0	0
Net Investing Cash Flow	**(6)**	**(12)**	**(7)**	**(164)**	**(23)**
Equity Issue	-	20	85	5	1
Borrowing / Repayments	(0)	-	-	85	(85)
Dividends	-	-	-	-	-
Other	(0)	-	-	-	-
Net Financing Cash Flow	**(0)**	**20**	**85**	**90**	**(84)**
Change in Cash Position	(6)	6	77	(76)	14
FX Adjustments	-	-	-	-	-
Cash Balance	**5**	**11**	**88**	**12**	**25**

Balance Sheet (A$m)	**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**
Cash	5	11	88	12	25
Other Current Assets	0	0	0	0	0
PP&E	0	4	5	165	151
Exploration & Development	8	9	10	10	10
Other Non Current Assets	0	0	0	0	0
Total Assets	**14**	**24**	**103**	**187**	**186**
Debt	0	0	0	85	0
Other Liabilities	3	3	3	3	29
Net Assets	**10**	**21**	**99**	**98**	**158**

Ratio Analysis		**FY15**	**FY16E**	**FY17E**	**FY18E**	**FY19E**
Diluted Shares	m	96	132	267	273	274
EPS - Diluted	Ac	(8.4)	(7.4)	(4.5)	(2.2)	21.5
P/E	x	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**3.2x**
CFPS - Diluted	Ac	(0.7)	(1.1)	(1.1)	(0.8)	44.3
P/CF	x	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**1.6x**
FCF - Diluted	Ac	(1.0)	(4.1)	(1.2)	(59.5)	38.6
P/FCF	x	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**1.8x**
Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-
Enterprise Value	A$m	70	63	(13)	148	49
EV/EBITDA	x	**(8.3x)**	**(6.8x)**	**1.9x**	**(24.6x)**	**0.4x**
ROE	%	(78%)	(44%)	(7%)	(6%)	37%
ROA	%	(59%)	(38%)	(7%)	(3%)	32%
Net Debt / (Cash)		(5)	(11)	(88)	73	(25)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	43%	(19%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	75%	(16%)

	P&P Reserves			**M&I Resources**			**Inferred**
	mt	g/t	moz	mt	g/t	moz	moz
Westralia	-	-	-	2.2	4.7	0.33	1.19
Jupiter	-	-	-	13.1	1.4	0.60	0.48
Transvaal	-	-	-	0.8	5.5	0.14	0.07
Other	-	-	-	3.7	0.8	0.10	0.14
Sub Total	**-**	**-**	**-**	**19.7**	**1.8**	**1.17**	**1.88**
Total						**3.0**	

Earnings Sensitivity			FY19E	FY20E	FY19E	FY20E
			A$m	A$m	%	%
Gold Price	US$/oz	+10%	23	23	36%	34%
Exchange Rate	A$/US$	-10%	25	26	40%	37%

Valuation	**Discount**	**Stake**	**A$m**	**A$/sh**
Mt Morgans (un-risked)		100%	325	3.38
Mt Morgans (risk adjusted)	50%	100%	163	1.69
Exploration			20	0.21
Corporate & Other			(26)	(0.27)
Debt			-	-
Cash			2.5	0.03
Risk adjusted NAV			**159**	**1.66**

Source: IRESS, Company data, Blue Ocean estimates

MODEL SUMMARY – OPERATIONAL INPUTS & FREE CASH FLOW

Macro Assumptions		FY18E	FY19E	FY20E	FY21E	FY22E
Exchange Rate	A$/US$	0.68	0.68	0.67	0.67	0.67
Gold Price	US$/oz	1,100	1,100	1,100	1,100	1,100
Gold Price Realised	A$/oz	1,611	1,622	1,634	1,637	1,637

Operational Summary		FY18E	FY19E	FY20E	FY21E	FY22E
Mt Morgans - Mining						
Open Pit Ore						
Percent from Open Pits	%	-	66%	74%	65%	45%
Open Pit Mill Feed	kt	-	2,115	2,460	2,321	1,033
Open Pit Head Grade	g/t	-	1.3	1.4	1.5	1.0
Underground Ore						
Percent from Underground	%	-	34%	26%	35%	55%
Underground Mill Feed	kt	-	1,079	867	1,229	1,260
Underground Head Grade	g/t	-	4.4	4.6	5.9	6.0
Mt Morgans - Processing						
Mill Throughput	mt	-	2.3	2.5	2.5	2.5
Head Grade	g/t	-	3.0	2.8	3.8	3.8
Recovery	%	-	91%	92%	91%	91%
Gold Production	koz	-	200	208	280	275
All-in Sustaining Cost	A$/oz	-	1,103	1,039	909	839

FCF Contribution	A$m	FY18E	FY19E	FY20E	FY21E	FY22E
Mt Morgans						
Revenue		-	325	339	459	450
Operating Costs		-	194	191	218	185
Sustaining Capex		-	21	18	31	39
Sustaining Exploration		-	2	2	2	2
Corp Overheads		2	4	4	4	4
All-in Sustaining Margin		**(2)**	**104**	**124**	**204**	**219**

Group		FY18E	FY19E	FY20E	FY21E	FY22E
Gold Production	**koz**	**-**	**200**	**208**	**280**	**275**
All-in Sustaining Cost	A$/oz	-	1,103	1,039	909	839

Operations	A$m	FY18E	FY19E	FY20E	FY21E	FY22E
Revenue		-	325	339	459	450
All-in Sustaining Cost		2	221	216	255	230
All-in Sustaining Margin		**(2)**	**104**	**124**	**204**	**219**
Growth Capex		160	-	-	-	-
Growth Exploration		4	-	-	-	-
All-in Margin		**(166)**	**104**	**124**	**204**	**219**

Corporate	A$m	FY18E	FY19E	FY20E	FY21E	FY22E
Cash Tax		-	-	16	44	61
Other Items		(0)	(0)	(0)	(0)	(0)
FCF pre Debt Service		**(166)**	**104**	**108**	**160**	**158**
Net Interest		(0)	6	(1)	(3)	(6)
Debt Drawdown / (Repayment)		85	(85)	-	-	-
FCF post Debt Service		**(81)**	**13**	**109**	**163**	**164**

New Equity/Dividends	A$m	FY17E	FY18E	FY20E	FY21E	FY22E
Proceeds from Shares/Options		5	1	2	-	-
Dividends Paid		-	-	8	25	35
Change in Cash		**(76)**	**14**	**102**	**139**	**128**
Cash Balance		**12**	**25**	**127**	**266**	**395**

Source: IRESS, Company data, Blue Ocean estimates

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