

### DMC Mining Ltd. (ASX: DMM) – MOU with Port Authority; Completes Rail Access Agreement

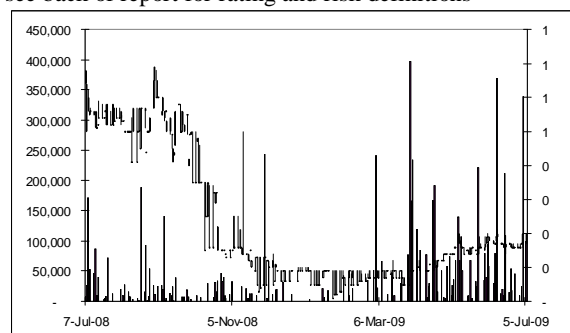
Sector/Industry: Junior Mining

[www.dmcmining.com.au](http://www.dmcmining.com.au)

#### Market Data (as of July 10, 2009)

Current Price	A\$0.175
Fair Value	A\$0.27 ↑
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	A\$0.01–A\$0.69
Shares O/S	68.87 mm
Market Cap	A\$12.05 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	0.60
YoY Return	-68.2%
YTD TSXV	-56.0%

\*see back of report for rating and risk definitions



#### Highlights

- DMC shares are up 94% since our initiating report in February 2009.
- The company signed a MOU with the Port Authority of Pointe Noire (PAPN) wherein DMC, and the Port authorities, will jointly investigate the potential of iron ore exports from the Mayoko project through the existing port facility.
- Completed an agreement with the Chemin de Fer Congo-Ocean (CFCO) wherein immediate access has been granted to DMC for the usage of the Mayoko to Pointe Noire bulk haulage rail line.
- The MOU with the PAPN, and the agreement with the CFCO, we believe, are two major milestones for the company, as access to infrastructure for transportation and port facilities to export ore to international markets are very crucial elements for any mining project.
- Conducting negotiations with several parties (including steel industry and financing groups) to fund the operations of the Mayoko project through joint ventures or partnership agreements. DMC has so far signed over 15 confidentiality agreements.
- Trenching and geological mapping has confirmed near surface iron mineralization along strike of Mt Lekoumou, extending the known strike length from 1.5km to 7km.
- On July 3, 2009, DMC announced that it received a conversion notice from Dempsey Resources for the entire principal of the \$2 million convertible note issued to Dempsey. Dempsey has also decided to exercise 5 million unlisted \$0.15 options. The conversion and the exercise of options will result in Dempsey holding 25 million (or 37% of total) DMC shares.
- We estimate the company currently has about \$1.14 million in cash.

#### Key Financial Data (FYE - June 30)

(A\$)	2008	2009 (6 mo)
Cash	1,022,757	1,995,869
Working Capital	488,804	(209,193)
Mineral Prop. & Mine Dev.	14,778,166	20,178,154
Short Term Debt	-	2,000,000
Total Assets	15,971,997	22,358,360
Net Income	(1,302,671)	(1,780,948)
EPS	(0.05)	(0.04)

\*all figures are in Australian \$

DMC Mining is an Australian (Perth) based iron ore company focusing its exploration and development on its flagship property, the Mayoko Iron Ore Deposit, located in the Republic of Congo (ROC), West Africa.

***Developments since our initiating report***

DMC has achieved some major milestones since our initiating report in February 2009. The following is a summary of the major developments:

- Signed a MOU with the Port Authority of Pointe Noire wherein DMC and the Port authorities will jointly investigate the potential of iron ore exports from the Mayoko project through the existing port facility.
- Completed an agreement with the Chemin de Fer Congo-Ocean wherein immediate access has been granted to DMC for the usage of the Mayoko to Pointe Noire bulk haulage rail line.
- Conducting negotiations with several parties (including steel industry and financing groups) to fund the operations of the Mayoko project through joint ventures or partnership agreements. DMC has signed over 15 confidentiality agreements.
- Trenching and geological mapping has confirmed near surface iron mineralization along strike of Mt Lekoumou, extending the known strike length from 1.5km to 7km.
- Commenced a sighter metallurgical test work program in April 2009. Results are pending.

***MOU with the Port Authority of Pointe Noire***

On June 12, 2009, DMC announced it signed a MOU (Memorandum of Understanding) with the Port Authority of Pointe Noire (PAPN) wherein DMC and the Port authorities will jointly investigate the potential of iron ore exports from the Mayoko project through the existing port facility. PAPN is the government owned port authority of the Republic of Congo, and is the owner and operator of the Pointe Noire port facility and infrastructure.

The port had exported up to 3.1Mtpa of bulk minerals prior to 1991. According to the MOU, the port authorities have committed to assist DMC with any information, studies, surveys and inspections required to assess the potential to export over 3Mt per annum.

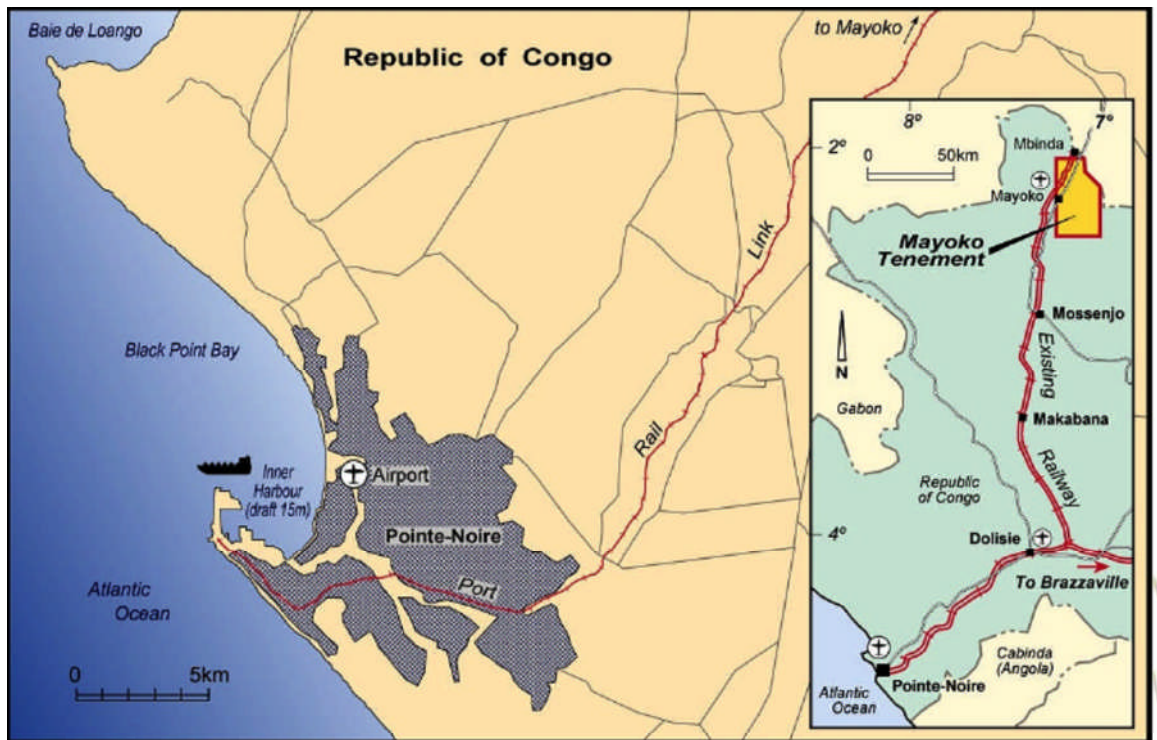
In November 2008, PAPN had announced plans to expand and modernize the existing port to increase traffic and capacity. The project, which is estimated to cost 96 million euros, will have a positive impact on the economic activity in the region.

***Granted access to use the Pointe Noire bulk haulage rail line***

In another significant development, DMC completed an agreement with the Chemin de Fer Congo-Ocean (CFCO is the owner and operator of the Mayoko to Pointe Noire rail line) wherein DMC was granted immediate access for the usage of the 439 km Mayoko to Pointe Noire bulk haulage rail line which runs directly to the wharf facilities at the port of Pointe Noire. The rail line is just 2.2 km from the Mayoko project. Although this agreement only grants DMC access during the exploration phase, it is likely the agreement can be extended once the Mayoko project is in production. Engenium Pty Ltd, a Perth based project management and engineering company, is currently compiling all available information on the rail line.

**The MOU with the PAPN, and the agreement with the CFCO, we believe, are two major milestones for the company, as access to infrastructure for transportation and port facilities to export ore to international markets are very crucial elements for any mining project.**

The following is a map showing the rail connection between the Pointe Noire port and the Mayoko project.



*Pointe Noire port and Mayoko Iron Ore project property Rail link  
Source: Company*

***Strategic partnership negotiations***

On May 8, 2009, DMC announced it was conducting negotiations with several parties to fund the operations of the Mayoko project through joint ventures or partnership agreements. DMC announced it signed over 15 confidentiality agreements, many of which were with the world's leading steel industry groups. DMC also stated that several parties have commenced their due diligence, and a few have completed their site visits to the Mayoko project.

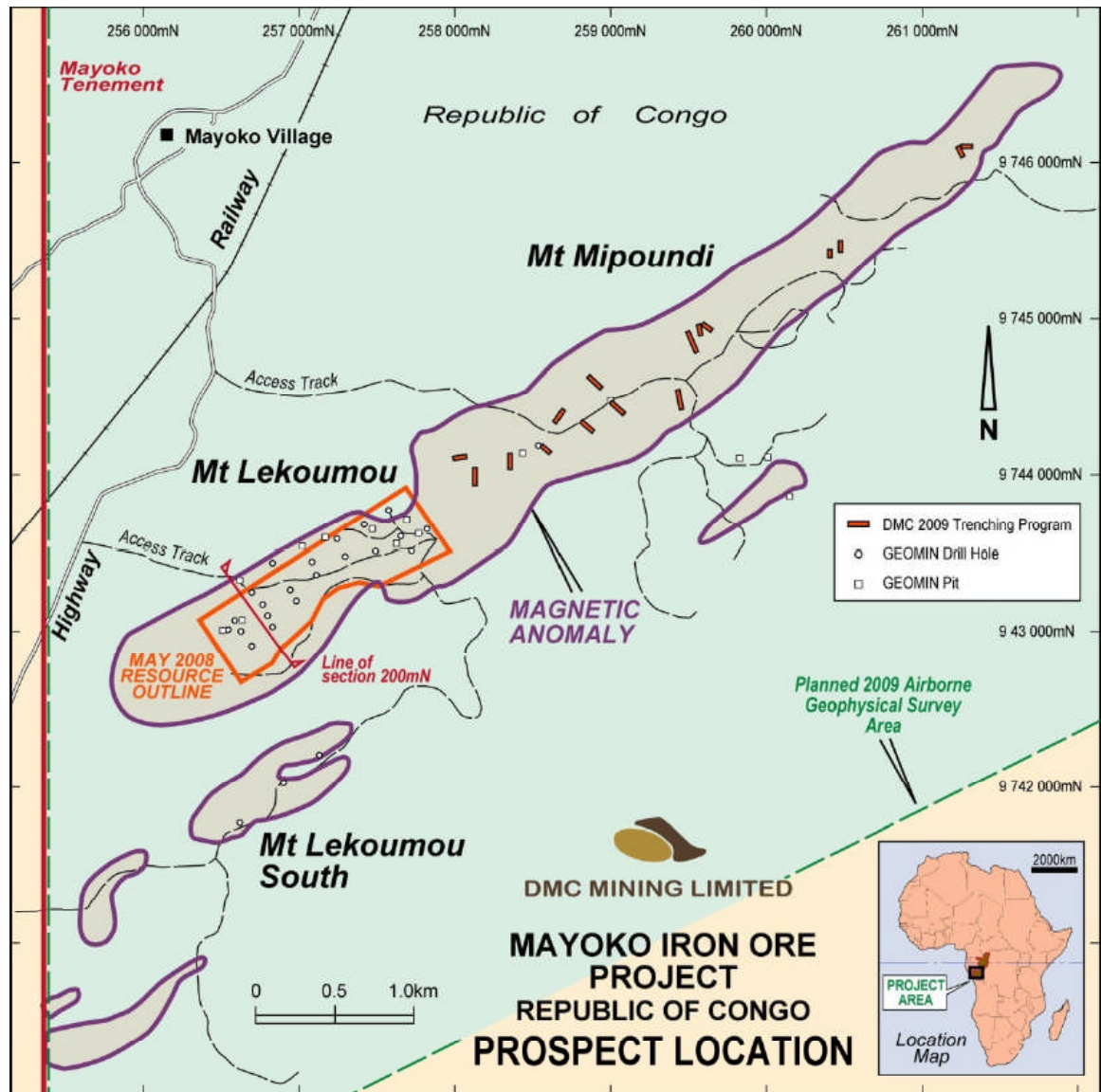
DMC, however, is yet to disclose any details or any definitive timeframe for conclusion of these agreements. However, we believe, these confidentiality agreements, and the ongoing negotiations, clearly indicate that the Mayoko project has been able to generate significant interest from other parties. If successful, these deals could provide the company much needed capital to explore and further develop the Mayoko property.

***Extends strike length from 1.5km to 7km***

On May 4, 2009, DMC announced that trenching and geological mapping has confirmed near surface iron mineralization along strike of Mt Lekoumou, extending the known strike length from 1.5km to 7km. According to DMC, the 18 trenches completed so far along the Mt Mipoundi zone have confirmed occurrences of in situ and detrital iron mineralization along the zone.

Assay results are pending, however, we believe, the extension of the strike length is a positive development for the company as it could result in an increase in the resource

estimate at the Mayoko project. The property currently has an inferred resource for the Mt Lekoumou zone of 33 million tonnes at 55% Fe. The following is a map of the Mt Lekoumou-Mt Mipoundi mineralized strike.



Prospect Location Map  
Source: Company

DMC has planned a high resolution airborne geophysical survey (subject to receipt of permits) over an area of 220km<sup>2</sup> to refine target parameters, prioritize drill targets, and locate new targets.

**Commences Metallurgical Test Work**

In April 2009, the company announced the commencement of a sighter metallurgical test work program. A total of five 50kg bulk samples from the Mt Lekoumou prospect, and one 50kg bulk sample from the Mt Mipoundi prospect, were collected. The samples from Mt Lekoumou were collected from within the currently known inferred resource.

The bulk samples, which were dispatched from the Republic of Congo on March 26<sup>th</sup>, arrived in Australia on April 8th. Metallurgical test work will be carried out at Ammtec Limited's laboratory in Perth. Results are pending.

### **Financials**

At the end of Q2-2009 (quarter ended December 2008), DMC had \$2 million in cash. The company, however, had a working capital deficit of \$0.21 million; primarily due to a \$2 million convertible note secured in December 2008 (DMC received a conversion notice in July 2009 – discussed below). The company posted a net loss of \$1.78 million (EPS: -\$0.04) in the first six months of FY2009.

<b>(in A\$)</b>	<b>2008</b>	<b>2009 (6 mo)</b>
Cash	1,022,757	1,995,869
Working Capital	488,804	(209,193)
Current Ratio	1.8	0.9
ST Debt / Assets	-	0.09
Burn Rate / Month	(188,994)	(405,089)
Cash from financing activities	413,426	3,415,545

**Conversion of convertible notes and exercise of 5 million options** – On July 3, 2009, DMC announced that it had received a conversion notice from Dempsey Resources Pty Ltd (wholly owned subsidiary of Cape Lambert Iron Ore Limited; ASX: CFE) for the entire principal of the \$2 million convertible note issued to Dempsey. DMC will issue Dempsey 20 million ordinary shares.

In addition, DMC received an option exercise form for Dempsey's 5 million unlisted \$0.15 options (expiring in 30 June 2010), which will result in a cash injection to DMC of \$0.75 million.

**The conversion and the exercise of options will result in Dempsey holding 25 million DMC shares, or 37% of the issued capital. We believe this is an encouraging sign as it indicates Dempsey's confidence in the Mayoko Iron Ore Project.**

**Stock Options:** We estimate the company currently has about 3.40 million stock options (weighted average exercise price of \$0.50 per share) outstanding with expiry dates between June 2010 and September 2011. None of the options are currently in the money.

**Conclusion:** We estimate the company currently has about \$1.14 million in cash. DMC will have to pursue external financings this year as management has plans to spend approximately \$3.3 million on Mayoko (including administrative expenses) this year.

### **Valuation and Rating**

Our revised comparables valuation on the company is \$0.27 per share (versus \$0.20 per share in our initiating report). The valuation increased primarily because we used 100% of DMC's share of the initial resource estimate of 33MT @ 55.5% Fe at Mayoko. In our previous report, we had applied a 50% discount to the resource estimate for conservatism. Positive exploration results prompted us to make this revision.

We have continued to use a valuation metric of \$1.20/tonne Fe to value the company even though the average ratio of enterprise value (EV) to resource of peers dropped from \$1.20/tonne Fe, to \$0.86/tonne Fe, since our initiating report in February 2009. This is because we continue to maintain a positive long-term outlook on the iron ore market (detailed discussion on our long-term outlook is presented in our initiating report on DMC)

Although we believe the MOU with the PAPN, and the agreement with the CFCO, are two major milestones for the company at this stage, we are not in a position to quantify their impact on valuation yet. As a result, we have continued to value the company solely based on Mayoko's known resource estimate.

**Therefore, based on our review of the company's progress since our initiating report, and our revised valuation on the company, we reiterate our BUY rating, and raise our fair value estimate to \$0.27 per share (from \$0.20 per share).**

### **Risks**

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company does not currently have any operating mines.
- The success of drilling, project studies, and project development are important long-term success factors for the company.
- The value of the company depends on commodity prices, especially iron ore prices.
- Access to capital and share dilution.

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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