

SPEC BUY

Current Price \$0.22
Market Cap \$239m

Thursday, 2 April 2020

De Grey Mining (DEG)

Existing resource grows to 2.2Moz

Analysts: Matthew Keane | Michael Eidne

Quick Read

De Grey Mining (DEG) has released an updated resource for its Mallina Project in the Pilbara region of Western Australia. The resource has grown from 1.7Moz to 2.2Moz at an average grade of 1.8g/t gold. Importantly, this resource only incorporates drilling to the end of 2019 and does not include the recent Hemi discovery. Argonaut estimates that Hemi could already contain ~2.8Moz alone based on drill results to date. We regard DEG as a key pick in the ASX gold developer sector, with the potential for the Mallina project to host several multi-million ounce deposits. SPEC BUY recommendation.

Event & Impact: Resource upgrade - Positive

Resources grow to 2.2Moz: DEG has released a resource update for its Mallina Project with 37.4Mt at 1.8g/t gold containing 2.2Moz. This is a 29% increase on the previous resource of 1.7Moz. This estimate does not include the recent Hemi discovery, which Argonaut currently estimates at ~2.8Moz based on drilling to date. It does include upgrades to the Withnell (+40%), Withnell Underground (+9%), Toweranna (+47%) and Mallina (+91%) deposits. The resource is 30% oxide, 29% free milling fresh rock and 41% sulphide geology.

Hemi the main game: While the existing deposits of Mallina constitute a significant resource, Hemi remains the main focus for DEG. This discovery is likely to form the centre of gravity for project development. Argonaut can see Hemi growing to a +3Moz resource.

Strong news flow: DEG should continue to deliver positive news flow from ongoing drilling at the Hemi discovery. We are expecting assay results from holes HERC032, HERC033 and HERC034, all of which showed significant sulphide mineralisation. These holes have the potential to extend the Brolga Zone mineralised width and strike to the southwest. DEG should be in a position to release a maiden resource for Hemi by mid-2020. We also expect the Company will drill some regional targets and follow up on anomalous air core drill holes. Of particular note is a mineralised trend to the northwest of the Aquila Zone, which could represent a third parallel zone of mineralisation. This anomaly is interpreted to sit over an intrusive body and a major fault structure (a similar setting to Hemi). Nearby prospects, including Antwerp, Scooby and Shaggy are also analogues for Hemi with anomalous gold in aircore drilling. Scooby looks particularly attractive with an intercept of 14m at 3.5g/t, just 1.5km east of Hemi. As the Mallina Project has a mix of free milling and refractory mineralisation, metallurgical test work for Hemi will be highly anticipated. Given that Hemi is most analogous to the free milling Toweranna deposit with intrusive host geology, we predict mineralisation will not be highly refractory.

Recommendation

Argonaut maintains a SPEC BUY recommendation.

Ticker:	DEG	
Sector:	Metals & Mining	
Shares on Issue (m):	1,072.2	
Market Cap (\$m):	239.1	
Cash (\$m):	8.0	
Enterprise Value (\$m):	231.1	
52 wk High/Low:	\$0.24	\$0.04
12m Av Daily Vol (m):	5.5	
Projects	Stage	
Mallina Project	Defined resource	
Hemi Discovery	Exploration	
Resource Status	2.2Moz	
Mallina Gold Project		
Operating Jurisdiction	Pilbara	
Directors:		
Simon Lill	Executive Chairman	
Andy Beckwith	Executive Technical Director	
Peter Hood	Non-Executive Director	
Eduard Eshuys	Director	
Bruce Parncutt AO	Director	
Glenn Jardine	Incoming Managing Director	

Major Shareholders (%)	
DGO Gold Limited	16.4%
Northwest Nonferrous	5.7%
Regal Funds Mgt	4.9%
Kirkland Lake Gold	3.2%
Directors & Mgt	3.3%



Please refer to important disclosures at end of the report (from page 5)

Resource update

The Mallina resource has increased from 1.7Moz to 2.2Moz...

...incorporating 49% in the Measured and Indicated status

DEG has released a resource update for its Mallina Project with 37.4Mt at 1.8g/t gold containing 2.2Moz. This is a 29% increase on the previous resource of 1.7Moz. The open pit resources apply a 0.5g/t lower cut-off grade and the Withnell and Toweranna underground resources apply a lower cut-off grade of 2g/t. This estimate does not include the recent Hemi discovery which Argonaut currently estimates at ~2.8Moz based on drilling to date. The resource incorporates:

- Measured and Indicated (49%) 19.0 Mt at 1.7g/t Au for 1.1Moz Au
- Inferred (51%) 18.5Mt at 1.9g/t Au for 1.1Moz Au
- Oxide (30%) 13.6Mt at 1.5g/t Au for 0.64Moz Au
- Free Milling (29%) 11.0Mt at 1.8g/t Au for 0.62Moz Au
- Sulphide (41%) 12.8Mt at 2.2g/t Au for 0.90Moz Au

Table 1. Mallina Project updated Mineral Resource by mining area and deposit

Withnell - Mining Centre

Deposit	Type	Measured			Indicated			Inferred			Total		
		Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz
Withnell Open Pit	Oxide	0.63	1.4	28,500	0.36	1.2	14,400	0.15	1.1	5,300	1.14	1.3	48,200
	Fresh	0.63	1.6	33,200	2.68	1.9	163,500	0.53	2.2	38,000	3.85	1.9	234,700
	Total	1.26	1.5	61,700	3.05	1.8	177,900	0.68	2.0	43,300	4.99	1.8	282,900
Withnell Underground	Oxide				0.11	4.3	15,600	2.38	3.5	301,100	2.50	3.9	315,700
	Fresh				0.11	4.3	15,600	2.39	3.9	301,400	2.50	3.9	317,100
	Total				0.22	8.6	31,200	4.77	7.4	602,500	5.00	7.8	632,800
Mallina	Oxide				0.71	1.3	30,200	1.68	1.3	72,300	2.39	1.3	102,500
	Fresh				0.90	1.2	33,900	3.47	1.5	171,100	4.36	1.5	204,900
	Total				1.61	2.5	64,100	5.15	2.8	243,400	6.75	2.8	307,400
Toweranna Open Pit	Oxide				0.62	2.4	47,700	0.24	1.6	12,600	0.86	2.2	60,300
	Fresh				3.71	2.1	245,500	2.21	2.1	152,500	5.92	2.1	358,000
	Total				4.33	4.5	293,200	2.45	3.7	165,100	6.78	4.3	421,300
Toweranna Underground	Oxide							0.56	3.6	64,500	0.56	3.6	64,500
	Fresh							0.56	3.6	64,500	0.56	3.6	64,500
	Total							1.12	7.2	129,000	1.12	7.2	129,000
Camel	Oxide	0.18	2.8	16,400	0.32	2.6	26,800	0.04	1.1	1,500	0.54	2.6	44,700
	Fresh	0.01	2.1	600	0.14	1.4	6,500	0.14	1.8	8,600	0.29	1.7	15,700
	Total	0.19	2.8	17,000	0.46	2.2	33,300	0.19	1.7	10,100	0.84	2.2	60,400
Calvert	Oxide				0.43	1.3	17,500	0.05	0.8	1,400	0.48	1.3	19,300
	Fresh				0.56	1.3	23,800	0.23	1.2	9,300	0.79	1.3	33,100
	Total				0.99	2.6	41,300	0.28	2.0	10,700	1.27	2.6	52,400
Roe	Oxide	0.06	2.7	5,500	0.13	1.5	6,000	0.11	1.6	5,700	0.30	1.8	17,200
	Fresh	0.01	2.5	1,000	0.07	2.3	5,300	0.21	2.2	14,800	0.30	2.2	21,100
	Total	0.08	2.7	6,500	0.20	3.8	11,300	0.33	3.8	20,500	0.60	4.0	38,300
Dromedary	Oxide	0.10	2.2	7,200	0.03	1.6	1,400	0.04	1.6	2,200	0.17	1.9	10,800
	Fresh				0.03	1.6	1,700	0.08	1.8	4,700	0.12	1.7	6,400
	Total	0.10	2.2	7,200	0.06	3.2	3,100	0.12	3.4	6,900	0.29	3.6	17,200
Leach Pad	Oxide				0.86	0.7	19,300				0.86	0.7	19,300
	Fresh												
	Total				0.86	0.7	19,300				0.86	0.7	19,300
Hester	Oxide				0.04	2.1	3,000	0.03	1.3	1,100	0.07	1.8	4,100
	Fresh				0.01	2.1	900	0.05	1.4	2,100	0.06	1.6	3,100
	Total				0.05	4.2	3,900	0.08	2.7	3,200	0.13	3.4	7,200
Withnell Mining Centre	Oxide	0.98	1.8	57,500	3.49	1.5	166,800	2.35	1.4	102,300	6.82	1.5	326,600
	Fresh	0.66	1.7	34,800	8.23	1.9	456,700	9.87	2.4	766,600	18.75	2.2	1,298,200
	Total	1.63	1.8	92,300	11.72	3.4	623,500	12.24	3.8	868,900	25.58	3.7	1,624,800

Wingina - Mining Centre

	Type	Measured			Indicated			Inferred			Total		
		Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz
Wingina	Oxide	2.68	1.8	152,100	0.65	1.3	27,000	0.34	1.3	14,400	3.67	1.6	193,500
	Fresh	0.40	1.6	20,500	0.34	1.5	16,300	1.08	1.7	57,400	1.82	1.6	94,200
	Total	3.08	1.7	172,700	0.99	2.8	43,300	1.42	3.0	71,800	5.49	3.2	287,700
Mt Berghaus	Oxide				0.68	1.8	38,500	0.99	1.1	35,800	1.67	1.4	74,700
	Fresh				0.27	1.7	14,400	2.40	1.2	91,800	2.67	1.2	106,300
	Total				0.95	3.5	52,900	3.39	2.3	127,600	4.34	2.6	181,000
Amanda	Oxide				0.51	1.3	21,700	0.89	0.9	24,700	1.40	1.0	46,300
	Fresh				0.07	1.8	4,200	0.56	1.1	19,200	0.63	1.2	23,300
	Total				0.58	3.1	25,900	1.44	2.0	43,900	2.03	2.2	69,600
Wingina Mining Centre	Oxide	2.68	1.8	152,100	1.84	1.5	87,500	2.21	1.1	74,900	6.74	1.5	314,500
	Fresh	0.40	1.6	20,500	0.68	1.6	34,500	4.04	1.3	168,400	5.12	1.4	223,800
	Total	3.08	1.7	172,700	2.52	3.1	122,000	6.25	2.4	243,300	11.86	2.9	538,300

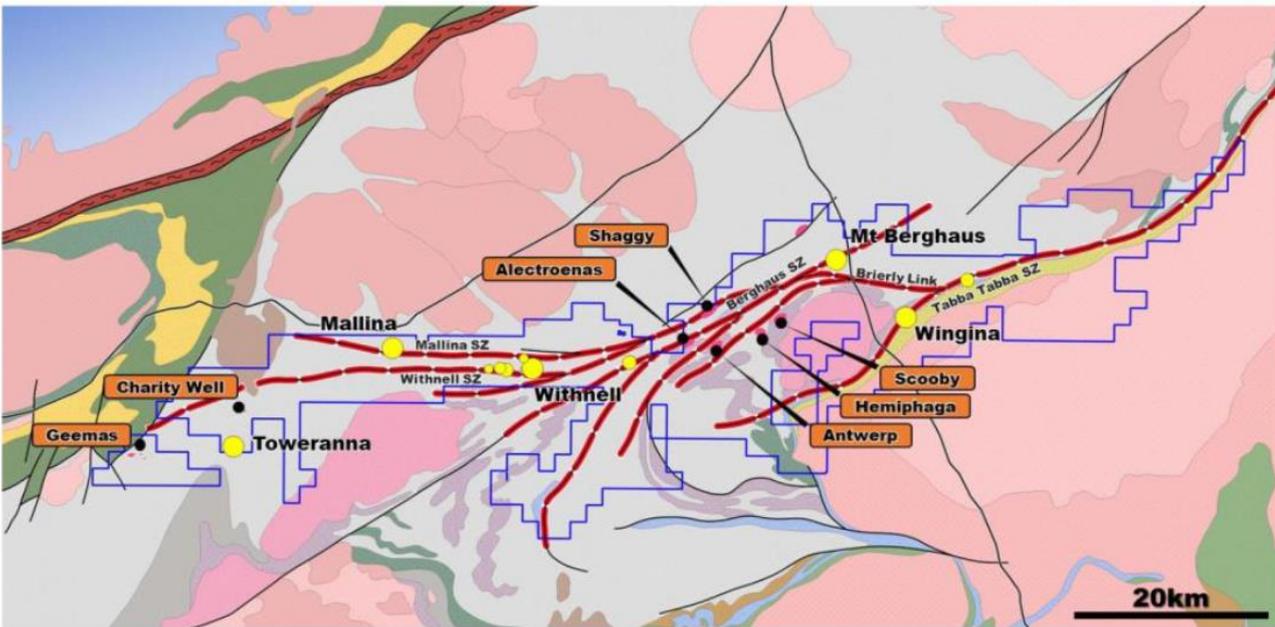
Source: DEG

...which Argonaut estimates could contain 2.8Moz based on drilling to date

Strong news flow to come

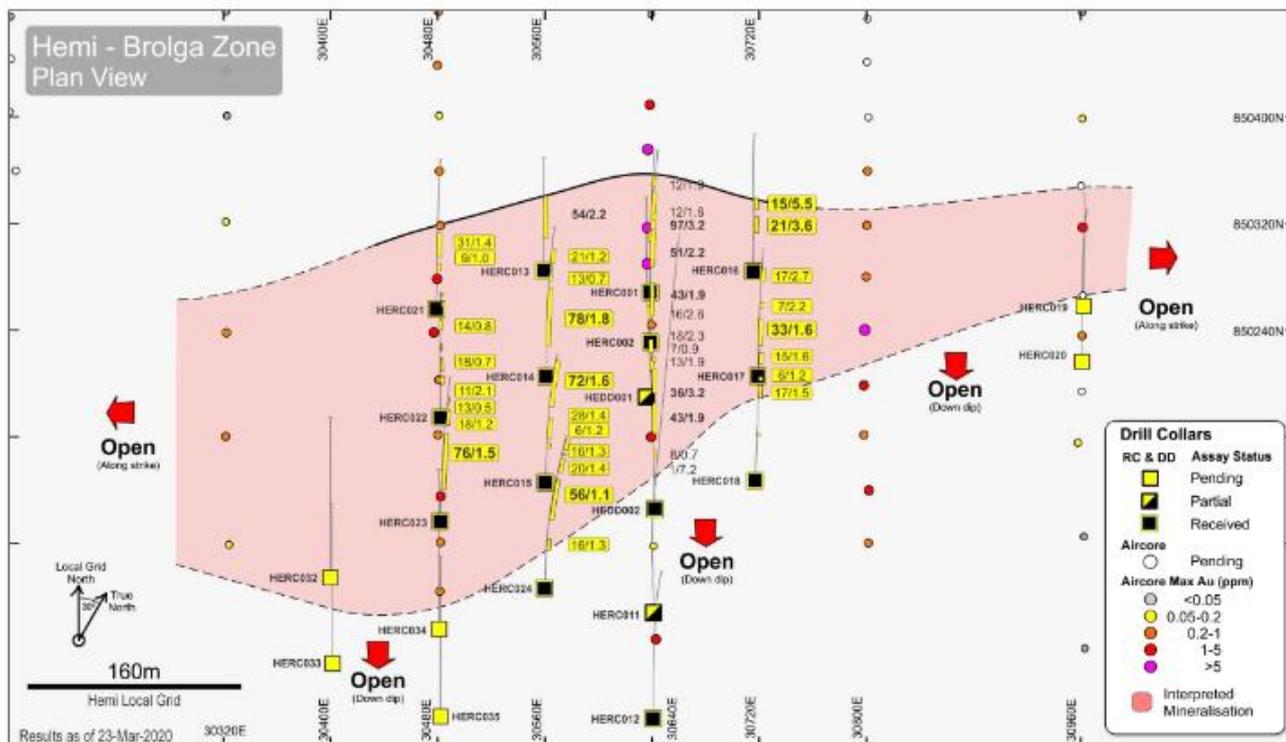
DEG should continue to deliver positive news flow from ongoing drilling at the Hemi discovery. We are expecting assay results from holes HERC032, HERC033 and HERC034, all of which showed significant sulphide mineralisation with the potential to extend the Brolga mineralised width and strike to the southwest.

Figure 1. Map of Mallina deposits and prospects



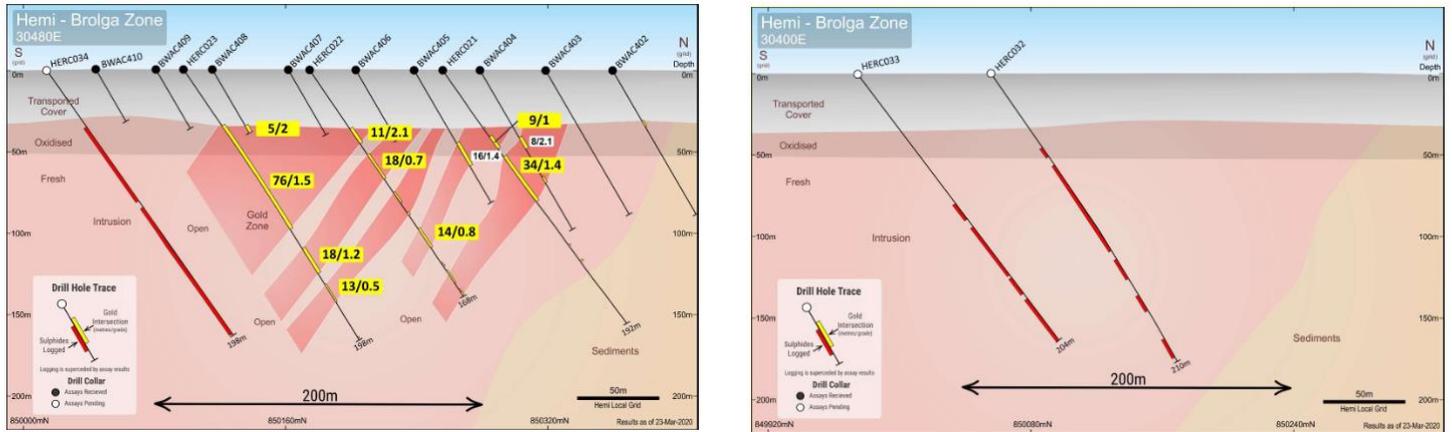
Source: DEG

Figure 2. Plan view of drill lines in the Brolga Zone of the Hemi discovery



Source: DEG

Figure 3. Cross-sections showing drill holes with sulphide mineralisation and assays pending

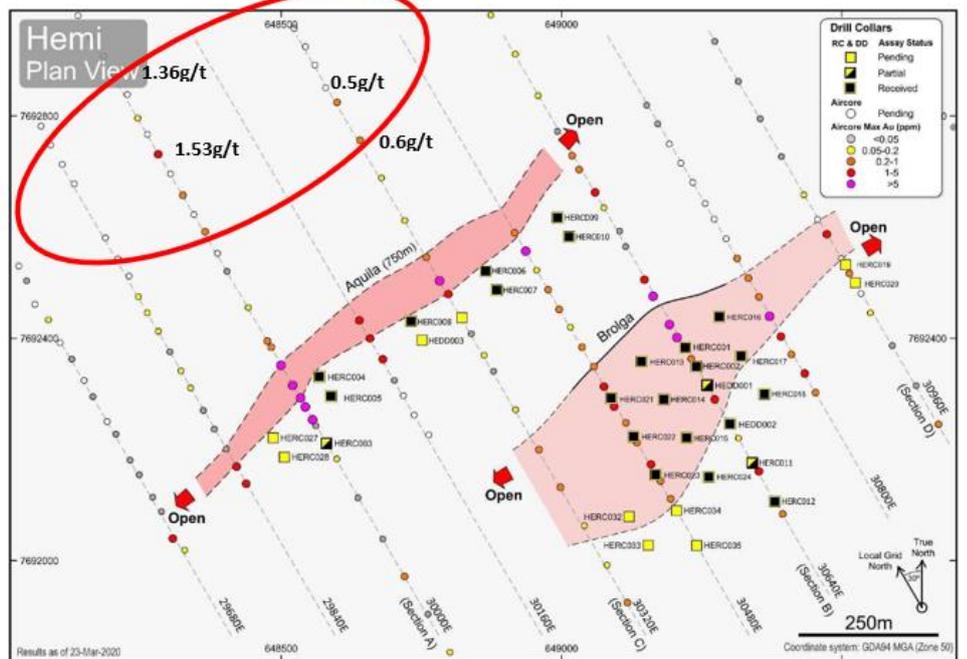


Source: DEG

Regional targets untested

We also expect the Company will drill some regional targets and follow up on anomalous air core drill holes. Of particular note is a mineralised trend to the northwest of the Aquila Zone, which could represent a third parallel zone of mineralisation. This anomaly is interpreted to sit over an intrusive body and a major fault structure (a similar setting to Hemi). Nearby prospects, including Antwerp, Scooby and Shaggy are also analogues for Hemi with anomalous gold in aircore drilling.

Figure 4. Gold target to the northwest of the Aquila Zone at Hemi



Source: DEG (edited by Argonaut)

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