

De Grey Mining (DEG AU)

16 April 2020

Ticker: DEG.AX

Net cash: (~A\$9m)

Project: Hemi

Market cap: A\$338m

Price: A\$0.29/sh

Country: WA, Australia

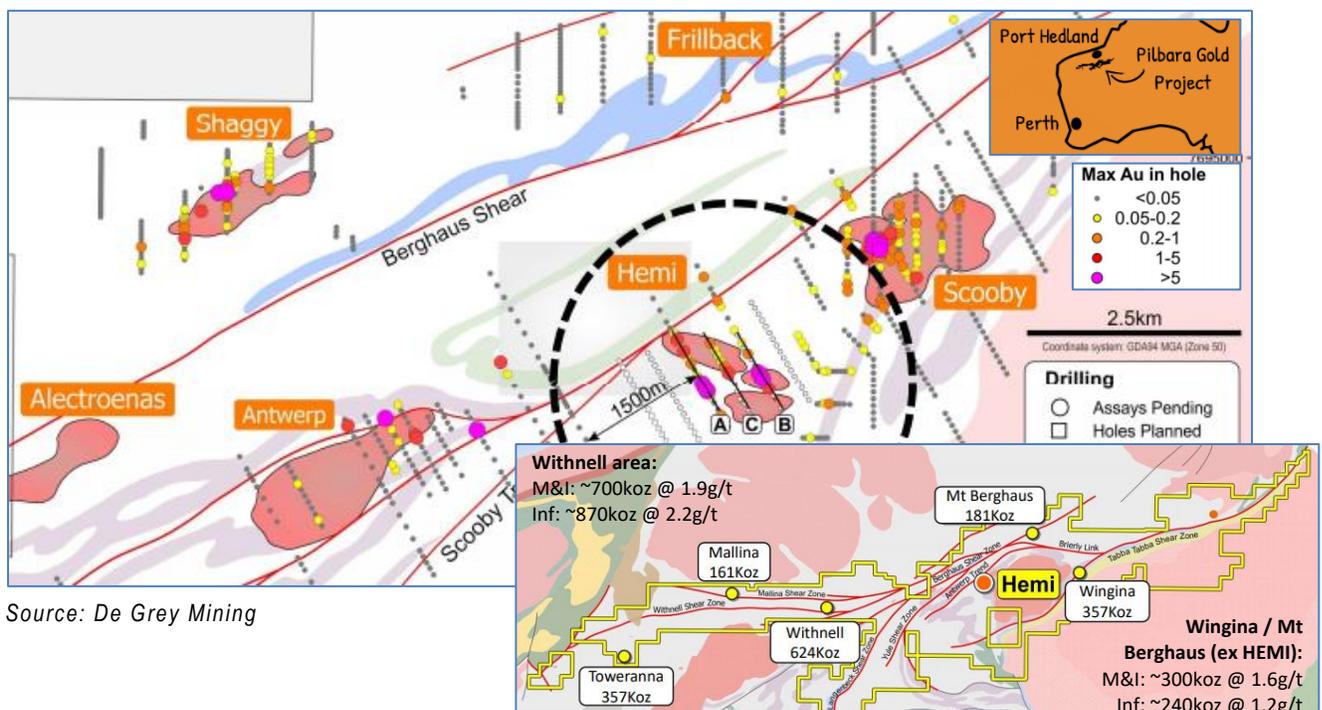
RECOMMENDATION: NOT RATED / COVERED

We think drilling on the new Hemi discovery has already ‘de-risked’ an SCPe 2Moz @ 1.8g/t with a low strip to just 200m depth, which should likely support a reserve of ~1Moz at higher-grades, depending on dilution and grade-tonnage curves. Upcoming deep drilling to ~400m deep is critical, as a simple vertical endowment calculation indicates a potential 400koz / 50m vertical, demonstrating good upside potential. There is 325koz of mining inventory already defined from the first 1Moz of regional gold, and +1.2Moz defined since (for 2.2Moz existing regional gold on the 100% owned, 1500km² land package). Thus, we now see De Grey shaping up as a potential long-life ≥150koz pa open pit producer, a rare beast, all the more given its location in premium-geography, Australia. Next steps will be key as deep drilling serves to de-risk further ounces, but also provide feed for metallurgical samples, with many nearby assets being refractory. On a hub-and-spoke model, we see potential for >4Moz group resources by year-end, with the potential for 1.5Moz of those, including satellites, to make profitable reserves.

SCP RADAR: Hemi – a game changer for De Grey with SCPe 2Moz @ 1.8g/t already drilled

De Grey has been exploring their >1,500km² Pilbara licence, itself only 60km from Port Hedland in Western Australia, since 2016. An early 3Q17 1.0Moz @ 1.7g/t resource provided a mining inventory of 325koz @ 2.1g/t. Drilling known targets in 2018 and 2019 lifted the global resource to the current 2.2Moz @ 1.8g/t, which would be reasonably expected to drive a larger reserve base. However, the watershed moment came after a 2H19 move to greenfields target Hemi. Shallow air-core results of 43m @ 3.7g/t and 25m @ 2.7g/t on **Aquila** and **Brolga** failed to grab ECM attention at first, as the market cap lifted by ~A\$10m to A\$50m. However, subsequent RC and diamond drilling highlights of **97m @ 3.2g/t** and 78m @ 1.8g/t lifted enthusiasm, with the stock ~quadrupling to A\$200m in 1Q20, and now at A\$338m as deep drilling results are awaited. The discovery lies under ~30m cover, and is concentrated in two zones parallel to a regional NE-SW shear zone. Mineralization is associated with pyrite and arsenopyrite, and the preferred host is fractured and hydrothermally altered pipe-shaped intrusions.

Figure 1. Plan map of regional holding (inset) including Hemi area on the east of the licences

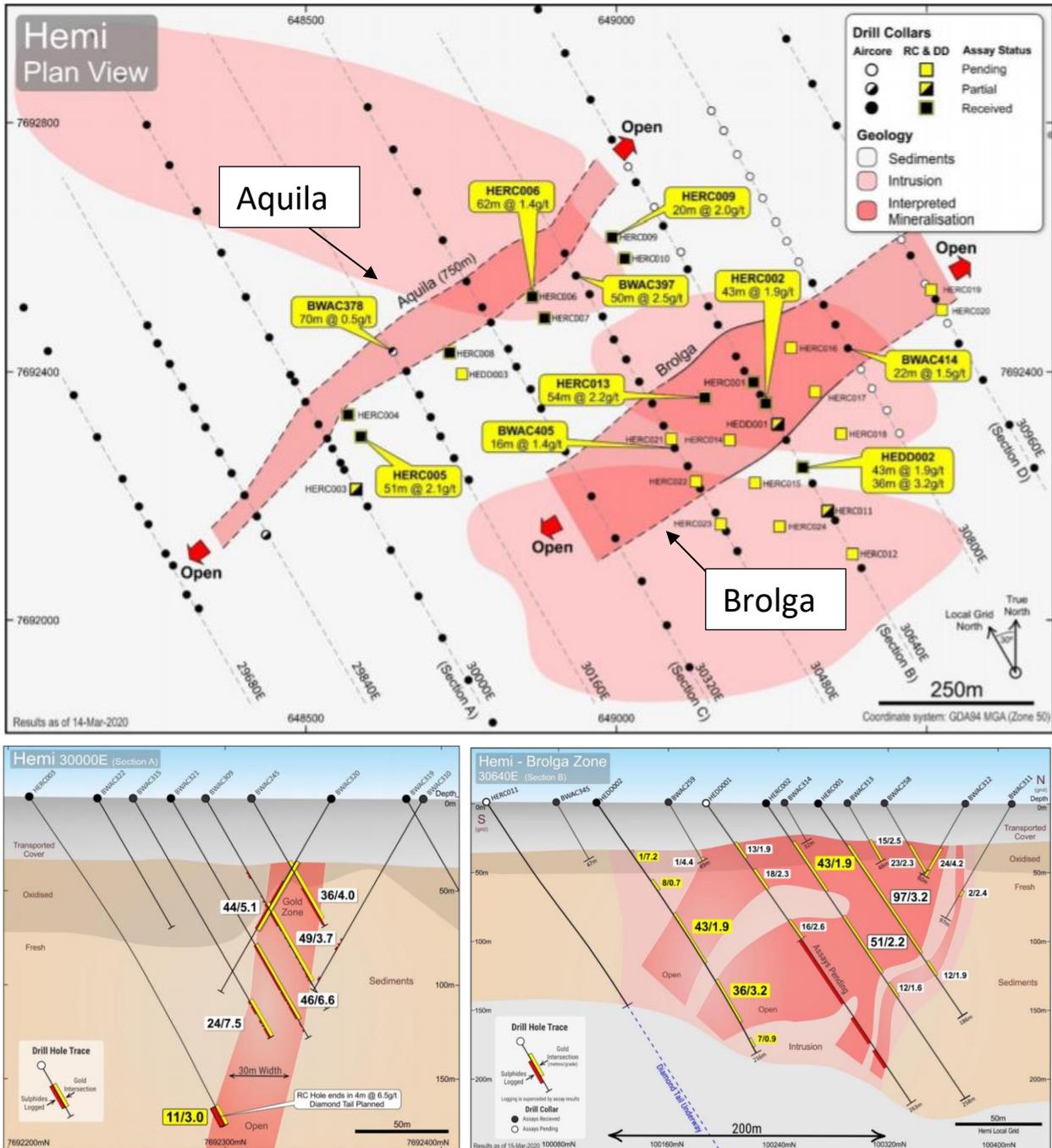


Source: De Grey Mining

Equity Research

Drilling to date has defined several moderately dipping, well-mineralised ore lodes at Brolga centered over an oblate intrusion approximately 300m in diameter (Figure 1). The less well-defined Aquila system appears to lie in a discrete intrusion, centred on a more steeply dipping NE-SW shear zone.

Figure 2: (A) Aquila and Brolga plan; (B) Aquila section – 5 March (C) Brolga section – 17 March



Source: De Grey Mining

Equity Research

Plenty of growth beyond initial estimates: SCPe +400koz / 50m vertical

Drilling will continue at both Aquila and Brolga to define the limits of mineralisation, with infill to increase resource confidence. First pass will be at 80x80m to 400m below surface. Early indications from initial deep diamond drilling at Brolga show strong sulfide contents, which correlate well with gold abundance. Ounce growth will necessarily slow as holes deepen, and move to RC with diamond tails. Although we don't expect deep drilling to materially contribute to maiden resources tentatively scheduled for 3Q20, results dependent, it could add materially thereafter. Simplistically, every additional 50m of depth extent De Grey can define at similar thickness and grade to Brolga could add up to 400koz of additional mineral inventory. Based on this, initial deep drilling will be a material catalyst given the ability of investors to assess potential resource growth. Other deposits within the Mallina project show a mix of free milling and non-free milling ore that the company has been developing a process flow sheet to accommodate. We think this flowsheet will now be driven by Hemi and expect near term metallurgical information to further de-risk the project.

Hemi: central hub to maximise value from nearby satellite deposits across the Mallina project

A 2Q20 update saw licence-wide resources (ie ex Hemi) lift to 2.2Moz @ 1.8g/t. This is spread over ~80km and five discrete zones ranging from 180-600koz. The various deposits are a mix of free milling (e.g. Towerana) and refractory (e.g. Withnall) ore types. Whilst this will certainly not contribute multi-million ounces of reserves trucking to Hemi, in our view we should see a material regional contribution. Hemi's central location and dominant endowment provides a natural hub from which to reevaluate these discrete resources as value adding satellites where appropriate (Figure 1).

'Hemi-style' now acts as blueprint for regional exploration

Regionally, Mallina project looks prospective for the discovery of additional "Hemi-style" systems under shallow cover, with a number of analogous structural settings and inferred intrusions already identified for first pass follow up with supporting first pass geochemistry. These include Scooby, Shaggy and Antwerp (Figure 1) all adjacent to Hemi. The style of mineralisation at Hemi shares elements of both intrusion related gold systems (IRGS) and orogenic lode gold deposits and in many respects has no local analogues in Australia.

Why we like De Grey Mining

1. Existing SCPe 2Moz 'de-risked' from drilling
2. Speculative potential to add 50-100% with depth continuity
3. Greenfields discovery meaning majors did not see the opportunity
4. Current data points to a large scale, low strip vanilla pit
5. Exploration upside from recognition of new deposit style, near-Hemi and regionally

Catalysts

- 2Q20: Ongoing drill results from Aquila and Brolga with 3 rigs delineating the mineralisation.
- 3Q20: Maiden Hemi resource
- 2H20: Preliminary metallurgical data
- 2020: Testing new targets

Brock Salier

Partner, Sprott Capital Partners
T: +44.207.659.0841
M: +44.7400.666.913
bsalier@sprott.com

Chris Tonkin

Research Associate, Sprott Capital Partners
T: +44.207.659.0841
M: +44.7470.766.724
ctonkin@sprott.com

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SELL:	0
UNDER REVIEW:	0
TENDER:	2
NOT RATED:	1
TOTAL	15

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