

SPEC BUY

Current Price \$0.84
Valuation \$1.45
Target Price \$1.16

Ticker: **DEG**
Sector: **Metals & Mining**

Shares on Issue (m): **1,194**
Market Cap (\$m): **1,003.3**
Cash (\$m): **27.7**
Enterprise Value (\$m): **975.6**

52 wk High/Low: **\$1.00** **\$0.04**
12m Av Daily Vol (m): **9.2**

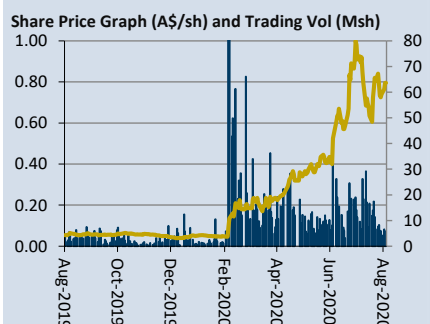
Projects **Stage**
Mallina Project Defined Resource
Hemi Discovery Exploration

Resource Status
Mallina Gold Project 2.2Moz

Cashflows	2018	2019
Operating Cashflow	-7.1	-9.4
Investing Cashflow	-2.5	-0.9
Financing Cashflow	9.7	10.5
Cash Balance	1.1	1.3

Directors:
Simon Lill Chairman
Glenn Jardine Managing Director
Andy Beckwith Executive Technical Director
Peter Hood Non-Executive Director
Eduard Eshuys Non-Executive Director
Bruce Parncutt AO Non-Executive Director

Major Shareholders (%)
DGO Gold Limited 16.4%
Northwest Nonferrous 5.7%



Please refer to important disclosures at end of the report (from page 6)

Wednesday, 5 August 2020

De Grey Mining

Aquila turns the corner - literally

Analysts: Matthew Keane | Michael Eidne

Quick Read

De Grey Mining (DEG) has defined a new zone of mineralisation at its 100% owned Hemi discovery in Western Australia. Aircore (AC) and RC drilling has intercepted shallow gold mineralisation over a ~400m strike in an interpreted extension to the Aquila Zone, turning to a north-south orientation. Aquila now has a strike extent of +1.6km and Hemi covers an area of 2.5km north-south and 2km east-west. Argonaut estimates an endowment of 3.6Moz gold at Hemi and mineralisation remains open in almost all directions. Drilling of regional Hemi targets, including the Scooby prospect is underway. These offer the potential for another Hemi like discovery. SPEC BUY recommendation maintained.

Event: Exploration drilling update | Impact: Positive

Aquila turns to the south: DEG has defined a north-south trending extension to Aquila ~400m east of the main zone of mineralisation. Better grades from shallow AC and RC drilling included:

- 16m @ 3.7g/t Au from 43m
- 16m @ 2.1g/t Au from 44m
- 13m @ 1.8g/t Au from 71m

An initial drill program incorporating 16 RC holes on 80m x 80m spacing has commenced to test this mineralisation down to 200m. Notably, two intervals containing visible gold in quartz veining were observed in some of the first RC holes. Visible gold has not been noted in the Aquila or Brolga zones to date.

Still in a rapid growth phase: Argonaut's current estimate for Hemi is ~3.8Moz at 1.5-1.7g/t gold. This estimate does not extrapolate beyond current drilling or below 200m down dip. DEG continues to define new zones within Hemi, resulting in a rapid growth of the known mineralised extents which already covers 2.5km north-south and 2km east-west. We anticipate the results from a series of deep diamond holes at Aquila up to 350m below surface. Some of these will commence within the Brolga Zone and coincidentally test whether the two zones adjoin at depth.

Three-tier strategy for Mallina: DEG has a three-tiered strategy to add value to the Mallina Project. The first is to define the scale of Hemi, with an internal target of +5Moz. The second is to make further Hemi-like discoveries, with drilling currently underway the analogous / mineralised intrusion targets such as Scooby and Antwerp. Thirdly, the Company aims to expand the existing 2.2Moz resource base outside of Hemi. Most of the deposits, such as Withnell remain open. Argonaut sees potential for the Mallina Project to grow beyond 10Moz within 2-4 years.

Recommendation

Argonaut maintains a SPEC BUY recommendation with a \$1.16 target price.

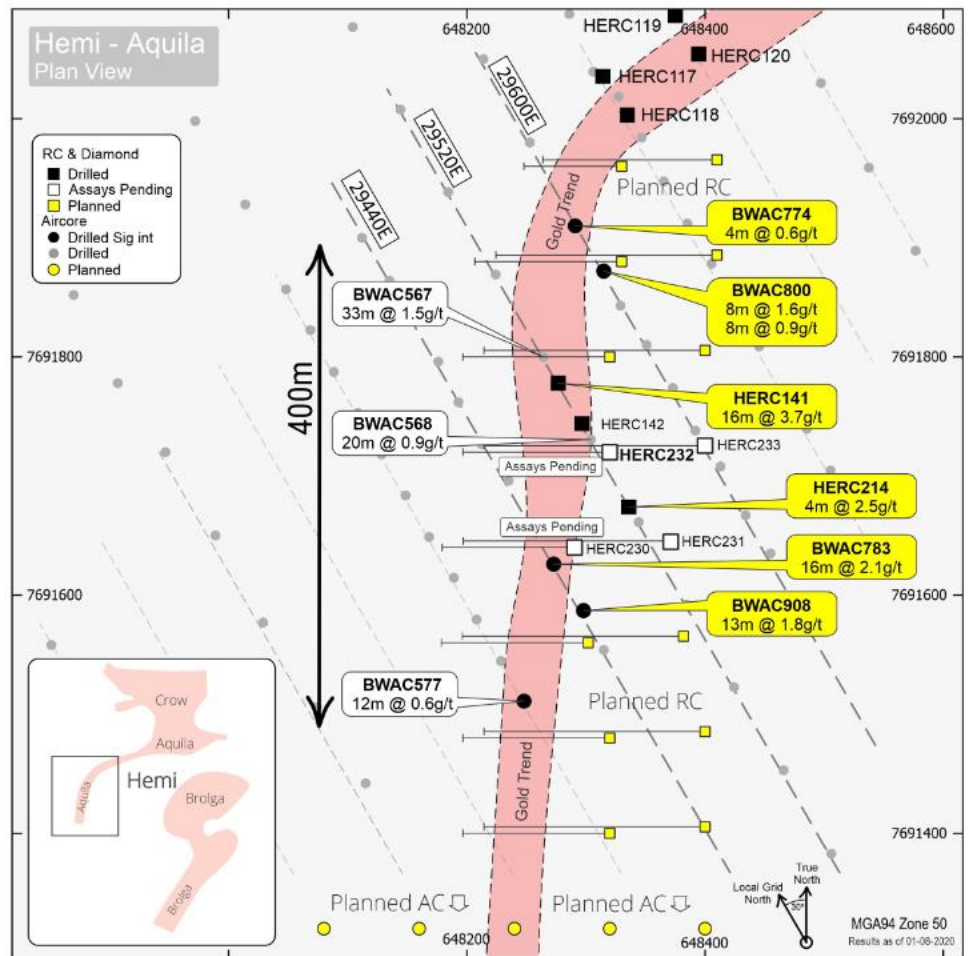
Aquila turns a corner

A new 400m long zone of mineralisation has extended Aquila...

DEG has defined a north-south trending extension to Aquila ~400m in strike. Notably, two 1m intervals contained visible gold in quartz veining. Visible gold has not been noted in the Aquila or Brolga zones to date. Better grades from shallow AC and RC drilling included:

- 16m @ 3.7g/t Au from 43m
- 16m @ 2.1g/t Au from 44m
- 13m @ 1.8g/t Au from 71m

Figure 1. Plan view map showing a new north-south zone at Aquila

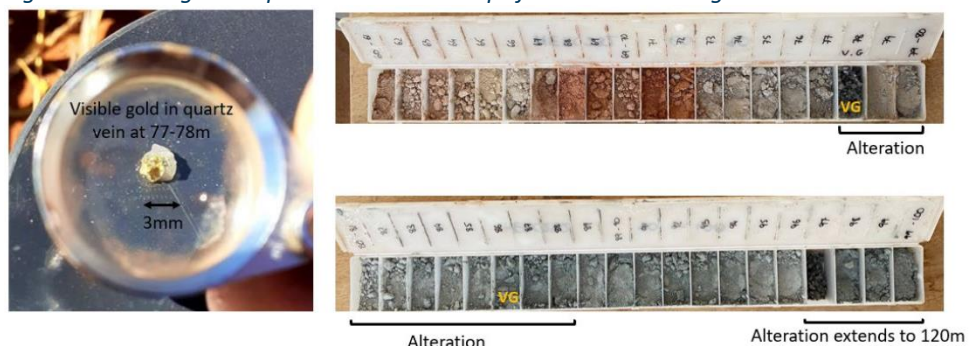


...with broad shallow intercepts up to 3.7g/t gold...

Source: DEG

Figure 2. Visible gold in quartz veins in RC chips from recent drilling

...containing visible gold in two intervals

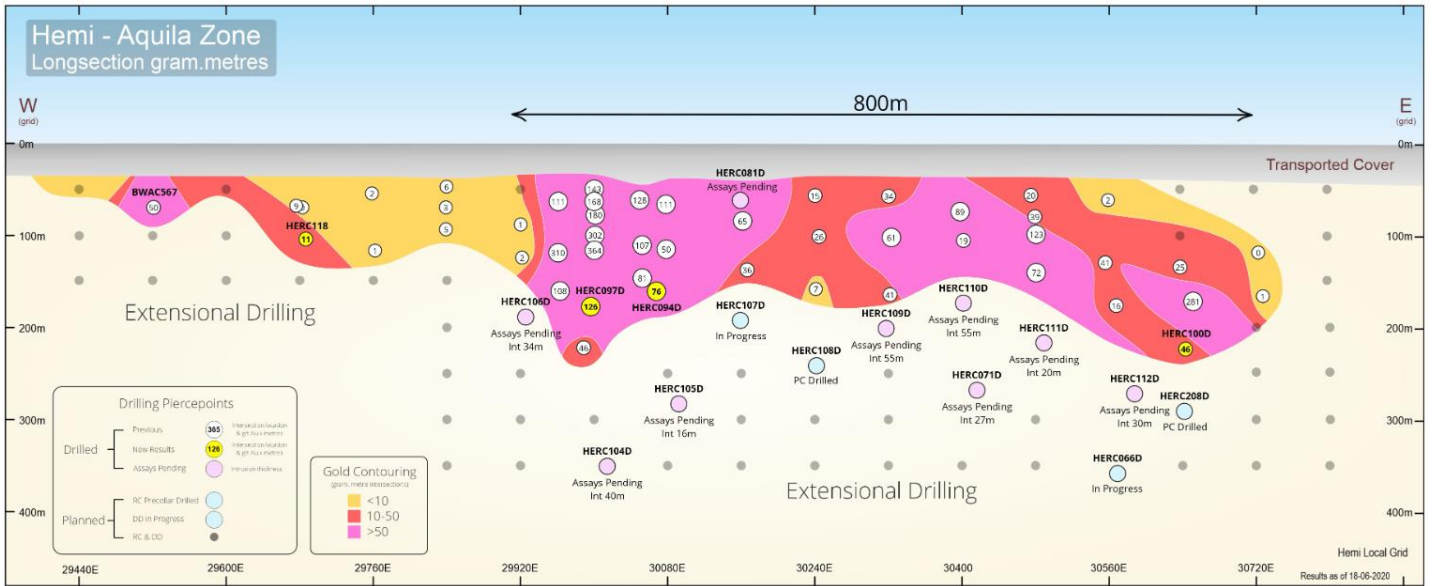


Source: DEG

Highly anticipated drilling

Results from two highly anticipated drilling campaigns should be released in the coming weeks. The first is deeper drilling down to 350m below surface testing down-dip extensions to the Aquila Zone. Assays are pending for a number of holes which have visible sulphide mineralisation over significant widths (i.e. 40m in hole HERC104D).

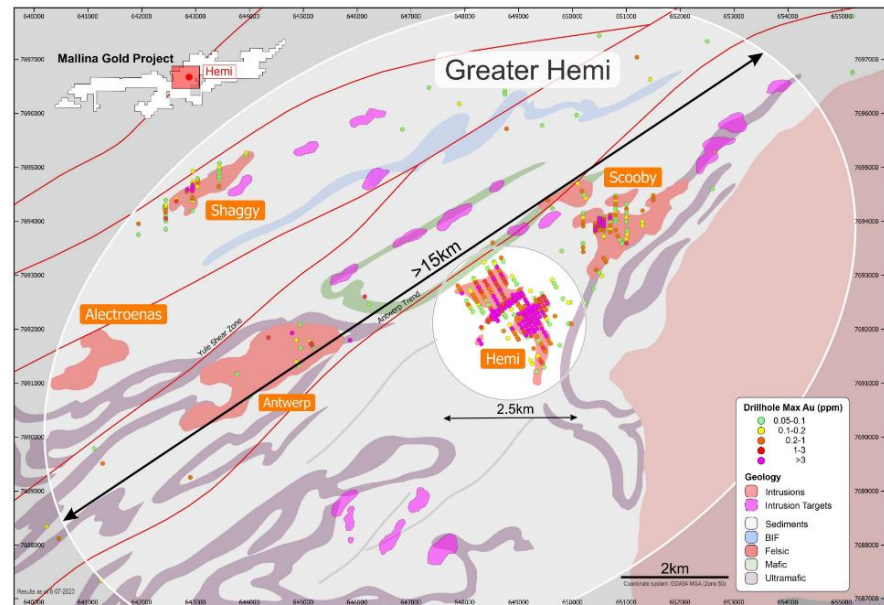
Figure 3. Long section of the Aquila Zone showing drilled and planned deep holes



Source: DEG

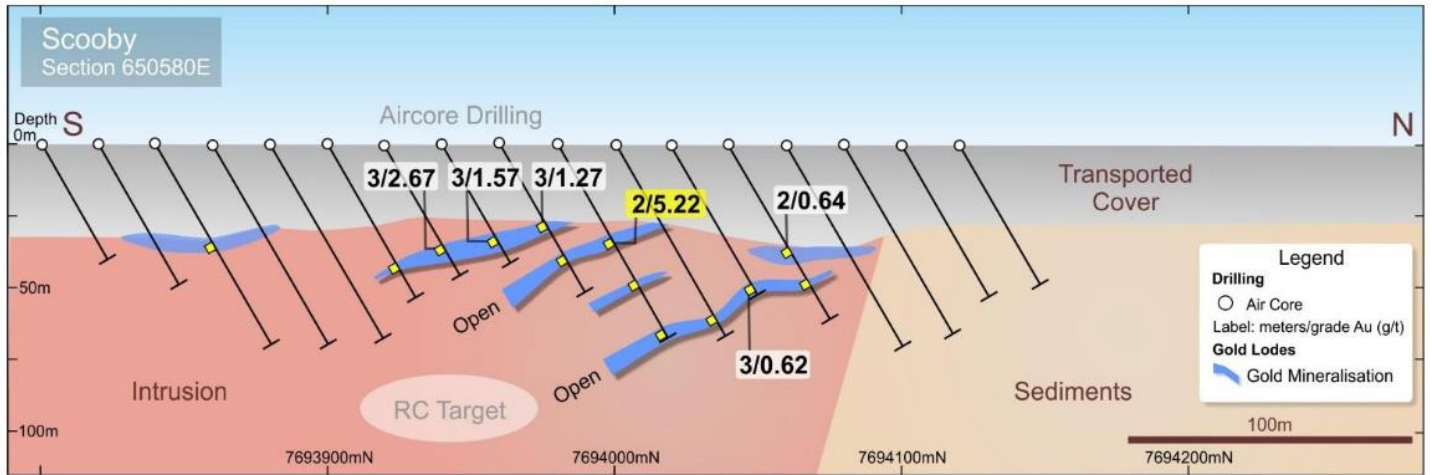
The second campaign of interest is drilling underway at Scooby and other intrusion targets. In the Hemi region there are currently five identified intrusions, four of which have proven gold mineralisation from drilling (see Figures 5 & 6 over). A recent aeromagnetic survey showed several more clusters and small features interpreted to be intrusive bodies around Hemi. Over the greater Mallina Project, this survey identified more than 20 new magnetic features with potential to be Hemi like mineralised intrusions.

Figure 4. Airborne magnetic targets in the greater Hemi area



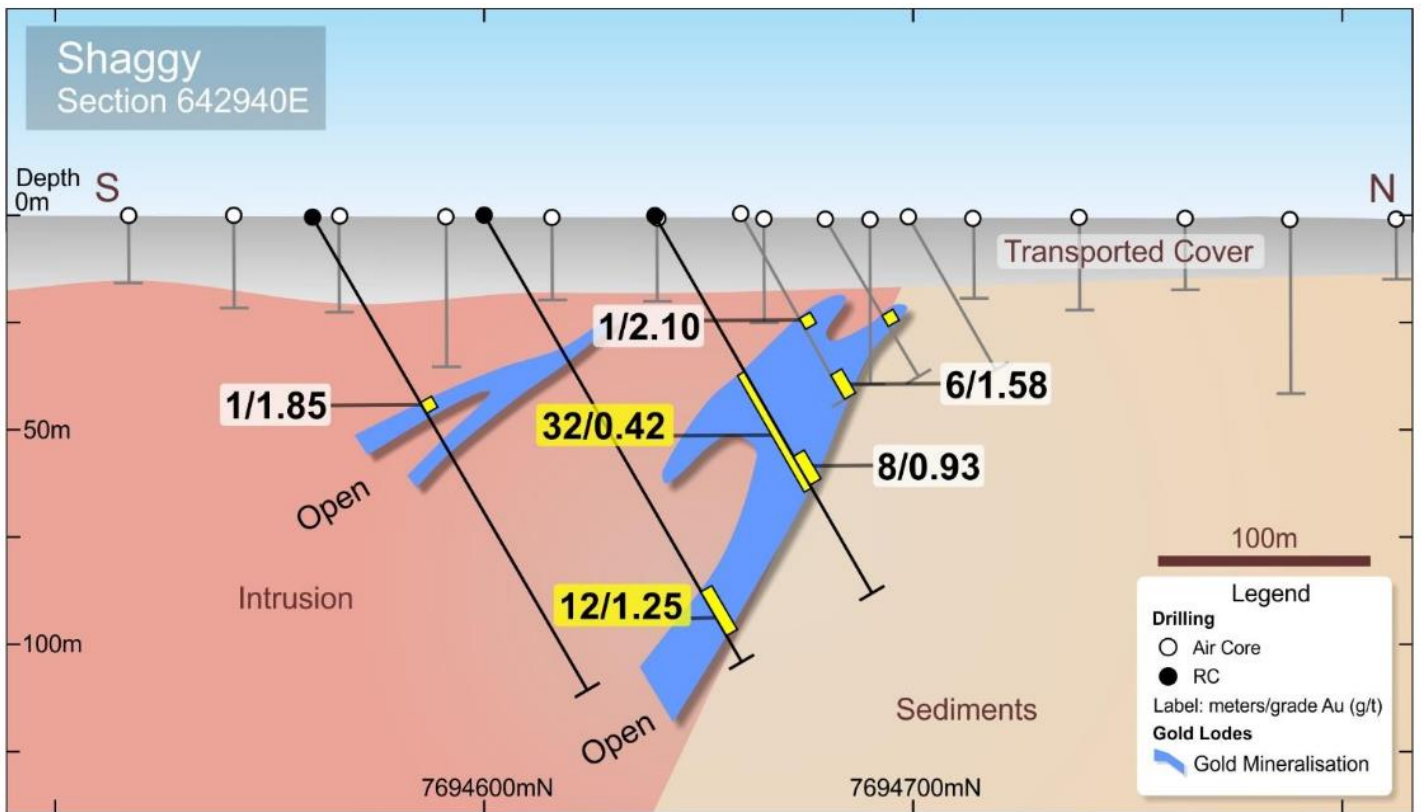
Source: DEG

Figure 5. Historic AC drilling at the Scooby Prospect from July 2019 release



Source: DEG

Figure 6. Historic AC drilling at the Shaggy Prospect from July 2019 release



Source: DEG

Valuation

Argonaut applies a 7.5Mtpa production scenario to value Hemi...

Argonaut values Hemi on a DCF basis using Gold Road Resources' / Gold Fields' (50:50 JV) 7.5Mtpa Gruyere Project as a basis for some of our assumptions. Gruyere is the last large-scale open pit gold mine constructed in Western Australia. We assume a 15-year mine life with a declining grade profile averaging 1.3g/t gold (see [Previous Research](#) for further detail). Key DCF assumptions are tabled below.

Table 1. Argonaut Hemi DCF assumptions

Metric	Measure	Value
Mine Life	Yrs	15
Throughput	Mtpa	7.5
Ave. Head Grade	g/t	1.3
Stage 1 Grade	g/t	2.0
Stage 2 Grade	g/t	1.2
Stage 3 Grade	g/t	0.8
Ave. Recovery	%	94%
Ave. Gold Production	ktpa	290
Preproduction Capex	A\$m	450
Sustaining Capex	A\$mpa	6
POX Capital	A\$m	150
Ave. AISC	A\$/oz	969
Average Gold Price	US\$/oz	1,500
FX	AUD/USD	0.70
Post Tax NPV ₈	A\$b	1.5

Source: Argonaut

Our DCF valuation assumes a similar plant scale to the Gruyere Project

Argonaut's new valuation is \$1.45ps...

Argonaut continues to value the existing resources on the Mallina Project on an EV/Resources basis (A\$85/oz), however we acknowledge that they would likely be processed through a central mill at Hemi. A further \$50m is allocated to exploration upside, largely based on the prospectivity of potential Hemi repeats in areas such as Scooby, Shaggy and Antwerp. We apply a 20% discount to our \$1.45ps NAV to account for the pre-resource nature of Hemi and risks associated with development (permitting and financing) to achieve a \$1.16ps target price.

Table 2. Argonaut's sum of parts valuation for DEG

Sum of Parts	Valuation Methodology	Value (A\$m)	Value ps (A\$ps)
Hemi	DCF	1486	1.27
Existing Mallina Resources	A\$85 per Resource Ounce	184	0.16
Exploration Upside	Est. Transactional value of Tenure	50	0.04
Corporate Overheads	15 year DCF	-48	-0.04
Cash	Reported cash at 30 June	27.7	0.02
Debt	Reported debt at 30 June	0	0.00
Total		1699	1.45
	Discount		20%
Target Price			1.16

Source: Argonaut

...to which we apply a 20% risk discount to achieve a \$1.16ps target price

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Important Disclosures

Argonaut acted as Joint Lead Manager in respect of the Placement that raised \$31.2M in April 2020 and received fees commensurate with this service. Argonaut holds or controls 274,000 DEG Shares.

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