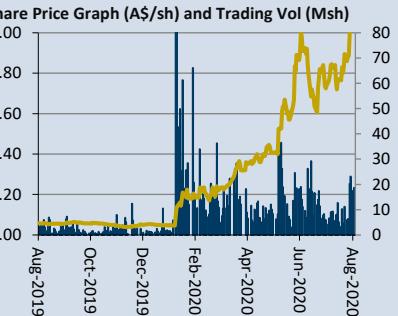


SPEC BUY

Current Price	\$1.30
Valuation	\$1.50
Target Price	\$1.35

Ticker:	DEG
Sector:	Metals & Mining
Shares on Issue (m):	1,196
Market Cap (\$m):	1,554.7
Cash (\$m):	20.0
Enterprise Value (\$m):	1,534.7
52 wk High/Low:	\$1.17
12m Av Daily Vol (m):	\$0.04
	9.8
Projects	Defined Resource Exploration
Mallina Project	
Hemi Discovery	
Resource Status	
Mallina Gold Project	2.2Moz
Cashflows	
Operating Cashflow	2018
	2019
-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	16.2%
Shaanxi International Trust	5.7%
Kirkland Lake	2.8%

Share Price Graph (A\$/sh) and Trading Vol (Msh)



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

Wednesday, 2 September 2020

De Grey Mining (DEG)

A Falcon swoops in – Another new zone for Hemi

Analysts: Matthew Keane | Michael Eidne

Quick Read

De Grey Mining (DEG) has discovered yet another major zone of gold mineralisation at Hemi (100% DEG). The new northwest-southeast trending Falcon Zone sits to the west of the Aquila Zone. Falcon consists of altered brecciated intrusion, analogous to Aquila, and has been defined over 1.8km. This is already 800m longer than the Aquila Zone, for which Argonaut estimates a current endowment of ~1.2Moz @ ~2.1g/t ([see previous research](#)). Better drill results from Falcon include; 58m @ 2.1g/t Au from 64m, 21m @ 3.4g/t Au (RC) from 40m (AC) and 19m @ 2.1g/t Au (AC). The Hemi discovery continues to surprise with new mineralised lodes. Today's announcement follows the confirmation of a higher grade sub-vertical lode in the Crow Zone last week, which included a RC drill intercept of 64m @ 13.4g/t Au from 141m. SPEC BUY recommendation maintained with a \$1.35 target price.

Event: New discovery at Hemi | View: Positive

A Falcon swoops in: The newly discovered Falcon Zone already has a 1.8km strike based on prospective intrusive geology, which is almost twice the length of the Aquila Zone. AC drilling has confirmed gold mineralisation over 1.5km and RC drilling in the northernmost 240m has intercepted gold to a depth of 200m. Falcon remains open to the south and at depth.

Better AC drill results include:

- 21m @ 3.4g/t Au from 40m and 19m @ 2.1g/t Au from 68m
- 12m @ 2.0g/t Au from 93m
- 29m @ 1.3g/t Au from 56m

Better RC drill results include:

- 58m @ 2.1g/t Au from 64m
- 11m @ 1.2g/t Au from 199m
- 24m @ 0.8g/t Au from 167m (finishing in ore with a diamond tail)

Strong newsflow to continue: DEG has six rigs operating in and around Hemi. One AC rig is chasing the Falcon intrusive further to the south, while a second AC rig is testing regional Hemi lookalikes including Shaggy, Scooby and Antwerp. A RC rig is drilling north to south at Falcon, with a diamond rig following up with deeper tails. A second RC rig is testing northwest extensions to the Crow subvertical lode and a second diamond rig is drilling out depth extensions to the main Aquila and Crow zones. This will maintain a steady stream of newsflow leading up to a maiden Indicated and Inferred Resource for Hemi, which we expect to be released in H1 2021. Metallurgical work is ongoing, and the Company is testing a number of established methods to liberate gold from sulphides.

Recommendation

Our revised valuation for DEG is \$1.50 (from \$1.45), applying a DCF model for a 7.5Mtpa throughput operation. We increase our target price to \$1.35 (from \$1.16, detailed on Page 4). Argonaut maintains a Speculative Buy recommendation.



Falcon is a new zone of intrusive mineralisation...

...with an estimated strike of 1.8km...

...which remains open to the south and at depth...

...with the best RC intercept to date of 58m @ 2.1g/t Au

A Falcon swoops in

DEG has discovered yet another major zone of gold mineralisation at Hemi. The new northwest-southeast trending Falcon Zone was previously considered to be an extension of the Aquila Zone (as noted in our research report “[Aquila turns the corner](#)”), but is now understood to be a separate intrusion, albeit with similar geological and mineralisation characteristics. Falcon consists of an altered brecciated intrusion, which has been defined over 1.8km. This is already 800m longer than the Aquila Zone, for which Argonaut estimates a current endowment of ~1.2Moz. We estimate the total inventory for Hemi could be up to 3.9Moz @ ~1.6-1.8g/t.

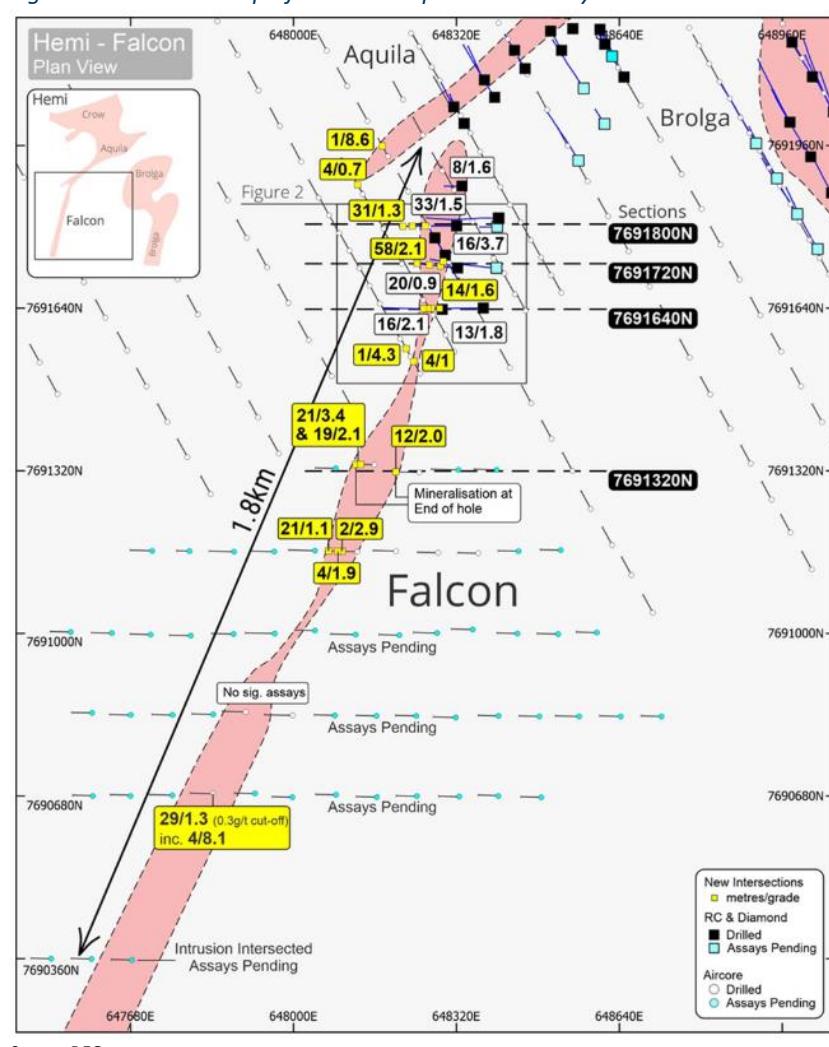
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- 12m @ 2.0g/t Au from 93m
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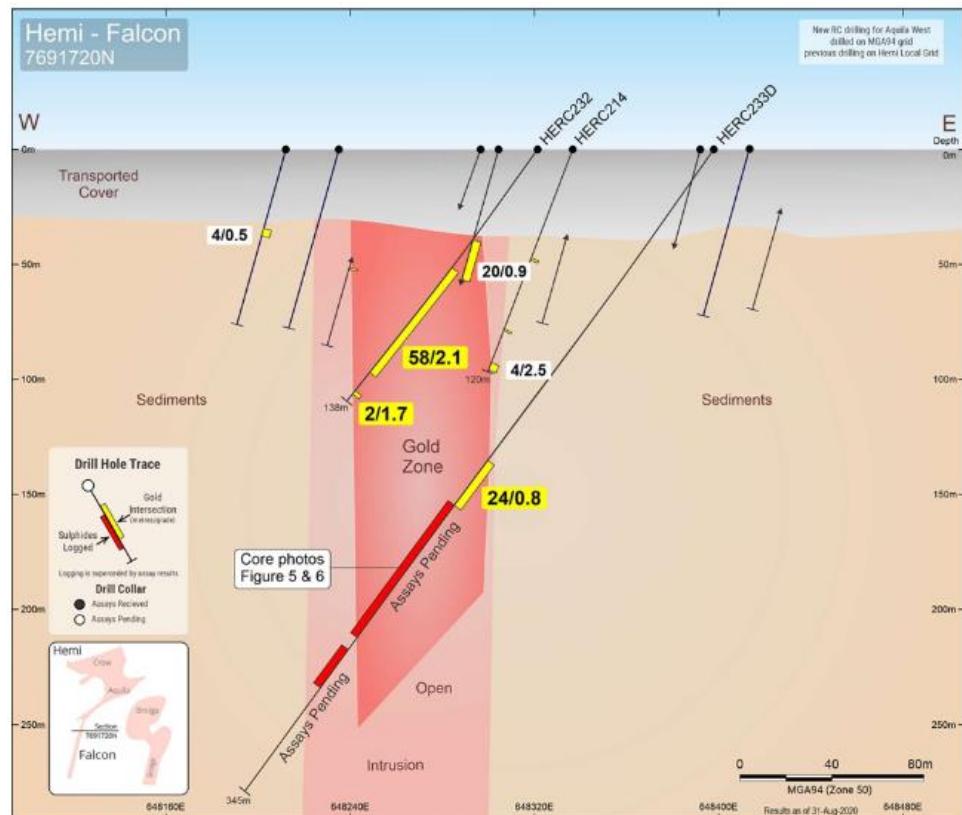
Figure 1. Plan view map of drill intercepts in the newly discovered Falcon Zone



Falcon has similar widths and geology to Aquila, but is almost twice the length

Assays from diamond tail
HERC233D are pending...

Figure 2. Cross section showing a long shallow RC intercept into the north of Falcon



Source: DEG

Figure 3. Diamond drill core from hole HERC233D (shown in Figure 2 above, labelled assays pending). The strong sulphide rich alteration and brecciation is similar to mineralisation in the Aquila Zone.



...but core shows similar characteristics to Hemi style gold mineralisation

Argonaut applies a DCF valuation, using a similar plant scale to the Gruyere project

Variations to our model include; higher average grades, a shorter mine life, higher capex for POX and slightly lower recoveries

Valuation

Argonaut applies a DCF based valuation 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 development constructed in Western Australia. Variations to our model include slightly higher grades, reflecting our most recent estimate for gold mineralisation (3.9Moz @ 1.6-1.8g/t), more conservative overall recoveries of 92% (previously 94%, versus initial Pressure Oxidation tests which achieved up to 96%) and a shorter mine life (reducing 15 to 12 years to be more in line with our tonnage estimates). Our capex estimate for a POX plant also increases from \$150m to \$200m.

Table 1. Argonaut Hemi DCF assumptions

Metric	Measure	Value
Mine Life	Yrs	12
Throughput	Mtpa	7.5
Ave. Head Grade	g/t	1.5
Ramp-up Time	Yrs	1.0
Stage 1 Grade	g/t	2.0
Stage 1 Years	Yrs	3
Stage 2 Grade	g/t	1.3
Stage 2 Years	Yrs	6
Stage 3 Grade	g/t	1.0
Stage 3 Years	Yrs	6
Ave. Recovery	%	92%
Ave. Gold Production	kozpa	332
Preproduction Capex	A\$m	450
Sustaining Capex	A\$mpa	6
POX Capital	A\$m	200
Ave. AISC	A\$/oz	960
Average Gold Price	US\$/oz	1,500
FX	AUD/USD	0.70
Post Tax NPV ₈	A\$b	1.5

Source: Argonaut

Argonaut continues to value the existing resources at 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 \$150m is allocated to exploration upside, largely based on the prospectivity of potential Hemi repeats in areas such as Scooby, Shaggy and Antwerp. With the change above, our NAV for DEG increases from \$1.45/sh to \$1.50/sh. Given the increasing likelihood that Hemi will progress to development, given its scale, proximity to major infrastructure/services and favourable mining geometry, we have reduced our risk discount from 20% to 10% to achieve a \$1.35/sh target price (previously \$1.16/sh).

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

Our target price increases from \$1.16/sh to \$1.35/sh

Sum of Parts	Valuation Methodology	Value (A\$m)	Value ps (A\$ps)
Hemi	DCF	1482	1.24
Existing Mallina Resources	A\$85 per Resource Ounce	184	0.15
Exploration Upside	Est. Transactional value of Tenure	150	0.13
Corporate Overheads	15 year DCF	-44	-0.04
Cash	Reported cash at 30 June	20	0.02
Debt	Reported debt at 30 June	0	0.00
Total		1792	1.50
	Discount		10%
Target Price			1.35

Source: Argonaut



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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 124,000 DEG Shares.

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