BELL POTTER

Speculative
See key risks on Page 12. Speculative securities may not be suitable for retail clients

17 November 2020

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De Grey Mining Ltd (DEG)

Excellent drilling results continue

Recommendation
Buy (Hold)
Price
$1.175
Valuation
$1.58 (previously $1.53)
Risk
Speculative

GICS Sector

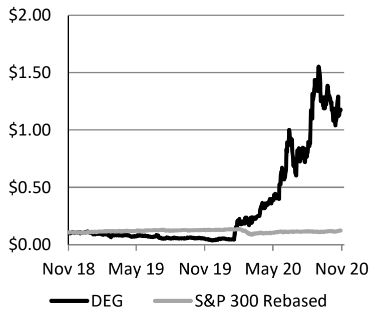
Materials

Expected Return	
Capital growth	**34.5%**
Dividend yield	**0.0%**
Total expected return	**34.5%**
Company Data & Ratios	
Enterprise value	**$1,392m**
Market cap	**$1,514m**
Issued capital	**1,288.7m**
Free float	**80%**
Avg. daily val. (52wk)	**$7.9m**
12 month price range	**$0.039-$1.60**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.35	0.76	0.06
Absolute (%)	-12.6	54.6	1998.2
Rel market (%)	-17.2	48.7	2001.9

Absolute Price



SOURCE: IRESS

Strong infill and extension drilling across the board

DEG has continued to report strong infill and extension drilling results across all the key gold zones that so far comprise the Hemi gold discovery, part of its 100%-owned Mallina Gold Project (MGP), 60km south of Port Hedland in WA. High grade shoots and depth extensions have been intersected at Aquila and Crow; thick, shallow, high grade intersections have continued at Falcon; and good infill and extension drilling results have been returned from Brolga. These results have extended the strike lengths, increased the depths and grown the overall dimensions of the Hemi discovery within its current 3km x 2km footprint.

An updated Mineral Resource Estimate remains targeted for mid CY21. While ongoing drilling results will continue to inform the potential scale of the discovery, the updated Resource is the key upcoming milestone for DEG. Seven drill rigs are currently operating at the MGP, conducting resource infill drilling at Hemi as well as testing new and extensional targets.

Highlight intersections from recent drilling updates include:

- 42m @ 5.2g/t Au from 47m in HERC260;
- 50m @ 3.3g/t Au from 50m in HERC265;
- 81m @ 1.7g/t Au from 37m in HERC192;
- 46m @ 2.7g/t Au from 43m in HERC196;
- 38.4m @ 3.2g/t Au from 205.05m in HERC106D;
- 42.8m @ 2.8g/t Au from 234m in HERC038D;
- 44m @ 2.6g/t Au from 51m in HERC320;
- 62m @ 1.5g/t Au from 143m in HERC262;
- 68m @ 1.2g/t Au from 136m in HERC314; and
- 28m @ 2.6g/t Au from 193m in HERC091D.

Investment thesis – Buy (Speculative), Valuation $1.58/sh

The consistent run of excellent drilling results from Hemi has continued to build the case that it could support a Tier 1 operation – defined as a gold mine that can produce +300kozpa for +10 years. In updating our valuation we have lifted our expectations for Resource growth potential at Hemi by ~10%. Following the latest round of successful extension drilling results and high grade infill drilling we are now anticipating a potential Resource range for Hemi of between 3.9Moz and 6.5Moz for a midpoint of 5.2Moz (from 4.7Moz) and a total potential Resource at the MGP of 7.4Moz. This is offset by the application of a lower EV/Resource oz metric of A$290/oz (from A$300/oz) following a slight pullback in the market. Our notional, risk-adjusted NPV-based valuation based on a potential production scenario is unchanged, resulting in our blended valuation lifting 3%, from $1.53/sh to $1.58/sh. Our recommendation is upgraded to Buy (Speculative) from Hold (Speculative).

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Excellent drilling results continue

Strong infill and extension drilling across the board

DEG has continued to report strong infill and extension drilling results across all the key gold zones that so far comprise the Hemi gold discovery, part of its 100%-owned Mallina Gold Project (MGP), 60km south of Port Hedland in WA.

- High grade shoots and depth extensions have been intersected at Aquila and Crow;
- Thick, shallow, high grade intersections have continued at Falcon; and
- Good infill and extension drilling results have been returned from Brolga.

These results have extended the strike lengths, increased the depths and grown the overall dimensions of the Hemi discovery within its current 3km x 2km footprint.

An updated Mineral Resource Estimate remains targeted for mid CY21. While ongoing drilling results will continue to inform the potential scale of the discovery, the updated Resource is the key upcoming milestone for DEG. Seven drill rigs are currently operating at the MGP, conducting resource infill drilling at Hemi as well as testing new and extensional targets.

Quantity, width and grade of intersections informs potential

In our view it is worth re-capping some of the recent highlight drilling results as a reminder of the scale and potential of the Hemi discovery;

Brolga infill and extension drilling

From the Brolga zone, the largest gold zone delineated at Hemi to date, where drilling results continue to demonstrate scale, continuity and consistency. Results include:

- 81m @ 1.7g/t Au from 37m in HERC192;
- 46m @ 2.7g/t Au from 43m in HERC196;
- 27m @ 1.6g/t Au from 98m in HERC197;
- 23m @ 1.6g/t Au from 65m in HERC197;
- 32m @ 1.4g/t Au from 154m in HERC199;
- 17m @ 2.1g/t Au from 105m in HERC183; and extension intersections
- 23m @ 1.1g/t Au from 50m in HERC304; and
- 7m @ 5.4g/t Au from 163m in HERC170.

The ongoing drill-out at Brolga increases the confidence level in the Brolga deposit and shows DEG systematically advancing towards the Resource update planned for mid-CY21. This should see a large portion of the Resource at Hemi classified in the Indicated category and thus be available for conversion to Reserves – essential for the completion of a Feasibility Study. Furthermore, continuity and consistency are characteristics of the mineralisation that we are looking for to enable the large-scale, low-cost open-pit mining methods that we are anticipating will keep mining costs low and make Hemi an attractive deposit to develop.

DEG has also noted the completion of a number of large diameter holes for metallurgical testing, another essential step in the advancement and de-risking of the project. We expect an update on metallurgical test results in the coming months.

Thick High Grade near surface hits at Falcon

These deeper RC holes follow up shallower aircore drilling that discovered the Falcon gold zone, which is now defined over approximately 3.0km in strike and remains open. The Falcon intrusion lies approximately 600m west of Brolga and immediately south of Aquila. The RC follow-up drilling intersected broad zones of gold mineralisation at Falcon along 800m of strike, up to 80m wide and to +250m down dip. Over 2km of strike remains to be RC and diamond drill tested. Results include:

- 42m @ 5.2g/t Au from 47m in HERC260;
- 50m @ 3.3g/t Au from 50m in HERC265;
- 25m @ 2.2g/t Au from 124m in HERC256;
- 62m @ 1.5g/t Au from 143m in HERC262; and
- 31m @ 1.5g/t Au from 211m in HERC261D;

In our view, these are very good grades over broad widths that show the potential for the Falcon Zone to be a material contributor to the gold endowment at Hemi – possibly comparable to the higher grade Aquila Zone with which it shares a number of geological similarities. These results also reinforce the prospectivity of the Hemi discovery and its potential for further growth – noting the identification of yet another new intrusion (assays pending) to the south-west of Falcon.

Further high-grade extensions at Crow and Aquila

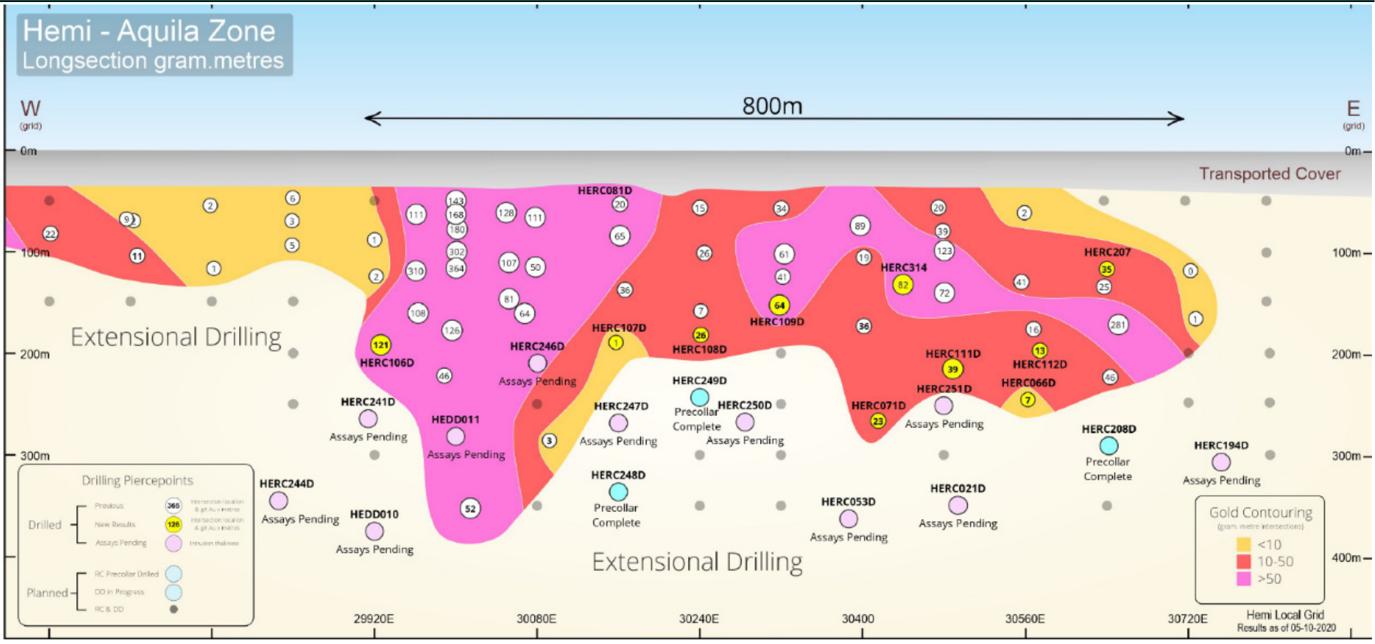
Drilling results at Aquila and Crow continue to firm up areas of high grade gold mineralisation (+2g/t) within a much larger and broader gold system. This includes holes proximal to the **previously reported 64m @ 13.4g/t Au** from 141m in the Crow zone. At Aquila, the western high grade plunging shoot has been extended a further 80m west and remains open. Depth extents continue to be tested with follow-up RC and diamond drilling and mineralisation at Aquila and Crow has now been intersected to depths of up to approximately 500m below surface. Results include:

- 17m @ 12.9g/t Au from 91m in HERC342 (including 7m @ 29.4g/t Au);
- 5m @ 7.4g/t Au from 139m in HERC343;
- 15m @ 1.8g/t Au from 79m in HERC350;
- 24.6m @ 2.7g/t Au from 244m in HERC246D;
- 35.6m @ 1g/t Au from 419m in HEDD010;
- 38.4m @ 3.2g/t Au from 205m in HERC106D;
- 53m @ 1.2g/t Au from 165m in HERC109D;
- 68m @ 1.2g/t Au from 136m in HERC314;
- 42.8m @ 2.8g/t Au from 234m in HERC038D;
- 23m @ 1.5g/t Au from 624m in HERC071D;
- 44m @ 2.6g/t Au from 51m in HERC320; and
- 28m @ 2.6g/t Au from 624m in HERC091D.

The ongoing infill drilling at Hemi continues to reinforce the outlook for a continuous, consistent and large-scale orebody that is suited to low cost open-pit mining methods. We continue to be encouraged by the strike and depth extensions being identified at both Aquila and Crow, in particular by the high grade shoots within the broader Crow zone which we expect to both add materially to the gold endowment there and improve its overall Resource to Reserve conversion.

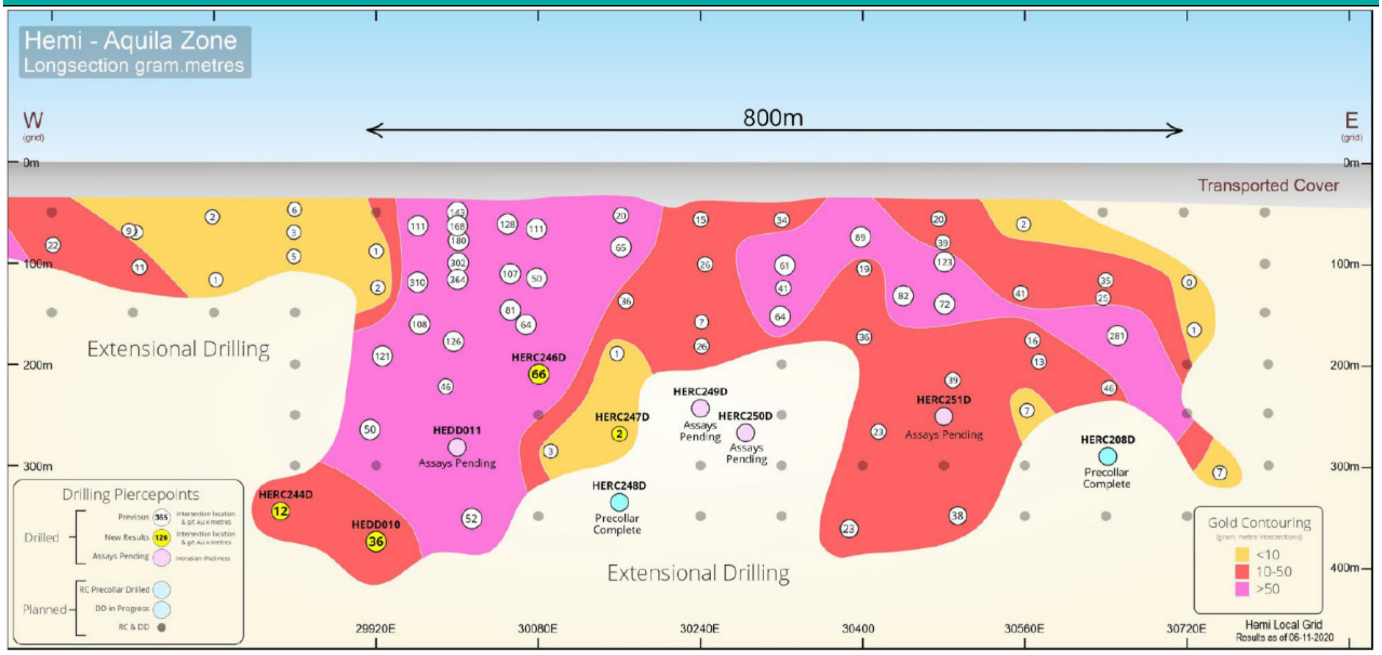
The longitudinal projections of the Aquila Zone shown below indicate the how drilling results there have resulted in strike extensions at depth and the extension of high grade shoots within the zone. These extensions have been identified over the last month.

Figure 1 - Aquila Zone longitudinal projection as at 5-Oct-20



SOURCE: COMPANY DATA

Figure 2 - Aquila Zone longitudinal projection as at 6-Nov-20



SOURCE: COMPANY DATA

Foundations of a Tier 1 asset

The consistent run of excellent drilling results from the Hemi discovery has continued to build the case that it will support a Tier 1 operation – being defined as a gold mine that can produce +300kozpa for +10 years. The mineralised footprint at Hemi (combining the Crow, Aquila, Brolga and Falcon Zones) covers some 3.0km north-south and 2.0km east-west. These four zones are located almost immediately adjacent to each other and have the potential to supply a large scale, base-load ore feed to a large processing plant.

Management KPI's: 12Moz Resource, DFS demonstrating 500kozpa for 12 years

We note the recent criteria set out as part of DEG's Long Term Incentive Plan (LTIP) for key management personnel. A number of project milestones need to be delivered for vesting conditions of performance rights to be satisfied, including:

- The delineation of a JORC 2012 compliant Mineral Resource of 12Moz or more at the Mallina Gold Project (inclusive of the current 2.2Moz Resource); and
- The completion of a Definitive Feasibility Study (DFS) confirming a 500kozpa gold project with a mine life of no less than 12 years.

These milestones are comfortably ahead of the underlying assumptions and estimates that our EV/Resource ounce valuation is based on (7.4Moz including existing 2.2Moz Resource) and our NPV-based valuation of a notional production scenario (~300kozpa for 13 years).

Valuation

We have based our valuation for DEG on the following:

1. EV/Resource oz metric for exploration companies; and
2. NPV valuation of the MGP based on notional project assumptions.

EV/Resource ounce valuation

DEG is currently trading at an Enterprise Value per ounce of gold in Resource (EV/oz) valuation of ~A$630/oz. This is a clear premium to the sector average we currently measure in the market of ~A$135/oz.

In our view, there are a number of factors driving this premium including:

- The Resource growth and discovery potential of the Hemi discovery, together with six other intrusion related targets showing similar characteristics. Some of these have confirmed mineralisation but not yet been effectively tested;
- A Resource grade comparable with numerous active WA open-pit gold mines and the scale and geometry of the mineralisation at Hemi being conducive to low-cost, open-pit mining methods;
- The strategic land positon DEG has built up since 2016. The MGP tenements now cover over 1,500km^2 and are comparable in scale to the Yandal Gold Belt;
- The pathway and timeframe to production and its location in WA, which we would argue is the world's best mining jurisdiction. Located 60km from Port Hedland, access to infrastructure and services is excellent and should result in reduced capital costs; and
- Metallurgical factors and refractory ore characteristics of fresh ore at the MGP are probably the main risk and negative factor pertaining to DEG. However, the grade and scale of the MGP Resource would likely comfortably cover the additional costs of a refractory ore processing circuit. Technical risks are mitigated by a long mine life and potentially higher processing costs likely offset by lower mining and capital costs.

Table 1 - ASX-listed gold exploration company comparables

Company	ASX Code	Price (A$/sh)	Market Cap (A$m)	Net cash (debt) (A$m)	Available funding (A$m)	EV (A$m)	Resources (Moz)	Grade (g/t Au)	EV/ Res oz (A$/oz)
De Grey Mining Limited	DEG	$1.16	$1,476.6	$109.5	$109.5	$1,367.1	2.165	1.80	$632
Bellevue Gold Limited	BGL	$1.37	$1,150.7	$149.4	$149.4	$1,001.3	2.410	10.00	$415
Capricorn Metals Ltd	CMM	$1.72	$591.6	$36.8	$136.8	$554.8	2.145	0.80	$259
Cardinal Resources Limited	CDV	$1.04	$559.4	-$25.4	$9.5	$584.8	6.990	1.13	$84
Ora Banda Mining Ltd	OBM	$0.34	$281.7	$53.1	$53.1	$228.6	2.173	2.80	$105
Magnetic Resources NL	MAU	$1.14	$246.3	$9.5	$9.5	$236.8	0.000	0.00	na
DGO Gold Limited	DGO	$3.39	$237.5	$29.4	$29.4	$208.1	0.460	1.71	$452
Catalyst Metals Limited	CYL	$2.72	$226.8	$17.1	$17.1	$209.7	0.000	0.00	na
Musgrave Minerals Limited	MGV	$0.45	$213.7	$8.2	$8.2	$205.5	0.659	3.20	$312
Genesis Minerals Limited	GMD	$0.08	$160.8	$23.2	$23.2	$137.6	1.280	2.34	$107
Calidus Resources Limited	CAI	$0.59	$158.8	$26.0	$26.0	$132.8	1.714	1.20	$6
KIN Mining NL	KIN	$0.20	$140.0	$6.0	$6.0	$134.0	0.945	1.40	$142
Bardoc Gold Limited	BDC	$0.08	$131.5	$29.4	$29.4	$102.1	3.031	1.90	$34
Rox Resources Limited	RXL	$0.06	$114.6	$8.0	$8.0	$106.5	0.922	2.94	$116
Antipa Minerals Limited	AZY	$0.05	$111.4	$9.0	$9.0	$102.5	1.733	1.14	$59
Tanami Gold NL	TAM	$0.08	$90.5	$29.0	$29.0	$61.5	1.646	2.80	$37
Kalamazoo Resources Limited	KZR	$0.63	$82.5	$9.0	$9.0	$73.5	1.650	2.50	$45
Saturn Metals Limited	STN	$0.75	$80.8	$15.8	$15.8	$65.1	0.781	1.00	$83
Ausgold Limited	AUC	$0.06	$75.4	$5.5	$5.5	$69.9	1.201	1.10	$58
Vango Mining Limited	VAN	$0.08	$74.5	$7.8	$7.8	$66.7	1.002	3.00	$67
Horizon Minerals Limited	HRZ	$0.12	$65.3	$13.3	$17.3	$52.0	1.175	1.55	$44
Encounter Resources Limited	ENR	$0.20	$62.6	$9.0	$9.0	$53.6	0.000	0.00	na
Breaker Resources NL	BRB	$0.19	$60.3	$21.7	$21.7	$38.6	0.981	1.30	$39
NTM Gold Limited	NTM	$0.09	$60.2	$5.2	$5.2	$55.0	0.679	1.60	$81
Alto Metals Limited	AME	$0.12	$45.7	$5.1	$7.1	$40.6	0.331	1.70	$123
Middle Island Resources Limited	MDI	$0.01	$38.8	$6.6	$6.6	$32.3	0.732	1.14	$44
Venus Metals Corporation Limited	VMC	$0.24	$36.3	$6.8	$6.8	$29.4	0.357	2.97	$82
Prodigy Gold NL	PRX	$0.05	$27.3	$9.9	$9.9	$17.4	1.010	2.00	$17
Total / average			**$6,688**				**39.2**	**2.2**	**$135**

SOURCE: IRESS COMPANY REPORTS, BELL POTTER ESTIMATES, PRICED AS AT COB 13 NOVEMBER 2020

We have made estimates of the Resource growth potential at the MGP of between 3.9Moz and 6.5Moz for a midpoint of 5.2Moz. Our estimates are based on:

- Our estimates of potential orebody dimensions across the currently defined Aquila, Brolga, Crow and Falcon Zones, applying representative grades and S.G's; and
- The Hemi discovery alone – i.e. our estimates do not account for any Resource growth at the deposits already in the MGP Resource.

Table 2 - MGP Resource potential estimate: midpoint basis

Current Resource (Moz)	**2.165**
Expected Resource Growth (Moz)	
Aquila	1.463
Brolga	2.315
Crow	0.772
Falcon	0.669
Subtotal	**5.218**
Total potential Resource (Moz)	**7.383**

SOURCE: BELL POTTER SECURITIES ESTIMATES

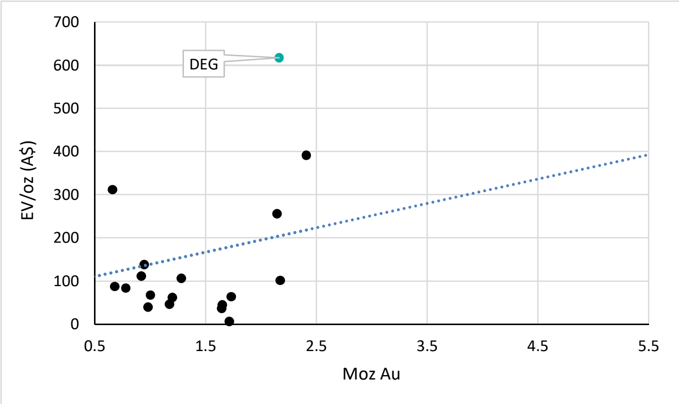
This represents a 10% increase from our previous Resource estimate midpoint of 4.7Moz for the Hemi discovery at the MGP and has been driven by:

- The strike and depth extensions that have been drilled out at the newly discovered Falcon Zone;
- Successful infill and extension drilling at the Brolga Zone;
- High grade depth extensions drilled out at the Aquila Zone; and
- Further high grade intercepts returned from the Crow Zone, as well as successful extension drilling there.

In applying an EV/Resource oz metric to the scale of Resource we are anticipating at the MGP, we have considered the premium that the market might pay for Resource scale and the other advantageous factors we see for development of the MGP. The charts below indicate that the market pays a premium for Resource scale and that a valuation of between A$240/oz and A$400/oz for a 4.5-5.5Moz Resource for producers and explorers respectively might be applied. In deriving our EV/Resource valuation for DEG, we have applied an EV/Resource oz metric of A$290/oz, which is a slight reduction from A$300/oz, that we had previously applied.

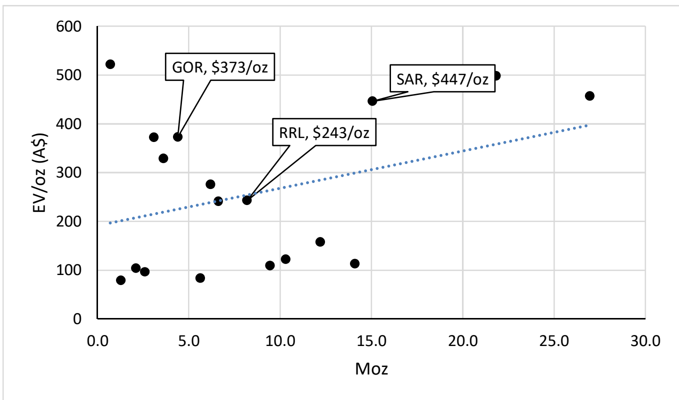
In referencing current producers, in our view, DEG's closest peers are Gold Road (GOR, Buy, TP$1.85), Regis Resources (RRL, Buy, TP$5.72) and Saracen Minerals (SAR, not rated).

Figure 3 - EV/Resource oz explorers



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 - EV/Resource oz producers



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

In deriving our EV/Resource valuation for DEG, we have applied an EV/Resource oz metric of A$290/oz to the midpoint of our estimate of likely Resource growth at the Hemi discovery, for an Enterprise Valuation of $2,140.9m

Table 3 – Valuation range for lower-end and upper-end potential Resource bases at the MGP

	Resource est. lower end			Resource est. midpoint (Base Case)			Resource est. upper end		
EV/Resource oz valuation (A$/oz)	$230	$290	$350	$230	**$290**	$350	$230	$290	$350
Current Resource (Moz)	2.165	2.165	2.165	2.165	**2.165**	2.165	2.165	2.165	2.165
Resource growth est	3.914	3.914	3.914	5.218	**5.218**	5.218	6.523	6.523	6.523
Total potential Resource	6.078	6.078	6.078	7.383	**7.383**	7.383	8.687	8.687	8.687
Target EV (A$m)	$1,398.0	$1,762.6	$2,127.3	$1,698.0	**$2,140.9**	$2,583.9	$1,998.0	$2,519.3	$3,040.5

SOURCE: BELL POTTER SECURITIES ESTIMATES

NPV-based valuation – notional assumptions

To put our EV/oz valuation into context we have made some notional assumptions around what an open-pit mining operation based on the expanded MGP Resource might look like. Key parameters and outcomes are summarised below:

Table 4 - Notional project parameters and risk-adjusted NPV

Assumed Resource	6.8Moz @1.2g/t Au
Assumed Reserve	4.6Moz @ 1.4g/t Au (67% conversion)
Gold price (A$/oz)	$2,400/oz
CAPEX (A$m)	$550m
Average annual production	315,000 ozpa
Life-Of-Mine (lom)	13yrs
Metallurgical recovery	90%
AISC (A$/oz)	A$1,050/oz
NPV (8% real)	**A$1,853m**
Project Stage risk adjustment	60%
Risk-adjusted NPV	**A$1,112m**

SOURCE: BELL POTTER SECURITIES ESTIMATES

We reiterate however that these are notional assumptions. The MGP is a relatively early stage development project. Assumptions made at this stage may be very different to parameters derived by more advanced stage studies. As such, valuation ranges can be high risk, wide and relatively subjective.

Blended valuation

We make our valuation for DEG's MGP project on the basis of an 80:20 blend of our EV/Resource oz valuation and our notional risk-adjusted (60%) NPV for the MGP. We put the greater 80% weighting on the EV/Resource oz valuation, taking the view it is based on measurable market metrics and a realistically achievable Resource base for the MGP. Our risk-adjusted NPV for an expanded MGP is based in part on early development studies completed on the MGP, in part on industry rules-of-thumb and in part on our own estimates. While we believe they are representative, they may carry a wide margin of error compared to parameters eventually derived for a potential operation.

Table 5 – Blended valuation - MGP

EV/Resource oz (A$m)	$2,140.9	80%
Notional risk adjusted NPV (A$m)	$1,112.0	20%
Blended valuation (A$m)	**$1,935.2**	**100%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Upcoming catalysts

Upcoming catalysts for DEG include:

- Ongoing results from the Hemi prospect, where drilling is continuing to test for and identify extensions to the Aquila, Brolga, Crow and Falcon gold zones;
- Drilling results from upcoming exploration programs testing the several identified intrusion-related targets along the SAST. These could lead to new discoveries that repeat the success of Hemi, multiplying the Resource growth potential at the MGP;
- The release of updates from development and feasibility studies evaluating potential production operations at the MGP. Metallurgical testwork will be of particular interest;
- The release of a maiden Resource for the Hemi discovery, which remains targeted for mid-CY21. In our view the multiple gold zones identified at Hemi may be more than double the current Resource at the MGP; and
- Indications of any corporate activity. While DEG's valuation is high, limiting the field of potential ASX-listed partners, 49% of the current Resource is in the higher confidence Measured and Indicated categories and drilling from the Hemi discovery is near-surface, consistent and continuous. These factors make it a simpler proposition for external parties to assess, cheaper to drill out to Reserve status and quicker to develop – lowering the risk for a potential partner. We also point out the recently announced merger of Northern Star (NST, not rated) and Saracen (SAR, not rated) creates a company for which DEG would be a more digestable target.

Share price performance vs ASX Gold Index

Relative performance chart below:

Figure 5 - DEG relative share price performance vs XGD (ASX Gold Index)

SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

De Grey Mining Ltd (DEG)

Company description

DEG is an exploration and development company that is advancing its 100%-owned Mallina Gold Project (MGP) located 60km south of Port Hedland in WA. The tenement package is prospective for gold, base metals (Zn-Ag-Pb) and lithium. Over the last four years, DEG has expanded the area of the MGP to cover 1,500km^2 and consolidated its ownership. During that time it has grown the Resource base ~525%, from 346koz @ 1.6g/t Au in February 2016 to 2.2Moz @ 1.8g/t Au as at April 2020. DEG estimates a project-wide discovery cost of <$20/oz and that this has dropped to $15-$20/oz for the most recent Resource estimates.

In 2019, a new style of intrusion-related gold mineralisation was recognised at the MGP and seven new targets identified for testing. The first of these to be tested was the Hemi prospect, which has since delivered a string of impressive results and confirmed gold mineralisation across four defined zones. DEG is now ramping up its exploration efforts across these targets, with the objective of delivering significant Resource growth and an updated Mineral Resource Estimate by mid-2021.

Investment thesis – Buy (Speculative), valuation $1.58/sh

The consistent run of excellent drilling results from Hemi has continued to build the case that it could support a Tier 1 operation – defined as a gold mine that can produce +300kozpa for +10 years. In updating our valuation we have lifted our expectations for Resource growth potential at Hemi by ~10%. Following the latest round of successful extension drilling results and high grade infill drilling we are now anticipating a potential Resource range for Hemi of between 3.9Moz and 6.5Moz for a midpoint of 5.2Moz (from 4.7Moz) and a total potential Resource at the MGP of 7.4Moz. This is offset by the application of a lower EV/Resource oz metric of A$290/oz (from A$300/oz) following a slight pullback in the market. Our notional, risk-adjusted NPV-based valuation based on a potential production scenario is unchanged, resulting in our blended valuation lifting 3%, from $1.53/sh to $1.58/sh. Our recommendation is upgraded to Buy (Speculative) from Hold (Speculative).

Valuation

Our target price for DEG is based upon our blended EV/Resource oz valuation (80%) and our NPV valuation (20%) of notional project parameters.

Table 6 – DEG valuation summary

Ordinary shares (m)		**1,288.7**
Options outstanding (m)		8.2
Assumed equity raise (m)		-
Diluted m		**1,296.9**
Sum-of-the-parts	**$m**	**$/sh**
Blended exploration valuation	1,935.2	1.50
Corporate overheads	(6.3)	(0.00)
Subtotal (EV)	1,928.9	1.50
Net cash (debt)	121.9	0.09
Total (undiluted)	**2,050.8**	**1.59**
Cash from options	2.1	@ 0.25
Assumed equity raise	-	@ 0.00
Total (fully diluted)	**2,052.8**	**1.58**

SOURCE: BELL POTTER ESTIMATES

With upside of 34.5% from the last closing share price to our target price, we upgrade our recommendation from Speculative Hold to Speculative Buy.

Current Mineral Resource – March 2020

The most recent Resource Statement was published in early April 2020 based on all drilling completed to December 2019. It totalled **37.4Mt @ 1.8g/t Au for 2.2Moz contained**. The latest Resource update delivered a 29% increase in total contained gold and an incremental (2%) grade increase. The Resource includes oxide ore totalling 13.6Mt @ 1.5g/t Au for 0.64Moz (30% of the contained gold) and fresh ore totalling 23.9Mt @ 2.0g/t Au for 1.52Moz (70% of the contained gold). It does not include any estimate for the Hemi discovery.

Table 7 – Mallina Gold Project – Total gold Mineral Resource (March 2020)

Pilbara Gold Project		**Mt**	**g/t Au**	**(koz)**
Mineral Resources				
Measured	Oxide	3.660	1.8	209.7
	Fresh	1.060	1.6	55.3
	Total	**4.720**	**1.7**	**265.0**
Indicated	Oxide	5.330	1.5	254.3
	Fresh	8.910	1.9	531.7
	Total	**14.240**	**1.7**	**786.0**
Inferred	Oxide	4.570	1.2	177.2
	Fresh	13.900	2.1	935.0
	Total	**18.470**	**1.9**	**1,112.2**
Total	Oxide	13.560	1.5	641.2
	Fresh	23.870	2.0	1,522.0
	Total	**37.440**	**1.8**	**2,164.5**

SOURCE: COMPANY DATA

Capital structure

DEG's current capital structure is summarised below. DEG last raised equity via an oversubscribed equity placement in September 2020 when 83.4m shares were issued at $1.20/sh, raising approximately $100m.

Table 8 - DEG capital structure summary

Shares on issue	m		1,278.4
Performance shares / other	m		10.3
Total shares on issue	**m**		**1,288.7**
Share price	**$/sh**		**1.175**
Market capitalisation	$m		1,514.2
Net cash	$m		121.9
Enterprise value (undiluted)	**$m**		**1,392.4**
Options outstanding (m)	m	(wtd avg ex. price $0.25 per share)	8.2
Options (in the money)	m		8.2
Issued shares (diluted for itm options)	m		1,296.9
Market capitalisation (diluted)	m		1,523.9
Net cash + options	$m		123.9
Enterprise value (diluted)	**$m**		**1,399.9**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Top shareholders

DEG's largest shareholder is DGO Gold (DGO), which made a $5m strategic investment in DEG in May 2018, when it subscribed for 25m shares at $0.20/sh for a 7.0% interest in DEG. DGO has subsequently invested a further $40m via options and equity placements to lift its shareholding to ~15.8%. DGO has the right to appoint two Non-Executive Directors to the DEG Board and is currently represented by Ed Eshuys and Bruce Parncutt.

Table 9 - DEG top shareholders

Shareholder	**%**	**m**
DGO Gold	15.8%	203.6
Van Eck (GDXJ)	5.6%	71.9
Northwest Nonferrous International	4.6%	59.1

SOURCE: IRESS, COMPANY REPORTS

Resource sector risks

Risks to De Grey Mining include, but are not limited to:

- **Funding and capital management risks:** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Operating and development risks:** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **Operating and capital cost fluctuations:** The cost and availability of exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations:** The future earnings and valuations of exploration, development and producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. NIC's assets are located in Sulawesi, Indonesia, which has in the past implemented regulatory changes related to mining project ownership, fiscal terms and mineral export requirements.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating. NIC's assets are in Indonesia, a G20 country with one of the largest economies in SE Asia. Its sovereign debt is rated investment grade by the major ratings agencies.
- **Corporate/M&A risks:** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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