

**Analyst**

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# De Grey Mining Ltd (DEG)

## 6.8Moz maiden Resource at Hemi raises the bar

**Recommendation**

**Buy** (unchanged)

**Price**

**\$1.25**

**Valuation**

**\$1.71** (previously \$1.66)

**Risk**

**Speculative**

**GICS Sector**

**Materials**

**Expected Return**

|                       |              |
|-----------------------|--------------|
| Capital growth        | <b>36.0%</b> |
| Dividend yield        | <b>0.0%</b>  |
| Total expected return | <b>36.8%</b> |

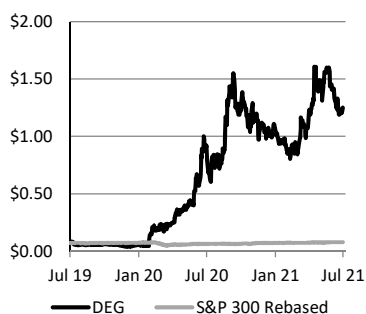
**Company Data & Ratios**

|                        |                      |
|------------------------|----------------------|
| Enterprise value       | <b>\$1,528m</b>      |
| Market cap             | <b>\$1,616m</b>      |
| Issued capital         | <b>1,292m</b>        |
| Free float             | <b>79%</b>           |
| Avg. daily val. (52wk) | <b>\$9.7m</b>        |
| 12 month price range   | <b>\$0.58-\$1.67</b> |

**Price Performance**

|                | (1m) | (3m) | (12m) |
|----------------|------|------|-------|
| Price (A\$)    | 0.99 | 1.02 | 0.29  |
| Absolute (%)   | 28.8 | 25.0 | 339.7 |
| Rel market (%) | 25.3 | 19.1 | 310.0 |

**Absolute Price**



SOURCE: IRESS

### Hemi maiden Resource lifts Mallina to 9.0Moz

DEG recently announced the maiden Resource for the Hemi discovery, as planned for mid-CY21. It comprises an Indicated Resource of 65.5Mt @ 1.3g/t Au for 2.78Moz plus an Inferred Resource of 126.7Mt @ 1.0g/t Au for 4.02Moz, **totalling 192.4Mt @ 1.1g/t Au for 6.8Moz**. Combined with the existing Resource (from April 2020), this lifts the total Resource at the Mallina Gold Project (MGP), including Hemi, to **230Mt @ 1.2g/t Au for 9.0Moz**, including Measured and Indicated Resources of 85Mt @ 1.4g/t Au for 3.8Moz. Importantly, 2.8Moz (41%) of the Hemi Resource and 3.8Moz (43%) of the total Mallina Resource is in the higher confidence Measured and Indicated categories, available for conversion to Reserves. This will also support the completion of a Scoping Study, targeted for the September quarter 2021. There remains significant potential for further Resource growth, with 12 drill rigs active at Hemi and regional targets across the MGP. DEG remains well funded, with \$87m cash as at end March 2021, sufficient for 15-18 months activity at the current expenditure rate.

### Upper end of our expectations, shows grade optionality

This is a great result that is at the upper end of our expectations and more than quadruple the size of the prior MGP Resource. We have previously estimated the Resource potential of the Hemi deposit to be between 4.9Moz and 7.3Moz (midpoint 6.1Moz). We had also considered a notional production scenario based on a Resource grade of 1.2g/t Au, which is in line with the grade of the updated global Resource. Further positive factors with respect to the Hemi Resource include: the higher grade of the Indicated Resource (1.3g/t Au) compared with the Inferred Resource (1.0g/t Au); the low reported discovery cost of \$8.50/oz; the rapid Resource addition rate of 450koz per month, the high level of confidence and the confirmation of its potential to support a Tier 1 production asset. The Hemi Resource is robust across a range of cut-off grades. Lifting the cut-off grade from 0.3g/t Au to 0.7g/t Au delivers a Resource of 5.6Moz (82% of the base case) at a higher grade of 1.5g/t Au, implying the ability to withstand a lower gold price. We see the opportunity for an accelerated mining schedule to deliver higher head grades early in the mine life, enhancing project economics and financial performance.

### Investment thesis – Buy (Speculative), Valuation \$1.71/sh

In our view, these are all factors that reinforce the quality of the Hemi Resource and de-risk the development case for the MGP. The Resource is supportive of a potential “Tier 1” gold project (+300kozpa for +10 years) that could offer a long mine life, low costs, operational flexibility and further Resource growth all set in a top global mining jurisdiction. The flexibility around grade, in our view, is a key advantage for Hemi, potentially supporting a “grade streaming” mine schedule. While further de-risking in relation to the processing route will reduce uncertainty, the three main refractory options all remain available which maintains optionality. We increase our valuation from \$1.66/sh, reflecting the larger Resource and clear potential for further growth. We retain our Buy (Speculative) recommendation.

# 6.8Moz maiden Resource at Hemi

## Hemi maiden Resource lifts Mallina to 9.0Moz

DEG recently announced the maiden Resource for the Hemi discovery, as planned for mid-CY21. It comprises an Indicated Resource of 65.5Mt @ 1.3g/t Au for 2.78Moz plus an Inferred Resource of 126.7Mt @ 1.0g/t Au for 4.02Moz, totalling **192.4Mt @ 1.1g/t Au for 6.8Moz**. Combined with the existing Resource (from April 2020), this lifts the total Resource at the Mallina Gold Project (MGP), including Hemi, to **230Mt @ 1.2g/t Au for 9.0Moz**, including Measured and Indicated Resources 85Mt @ 1.4g/t Au for 3.8Moz and Inferred Resources of 145Mt @ 1.1g/t Au for 5.1Moz. Importantly, 2.8Moz (41%) of the Hemi Resource and 3.8Moz (43%) of the total Mallina Resource is in the higher confidence Measured and Indicated categories, available for conversion to Reserves and supporting the completion of a Scoping Study, targeted for the September quarter 2021.

There remains significant potential for further Resource growth at Hemi and the wider Mallina project. Good infill and extension drilling results having been reported since the assay cut-off date of 17 May 2021, all deposits remain open at depth and along strike and 12 drill rigs are active at Hemi and regional targets across the MGP. DEG remains well funded, with \$87m cash as at end March 2021, sufficient for 15-18 months activity at the current expenditure rate and to deliver key catalysts such as the Scoping Study.

**Table 1 - Mallina Gold Project - Maiden Mineral Resource for Hemi as at June 2021**

| Category     | Tonnes (Mt)    | Grade (g/t Au) | Contained gold (koz) | %of total oz |
|--------------|----------------|----------------|----------------------|--------------|
| Measured     | -              | -              | -                    | -            |
| Indicated    | 65.500         | 1.3            | 2,779.400            | 41%          |
| Inferred     | 126.850        | 1.0            | 4,024.900            | 59%          |
| <b>Total</b> | <b>192.400</b> | <b>1.1</b>     | <b>6,804.300</b>     | <b>100%</b>  |

SOURCE: COMPANY DATA

**Table 2 - Mallina Gold Project - Global Mineral Resource (incl. Hemi) as at June 2021**

| Category     | Tonnes (Mt)    | Grade (g/t Au) | Contained gold (koz) | %of total oz |
|--------------|----------------|----------------|----------------------|--------------|
| Measured     | 4.720          | 1.75           | 264.900              | 3%           |
| Indicated    | 79.780         | 1.39           | 3,565.400            | 40%          |
| Inferred     | 145.400        | 1.10           | 5,138.300            | 57%          |
| <b>Total</b> | <b>229.800</b> | <b>1.21</b>    | <b>8,968.800</b>     | <b>100%</b>  |

SOURCE: COMPANY DATA

**Table 3 - Mallina Gold Project - Global Mineral Resource (incl. Hemi) as at April 2020**

| Category     | Tonnes (Mt)   | Grade (g/t Au) | Contained gold (koz) | %of total oz |
|--------------|---------------|----------------|----------------------|--------------|
| Measured     | 4.720         | 1.75           | 265.000              | 12%          |
| Indicated    | 14.240        | 1.72           | 786.000              | 36%          |
| Inferred     | 18.470        | 1.87           | 1,112.200            | 51%          |
| <b>Total</b> | <b>37.440</b> | <b>1.80</b>    | <b>2,164.500</b>     | <b>100%</b>  |

SOURCE: COMPANY DATA

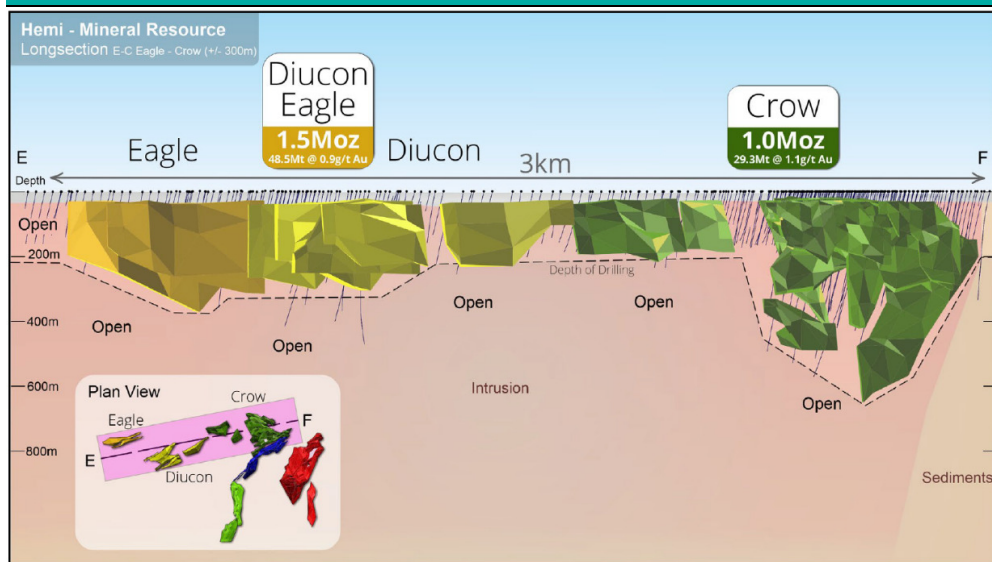
### Key changes compared with the Mallina Gold Project (April 2020) Mineral Resource:

- The April 2020 Resource estimate of 2.2Moz comprised deposits at the Withnell and Wingina Mining Centres. These Resources are unchanged. The increased Resource base is entirely attributable to the maiden estimate at the Hemi discovery;
- The total Resource tonnage has increased 514% from 37.4Mt to 229.8Mt. The contained gold has increased 314%, from 2.2Moz to 9.0Moz. The total Resource

grade has decreased 32%, from 1.8g/t Au to 1.2g/t Au. The grade of Measured and Indicated Resources has decreased by 18%, from 1.7g/t Au to 1.4g/t Au;

- Measured and Indicated Resources comprise 43% of the total MGP Resource (from 49%) and 41% of the maiden Resource for Hemi (contained gold basis);
- The highest grade zone at Hemi is the Aquila zone (18.1Mt @ 1.4g/t Au for 840koz) and the largest is Brolga (62.8Mt @ 1.1g/t Au for 2.3Moz). Brolga also shows the highest uplift in grade from Inferred to Indicated ounces, where higher definition drilling lifts Brolga's grade 44%, from 0.9g/t Au to 1.3g/t Au;
- Oxide gold ounces have increased 47%, from 641koz to 940koz, but comprise just 10% of the total Resource across the MGP;
- At Hemi, 6.4Moz (94%) of the Resource is within 370mbs, likely to be open-pittable given the scale and geometry of the deposits. Below 370m, a higher cut-off-grade of 1.5g/t Au was applied, for a Resource of 410koz @ 2.9g/t Au; and
- All zones at Hemi remain open at depth and along strike, with depth extents limited by drilling.

**Figure 1 - Hemi long section - illustrating Resource limited by drilling depth**



SOURCE: COMPANY DATA

## Hemi at upper end of our expectations, further positive signs

In our view this is a great result that has come in at the upper end of our expectations at more than quadruple the size of the existing MGP Resource. We have previously estimated the Resource potential of the Hemi deposit to be between 4.9Moz and 7.3Moz for a midpoint of 6.1Moz, within a grade range of 1.0-1.5g/t Au. We had also considered a notional production scenario based on a Resource grading 1.2g/t Au, which is in line with the grade of the updated global Resource.

Further positive factors with respect to the Hemi Resource include:

- The **higher grade of the Indicated Resource of 1.3g/t Au** compared with the Inferred Resource grade of 1.0g/t Au. The tighter spaced, higher definition Indicated drilling is confirming the continuity and confidence in high grade shoots within the deposit that wider spaced Inferred drilling cannot. These shoots are emerging as a feature at Hemi and as drilling continues we anticipate more will be identified, potentially lifting the grade of the overall Resource;

- The **low reported discovery cost of \$8.50/oz** is extremely competitive with peers across the Australian exploration sector. It is indicative of a strong understanding of the geological controls, the scale and accessibility of the deposit and is also highly value accretive in the context of EV/Resource oz metrics we most recently measured for ASX-listed gold explorers of ~A\$130/oz;
- The **rapid rate of Resource addition**. Following the initial discovery of Hemi in late 2019 and its confirmation in March 2020, RC and diamond drilling has since delineated 6.8Moz in Resources in 15 months, equating to ~450koz per month. Again, this is highly value accretive, reflective of good geological understanding and the scale and accessibility of the deposit;
- The maiden Hemi Resource **provides a high level of confidence**, reporting 41% of ounces in the Indicated category. We view this as an excellent outcome particularly for a Resource of this scale; and
- The **confirmation of the potential to support a Tier 1 asset** – being defined as a gold mine that can produce +300kozpa for +10 years. Technically this requires an Ore Reserve of >3.3Moz (assuming 90% metallurgical recoveries). Making a conservative assumption for Resource to Reserve conversion of 60% for the 6.8Moz Hemi Resource implies potential for a Reserve of 4.1Moz, exceeding the “Tier 1” hurdle by 22%. Alternatively, considering the Measured and Indicated Resources (available for conversion to Reserves) for the MGP which total 3.8Moz @ 1.4g/t Au, also exceeding the “Tier 1” hurdle.

## High grade optionality, mining flexibility

DEG has provided a summary of the Hemi Resource at various cut-off grades, showing a robust Resource. Increasing the cut-off grade from 0.3g/t Au (base case) to 0.7g/t Au delivers a Resource of 5.6Moz (82% of the base case) at a 36% higher grade of 1.5g/t Au.

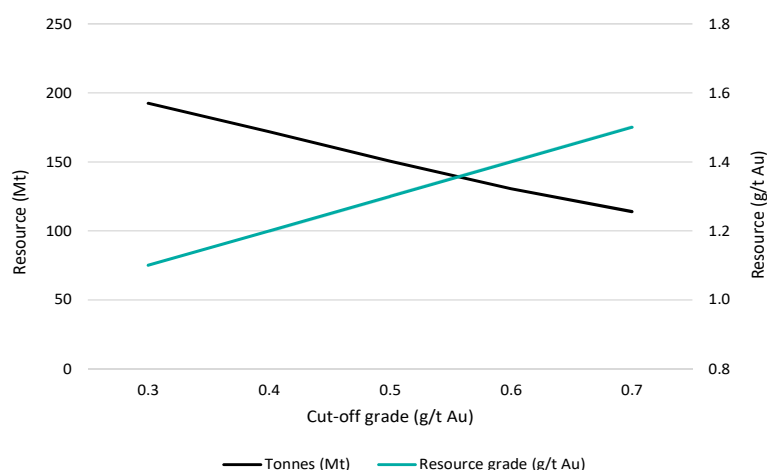
**Table 4 – Hemi Mineral Resource - various cut-off grades**

| Cut-off grade (g/t Au) | Tonnes (Mt)  | Resource grade (g/t Au) | Contained gold (Moz Au) | Conversion vs base case (%) |
|------------------------|--------------|-------------------------|-------------------------|-----------------------------|
| 0.7                    | 114.0        | 1.5                     | 5.6                     | 82%                         |
| 0.6                    | 130.6        | 1.4                     | 5.9                     | 87%                         |
| 0.5                    | 150.5        | 1.3                     | 6.3                     | 93%                         |
| 0.4                    | 171.8        | 1.2                     | 6.6                     | 97%                         |
| <b>0.3</b>             | <b>192.4</b> | <b>1.1</b>              | <b>6.8</b>              | <b>100%</b>                 |

SOURCE: COMPANY DATA

A simplified grade-tonnage curve for the Hemi Resource is shown below.

**Figure 2 - Hemi Mineral Resource - Grade tonnage curve**



SOURCE: COMPANY DATA

The curve illustrates a steady decrease in Resource tonnage vs a steady increase in cut-off-grade. This is indicative of an economic cut-off as compared to a geological cut-off for the Resource, implying a degree of operational flexibility with respect to varying gold prices. This is indicative of:

- 1) The deposit being able to withstand a lower gold price environment without catastrophically compromising the Resource, and
- 2) The opportunity to implement staged mining schedules which could support accelerated mining rates to deliver high grades to the process plant early in the mine life (similar to the “grade streaming” strategy at the Tropicana Gold Mine. This offers flexibility in optimising project economics and financial performance.

## Valuation methodology

We have updated our valuation methodology for DEG following the release of the maiden Resource for Hemi. The updated Resource and the details provided with it has enabled us to update our notional production scenario for the MGP. With greater confidence in this we increase its weighting in our valuation. Our assumed Mining Inventory is based on the Resource estimate made at a 0.6g/t cut-off grade.

Key parameters and outcomes are summarised below:

| <b>Table 5 - Notional project parameters and risk-adjusted NPV</b> |   |                  |
|--|---|------------------|
| Current MGP Resource   | 230Mt @ 1.2g/t Au for 9.0Moz                  |                  |
| Assumed Mining Inventory (proxy for 0.6g/t Au cog)                 | 130Mt @ 1.4g/t Au for 5.9Moz (65% conversion) |                  |
| Gold price (A\$/oz)  |   | \$2,400/oz       |
| CAPEX (A\$m)   |   | \$850m           |
| Mill throughput and recovery                                       | 10Mtpa @1.4g/t Au, recoveries 89%             |                  |
| Average annual production  |   | 400,000 ozpa     |
| Life-Of-Mine (lom)   |   | 13yrs            |
| Metallurgical recovery   |   | 89%              |
| AISC (A\$/oz)  |   | A\$1,075/oz      |
| <b>NPV (8% real, post-tax)</b>                                     |   | <b>A\$2,500m</b> |
| Project Stage risk adjustment                                      |   | 60%              |
| <b>Risk-adjusted NPV</b>   |   | <b>A\$1,500m</b> |

SOURCE: BELL POTTER SECURITIES ESTIMATES

We reiterate however that these are notional assumptions. The MGP is an 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 wide, high risk and relatively subjective.

### EV/Resource ounce valuation

Our notional project valuation accounts only for the ounces included in our assumed mining inventory (130Mt @ 1.4g/t Au for 5.9Moz contained). It makes no allowance for the balance of the Resource (100Mt @ 1.0g/t Au for 3.1Moz), possible mine life extensions or ongoing Resource growth through exploration success.

We have accounted for the value of these gold ounces and a portion of the exploration potential of DEG's 1,500km<sup>2</sup> tenement package at the MGP via the application of a market based EV/oz metric, which we most recently measured at \$130/oz.

In our view the potential for further exploration success is very high, given:

- The exploration success to date, low discovery cost and rapid rate of Resource addition. These factors are indicative of good geological understanding and the scale and accessibility of the deposit.

- All the Hemi deposits remain open at depth and along strike as do a number of the historically identified deposits at the MGP. These present as very strong targets for further Resource growth.
- DEG is well funded and has 12 drill rigs active at Hemi as well as regional targets across the MGP.

We make an allowance for a Resource increase of 20% over the next 12 months (1.8Moz) which we incorporate into our valuation of the exploration potential at the MGP. This equates to a Resource addition rate of 150koz per month, compared with the 450koz per month achieved with this update.

Our exploration valuation reflects the gold Resource ounces excluded from our notional production scenario (3.1Moz @1.0g/t Au) with an allowance for ongoing exploration success across DEG's 1,500km<sup>2</sup> tenement package at the MGP.

**Table 6 – Exploration valuation summary**

|                                     |              |
|-------------------------------------|--------------|
| Current Resource (Moz)              | 9.0          |
| Exploration success (Moz)           | 1.8          |
| Implied potential Resource (Moz)    | 10.8         |
| Notional production scenario (Moz)  | 5.9          |
| <b>Balance (Moz)</b>                | <b>4.9</b>   |
| Market metric EV/oz (A\$/oz)        | \$130        |
| <b>Exploration valuation (A\$m)</b> | <b>\$643</b> |

SOURCE: BELL POTTER SECURITIES ESTIMATES

### Sum-of-the-parts valuation

Our target price for DEG is based upon a sum-of-the-parts valuation, comprising the risk-adjusted NPV of our notional production scenario and our notional exploration valuation. We also make an allowance for DEG's corporate costs and DEG's current net cash position. DEG is well funded, with a last reported cash position (31 March 2021) of \$87.3m and we make no assumption for an equity raise within the next 12 months.

**Table 7 – DEG valuation summary**

|                                    |                |              |
|------------------------------------|----------------|--------------|
| <b>Ordinary shares (m)</b>         | <b>1,292.4</b> |              |
| Options outstanding (m)            | 7.5            |              |
| Assumed equity raise (m)           | -              |              |
| <b>Diluted m</b>                   | <b>1,299.9</b> |              |
| <b>Sum-of-the-parts</b>            | <b>\$m</b>     | <b>\$/sh</b> |
| Notional project risk-adjusted NPV | 1,496.9        | 1.16         |
| Other exploration                  | 643.1          | 0.50         |
| Corporate overheads                | (6.3)          | (0.00)       |
| Subtotal (EV)                      | 2,133.8        | 1.65         |
| Net cash (debt)                    | 87.3           | 0.07         |
| <b>Total (undiluted)</b>           | <b>2,221.1</b> | <b>1.72</b>  |
| Cash from options                  | 1.0            | @ 0.13       |
| Assumed equity raise               | -              | @ 0.00       |
| <b>Total (fully diluted)</b>       | <b>2,222.0</b> | <b>1.71</b>  |

SOURCE: BELL POTTER ESTIMATES

With upside of 36.0% from the last closing share price to our target price, we retain our Speculative Buy recommendation.

## Upcoming catalysts

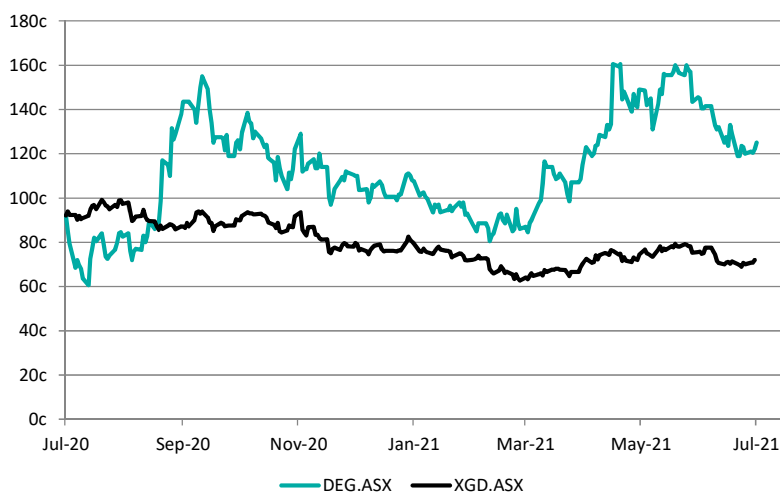
Upcoming catalysts for DEG include:

- Ongoing exploration results from the Hemi prospect, where drilling is continuing to test for and identify extensions to the Aquila, Brolga, Crow, Diucon, Eagle and Falcon gold zones;
- Drilling results from exploration programs that have commenced to test the multiple identified intrusion-related targets along the Scooby-Antwerp-Shaggy Trend at the MGP. These could lead to new discoveries that repeat the success of Hemi, multiplying the Resource growth potential at the MGP;
- The completion of a Scoping Study in the September 2021 quarter which will have the objective of demonstrating the MGP's ability to deliver a Tier 1 production profile;
- Updates on other project development studies and activities including metallurgical testwork, native title agreements, environmental baseline studies and the submission and approval of key operating permits; and
- Indications of any corporate activity. While DEG's valuation is high, limiting the field of potential ASX-listed partners, the total MGP Resource of 9.0Moz, its near-surface setting, deposit geometries that are potentially amenable to low-cost bulk mining operations and location in a top mining jurisdiction make DEG a compelling target for a global gold mining company, in our view.

## Share price performance vs ASX Gold Index

Relative performance chart below:

**Figure 3 - 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. DEG has expanded the MGP tenement package to cover 1,500km<sup>2</sup> and consolidated its ownership building a strategic position in an emerging gold province.

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 subsequently delivered impressive drilling results and confirmed gold mineralisation across several defined zones. A major drilling campaign commenced in March 2020 and this supported the estimation of a maiden Resource for Hemi in June 2021 of 192.4Mt @ 1.1g/t Au for 6.80Moz. Combined with the existing Resource, this lifted the total Resource at the MGP, including Hemi, to 230Mt @ 1.2g/t Au for 9.0Moz, including Measured and Indicated Resources 85Mt @ 1.4g/t Au for 3.8Moz. This is a high confidence Resource and confirmed Hemi's potential to support a Tier 1 asset (defined as a gold mine that can produce +300kozpa for +10 years).

## Investment thesis – Buy (Speculative), valuation \$1.71/sh

In our view, these are all factors that reinforce the quality of the Hemi Resource and de-risk the development case for the MGP. The Resource is supportive of a potential "Tier 1" gold project (+300kozpa for +10 years) that could offer a long mine life, low costs, operational flexibility and further Resource growth all set in a top global mining jurisdiction. The flexibility around grade, in our view, is a key advantage for Hemi, potentially supporting a "grade streaming" mine schedule. While further de-risking in relation to the processing route will reduce uncertainty, the three main refractory options all remain available which maintains optionality. We increase our valuation from \$1.66/sh, reflecting the larger Resource and clear potential for further growth. We retain our Buy (Speculative) recommendation.

## Current Mineral Resource – June 2021

The most recent Resource Statement was published in June 2021, based on all drilling completed to 17 May 2021. It stands at **230Mt @ 1.2g/t Au for 9.0Moz contained**. The latest Resource update delivered a 314% increase in total contained gold. The current Resource includes 43% of the total contained gold in the higher confidence Measured and Indicated categories, available for conversion to Reserves.

**Table 8 – Mallina Gold Project – Total gold Mineral Resource (June 2021)**

| Mallina Gold Project Mineral Resources |              | Mt             | g/t Au     | (koz)        |
|--|--------------|----------------|------------|--------------|
| Measured                               | Oxide        | 3.660          | 1.8        | 210          |
|  | Fresh        | 1.060          | 1.6        | 55           |
|  | <b>Total</b> | <b>4.720</b>   | <b>1.7</b> | <b>265</b>   |
| Indicated                              | Oxide        | 9.540          | 1.4        | 430          |
|  | Fresh        | 70.240         | 1.4        | 3,136        |
|  | <b>Total</b> | <b>79.780</b>  | <b>1.4</b> | <b>3,565</b> |
| Inferred                               | Oxide        | 9.400          | 1.0        | 301          |
|  | Fresh        | 136.000        | 1.1        | 4,838        |
|  | <b>Total</b> | <b>145.400</b> | <b>1.1</b> | <b>5,138</b> |
| <b>Total</b>                           | Oxide        | 22.600         | 1.3        | 940          |
|  | Fresh        | 207.300        | 1.2        | 8,029        |
|  | <b>Total</b> | <b>229.800</b> | <b>1.2</b> | <b>8,969</b> |

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 9 - DEG capital structure summary**

|   |              |                                      |                |
|---|--------------|--------------------------------------|----------------|
| Shares on issue                         | m            |                                      | 1,292.4        |
| Performance shares / other              | m            |                                      | 0.0            |
| <b>Total shares on issue</b>            | <b>m</b>     |                                      | <b>1,292.4</b> |
| <b>Share price</b>                      | <b>\$/sh</b> |                                      | <b>1.250</b>   |
| Market capitalisation                   | \$m          |                                      | 1,615.5        |
| Net cash                                | \$m          |                                      | 87.3           |
| <b>Enterprise value (undiluted)</b>     | <b>\$m</b>   |                                      | <b>1,528.2</b> |
| Options outstanding (m)                 | m            | (wtd avg ex. price \$0.13 per share) | 7.5            |
| Options (in the money)                  | m            |                                      | 7.5            |
| Issued shares (diluted for itm options) | m            |                                      | 1,299.9        |
| Market capitalisation (diluted)         | m            |                                      | 1,624.8        |
| Net cash + options                      | \$m          |                                      | 88.3           |
| <b>Enterprise value (diluted)</b>       | <b>\$m</b>   |                                      | <b>1,536.6</b> |

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 currently has two Non-Executive Directors appointed to the DEG Board, Ed Eshuys and Bruce Parncutt.

**Table 10 - DEG top shareholders**

| Shareholder              | %     | m     |
|--------------------------|-------|-------|
| DGO Gold                 | 15.8% | 203.6 |
| Jupiter Asset Management | 6.0%  | 77.9  |
| Van Eck (GDJX)           | 5.6%  | 71.9  |
| Invesco                  | 5.2%  | 66.9  |

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.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating.
- **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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