BELL POTTER

Speculative

See key risks on Page 10 and early stage company risk warning on page 11. Speculative securities may not be suitable for retail clients

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De Grey Mining Ltd (DEG)

Scoping Study confirms Tier 1 potential

Recommendation
Buy (unchanged)
Price
$1.21
Valuation
$1.74 (previously $1.71)
Risk
Speculative

GICS Sector

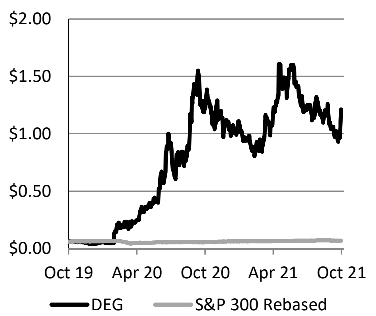
Materials

Expected Return	
Capital growth	**43.8%**
Dividend yield	**0.0%**
Total expected return	**43.8%**
Company Data & Ratios	
Enterprise value	**$1,493m**
Market cap	**$1,564m**
Issued capital	**1,292m**
Free float	**79%**
Avg. daily val. (52wk)	**$7.9m**
12 month price range	**$0.80-$1.67**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.16	1.20	1.19
Absolute (%)	4.8	0.8	1.7
Rel market (%)	8.3	1.4	-24.0

Absolute Price



SOURCE: IRESS

Scoping Study shows 427kozpa for +10 years

DEG has released the results of a Scoping Study examining potential development scenarios for its 100%-owned Mallina Gold Project (MGP), located 60km southwest of Port Hedland in WA. Key outputs from the Scoping Study demonstrate the potential for gold production of ~427kozpa at an average feed grade of 1.4g/t Au over the 10 year scoping study evaluation period, including 473kozpa at an average feed grade of 1.6g/t Au for the first 5 years. This would be produced from a Mining Inventory of 111Mt @ 1.43g/t Au (5.1Moz) through a 10Mtpa processing plant at life-of-mine (LOM) average cash costs of A$1,170/oz (first 5 years A$1,059/oz) and All-In-Sustaining-Costs (AISC) of A$1,224/oz (first 5 years A$1,111/oz). Total development capital has been estimated at A$893m, inclusive of A$58m pre-strip and 25% contingency allowance. DEG's financial analysis calculates a post-tax $NPV_{5\%}$ of A$1,976m, IRR of 49.4% and payback period of 1.8 years. The Study justifies progression of the MGP to Pre-Feasibility Study (PFS), which is expected to be completed in 2HCY22.

Attractive project for development – or acquisition

There are several key takeaways from the MGP Scoping Study that, in our view, reinforce its attractiveness as a development asset. These include the confirmation of an average production rate of +400kozpa, a +10 year mine life and low projected operating costs which, in our view, are consistent with the key attributes of a Tier 1 gold project. This type of asset provides a competitive advantage and long-term foundation for growth, also making it attractive for acquisition. The low underlying unit cost base and 1.43g/t Au head grade offsets the additional cost and complexity of the inclusion of a sulphide oxidation circuit. This has been perceived as a key risk of the MGP and, in our view, the Scoping Study is a major step in de-risking and quantifying the likely performance of the proposed process route. The strong financial performance metrics, including a short payback period, high IRR and low CAPEX/NPV ratio, make the MGP an attractive project for debt providers to fund.

Investment thesis – Buy (Speculative), Valuation $1.74/sh

The results of the Scoping Study align relatively closely with the notional mining scenario we had used as one of the key components of our DEG valuation. The higher production rate compared with our previous assumption is offset by higher AISC and CAPEX. The Scoping Study is a major de-risking milestone and we reflect this by reducing our project risk discount from 40% to 30%. The net impact to our MGP valuation is a minor increase, from A$1.50 billion to A$1.55 billion. Our exploration valuation for the balance of DEG's Resource base is effectively unchanged, leading to a minor increase in our DEG valuation, to $1.74/sh (from $1.71/sh previously). The Scoping Study has confirmed the MGP as a globally significant gold development project and we retain our Speculative Buy recommendation.

Scoping Study confirms Tier 1 potential

Scoping Study shows 427kozpa for +10 years

DEG has released the results of a Scoping Study examining potential development scenarios for its 100%-owned Mallina Gold Project (MGP), located 60km southwest of Port Hedland in WA. The Study is an initial evaluation of the MGP and is based on the maiden Resource for Hemi, of 192.4Mt @ 1.1g/t Au for 6.8Moz, part of the updated global Resource for the MGP of 230Mt @ 1.2g/t Au for 9.0Moz, released in June 2021. Key outputs from the Scoping Study demonstrate the potential for gold production of approximately 427kozpa at an average feed grade of 1.4g/t Au over the 10 year scoping study evaluation period, including 473kozpa at an average feed grade of 1.6g/t Au over the first 5 years. This would be produced from a Mining Inventory of 111Mt @ 1.43g/t Au (5.1Moz) through a 10Mtpa processing plant at life-of-mine (LOM) average C1 cash costs of A$1,170/oz (first 5 years A$1,059/oz) and All-In-Sustaining-Costs (AISC) of A$1,224/oz (first 5 years A$1,111/oz). The total capital development cost has been estimated at A$893m, inclusive of A$58m pre-strip and 25% contingency allowance. DEG's financial analysis calculates a post-tax $NPV_{5\%}$ of A$1,976m, IRR of 49.4% and payback period of 1.8 years. The Study justifies progression of the MGP to Pre-Feasibility Study (PFS), which is expected to be completed in 2HCY22.

Results closely aligned with our expectations

The results of the Scoping Study align relatively closely with the notional mining scenario we had used as one of the key components of our DEG valuation. Our scenario assumed production of ~400kozpa at AISC of A$1,075/oz over a mine life of 13 years for development CAPEX of A$850m. We had allowed a Mining Inventory of 130Mt @ 1.4g/t Au and a process plant throughput rate of 10Mtpa, achieving gold recoveries of 89%.

Compared with our notional scenario, DEG has outlined a gold production rate that is nearly 20% higher over the first 5 years (~6% higher over the LOM). With this being one of the key benchmarks the project will be judged by, we view this as a major positive outcome of the Study. This is in part driven by the higher forecast gold recoveries of 93% (compared with our 89% assumption). AISC over the LOM are 14% higher than our notional assumption, however they remain at the very low end of the range reported by ASX-listed gold producers. CAPEX is 5% higher, but this is not a key sensitivity for the project. High IRR's and a short payback period are favourable factors for its financing.

Table 1 - Notional project parameters and risk-adjusted NPV

Metric	Bell Potter notional assumption	DEG Scoping Study outcomes
MGP Resource (June 2021)	230Mt @ 1.2g/t Au for 9.0Moz	230Mt @ 1.2g/t Au for 9.0Moz
Assumed Mining Inventory	130Mt @ 1.4g/t Au for 5.9Moz	111Mt @ 1.43g/t Au for 5.1Moz
Gold price (A$/oz)	$2,400/oz	$2,400/oz
CAPEX (A$m)	$850m	$893m
Mill throughput and recovery	10Mtpa @1.4g/t Au, recoveries 89%	10Mtpa @1.43g/t Au, recoveries 93%
Average annual production	400,000 ozpa	427,000 ozpa
Life-Of-Mine (lom)	13 years (life of mine)	10 years (evaluation period)
Metallurgical recovery	89%	93%
AISC (A$/oz)	A$1,075/oz	A$1,224/oz

SOURCE: BELL POTTER SECURITIES ESTIMATES

The result of applying the Scoping Study parameters to our valuation framework for the MGP is that the higher AISC and CAPEX offset the benefit of the higher production rate for a net reduction in our un-risked, post-tax $NPV_{8\%\ real}$. However, the Scoping Study is also a major de-risking milestone and we reflect this by reducing our project risk discount from

40% to 30%. The net impact to our MGP valuation is a minor increase, from A$1.50 billion to A$1.55 billion.

Attractive project for development – or acquisition

There are several key takeaways from the MGP Scoping Study that, in our view, reinforce its attractiveness as a development asset. This has been realised in its approval by the DEG Board for progression to PFS. The PFS will evaluate the MGP in more detail, optimise the operating assumptions and increase the confidence with which an investment decision may be made.

Key attributes we see in the MGP include:

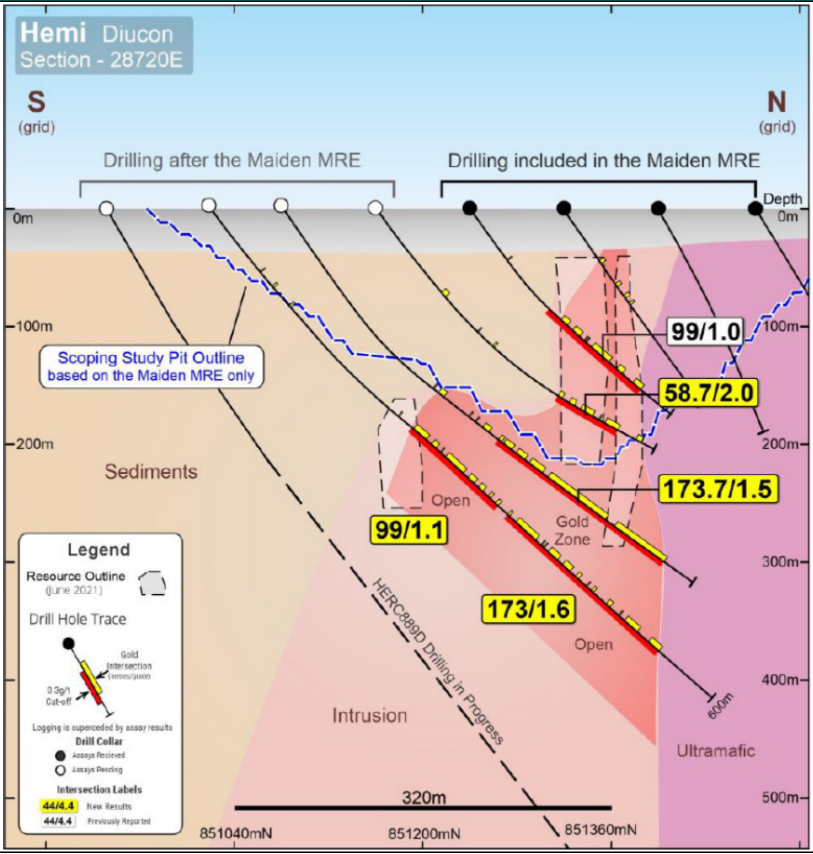
- The **high annual average production rate of +400koz**, the +10 year mine life and the low projected operating costs, which are consistent with the key attributes of a Tier 1 gold project. In our view, this also qualifies the MGP as a strategic asset in the Australian (and global) gold mining context. This appeal is further enhanced by the attractive jurisdiction. Peer production assets in Australia are owned by the world's largest gold mining companies, including Newmont, Newcrest, AngloGold, Gold Fields, Kirkland Lake, Northern Star and Evolution Mining. This type of asset provides a competitive advantage and long-term foundation for growth, also making it an attractive asset for acquisition;
- Underlying unit mining, power and processing costs that, combined with the 1.43g/t Au head grade, more than **offset the additional cost and complexity of the inclusion of a sulphide oxidation circuit** (BIOX®, Pressure Oxidation and the Albion Process all remain under consideration). This has been perceived as one of the key risks to the MGP and, in our view, the Scoping Study is a major step in de-risking and quantifying the likely performance of the proposed process route;
- **Strong financial performance metrics**, which make the MGP an attractive project for debt providers to fund. The short payback period, high IRR and low CAPEX/NPV ratio are all factors that reduce risk for debt providers. Combined with the excellent, low-risk jurisdiction and DEG's 100% ownership, we see an environment supportive of a competitive project financing process; and
- **Resource growth and other upside opportunities**: this Study, in our view, very much represents an initial assessment of the MGP. The potential for Resource growth has been clearly demonstrated by excellent infill and extension drilling results since the cut-off date for the June 2021 Resource estimate. Ongoing Resource growth is likely to drive mine life extension and / or production expansion. This and other upside factors are outlined in more detail below.

Upside opportunities

DEG has already identified several opportunities for improving the initial Scoping Study results. This includes **~800koz of the current Resource** which, although captured within pit shell optimisations, has been excluded from the evaluation due to being in the Inferred Resource category. Follow-up infill drilling will lift this material into the higher confidence Indicated category for inclusion in the project evaluation. All else being equal, we would expect this to increase the LOM gold production, lower the strip-ratio and lower LOM AISC.

There also remains **significant potential for Resource growth**. Good infill and extension drilling results have been reported since the Resource drilling 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. The cross section below illustrates the opportunity of recent extension drilling results.

Figure 1 - Cross section showing successful Resource extension drilling and Study pit shell



SOURCE: COMPANY DATA

We also see opportunities to optimise the current mining schedule on the potential of increased volumes of higher grade material coming into the Resource. Higher drilling density in the Measured and Indicated categories is confirming the presence of higher grade ore. As infill drilling continues, we view it as likely more will be defined, potentially extending the elevated gold production rates of years 1-5.

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%
Total	**229.800**	**1.21**	**8,968.800**	**100%**

SOURCE: COMPANY DATA

With multiple ore sources across the MGP tenement package and an aggressive regional exploration program, it is also likely that new discoveries and more selective mining of satellite deposits could increase mill head grades and gold production rates.

Valuation methodology

We have updated our valuation for DEG following the release of the MGP Scoping Study. Key changes compared with our previous valuation include:

- Increasing our average annual LOM production rate to ~430kozpa;
- Increasing our development CAPEX assumption to A$893m;

- Increasing our assumed LOM C1 costs and AISC to A$1,170/oz and A$1,275/oz, capturing ongoing exploration and corporate costs in addition to sustaining capital; and
- We maintain a slightly extended LOM (of 13 years) reflecting a portion of the exploration upside at the MGP.

Key parameters and outcomes of our valuation assumptions are summarised below:

Table 3 - Notional project parameters and risk-adjusted NPV

Current MGP Resource	230Mt @ 1.2g/t Au for 9.0Moz
Mining Inventory	111Mt @ 1.43g/t Au for 5.1Moz
Gold price (A$/oz)	$2,400/oz
CAPEX (A$m)	$893m
Mill throughput and recovery	10Mtpa @1.43g/t Au, recoveries 93%
Average annual production	428,000 ozpa
Life-Of-Mine (lom)	13yrs
Metallurgical recovery	93%
AISC (A$/oz)	$1,275/oz
NPV (8% real, post-tax, A$m)	**$2,210m**
Project Stage risk adjustment	70%
Risk-adjusted NPV (A$m)	**$1,550m**

SOURCE: BELL POTTER SECURITIES ESTIMATES

We reiterate that 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 and high risk.

EV/Resource ounce valuation

Our notional project valuation accounts only for the ounces included in our assumed mining inventory. It makes no allowance for the balance of the MGP Resource, 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^2 tenement package at the MGP via the application of a market based EV/oz metric, which we most recently measured at $105/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.

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

Table 4 – Exploration valuation summary

Current Resource (Moz)	9.0
Exploration success (Moz)	2.2
Implied potential Resource (Moz)	11.2
Notional production scenario (Moz)	5.1
Balance (Moz)	**6.1**
Market metric EV/oz (A$/oz)	$105
Exploration valuation (A$m)	**$641**

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 the Scoping Study 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 (30 June 2021) of $70.1m and we make no assumption for an equity raise within the next 12 months.

Table 5 – DEG valuation summary

Ordinary shares (m)		**1,292.4**
Options outstanding (m)		7.5
Assumed equity raise (m)		-
Diluted m		**1,299.9**
Sum-of-the-parts	**$m**	**$/sh**
Notional project risk-adjusted NPV	1,549.0	1.20
Other exploration	641.3	0.50
Corporate overheads	(6.3)	(0.00)
Subtotal (EV)	2,184.0	1.69
Net cash (debt)	71.0	0.05
Total (undiluted)	**2,255.0**	**1.74**
Cash from options	1.0	@ 0.13
Assumed equity raise	-	@ 0.00
Total (fully diluted)	**2,256.0**	**1.74**

SOURCE: BELL POTTER ESTIMATES

With upside of 43.8% from the last closing share price to our target price, we retain our Speculative Buy recommendation.

Upcoming catalysts

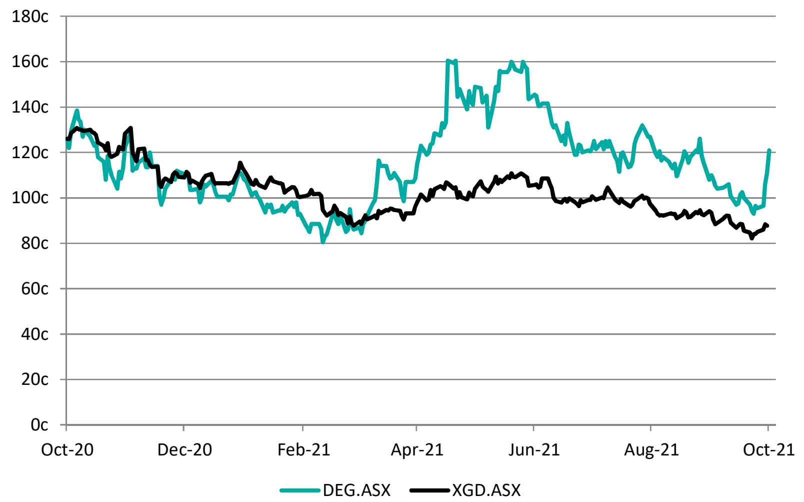
Upcoming catalysts for DEG include:

- 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 regional exploration programs across the wider MGP to test the multiple identified intrusion-related targets. These could lead to new discoveries and potentially repeat the success of Hemi, multiplying the Resource growth potential at the MGP;
- Updates on other project development studies and activities including metallurgical test work, native title agreements, environmental baseline studies and the submission and approval of key operating permits;
- The completion of a Resource update and maiden Reserve to support the release of a Pre-Feasibility Study (PFS) in 2HCY22; 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 demonstrated Tier 1 potential and location in a top mining jurisdiction make DEG a compelling target for large, global, gold mining companies, in our view.

Share price performance vs ASX Gold Index

Relative performance chart below:

Figure 2 - 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^2 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, supporting a Scoping Study that has 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 $1.74/sh

The results of the Scoping Study align relatively closely with the notional mining scenario we had used as one of the key components of our DEG valuation. The higher production rate compared to our previous assumption is offset by higher AISC and CAPEX. The Scoping Study is a major de-risking milestone and we reflect this by reducing our project risk discount from 40% to 30%. The net impact to our MGP valuation is a minor increase, from A$1.50 billion to A$1.55 billion. Our exploration valuation for the balance of DEG's Resource base is effectively unchanged, leading to a minor increase in our DEG valuation, to $1.74/sh (from $1.71/sh previously). The Scoping Study has confirmed the MGP as a globally significant gold development project and we retain our Speculative Buy 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 6 – Mallina Gold Project – Total gold Mineral Resource (June 2021)

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

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 7 - DEG capital structure summary

Shares on issue	m		1,292.4
Performance shares / other	m		0.0
Total shares on issue	**m**		**1,292.4**
Share price	**$/sh**		**1.250**
Market capitalisation	$m		1,615.5
Net cash	$m		87.3
Enterprise value (undiluted)	**$m**		**1,528.2**
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	$m		88.3
Enterprise value (diluted)	**$m**		**1,536.6**

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 8 - DEG top shareholders

Shareholder	%	m
DGO Gold	15.8%	203.6
Jupiter Asset Management	6.0%	77.9
Invesco	5.2%	66.9
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.
- **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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