

De Grey Mining Limited

Precious Metals - Developer/Explorer

31 May 2022

Rating
SPECULATIVE BUY

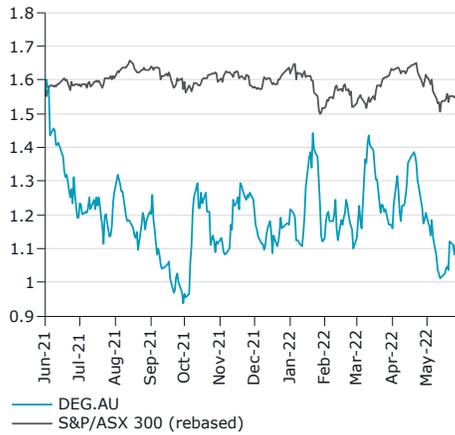
Price Target
A\$2.15

DEG-ASX

Price
A\$1.08

Market Data

52-Week Range (A\$) :	0.90 - 1.62
Avg Daily Vol (000s) :	6,866.09
Shares Out. (M) :	1,408.8
Market Cap (A\$M) :	1,521.6
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0



Priced as of close of business 30 May 2022

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Hemi Resource increases in scale and confidence

Hemi Resource increased by 25% to 8.5Moz... DEG has increased its Resource at Hemi by 1.7Moz to 8.5Moz @ 1.2g/t Au (0.3g/t Au cut-off), representing a 25% increase in contained ounces and a ~9% increase in grade from its maiden Resource (June 2021).

... Indicated portion more than doubled to 5.8Moz @ 1.3g/t Au. Notably the Indicated portion of the Hemi Resource has increased by 3Moz to 5.8Moz @ 1.3g/t Au, representing 69% of the total Hemi Resource, while holding the same grades as maiden Resource. The entire Indicated Resource and 95% of the total Resource at Hemi sits within 370m below surface, making it highly amenable to large scale open pit mining.

Hemi Resource robust at higher cut-off grades... We note the Hemi Resource remains robust at higher cut-off grades with the Indicated portion remaining steady at ~70% under each cut-off:

- 0.4g/t cut-off: 8.2Moz @ 1.4g/t Au (-3% ounces, +17% grade)
- 0.5g/t cut-off: 7.9Moz @ 1.5g/t Au (-7% ounces, +25% grade)

In our view, this provides DEG with significant optionality with respect to its grade and production profile as it continues to grow the Resource.

Diucon and Eagle together added 1.1Moz, grade increased ~40%. Diucon and Eagle (previously reported as one single Inferred Resource of 1.5Moz @ 0.9g/t) have together grown 78% to 2.6Moz at an average grade of 1.25g/t Au representing a ~40% increase in grade. Now reported separately, Diucon has a Resource of 1.6Moz @ 1.3g/t (80% Indicated) and Eagle 948koz @ 1.1g/t (67% Indicated). It should be noted that Eagle was not included in the Scoping Study and, along with the broader 109% increase in Indicated Resources at Hemi, presents a significant opportunity for DEG to increase the production profile and extend mine-life potential at the MGP.

Hemi Resource update comparison

	Resource (Moz)				Resource grade (g/t Au)		
	Maiden	Updated	ΔMoz	% Δ	Maiden	Updated	%Δ
Aquila	0.8	0.9	0.1	10%	1.4	1.4	0%
Brolga	2.3	2.4	0.2	8%	1.1	1.2	9%
Crow	1.0	1.2	0.1	14%	1.1	1.1	0%
Diucon	1.5	1.6	1.1	78%	0.9	1.3	39%
Eagle		0.9				1.1	
Falcon	1.2	1.4	0.1	10%	1.1	1.2	9%
Total	6.8	8.5	1.7	25%	1.1	1.2	9%

Source: Company reports, Canaccord Genuity estimates

Global Resource now >10Moz. The overall Resource base for DEG at its Mallina project now stands at 10.6Moz @ 1.3g/t (prev. 9Moz @ 1.2g/t), with a total of 6.9Moz @ 1.35g/t in the Indicated category.

Exploration upside, Hemi depth extensions largely untested. DEG is maintaining an aggressive exploration effort with 10 rigs on site targeting Resource extensions (all deposits remain open at depth and along strike), as well as testing a number of regional targets.

Scoping Study refresher. DEG's Scoping Study outcomes, which were based on the prior maiden Resource, outlined a project producing 427kozpa over a 10-year mine life at an AISC of A\$1,224/oz. This equates to a total of 4.6Moz mined at a grade 1.4g/t. Comparatively, we model DEG producing on average 426kozpa over a 15-year mine life at an AISC of A\$1,250/oz. This equates to a total 6.9Moz mined at a grade of 1.4g/t, which on the back of the upgrade looks increasingly conservative. DEG plans to release a PFS in the SepQ'22, incorporating the Resource update which, in our view, should demonstrate improved project economics.

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Investment Recommendation

Date and time of first dissemination: May 30, 2022, 21:26 ET

Date and time of production: May 30, 2022, 21:26 ET

Target Price / Valuation Methodology:

De Grey Mining Limited - DEG

We have based our valuation for DEG on a DCF analysis (forward curve NPV10%) for the MGP, assuming a standalone development scenario. We see good potential for DEG to delineate a 10Moz Resource at Hemi within 12 months, building on the existing 2.2Moz Resource which, in our view, should underpin a +375kozpa production scenario. Our valuation conservatively assumes first gold production in FY25, allowing 24 months from the Hemi maiden Resource (mid 2021) to complete infill drilling and Feasibility Studies followed by 18 months for project construction and commissioning.

Risks to achieving Target Price / Valuation:

De Grey Mining Limited - DEG

Financing risks

As a pre-production company with no material income, DEG is reliant on equity and debt markets to fund development of its assets and progress its regional exploration pipeline. Total development and working capital requirements are subject to completion of feasibility studies. There are no guarantees that studies will result in a positive investment decision for the MGP. Further, we can make no assurances that accessing these markets will be done without further dilution to shareholders.

Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred Resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further mineral Resources nor that the company will be able to convert the current mineral Resource into minable Reserves.

Operating risks

If/when in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

Commodity price and currency fluctuations

As with any mining company, DEG is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 05/30/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	646	68.36%	39.47%
Hold	129	13.65%	17.05%
Sell	11	1.16%	18.18%
Speculative Buy	154	16.30%	47.40%
	945*	100.0%	

*Total includes stocks that are Under Review

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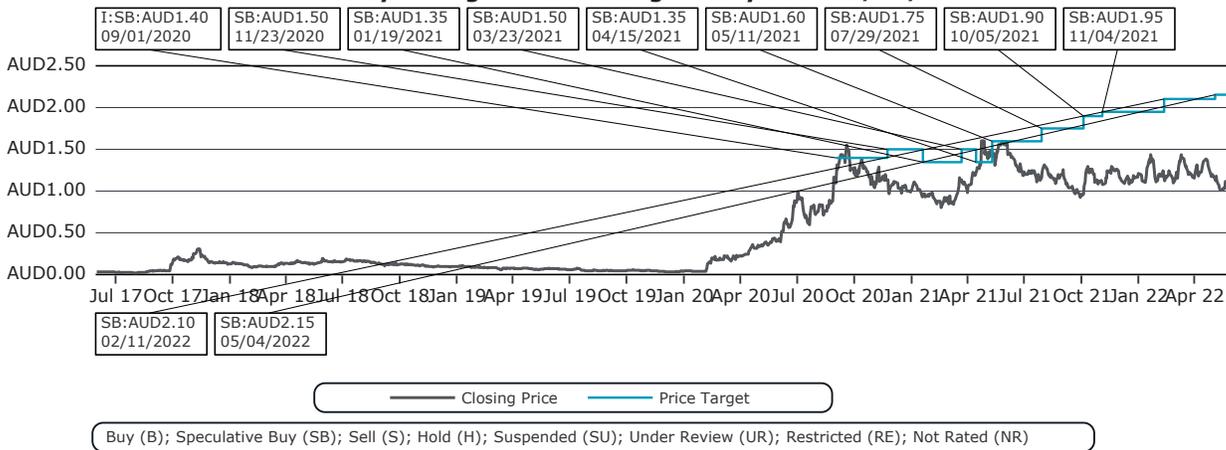
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De Grey Mining Limited Rating History as of 05/27/2022



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