

Analyst

David Coates 612 8224 2887

Authorisation

Regan Burrows 618 9326 7677

De Grey Mining Ltd (DEG)

PFS confirms world class potential

Recommendation
Buy (unchanged)
Price
\$0.97
Valuation
\$1.97 (previously \$1.80)
Risk
Speculative

GICS Sector

Materials

Expected Return

Capital growth	103%
Dividend yield	0.0%
Total expected return	103%

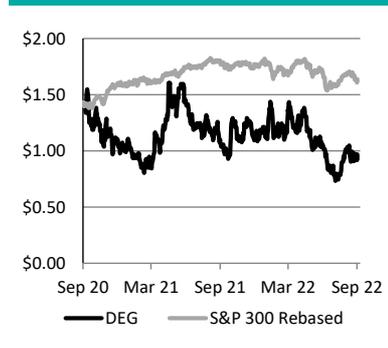
Company Data & Ratios

Enterprise value	\$1,336m
Market cap	\$1,368m
Issued capital	1,411m
Free float	76%
Avg. daily val. (52wk)	\$9.0m
12 month price range	\$0.725-\$1.465

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.96	1.09	1.16
Absolute (%)	1.0	-11.0	-16.0
Rel market (%)	3.4	-5.7	-6.8

Absolute Price



SOURCE: IRESS

Mallina PFS – significantly improved and de-risked

DEG has released the outcomes of a Pre-Feasibility Study (PFS) on its 100%-owned Mallina Gold Project (MGP), located 60km from Port Hedland in Western Australia. This is a major de-risking milestone and provides much greater detail and confidence on the proposed development scenario for the MGP. The PFS has delivered measurable improvements over the October 2021 Scoping Study which, overall, have come in at the upper end of our expectations or better: Average annual production of 540kozpa for the first ten years is 26% above that of the Scoping Study and peak production of 637kozpa is 50% above that metric; All-In-Sustaining-Costs (AISC) of A\$1,280/oz have remained effectively unchanged, benefitting from higher grades in the first 10 years; and CAPEX of A\$1,053m is up 18% from A\$893m in the Scoping Study, which is at the low end of our expectations in the current inflationary environment.

MGP a “world class project”

The PFS is based on the updated May 2022 Resource for the Hemi deposits of 213Mt @ 1.2g/t Au for 8.5Moz. This is both larger and higher grade than the June 2021 Resource. It is a key enabler of the higher production rate compared with the October 2021 Scoping Study and of that rate being maintained for a longer period than in the Scoping Study. For the first 10 years of operations the MGP maintains a mill head grade of 1.8g/t Au which supports the 540kozpa production rate and bottom quartile AISC. On the PFS metrics, we believe the MGP is firmly positioned as a “world class” gold project that is relevant to the world’s largest gold mining companies. We expect the PFS to be closely scrutinised by a range of potential acquirors evaluating what we view as the rare combination of a newly discovered Tier 1 asset in a top global mining jurisdiction. DEG is now targeting the completion of a Definitive Feasibility Study (DFS) and Final Investment Decision (FID) for mid-CY23 followed by a two year construction period and first production in 2HCY25.

Investment thesis – Buy (Speculative), Valuation \$1.97/sh

We have updated the latest MGP project parameters as outlined in the PFS to our own modelled assumptions and reduced our risk adjustment discount to reflect the increased confidence in the PFS outcomes. Our risk-adjusted NPV-based valuation increases 10% to \$1.97/sh (previously \$1.80/sh). We believe the MGP shows the potential to support a large-scale, long life production asset with operational flexibility and robust margins in one of the world’s top mining jurisdictions. We view the MGP as a rare opportunity that is attractive as both a foundation production asset for DEG or as a meaningful acquisition for any of the world’s top gold production companies. We retain our Speculative Buy recommendation.

PFS confirms world class potential

Mallina PFS – significantly improved and de-risked

DEG has released the outcomes of a Pre-Feasibility Study (PFS) on its 100%-owned Mallina Gold Project (MGP), located 60km from Port Hedland in Western Australia. This is a major de-risking milestone and provides much greater detail and confidence on the proposed development scenario for the MGP. It has delivered measurable improvements over the Scoping Study, released in October 2021 which, overall, have come in at the upper end of our expectations or better:

- Average annual production of 540kozpa for the first ten years is 26% above that of the Scoping Study and peak production 637kozpa is 50% above that metric;
- AISC of A\$1,280/oz have remained effectively unchanged, benefitting from higher grades in the first 10 years and offsetting industry wide inflationary pressures;
- CAPEX of A\$1,053m is up 18% from A\$893m in the Scoping Study, which is at the low end of our expectations in the current inflationary environment.

Key project production metrics

Key production metrics from the MGP PFS are summarised below, together with the equivalent metric from the Scoping Study of October 2021.

Table 1 - Key Production metrics

Key Production Outcomes	Unit	Scoping Study	Prefeasibility Study
Life of Mine	Years	10	13.6
Ore tonnes mined	Mt	100	136
Strip Ratio - Hemi	waste:ore	4.9:1	6.1:1
Ore processing rate - nameplate	Mtpa	10	10
Average processed grade	g/t Au	1.4	1.6
Average Metallurgical recovery	%	93.0	93.6
Average gold production (recovered) in first five years	oz pa	473,000	550,000
Average gold production (recovered) in first 10 years	oz pa	427,000	540,000
Recovered gold – million ounces	Moz	4.3	6.4

SOURCE: DE GREY MINING LTD

Drivers of PFS upside compared with Scoping Study

The PFS is based on the updated May 2022 Resource for the Hemi deposits (213Mt @ 1.2g/t Au for 8.5Moz), part of the global Resource for the MGP of 251Mt @ 1.3g/t Au for 10.6Moz. This is both **larger and higher grade than the June 2021 Resource** which was the basis for the October 2021 Scoping Study.

Table 2 - Mallina Gold Project - Global Mineral Resource (incl. Hemi) as at May 2022

Category	Tonnes (Mt)	Grade (g/t Au)	Contained gold (koz)	%of total oz
Measured	4.7	1.7	264.9	2%
Indicated	153.3	1.3	6,590.0	62%
Inferred	92.6	1.3	3,779.0	36%
Total	250.7	1.3	10,634.0	100%

SOURCE: COMPANY DATA, 0.3G/T AU CUT-OFF GRADE

The updated Resource is the major enabler of the higher production rate and of that rate being maintained for a longer period compared with the Scoping Study. It supports a mining rate that is higher than the process plant throughput rate, enabling ore stockpiles to be built and higher-grade ore to be treated preferentially in the mining schedule. The result is that for the first 10 years of operations the MGP maintains a mill head grade of 1.8g/t Au, compared with the Reserve grade of 1.5g/t Au.

Other characteristics of the Resource include its robustness at higher cut-off grades (cog), pointing to the ability to manage margins through a range of gold price environments and provide optionality between underground and open-pit mining methods.

- **Resource at 0.5g/t Au cog:** 166Mt @ 1.5g/t for 7.9Moz (incl. 111Mt @ 1.5g/t for 5.4Moz Indicated); and
- **Resource at 0.7g/t Au cog:** 129Mt @ 1.7g/t for 7.2Moz (incl. 88Mt @ 1.8g/t for 5.0Moz Indicated).

Maiden Ore Reserve

The PFS includes the release of a maiden Ore Reserve for the MGP:

Table 3 - Mallina Gold Project – Maiden Ore Reserve (Hemi) as at September 2022

Category	Tonnes (Mt)	Grade (g/t Au)	Contained gold (koz)	%of total oz
Proved	-	-	-	-
Probable	103.4	1.5	5,139	100%
Total	103.4	1.5	5,139	100%

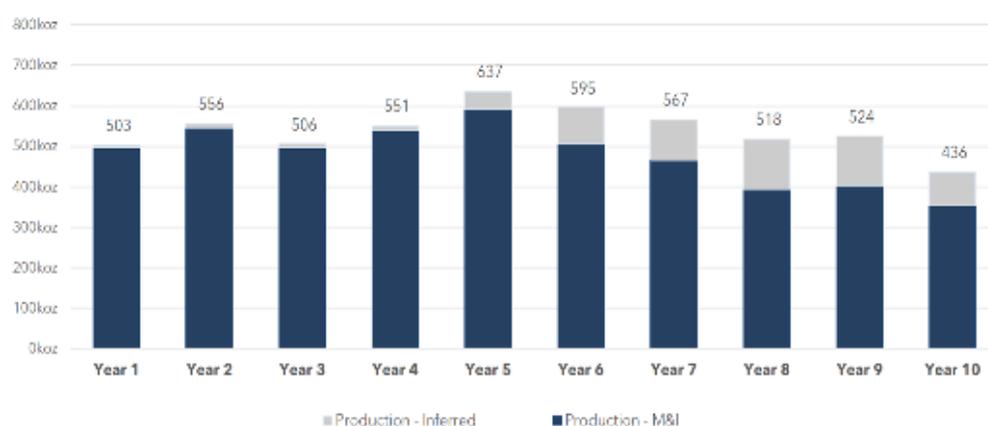
SOURCE: DE GREY MINING LTD, 0.5G/T CUTOFF GRADE

The Reserve is based only on the Hemi deposits, i.e. 213Mt @ 1.2g/t Au for 8.5Moz, which includes 5.8Moz @ 1.3g/t Au are of JORC Indicated classification. This represents a 60% Resource-to-Reserve conversion rate for Hemi and a very high 89% from the Indicated component (available for conversion to Reserves).

High confidence mining forecasts

The latest Reserve and Resource estimates provide high levels of confidence in the PFS mining forecasts. Measured and Indicated Resources account for 89% of the production profile over the ten years, compared with 70% in the scoping study.

Figure 1 – MGP – Gold production profile years 1-10



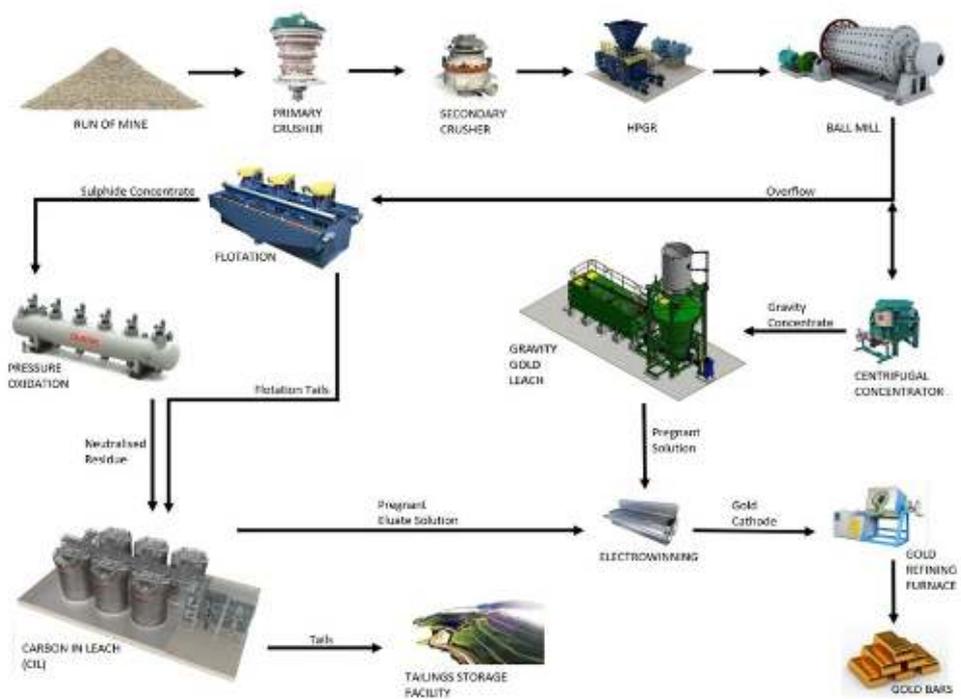
SOURCE: DE GREY MINING LTD

Process plant

Process plant design is well advanced and has been developed from a comprehensive program of metallurgical test work across the six Hemi deposits. The process route is based on conventional carbon in leach (CIL) processing with the inclusion of a flotation

stage and a sulphide pressure oxidation (POx) stage to achieve average life-of-mine gold recoveries of 93.6%. Nameplate plant throughput is 10Mtpa for the comminution, flotation and CIL circuits, with POx circuit throughput of 0.8Mtpa, reflecting the mass pull to concentrate of 8%. The POx process route for the sulphide concentrate was selected in preference to other oxidation methods (BIOX and Albion processes) due to the mineralogy of Hemi ore types, which have an inherent carbonate content that reduces limestone reagent consumption at the neutralisation stage.

Figure 2 – MGP – proposed process route



SOURCE: DE GREY MINING LTD

Capital costs

The updated CAPEX estimate of A\$985m plus pre-strip A\$68m (total \$1,053m), compares with A\$893m in Scoping Study (up ~18%). It is judged to have an accuracy of -15% to +25% and is considered to have been conducted at a high point for demand and costs within the mining industry development cycle. The Definitive Feasibility Study (DFS) will include a value engineering process to identify areas for potential cost saving.

Table 4 - Mallina Gold Project – Process plant and infrastructure CAPEX

Area	Note	Cost \$M	Percentage Of Total
Processing - Plant	1	489	50%
Processing - Infrastructure	2	115	12%
Processing - Indirects	3	41	4%
Infrastructure - Site	4	122	12%
EPCM/Owners	5	117	12%
Subtotal		885	90%
Growth Allowance	6	100	10%
Total		985	100%

Notes: 1. Comminution, flotation, oxidation, neutralisation, & leaching circuits; oxygen plant assumed as BOO
 2. Power substation, tailings storage facility, buildings, offices, laboratory, and workshops
 3. First fill reagents & consumables, ocean freight, spares, commissioning
 4. Associated site infrastructure including water supply borefield, village, airstrip, sealed access roads, c
 5. EPCM / Owners Costs / Temporary Facilities / Insurances
 6. Growth Allowance overall 10%

SOURCE: DE GREY MINING LTD

Operating costs

The operating costs in the PFS covers all mining, processing, and on-site administration costs. In addition, the estimates include sustaining capital, statutory royalties and land access and community investment costs. DEG has also opted for the supply of oxygen to the process plant to be provided by third parties on a Build-Own-Operate (BOO) basis, with this included in the operating cost estimate. The operating cost estimates have been estimated to an accuracy of -15% to +25%. Open-pit mining costs assume a mining contractor strategy.

Table 5 - Mallina Gold Project – Operating cost estimate per tonne ore processed

Area	Cost Estimate
Mining	\$26.10/t ore processed
Processing	\$23.94/t ore processed
Administration	\$1.38/t ore processed

SOURCE: DE GREY MINING LTD

Financial metrics

DEG has reported the following key financial metrics and performance outcomes for the MGP as contemplated by the DFS. It highlights operating costs that are very competitive against ASX-listed gold producing peers, a short payback period, high IRR and NPV: CAPEX ratio of 2.6:1.

Table 6 - Key financial metrics as reported by DEG (Scoping Study (lhs) vs PFS (rhs))

Financial Outcomes (at gold price of A\$2,400/oz)			
All In Sustaining Costs (AISC)			
Average AISC in first five years	\$/oz	1,111	1,220
Average AISC in first 10 years	\$/oz	1,224	1,280
Net free cashflow (pre-tax)	\$ billion	3.9	5.9
Net free cashflow (post-tax)	\$ billion	2.9	4.2
EBITDA – Life of Mine	\$ billion	4.8	7.1
Payback period (pre-tax)	Years	1.5	1.6
Payback period (post-tax)	Years	1.8	1.8
NPV_{5%} (pre-tax)	\$ billion	2.8	3.9
NPV _{5%} (post-tax)	\$ billion	2.0	2.7
Internal Rate of Return (pre-tax)	%	60	51
Internal Rate of Return (post-tax)	%	49	41
Capital Cost Estimate			
Plant and Infrastructure Capital Cost	\$ million	665	885
Plant and Infrastructure growth allowance	\$ million	170	100
Pre-Strip Capital Costs	\$ million	58	68
Total Pre-Production Capital Costs	\$ million	893	1,053

SOURCE: DE GREY MINING LTD

Bell Potter valuation

We have updated the latest MGP project parameters as outlined in the PFS to our own modelled assumptions for gold production, operating costs and capital costs. We assume a higher A\$ gold price (A\$2,600/oz), in line with our long-term gold price forecast and apply a higher discount rate (8% real). Key outputs from our valuation are summarised below:

Table 7 - Mallina Gold Project – Bell Potter valuation metrics (A\$2,600/oz gold price)

Metric	Output
Post-tax NPV (8% real)	A\$2,881m
Post-tax NPV (8% real, risk-adjusted 75%)	A\$2,161m
IRR	46%
Payback period	100%

SOURCE: DE GREY MINING LTD, 0.5G/T CUTOFF GRADE

World Class gold project

In our view, the PFS project metrics firmly position the Mallina Gold Project as a “world class” gold project that is relevant to the world’s largest gold mining companies. We expect the PFS to be closely scrutinised by a range of potential acquirors evaluating what we view as the rare combination of a newly discovered Tier 1 asset in a top global mining jurisdiction.

The world’s largest gold mining company, Newmont Corporation (NEM:US, not rated), provides a definition of what it classifies as a “world class” mining project:

“...a project which produces +500,000 gold equivalent ounces per year on a consolidated basis; AISC <US\$900/oz (A\$1,285/oz at 0.70) at a US\$1,200/oz gold price, with a mine life of >10 years, in countries classified in the A and B rating ranges for Moody’s, S&P or Fitch.”

The PFS demonstrates that the MGP meets these criteria and shows potential for them to be improved upon further. Australia is rated in the “A” ranges with Stable Outlook by all of Moody’s, S&P and Fitch.

We believe that corporate interest in the MGP starts with the world’s top gold producer, Newmont (NEM, not rated) and any gold miner below it that could afford the acquisition. We have narrowed the field to companies that already have some exposure to refractory gold ore processing and/or an operational footprint in Australia.

Table 8 – De Grey and Gold Road – the minnows and the sharks

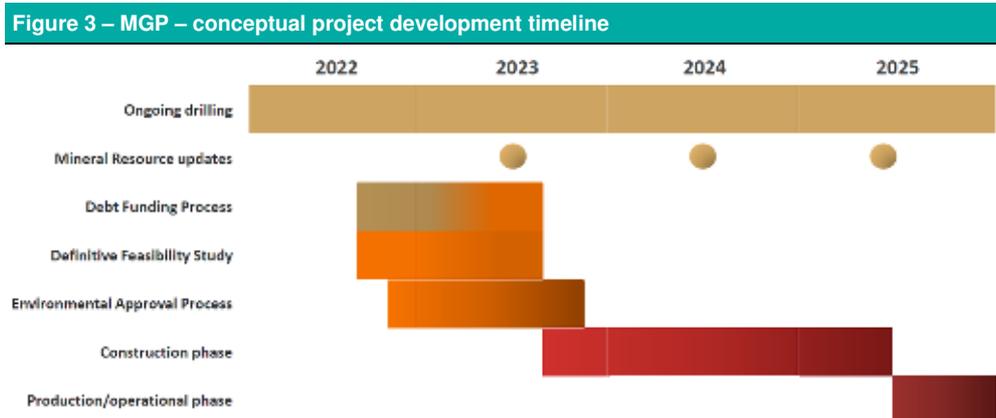
Company	Ticker	Mkt Cap (A\$ billion)	Production/guidance	AISC guidance	Source
Newmont Corporation	NEM.NYS	\$49.912	6,000koz	US\$1,150/oz	CY22 guidance
Barrick Gold Corporation	ABX.TSX	\$40.314	4,200koz - 4,600koz	US\$1,040-US\$1,120/oz	CY22 guidance
Agnico Eagle Mines Limited	AEM.TSX	\$28.689	3,200koz - 3,400koz	US\$1,000-US\$1,050/oz	CY22 guidance
Newcrest Mining Limited	NCM.ASX	\$15.183	1,956koz	US\$1,044/oz	FY22 actual
Gold Fields Ltd	GFI.JSE	\$10.767	2,250koz - 2,290koz	US\$1,140-US\$1,180/oz	CY22 guidance
Northern Star Resources Ltd	NST.ASX	\$8.715	1,553koz	A\$1,633/oz (US\$1,185/oz)	FY22 actual
Anglogold Ashanti Ltd	ANG.JSE	\$8.522	2,250koz - 2,800koz	US\$1,295-US\$1,425/oz	CY22 guidance
SSR Mining Inc.	SSRM.TSX	\$4.324	585-655koz	US\$1,230-US\$1,290/oz	CY22 guidance
Evolution Mining Limited	EVN.ASX	\$3.999	640koz	A\$1,265/oz (US\$918/oz)	FY22 actual
Harmony GM Co Ltd	HAR.JSE	\$2.122	1,480koz - 1,560koz	US\$1,530-US\$1,590/oz	FY22 guidance
OceanaGold Corporation	OGC.TSX	\$1.513	445-495koz	US\$1,375-US\$1,475/oz	CY22 guidance
Mallina Gold Project exposures					
Gold Road Resources Limited	GOR.ASX	\$1.440	150-170koz	A\$1,270-A\$1,470/oz (US\$890-1,030/oz)	CY22 guidance
De Grey Mining Limited	DEG.ASX	\$1.368	540kozpa	A\$1,280/oz (US\$896/oz)	PFS: Sep-22

SOURCE: IRESS, COMPANY DATA, BELL POTTER SECURITIES CALCULATIONS

Project development timeline

DEG is now targeting the completion of a Definitive Feasibility Study (DFS) and Final Investment Decision (FID) for mid-CY23. We anticipate that to meet this timeline, DEG will have to release an updated Mineral Resource and Ore Reserve early in Q2CY23 and advance financing, permitting and long-lead construction activities.

At this stage, construction is targeted to commence in mid-CY23 and first production for mid-CY25. DEG's conceptual timeline is provided below:



SOURCE: DE GREY MINING LTD

Changes to our valuation

We have updated the latest MGP project parameters as outlined in the PFS to our own modelled assumptions for gold production, operating costs and capital costs. Reflecting the de-risking event of the PFS release, we reduce the risk-adjustment discount to our NPV from 30% to 25%. This is partially offset by a reduction to our notional exploration valuation, which is lowered from \$850m to \$660m as we apply a reduced EV per Resource ounce metric to the portion of the MGP Resource that is not included in our MGP mine plan.

We also update for DEG's latest cash balance and capital structure and adjust our estimate for a capital raise within the next 12 months, in-line with our standard dilution assumptions for exploration-stage companies. Our NPV-based valuation is increased by 10%, to \$1.97/sh (from \$1.80/sh) and we retain our Speculative Buy recommendation.

Upcoming catalysts

Upcoming catalysts for DEG include:

- Ongoing exploration results from the Hemi Project, where drilling is continuing to test for 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, including Charity Well, Calvert and Geemas. These could lead to new discoveries and multiply the Resource growth potential at the MGP;
- Updates on project permitting and financing activities, as well as progress updates on DFS workstreams and the commencement of construction in 2HCY23; and
- Further corporate developments. GOR's pre-emptive move and the completion of the PFS may be a catalyst for global gold producers looking for exposure to a Tier 1 asset in one of the world's top mining jurisdictions.

Valuation methodology

Our target price for DEG is based upon a sum-of-the-parts (SOTP) valuation, comprising our risk-adjusted NPV of the Scoping Study production scenario and a notional exploration valuation. Key assumptions to our modelled production scenario include CAPEX of \$1,150m and average life-of-mine gold production of 540kozpa for 10 years at AISC of A\$1,280/oz. We apply a 25% risk adjustment discount, reflecting the completion of the PFS and the attractive development setting of the MGP. Our notional exploration valuation attributes a market-based EV/Resource ounce metric to the balance of the MGP Resource that is not accounted for in our modelled production scenario.

We also make an allowance for DEG's corporate costs and DEG's current net cash position. DEG's last reported cash position (30 June 2022) was \$31.9m. We have updated our valuation to include the assumption of an equity raise within the next 12 months, of \$50m, which we anticipate being sufficient for DEG to complete a Definitive Feasibility Study in mid-CY23. Our updated SOTP valuation is summarised below:

Table 9 – DEG valuation summary

Ordinary shares (m)		1,410.7
Options outstanding (m)		4.9
Assumed equity raise (m)		55.6
Diluted m		1,471.1
Sum-of-the-parts		
	\$m	\$/sh
Notional project risk-adjusted NPV	2,160.5	1.53
Other exploration	659.4	0.47
Corporate overheads	(6.3)	(0.00)
Subtotal (EV)	2,813.7	1.99
Net cash (debt)	31.9	0.02
Total (undiluted)	2,845.6	2.02
Cash from options	-	@ 0.00
Assumed equity raise	50.0	@ 0.90
Total (fully diluted)	2,895.6	1.97

SOURCE: BELL POTTER ESTIMATES

With upside of 103% from the last closing share price to our valuation, we retain our Speculative Buy recommendation.

Capital structure

DEG's current capital structure is summarised below. DEG last raised equity via an oversubscribed equity placement in October 2021 when 114m shares were issued at \$1.10/sh, raising approximately \$125m.

Table 10 - DEG capital structure summary

Shares on issue	m		1,410.7
Performance shares / other	m		0.0
Total shares on issue	m		1,410.7
Share price	\$/sh		0.970
Market capitalisation	\$m		1,368.3
Net cash	\$m		31.9
Enterprise value (undiluted)	\$m		1,336.4
Options outstanding (m)	m	(wtd avg ex. price \$0.00 per share)	4.9
Options (in the money)	m		4.9
Issued shares (diluted for itm options)	m		1,415.5
Market capitalisation (diluted)	m		1,373.1
Net cash + options	\$m		31.9
Enterprise value (diluted)	\$m		1,341.2

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Top shareholders

DEG's largest shareholder is Gold Road Resources (GOR, Buy, TP\$1.70/sh), following its acquisition of DGO Gold and subsequent acquisition of additional DEG shares, lifting its strategic holding to 19.99% in August 2022.

Table 11 - DEG top shareholders

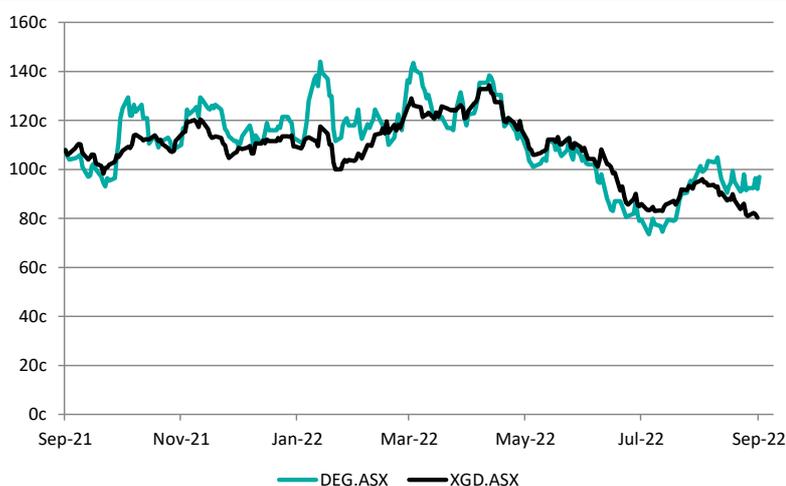
Shareholder	%	m
Gold Road Resources	19.99%	282.0
Jupiter Asset Management	8.1%	114.6
State Street	6.7%	94.7

SOURCE: IRESS, COMPANY REPORTS

Share price performance vs ASX Gold Index

Relative performance chart below:

Figure 4 - 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 1,500km² 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. Infill and extension drilling through to April 2022 resulted in an upgraded Resource for Hemi of 213Mt @ 1.2g/t for 8.5Moz and a global Resource for the MGP of 251Mt @ 1.3g/t Au for 10.6Moz. This is a high confidence Resource, with 6.9Moz in the Measured and Indicated categories. It has supported the completion of a PFS outlining a Tier 1 gold mine, producing 540kozpa at average AISC of A\$1,280/oz for its first ten years of operation for pre-production CAPEX of A\$1,053m.

Investment thesis – Buy (Speculative), Valuation \$1.97/sh

We have updated the latest MGP project parameters as outlined in the PFS to our own modelled assumptions and reduced our risk adjustment discount to reflect the increased confidence in the PFS outcomes. Our risk-adjusted NPV-based valuation increases to \$1.97/sh (from \$1.80/sh). We believe the MGP shows the potential to support a large-scale, long life production asset with operational flexibility and good margins in one of the world's top mining jurisdictions. We view the MGP as a rare opportunity that is attractive as both a foundation production asset for DEG or as a meaningful acquisition for any of the world's top gold production companies. We retain our Speculative Buy recommendation.

Mineral Resource and Ore Reserve

The most recent Resource Statement was published in May 2022, followed by a maiden Ore Reserve released with the PFS in September 2022.

Table 12 – Mallina Gold Project – Total gold Mineral Resource (May 2022)

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	11.200	1.5	525
	Fresh	142.100	1.3	6,065
	Total	153.300	1.3	6,590
Inferred	Oxide	5.300	1.1	190
	Fresh	87.300	1.3	3,589
	Total	92.600	1.3	3,779
Total	Oxide	20.160	1.4	925
	Fresh	230.460	1.3	9,709
	Total	250.700	1.3	10,634
Ore Reserve				
Proven		-	-	-
Probable		103.400	1.5	5,139.0
Total		103.400	1.5	5,139.0

SOURCE: COMPANY DATA

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.
- **Geopolitical risks:** Mining companies' assets are subject to geopolitical risks, arising from events in, and outside, the jurisdictions they operate in.
- **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.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Tara Speranza	Healthcare	612 8224 2815	tsperanza
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Daniel Laing	Associate Analyst	613 9256 2886	dlaing
Thomas Sima	Associate Analyst	612 8224 2843	tsima

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Bell Potter Securities Limited
 ABN 25 006 390 772
 Level 29, 101 Collins Street
 Melbourne, Victoria, 3000
 Telephone +61 3 9256 8700
 www.bellpotter.com.au

Bell Potter Securities (HK) Limited
 Room 1701, 17/F
 Prosperity Tower, 39 Queens
 Road Central, Hong Kong, 0000
 Telephone +852 3750 8400

Bell Potter Securities (US) LLC
 Floor 39
 444 Madison Avenue, New York
 NY 10022, U.S.A
 Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
 16 Berkeley Street London, England
 W1J 8DZ, United Kingdom
 Telephone +44 7734 2929