BELL POTTER

Speculative

See key risks on Page 24. Speculative securities may not be suitable for retail clients

9 June 2020

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De Grey Mining Ltd (DEG)

Four year overnight success

Recommendation	
Buy (Initiation)	
Price	
$0.525	
Valuation	
$0.69	
Risk	
Speculative	

GICS Sector

Materials

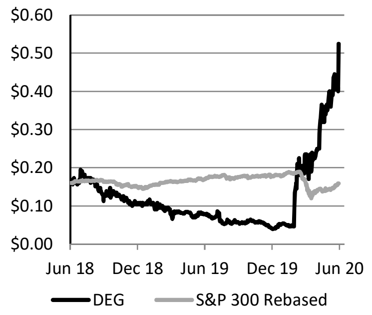
Expected Return	
Capital growth	**31.4%**
Dividend yield	**0.0%**
Total expected return	**31.4%**
Company Data & Ratios	
Enterprise value	**$586.1m**
Market cap	**$625.0m**
Issued capital*	**1,190.5m**
Free float	**80%**
Avg. daily val. (52wk)	**$1.9m**
12 month price range	**$0.039-$0.525**

Includes 19.2m Tranche 2 placement shares

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.37	0.19	0.08
Absolute (%)	43.8	183.8	551.9
Rel market (%)	30.9	189.7	556.8

Absolute Price



SOURCE: IRESS

Consistent strategy paying off

Over the last four years DEG has implemented a consistent strategy of Resource growth and the building of a regional position over what is emerging as a highly prospective Archean-age granite / greenstone belt hosting shear zones and intrusions similar to highly productive, world-class goldfields globally. DEG has consolidated tenement packages over 1,500km^2 to form the Mallina Gold Project (MGP) and grown its Resource base from 346koz @ 1.6g/t Au in 2016 to 2.2Moz @ 1.8g/t Au in March 2020, delivering growth of 525% at an estimated discovery cost of <$20/oz. Our calculations indicate this cost is dropping and we expect material Resource addition at Hemi to reduce this cost further.

A new phase of discovery and growth

What is now being recognised, however, is a new and potentially much greater opportunity for discovery and growth. In 2019, a new style of intrusion-related gold mineralisation was identified at the Toweranna deposit. It has rapidly grown to 524koz @ 2.2g/t to become the second largest and second highest grade deposit at the MGP. This led to a new focus on intrusion-style deposits and the identification of seven new targets both analogous to, and with significantly larger dimensions, than Toweranna.

The first of these targets to be tested was the Hemi prospect, which has since delivered a string of impressive results and confirmed gold mineralisation across three defined zones: Aquila, Brolga and Crow. We estimate that due to the wide, shallow and continuous intersections, along strike lengths up to 800m across multiple zones, the Hemi prospect alone could add 2.3-3.6Moz to the MGP Resource base. Furthermore, the mineralised zones look conducive to large-scale, low-cost, open-pit mining methods.

Exploration programs testing the several identified intrusion-related targets along the Scooby to Antwerp Structural Trend (SAST) are about to commence and could lead to new discoveries that repeat the success of Hemi, multiplying the Resource growth potential at the MGP.

Investment thesis – Speculative Buy, valuation $0.69/sh

In establishing our valuation for DEG we have considered i) EV/Resource oz metrics for exploration companies, ii) EV/Resource oz metrics for production companies; and iii) an NPV valuation of the MGP based on notional project assumptions. From these, we derive a blended valuation of $794.2m, based primarily on our expectations of Resource growth of 2.3Moz to 3.6Moz at the MGP and a premium EV/oz metric of $160/oz. The premium metric is based on factors we can observe in the market that reflect, in particular, a deposit that is larger scale vs peers, but also the potential for further Resource growth, scalability of potential production, likely mining method and costs, pathway and timeframe to production and funding position. In our view, most of these factors are favourable for DEG and we see the potential for a 4.4-5.8Moz Resource and production of +200kozpa, within a strategic regional position offering further exploration upside. We initiate with a Buy (Speculative) recommendation.

Contents

Investment thesis and valuation

DEG: A Four Year Overnight Success

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The first of these to be tested was the Hemi prospect, which has since delivered a string of impressive results and confirmed gold mineralisation across three defined zones: Aquila, Brolga and Crow. We estimate that due to the wide, shallow and continuous intersections along strike lengths up to 800m across these multiple zones, the Hemi prospect alone could add 2.3-3.6Moz to the MGP Resource base. Furthermore, the mineralised zones look conducive to large-scale, low-cost, open-pit mining methods.

The remaining intrusion-related targets, some of which are known to carry gold mineralisation, are yet to be tested. This is about to change. Following a recent successful capital raising, DEG is well funded with ~$38m cash. Additional rigs have been mobilised to i) commence the infill programs to define a maiden Resource at Hemi, and ii) begin testing the numerous intrusion-related targets across the MGP.

Valuation

We have taken the following approaches to establishing a valuation for DEG:

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

The MGP is a relatively early stage development project. Assumptions made at this stage may be very different to parameters derived from more advanced stage studies. As such, valuation ranges can be high risk, wide and relatively subjective.

EV/Resource ounce valuation

DEG is currently trading at an Enterprise Value per ounce of gold in Resource (EV/oz) valuation of ~A$270/oz. This is a clear premium to the sector average we currently measure in the market of ~A$110/oz.

In our view, there are a number of factors driving this premium, not least of which is the growth potential of the Hemi discovery, and we discuss these in greater detail later in our report.

Table 1 - ASX-listed gold exploration company comparables

Company	ASX Code	Price (A$/sh)	Market Cap (A$m)	Net cash (debt) (A$m)	EV (A$m)	Resources (Moz)	Grade (g/t Au)	EV/ Res oz (A$/oz)
Catalyst Metals Limited	CYL	$2.75	$226.6	$20.6	$206.0	0.000	0.00	na
Spectrum Metals Limited	SPX	$0.19	$273.7	$2.5	$271.2	0.356	13.80	$763
West African Resources Limited	WAF	$0.90	$784.0	-$200.4	$984.5	3.089	1.77	$319
De Grey Mining Limited	**DEG**	**$0.53**	**$614.9**	**$38.0**	**$576.9**	**2.165**	**1.80**	**$267**
Bellevue Gold Limited	BGL	$0.84	$572.9	$37.8	$535.1	2.200	11.30	$243
Capricorn Metals Ltd	CMM	$1.68	$549.0	$68.0	$481.0	2.145	0.80	$224
Musgrave Minerals Limited	MGV	$0.24	$111.1	$8.6	$102.5	1.167	3.05	$88
KIN Mining NL	KIN	$0.13	$81.9	$2.8	$79.0	0.945	1.40	$84
NTM Gold Limited	NTM	$0.09	$60.2	$4.0	$56.2	0.679	1.60	$83
Vango Mining Limited	VAN	$0.10	$77.6	-$1.9	$79.5	1.002	3.00	$79
Ora Banda Mining Ltd	OBM	$0.28	$161.5	$14.8	$146.8	2.010	2.70	$73
Genesis Minerals Limited	GMD	$0.05	$63.8	$4.8	$59.1	0.867	3.20	$68
Apollo Consolidated Limited	AOP	$0.30	$80.7	$16.7	$64.1	1.035	1.20	$62
Breaker Resources NL	BRB	$0.28	$63.6	$6.9	$56.7	0.981	1.30	$58
Middle Island Resources Limited	MDI	$0.02	$34.1	$5.9	$28.2	0.537	1.40	$52
Rox Resources Limited	RXL	$0.03	$47.4	$12.7	$34.7	0.684	2.94	$51
Saturn Metals Limited	STN	$0.51	$42.9	$4.0	$38.9	0.781	1.00	$50
Horizon Minerals Limited	HRZ	$0.11	$49.8	$3.9	$45.9	1.175	1.55	$39
Bardoc Gold Limited	BDC	$0.09	$122.8	$14.2	$108.6	3.020	1.90	$36
Venus Metals Corporation Limited	VMC	$0.18	$27.2	$6.4	$20.8	0.595	2.97	$35
Cardinal Resources Limited	CDV	$0.42	$207.5	-$27.4	$234.9	6.990	1.13	$34
Antipa Minerals Limited	AZY	$0.03	$60.0	$5.8	$54.2	1.630	1.13	$33
Tanami Gold NL	TAM	$0.05	$63.5	$29.0	$34.5	1.646	2.80	$21
Prodigy Gold NL	PRX	$0.05	$28.5	$11.4	$17.1	1.010	2.00	$17
Ausgold Limited	AUC	$0.02	$16.6	$1.8	$14.8	1.201	1.10	$12
Calidus Resources Limited	CAI	$0.49	$107.1	$5.8	$101.3	1.250	1.83	$6
Total / average			**$4,529**			**39.2**	**2.4**	**$112**

SOURCE: IRESS COMPANY REPORTS, BELL POTTER ESTIMATES, PRICED AS AT JUNE 5 2020

DEG is also trading at a premium to the average EV/oz for ASX-listed producers, which is currently ~A$230/oz. We would argue that DEG's closer peers are the larger scale producers with Australian based assets, for which the average EV/oz valuation is closer to A$288/oz. In our view, DEG's closest peers from this group are Gold Road (GOR, Hold, TP$1.55), Regis Resources (RRL, Buy, TP$5.72) and Saracen Minerals (not rated).

Table 2 - ASX-listed gold production company comparables

Company	ASX Code	Resources (Moz)	Grade (g/t Au)	EV/ Res oz (A$/oz)	Reserves (Moz)	Grade (g/t Au)	EV/Rsv oz (A$/oz)
Aurelia Metals Limited	AMI	0.8	1.40	$456	0.3	1.90	$1,347
Evolution Mining Limited	EVN	22.2	1.19	$449	8.7	0.94	$1,138
Alkane Resources Limited	ALK	1.2	2.10	$400	0.1	2.00	$5,264
Gold Road Resources Limited	**GOR**	**3.6**	**1.40**	**$368**	**1.9**	**1.24**	**$714**
Northern Star Resources Ltd	NST	28.6	2.67	$362	9.8	2.04	$1,051
Saracen Mineral Holdings Limited	SAR	15.1	1.61	$337	7.0	1.57	$730
Regis Resources Limited	RRL	8.2	0.97	$293	4.0	1.11	$596
Ramelius Resources Limited	RMS	4.5	1.60	$267	0.8	1.80	$1,432
Silver Lake Resources Limited	SLR	6.4	4.70	$235	1.1	3.71	$1,395
Perseus Mining Limited	PRU	6.6	1.23	$199	3.3	1.38	$401
Newcrest Mining Limited	NCM	131.2	0.53	$194	52.2	0.79	$488
St Barbara Limited	SBM	12.2	2.00	$173	6.4	2.00	$329
Dacian Gold Limited	DCN	2.1	2.00	$166	0.8	1.40	$461
Resolute Mining Limited	RSG	10.1	2.70	$150	3.9	2.50	$388
OceanaGold Corporation	OGC	13.7	1.46	$148	5.3	1.31	$383
Westgold Resources Limited	WGX	9.1	2.17	$97	2.6	2.58	$337
Red 5 Limited	RED	5.6	2.67	$78	2.7	1.51	$161
Medusa Mining Limited	MML	1.3	3.63	$73	0.3	6.27	$282
Pantoro Limited	PNR	2.6	4.45	$73	0.2	6.59	$1,062
Blackham Resources Limited	BLK	6.4	2.10	$24	1.4	1.70	$111
Average				**$231**			**$596**

SOURCE: IRESS COMPANY REPORTS, BELL POTTER ESTIMATES, PRICED AS AT JUNE 5 2020

The current average for gold exploration companies of A$112/oz. DEG's current Enterprise Value of $$586m implies that the market is expecting the Resource to grow by ~3.1Moz to a total of ~5.2Moz. This is within our range of estimated potential Resource growth.

Table 3 - Implied market expectation of MGP Resource

Market EV/oz (A$/oz)	$112
DEG Enterprise Value (A$m)	$586.1
Resource implied by market (Moz)	**5.233**
Current Resource (Moz)	2.165
Implied growth (Moz)	**3.069**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

We have made estimates of the Resource growth potential at the MGP of between 2.3Moz and 3.6Moz as summarised in the tables below. Our estimates are based on:

- Our estimates of potential orebody dimensions across the currently defined Aquila, Brolga and Crow Zones, applying representative grades and S.G's. We also make some allowance for growth from the recently defined Brolga South extension (5 June 2020, see Figure 13); and
- The Hemi discovery alone – our estimates do not account for any Resource growth at the deposits currently in the MGP Resource.

Table 4 - MGP Resource potential estimate: lower-end

Current Resource (Moz)	**2.165**
Expected Resource Growth (Moz)	
Aquila	0.425
Brolga and extensions	1.620
Crow	0.233
Subtotal	**2.278**
Total Resource (Moz)	**4.443**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 5 - MGP Resource potential estimate: upper end

Current Resource (Moz)	**2.165**
Expected Resource Growth (Moz)	
Aquila	0.614
Brolga and extensions	2.528
Crow	0.471
Subtotal	**3.613**
Total Resource (Moz)	**5.777**

SOURCE: BELL POTTER SECURITIES ESTIMATES

In considering the market's valuation of our estimated potential Resource we observe a premium is paid for increasing scale (see Figure 1 and Figure 2). The implication is that in the current market, a 3.0Moz Resource may be attributed a valuation of A$200/oz.

To establish a valuation range, we have applied 10% (for $180/oz) and 20% (for $160/oz) discounts to this metric to calculate EV's for our potential Resource estimates. Our lower range estimate of a potential, expanded Resource base at the MGP sits at 4.4Moz. Our upper range estimate sits at 5.8Moz.

Table 6 – Valuation range for lower-end and upper-end potential Resource bases at the MGP

EV/Resource oz valuation (A$/oz)	$160/oz	$180/oz	$200/oz	$160/oz	$180/oz	$200/oz
Current Resource (Moz)	2.165	2.165	2.165	2.165	2.165	2.165
Resource growth est	2.278	2.278	2.278	3.613	3.613	3.613
Total Resource	4.443	4.443	4.443	5.777	5.777	5.777
Target EV (A$m)	**$710.9**	**$799.7**	**$888.6**	**$924.3**	**$1,039.9**	**$1,155.4**

SOURCE: BELL POTTER SECURITIES ESTIMATES

In deriving our EV/Resource valuation for DEG, we have selected the lower-end case for Resource growth potential, of 4.4Moz contained (i.e., the addition of 2.3Moz to the current Resource base).

There is potential further upside to this from:

- Further extensions to the currently defined mineralised zones, which remain open in several directions. The potential for this is demonstrated by the latest announcement (5 June 2020, Hemi – Major Extension, see Figure 13 in this note);
- Extensions to the known deposits in DEG's current Resource base; and
- Multiple intrusive related targets, analogous to Hemi, which are yet to be tested.

Taking the mid-range valuation multiple of A$180/oz (10% discount to market), we arrive at our Base Case EV/Resource ounce valuation for DEG of $799.7m.

NPV-based valuation – notional assumptions

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

Table 7 - Notional project parameters and risk-adjusted NPV

Assumed Resource	4.4Moz @1.8g/t Au
Assumed Reserve	3.3Moz @ 1.8g/t Au (75% conversion)
Gold price (A$/oz)	$2,400/oz
CAPEX (A$m)	$240m
Average annual production	194,000 ozpa
Life-Of-Mine	16.5yrs
Metallurgical recovery	90%
AISC (A$/oz)	A$1,103/oz
NPV (8% real)	A$1,290m
Project Stage risk adjustment	60%
Risk-adjusted NPV	**A$772m**

SOURCE: BELL POTTER SECURITIES ESTIMATES

We view this as a conservative scenario. The +15 year mine life is longer than most base case propositions and optimisation of the project valuation would likely see a shortened mine life (10-12yrs) and increased production rate (260kozpa - >300kozpa). We believe this would be supported by the geometry of Hemi, which we view as amenable to large scale, low-cost, open-pit mining methods. A higher CAPEX for higher throughput would likely be offset by lower unit operating costs for an overall higher valuation.

Blended valuation

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

Table 8 – Blended valuation - MGP

EV/Resource oz (A$m)	$799.7	80%
Notional NPV (A$m)	$771.9	20%
Blended valuation (A$m)	**$794.2**	**Total**

SOURCE: BELL POTTER SECURITIES ESTIMATES

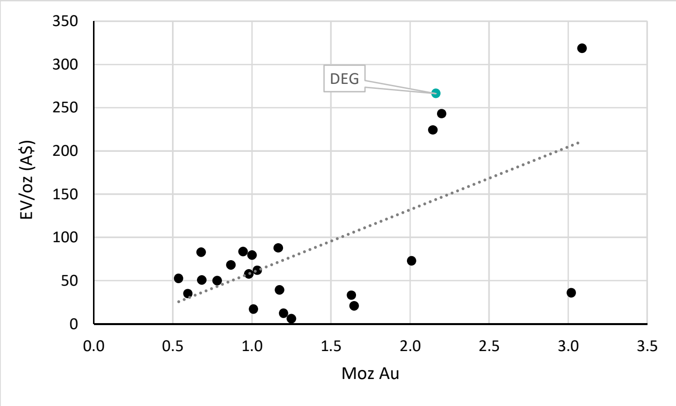
Valuation drivers

There are a number of factors that influence whether an exploration company or project trades at a premium of discount to the average. We would argue that most of these factors are in DEG's favour.

Size of resource and scalability of production

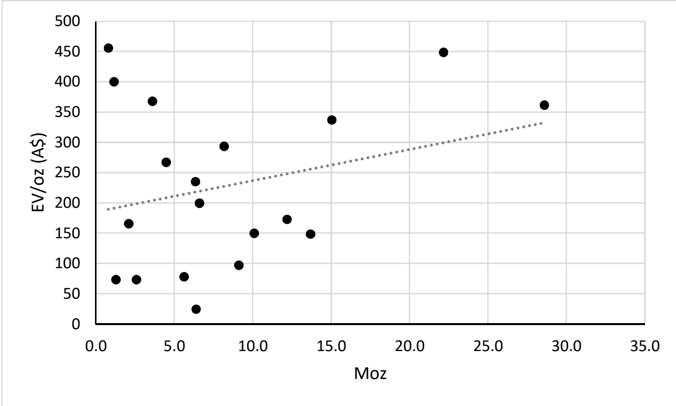
- Our notional NPV based on a potential Resource of 4.4Moz considers a ~200kozpa operation for ~15 years, assuming 75% conversion to Reserves and overall gold recoveries of 91%. This would make it a significant production asset in the Australian context and relevant to the largest ASX producers;
- With production likely to be sourced from multiple open-pits, including the Hemi discovery, multiple mining fleets could be deployed to scale up production.
- The charts below illustrate that the market pays a premium for Resource scale for both explorers and producers.

Figure 1 - EV/Resource oz explorers



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 - EV/Resource oz producers

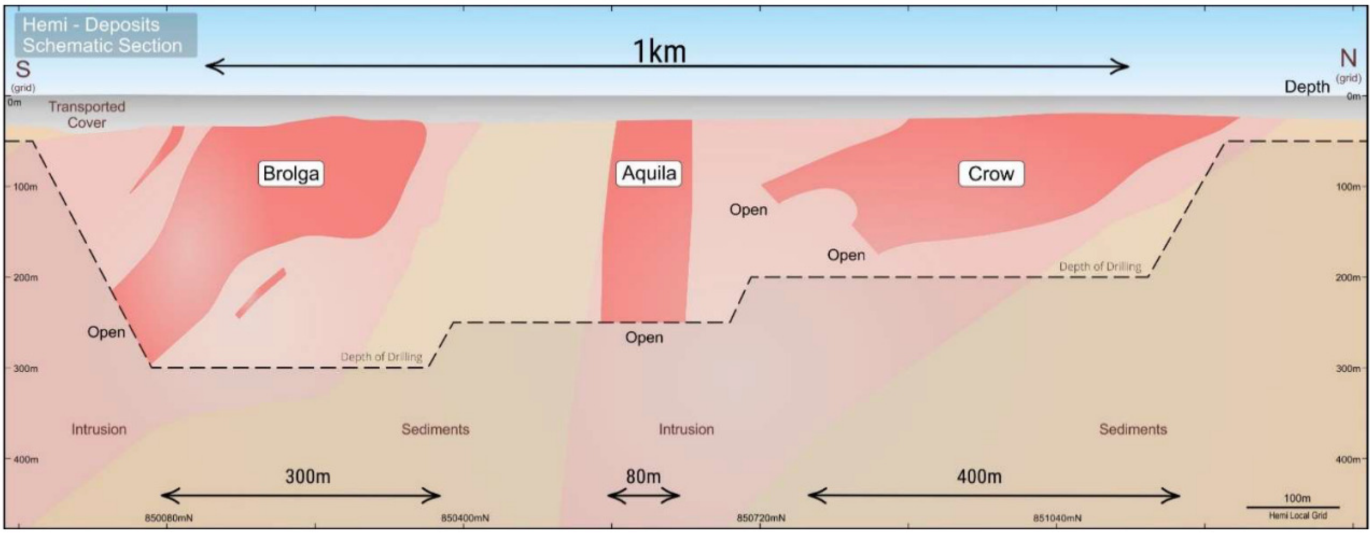


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Resource grade, likely mining method and likely costs

- As a predominantly open-pit proposition the MGP Resource grade of 1.8g/t Au is comparable with numerous active WA gold mines. The scale and geometry of the known deposits and identified gold zones are conducive to standard open-pit mining methods and the Hemi discovery looks amenable to larger scale extraction, low strip ratios and even lower costs.

Figure 3 - Cross-section looking west, through Hemi showing the Brolga, Aquila and Crow gold zones



SOURCE: COMPANY DATA

Metallurgical characteristics and likely process route

- Metallurgical factors and refractory ore characteristics of fresh ore at the MGP are probably the main risk and negative factor pertaining to DEG. While metallurgical testing is not yet comprehensive, work completed to date shows fresh ore from the Withnell and Mallina deposits to be refractory.
- Initial testing at Toweranna shows the fresh ore to be free-milling and testing is underway for the Hemi discovery (targeted completion 3QCY20). We anticipate that the final process route will allow for treatment of both refractory and free-milling fresh ore.
- The August 2017 Scoping Study identified a potential process route that included flotation of a sulphide concentrate and intense cyanidation for overall gold recoveries of 89%. Processing costs of $26/t (1Mtpa throughput case) and $21/t (2Mtpa throughput case) were estimated. Further testwork has since examined Pressure Oxidation (POX) of the sulphide concentrate at a coarser grind size (for

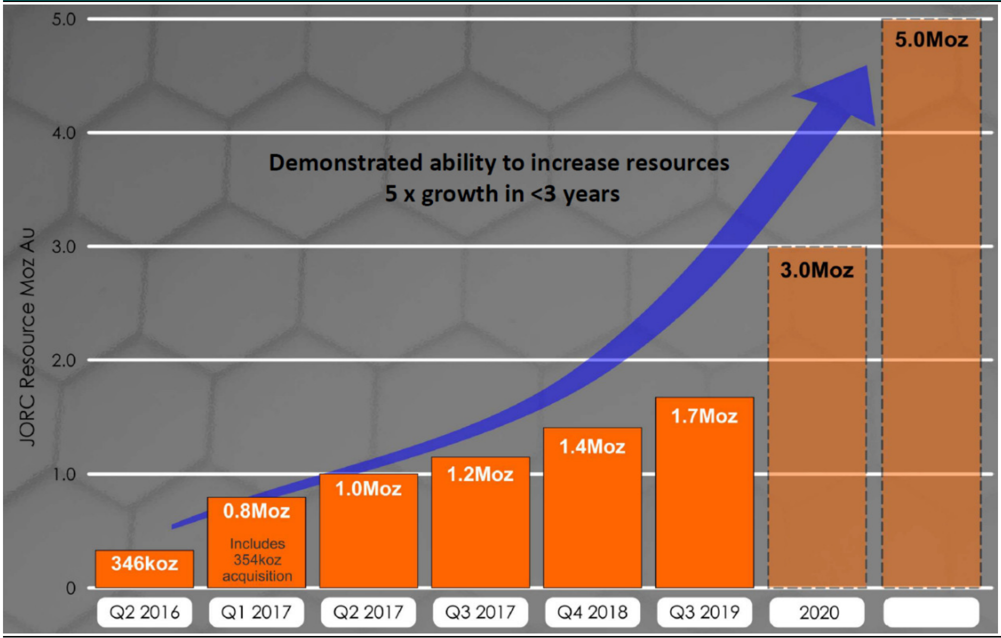
reduced energy consumption, increased throughput) for recoveries of +90% for refractory fresh ore and +94% for oxide ore.

- We point out that the grade and scale of the MGP Resource would likely comfortably cover the additional costs of a POX circuit. In our view, particularly with further likely Resource growth, these are key mitigating factors that lower unit costs and spread technical risk over a longer mine life – especially in contrast to the 2017 Scoping Study.

Potential for further Resource growth

- Potential for further Resource growth is significant and this is one of the key share price drivers for DEG.
- Over the last four years DEG has demonstrated strong Resource growth by focusing on shear zone hosted targets. This work has delivered the bulk of the current Resource of 2.2Moz and several of these deposits remain open and have continued to grow with ongoing drilling.

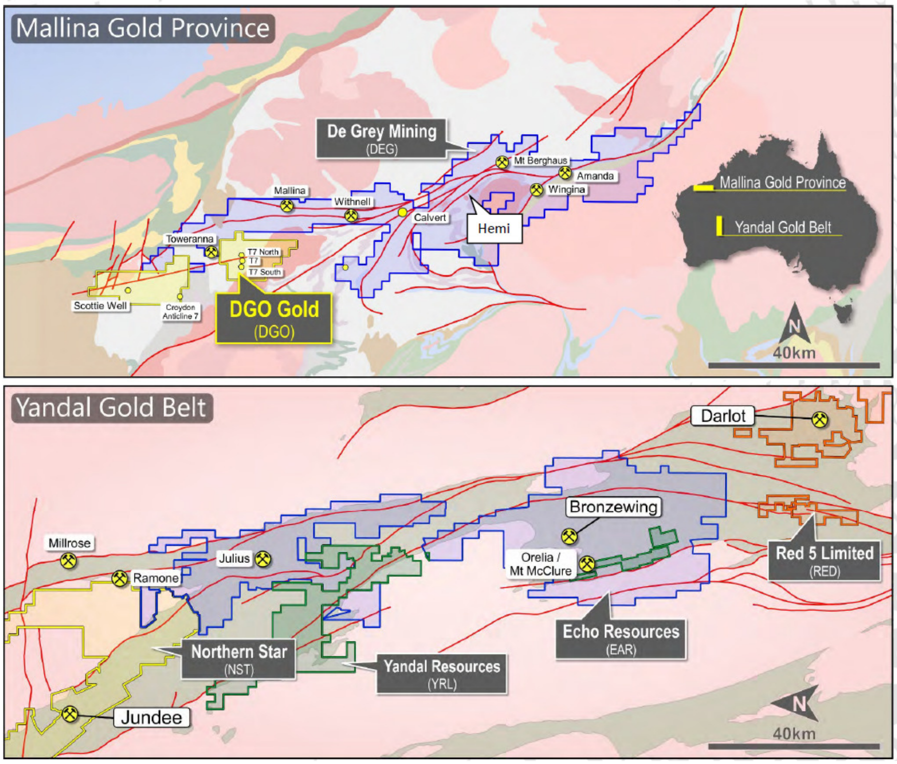
Figure 4 - Strong Resource growth demonstrated and targeted



SOURCE: COMPANY DATA

- The real upside is the potential of the intrusion-related gold mineralisation, which was only recognised in 2019. The Toweranna deposit has grown from 147koz to 524koz @ 2.2g/t Au, over the last two Resource updates.
- Seven new targets analogous to and significantly larger than Toweranna were identified, with the first one tested becoming the Hemi discovery, returning wide, continuous ore grade intercepts from shallow depths over a long strike length.
- With multiple similar targets showing similar characteristics, some with confirmed mineralisation but none having been effectively tested, prospectivity and Resource growth potential is high.
- Resource growth potential is also enhanced due to the strategic position DEG has built up since 2016. The schematic in Figure 5 is taken from DGO Gold's (DGO, not rated) presentation of 5 June 2020. It illustrates the Mallina Gold Province is similar in scale to the 17Moz Yandal Belt, an analogue for its potential.

Figure 5 – The Mallina Gold Province (2.2Moz) and Yandal Gold Belt (17Moz) at the same scale



SOURCE: DGO GOLD 5 JUNE 2020: Neil Phillips, G & Vearncombe, JR 2011, 'Exploration of the Yandal gold province, Yilgarn Craton, western Australia', Applied Earth Science, vol. 120, no. 1, pp. 44–59.

Pathway and timeframe to production

- The MGP is located in WA, which we would argue is probably the world's best mining jurisdiction, particularly in the current climate. Located 60km from Port Hedland, access to infrastructure and services is excellent.
- The MGP also benefits from previous mining activities which have left granted Mining Leases and may be advantageous to DEG in progressing MGP through the permitting process.

Funding position and discovery cost

- DEG is in an excellent financial position. We estimate it is holding ~$38m cash following the recent capital raising (May 2020) which raised $31m from the placement of 111m shares at $0.28/sh (assuming $5.4m Tranche 2 approval).
- This amount is sufficient to sustain DEG's exploration programs for 11 quarters at its most recent quarterly expenditure rate. We are expecting that DEG will be ramping up its exploration activities, but that even with an accelerated expenditure rate this amount should last 18-24 months.
- Considering this amount in the context of a discovery cost of ~$16-$18/oz, it would support the addition of 2.1-2.4Moz to the existing Resource base.

Quality of management

- In our view the results speak for themselves. The core management team has largely been in place since 2016 when Andy Beckwith joined DEG and commenced the geological review of the MGP. Simon Lill has been Executive Chairman until the appointment in March 2020 of Glenn Jardine as Managing Director, at which time he moved to a Non-Executive role. Phil Tornatora has been Exploration Manager and Craig Nelmes CFO and Company Secretary during this time. A consistent exploration and growth strategy has been executed over the last four years and attracted the support of credible partners.

Company background and asset review

Company overview

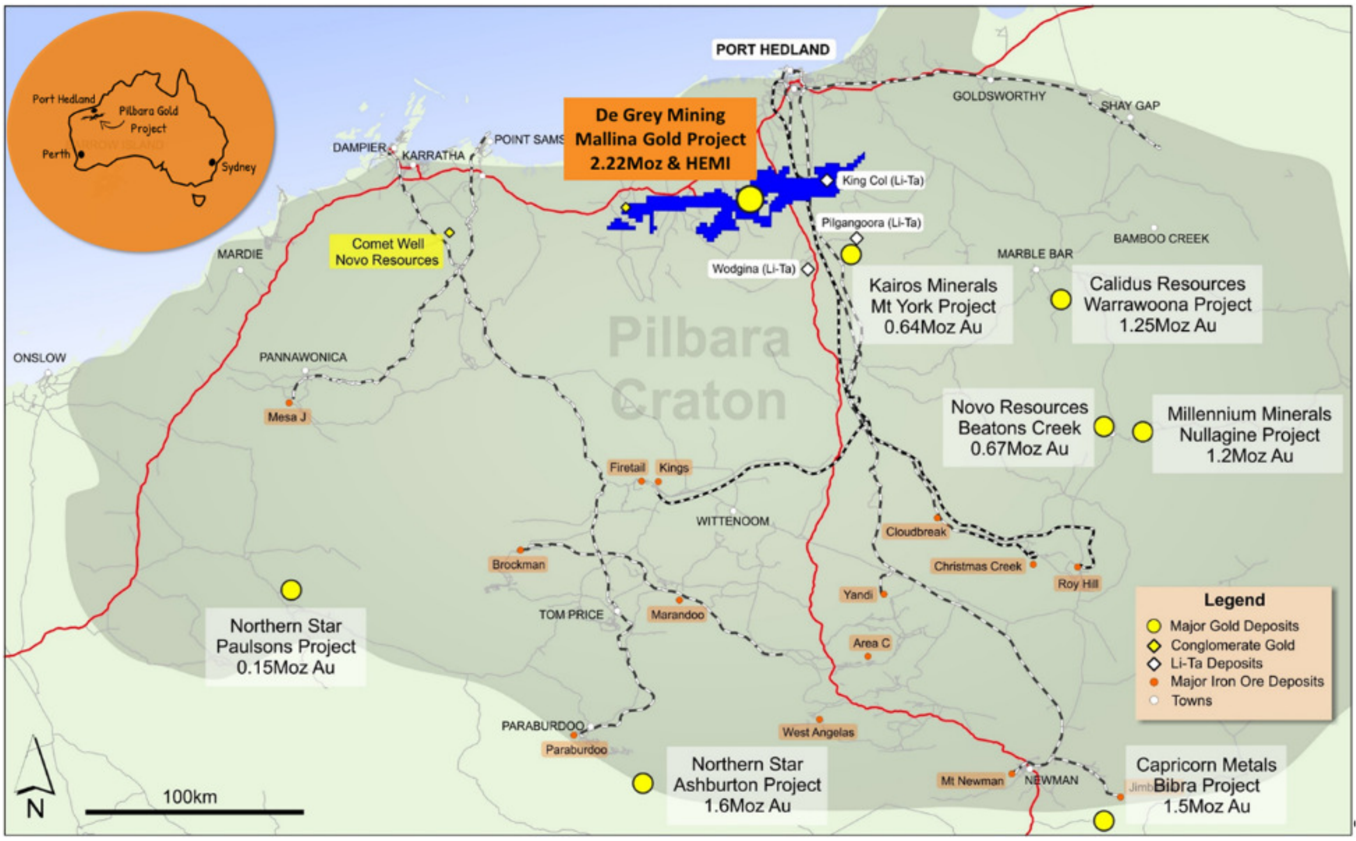
DEG is an exploration and development company, focussing its activities on the Mallina Gold Project (MGP) in WA. The tenement package is prospective for gold, base metals (Zn-Ag-Pb) and lithium. Over the last four years, DEG has expanded the area of the MGP and consolidated its ownership. During that time it has grown the Resource base ~525%, from 346koz @ 1.6g/t Au in February 2016 to 2.2Moz @ 1.8g/t Au as at April 2020.

DEG estimates a project-wide discovery cost of <$20/oz and that this has dropped to $15-$20/oz for the most recent Resource estimates. It holds the corporate objective of increasing the gold Resource to +3.0Moz by the end of 2020 and is well funded to do so. We estimate DEG currently holds cash of ~$38m, following its most recent capital raising, placing 111.4m shares at $0.28/sh for proceeds of $31.2m.

Mallina Gold Project (DEG 100%)

DEG's flagship asset is its 100%-owned Mallina Gold Project (MGP), comprising 1,500km^2 of granted Exploration and Mining Leases, located ~60km south of Port Hedland in the Pilbara region of WA. It is well situated relative to existing infrastructure, with the Great Northern Highway transecting the tenement package north-south and the North-West Coastal Highway running adjacent and to the north of the Project. Both are sealed roads and major transport routes. It is also proximal to the Pilbara Pipeline System, a network of gas transmission pipelines supplying gas-fired power stations and communities throughout WA. Port Hedland itself is the second largest town in the Pilbara, hosting the world's largest bulk export terminal, its own International Airport and a range of engineering, mining services and logistics businesses.

Figure 6 - Mallina Gold Project location and regional setting



SOURCE: COMPANY DATA

Project background and development

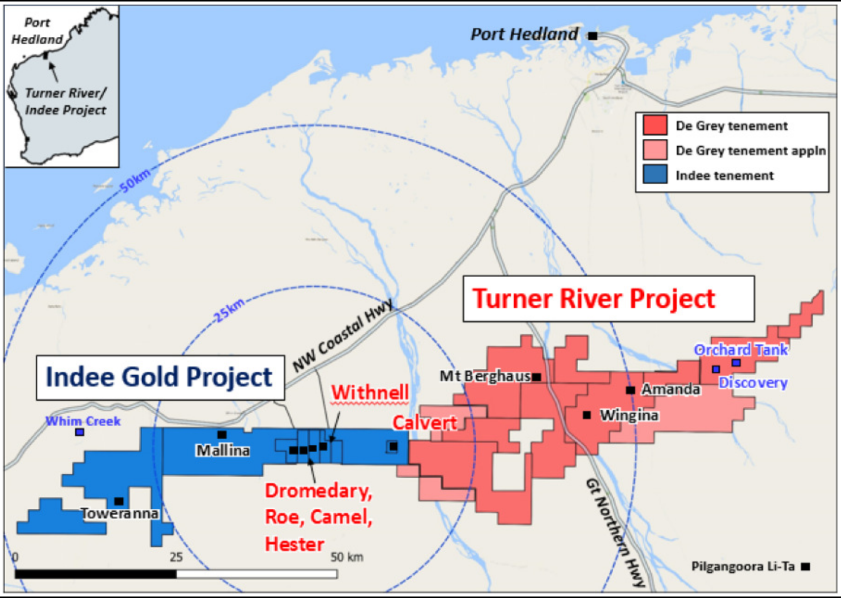
The Mallina Gold Project (MGP) began to emerge in its current iteration in **February 2016**, when DEG regained 100%-ownership and management control of what was then known as the Turner River Gold Project. This cleared the way for DEG to re-focus on the project for the first time since 2008. Andy Beckwith was appointed to review the project, now with its full technical database. At the time, the three key gold deposits (Wingina, Amanda and Mount Berghaus) comprised a **Resource of 346koz at 1.6g/t Au**.

The review concluded there was substantial potential to increase the gold Resource base across the tenement package. Key to this was the recognition that the mineralisation was hosted in an Archean-age granite / greenstone belt with shear zones and intrusions similar to highly productive, world-class goldfields globally. DEG also recognised very little deep drilling had tested its potential and there was an opportunity to build a regional position.

Strategic positioning and Resource growth

During 2017 DEG implemented a twin-pronged growth strategy. The first of these was the completion of drill programs across its existing deposits, increasing its gold Resources by 34% to **464koz @ 1.5g/t Au**. The second was the execution of an option agreement to **acquire the Indee Gold Project** from Northwest Nonferrous Australian Mining Limited (NNAM), a subsidiary of Chinese company Northwest International Investments. The projects were amalgamated into the Mallina Gold Project (MGP). The option gave DEG exclusivity to acquire the project for consideration in staged payments totalling $15m, including $3m payable in DEG shares. The option was eventually executed in August 2019 and included the issue of 59.1m shares to NNAM (6.3% of DEG at completion).

Figure 7 – Consolidation of the Mallina Gold Project in 2017



SOURCE: COMPANY DATA

Upon assuming management of the Indee Gold Project, DEG updated the Resource to include all drill results returned in the eight years since the prior Resource estimate. This increased total Resources controlled by DEG at September 2017 to **1.21Moz @ 1.6g/t Au**.

Conglomerate gold and corporate partnerships

The substantial Resource growth and high levels of market interest that emerged around conglomerate gold plays in the Pilbara (the watermelon-seed nugget craze of 2017-18), were two factors DEG was able to capitalise on to execute two strategic deals.

In November 2017, **Kirkland Lake Gold** (KL:CN, KLA:AU, not rated), which had found huge success with deep, high grade extensions at its Fosterville Gold Mine in Victoria, came onto DEG's register via a $5.0m placement at $0.15/sh. This interest was largely predicated on the conglomerate gold hypothesis, but KL:CN remains on the register at 2.9% with its 33.3m placement shares.

DEG also attracted the attention of **DGO Gold** (DGO, not rated), run by Ed Eshuys, an experienced and well-known geologist with a strong track record of discoveries. DGO took a $5m Placement at $0.20/sh for 25.0m shares in May 2018 with a further 25m options attached.

These funding injections enabled a significant ramp-up in exploration and evaluation activities through 2017/18. DEG's total **Mineral Resource increased by 15% to 1.4Moz @ 1.6g/t Au** at end October 2018.

New style of mineralisation a focus for growth

Shear zone hosted gold had driven all of the Resource growth at the MGP, but drill programs completed through to the end of June 2019 highlighted the potential of a new style of mineralisation now recognised at the Toweranna deposit.

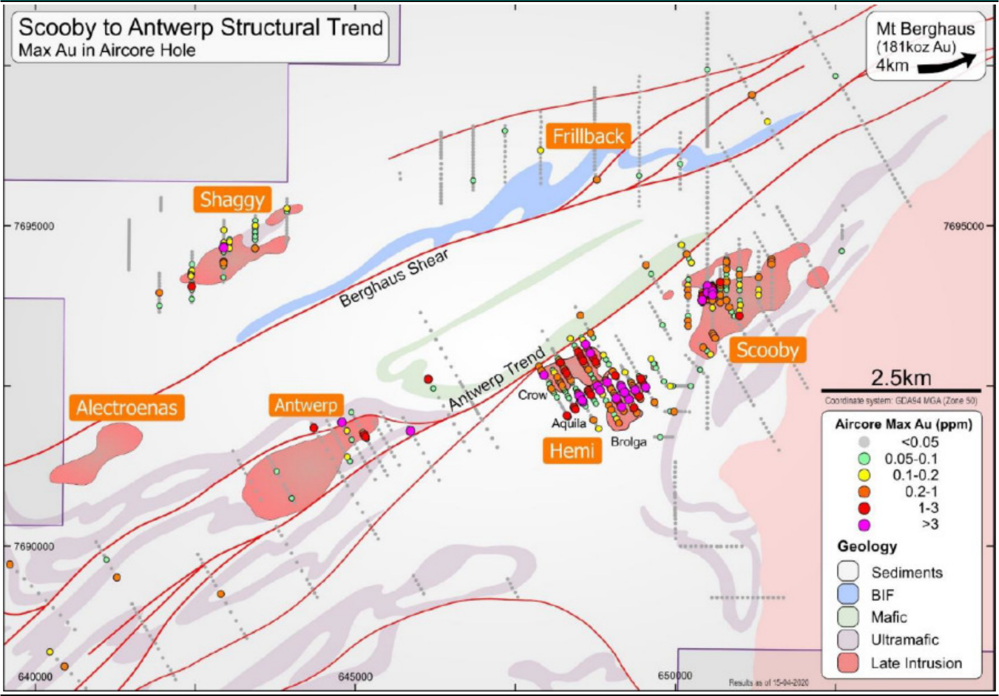
In July 2019, DEG released a Resource Statement reporting **29.7Mt @ 1.8g/t Au for 1.68Moz** contained gold. The contained ounces lifted by 21% and the overall grade lifted by 11% to 1.8g/t Au. The intrusion-hosted Toweranna deposit made a significant contribution, growing by 148% to 357koz @ 2.1g/t Au and becoming the second-largest deposit at the MGP. 80% of its ounces were in the higher confidence Indicated category.

The Toweranna deposit was notable for a number of reasons:

- It is an **intrusion related style** of gold mineralisation not previously known in the Pilbara, similar to other granitoid hosted gold deposits around the world, often containing large Resources and occurring in clusters;
- Initial metallurgical testwork completed in June 2019 returned high gold recoveries (92%-96%) from both oxide and fresh rock samples subjected to conventional Carbon-in-Leach (CIL) processing, indicating **it to be free-milling** ore; and
- The Resource was **defined to only 200mbs**, while historic drilling had intersected mineralisation up to 400mbs, showing significant growth potential;

This led to a new focus on intrusion style targets. A systematic review of all databases identified **seven new targets both analogous to and significantly larger than Toweranna**. Several of these were located on a 10km x 15km corridor – the Scooby to Antwerp Structural Trend (SAST). Included in these targets was the Hemiphaga (Hemi) prospect. Many had not been drill tested at all.

Figure 8 – Regional intrusion targets on the Scooby Antwerp Structural Trend (SAST)



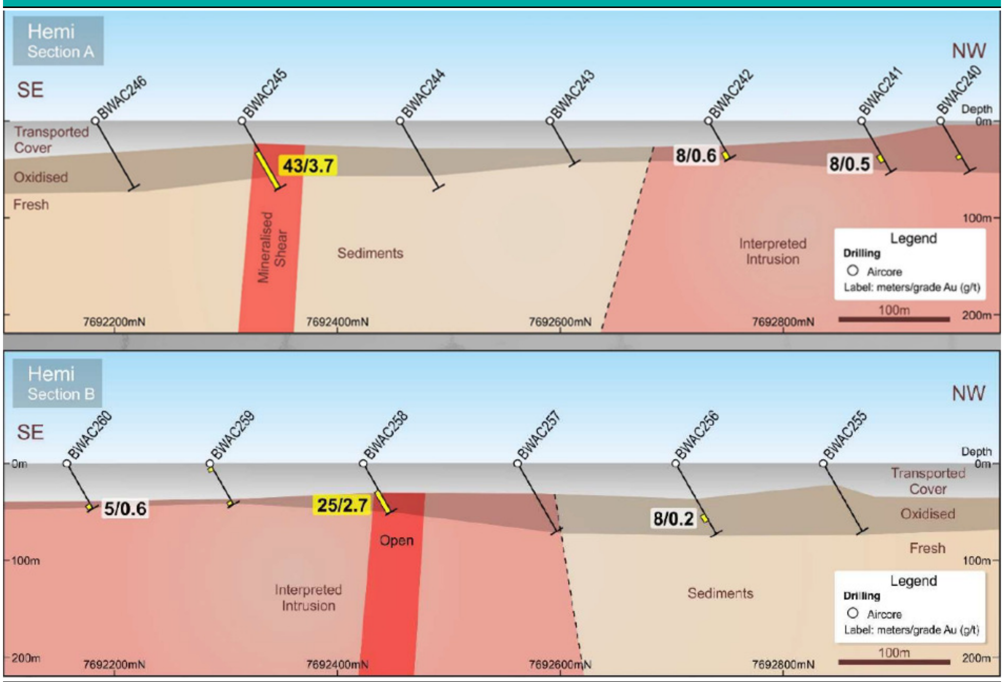
SOURCE: COMPANY DATA

Hemi discovery – priority focus for 2020

In December 2019, DEG announced shallow, wide and high grade gold intercepts from a regional aircore program testing a structural trend identified to be prospective for shear zone and Toweranna style intrusions. Results included:

- **43m @ 3.7g/t Au** from 36m, including 12m @ 9.0g/t;
- **25m @ 2.7g/t** from 32m, including 8m @ 4.5g/t; and
- **14m @ 3.5g/t** from 37m.

Figure 9 - Regional aircore program - Hemi discovery holes



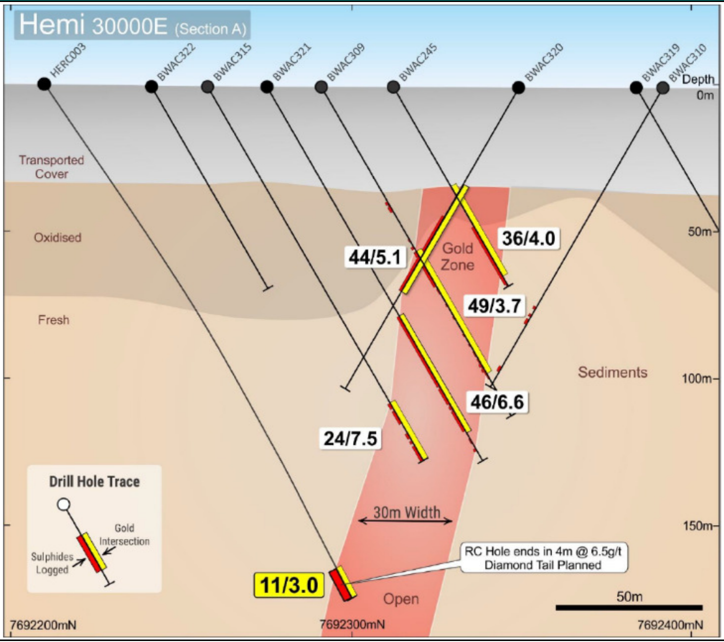
SOURCE: COMPANY DATA

These results were important validations of DEG's geological model and its similarities with other Archean greenstone belts. Hemi became DEG's priority focus for 2020. RC and diamond drill rigs were mobilised to follow up on the regional aircore program and work towards the delineation of a maiden Inferred Resource, initially to 400m depth.

Hemi has since delivered a string of impressive results (Table 3), extending the discovery along strike and at depth and confirming gold mineralisation across three defined zones: Aquila, Brolga and Crow.

The Aquila zone is a 30-50m wide gold zone now defined over ~800m strike and to ~180m below surface.

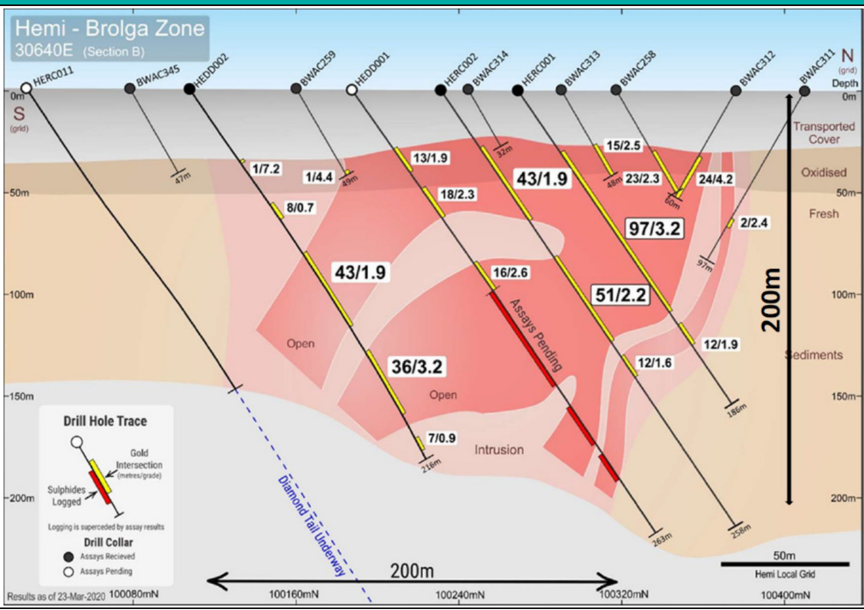
Figure 10 - Hemi discovery: Aquila zone interpreted cross-section at 30,000mE



SOURCE: COMPANY DATA

The Brolga zone is a much wider sulphide rich alteration zone, up to +300m wide, currently defined over +560m of strike. It remains open in most directions and particularly to the south west and down dip.

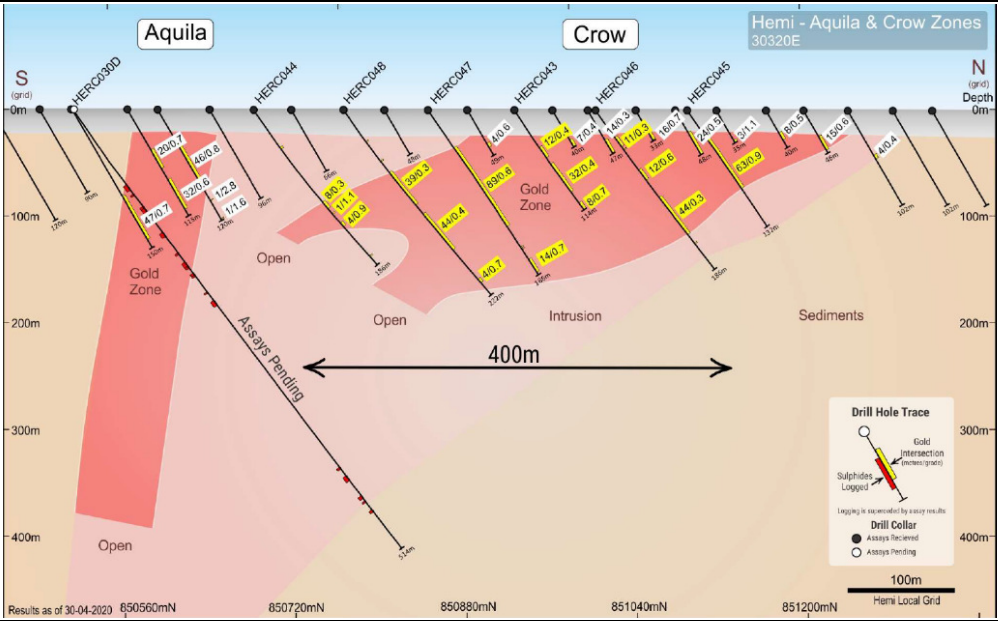
Figure 11 – Hemi discovery: Brolga zone interpreted cross-section at 30,640mE



SOURCE: COMPANY DATA

The Crow zone lies immediately north of Aquila, currently defined by aircore holes and a single fence of RC drilling over a width of ~400m.

Figure 12 – Hemi discovery: Crow zone interpreted cross-section at 30,0320mE



SOURCE: COMPANY DATA

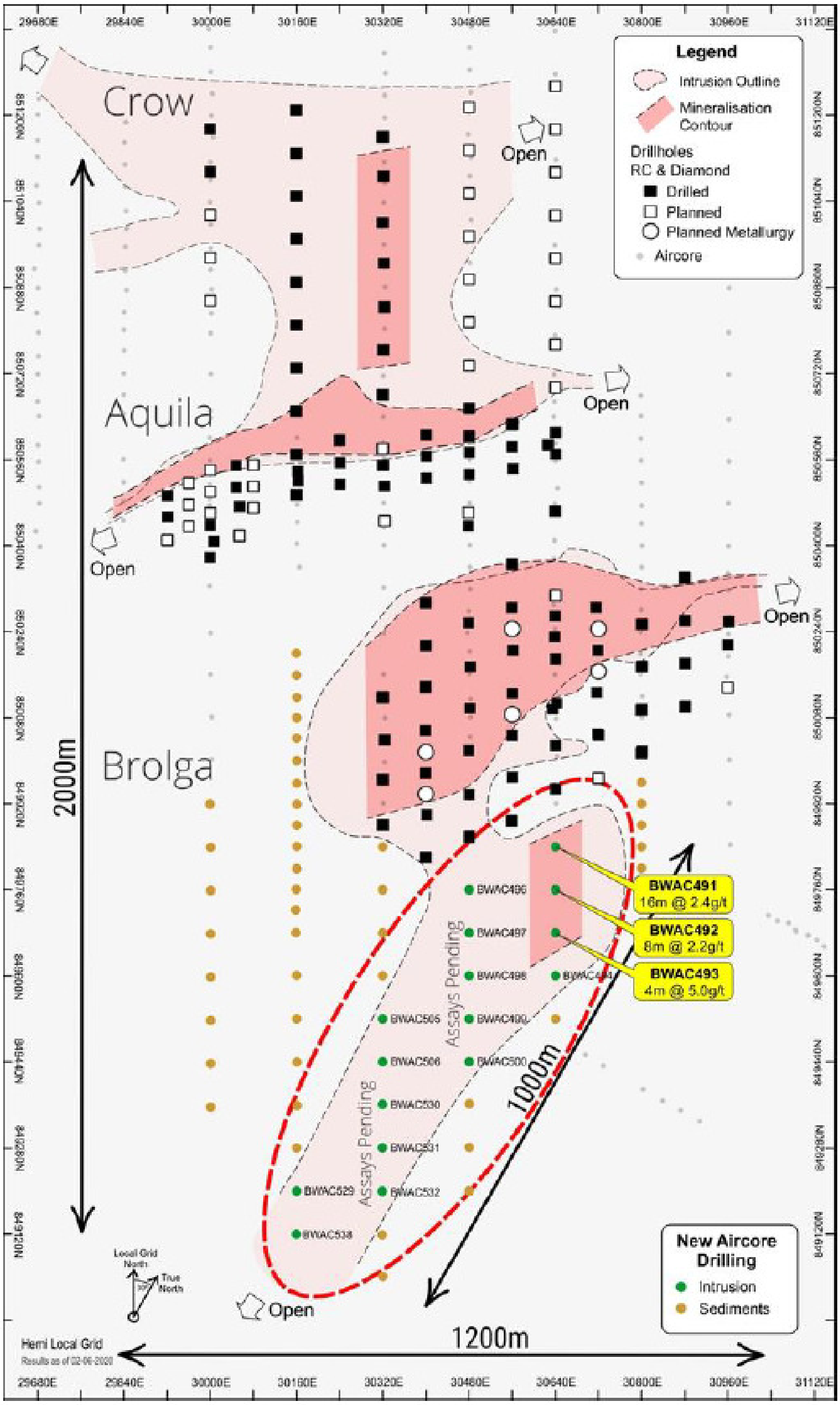
Table 9 - Significant intersections from the Hemi discovery zones (all >50gm)

Intersection	Inclusion	Zone
93.0m @ 3.3g/t Au, from 39m	incl. 21.0m @ 4.7g/t Au	Brolga
49.0m @ 3.7g/t Au, from 65m	incl. 18.0m @ 6.6g/t Au	Aquila
24.0m @ 7.5g/t Au, from 126m	incl. 18.0m @ 8.6g/t Au	Aquila
36.0m @ 4.0g/t Au, from 39m	incl. 11.0m @ 8.9g/t Au	Aquila
78.0m @ 1.8g/t Au, from 40m	-	Brolga
38.0m @ 3.4g/t Au, from 55m	incl. 9.0m @ 7.4g/t Au	Aquila
54.0m @ 2.2g/t Au, from 42m	incl. 5.0m @ 6.0g/t Au	Brolga
36.0m @ 3.2g/t Au, from 156m	incl. 14.0m @ 5.6g/t Au	Brolga
72.0m @ 1.6g/t Au, from 105m	-	Brolga
76.0m @ 1.5g/t Au, from 42m	-	Brolga
42.0m @ 2.7g/t Au, from 96m	incl. 4.0m @ 4.2g/t Au	Aquila
51.0m @ 2.2g/t Au, from 98m	incl. 8.0m @ 4.1g/t Au	Brolga
51.0m @ 2.1g/t Au, from 108m	incl. 8.0m @ 4.9g/t Au	Aquila
24.0m @ 4.2g/t Au, from 36m	incl. 10.0m @ 7.4g/t Au	Aquila
62.0m @ 1.4g/t Au, from 59m	-	Aquila
15.0m @ 5.5g/t Au, from 75m	-	Brolga
43.0m @ 1.9g/t Au, from 99m	incl. 6.0m @ 4.3g/t Au	Brolga
43.0m @ 1.9g/t Au, from 34m	incl. 6.0m @ 6.9g/t Au	Brolga
21.0m @ 3.6g/t Au, from 45m	-	Brolga
56.0m @ 1.1g/t Au, from 93m	-	Brolga
63.0m @ 0.9g/t Au, from 26m	-	Crow
89.0m @ 0.6g/t Au, from 43m	-	Crow
33.0m @ 1.6g/t Au, from 41m	-	Brolga
21.0m @ 2.5g/t Au, from 36m	-	Aquila

SOURCE: COMPANY DATA

Recent aircore drilling has extended Brolga further to the south, further enhancing the potential for Resource growth. Drilling into the Hemi intrusives has previously been a strong indicator of gold mineralisation. The results of this new aircore drilling is encouraging as the original discovery section at Brolga was very similar in grade and dimensions.

Figure 13 - Extensions to the Brolga Zone intrusive defined by aircore drilling – June 2020



SOURCE: COMPANY DATA

Current Mineral Resources – March 2020

The most recent Resource Statement was published in early April 2020 based on all drilling completed to December 2019. It totalled **37.4Mt @ 1.8g/t Au for 2.2Moz contained**.

The latest Resource update delivered a 29% increase in total contained gold and an incremental (2%) grade increase. The bulk of the addition was sulphide ore in the Inferred category (+378koz) followed by Inferred oxide ounces (+54koz).

Key points worth noting from the update:

- The latest Resource Statement does not include any estimate for the Hemi discovery, which is showing significant potential in its own right;
- The Resource includes **oxide ore** totalling **13.6Mt @ 1.5g/t Au for 0.64Moz** (30% of the contained gold) and **fresh ore** totalling **23.9Mt @ 2.0g/t Au for 1.52Moz** (70% of the contained gold);
- 49% of the contained ounces are classified in the higher confidence Measured and Indicated Resource categories (13% and 36% respectively);
- The Toweranna Resource (the only intrusion-related deposit) grew a further 47%, to 524koz @ 2.2g/t Au and representing 24% of the Resource;
- Cut-off grades and optimisation parameters (0.5g/t Au for open-pit and similar underground assumptions) applied as for July 2019 Resource

Table 10 – Mallina Gold Project – Total gold Mineral Resource (March 2020)

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

SOURCE: COMPANY DATA

Discovery cost

DEG's prior Resource was released in July 2019 and based on drilling completed up to the end of June 2019. From DEG's quarterly cash flow reports, we estimate the exploration and evaluation expenditure has since totalled ~$8.8m. This implies an all-in discovery cost of ~A$18/oz for the additional ounces in the latest Resource update.

In our view this is:

- Competitive with discovery costs across the sector;
- Adding significant value, given the current average EV/Resource oz market valuation being ~A$110/oz and DEG's ounces valued at ~A$267/oz; and
- Is lower than our calculated all-in discovery cost of ~A$27/oz for the ounces added from the October 2018 Resource to the July 2019 Resource, likely a function of DEG's improved understanding of the deposit.

Development studies and metallurgy

In August 2017 DEG compiled a Scoping Study which considered a 5 year open-pit mining operation at the MGP, extracting an ore inventory of 4.8Mt @ 2.1g/t Au for 325koz from a Resource base of 18.8Mt @ 1.7g/t Au for 1.0Moz contained. Ore mining costs ranged from $30.68/t to $38.94/t for oxide and fresh ore, inclusive of strip ratios ranging from 3.0:1 to 12.4:1 and haulage costs to a central process plant.

Ore was to be processed via a standalone 1Mtpa capacity Carbon-In-Leach (CIL) processing plant, with a secondary flotation, ultra-fine regrind and intense cyanidation circuit for processing refractory sulphide ore.

At the time of the Scoping Study, only preliminary metallurgical testing had been completed. Recoveries of 80% were assumed for most sulphide ore through the proposed CIL and sulphide flotation circuit. The Scoping Study also estimated processing costs for two cases: the Base Case 1Mtpa throughput scenario and an upside 2Mtpa throughput scenario summarised below:

Table 11 - Estimated ore processing costs via CIL with sulphide flotation and intense cyanidation

Plant throughput scale	Deposit	Oxide	Fresh
		$/t	$t
1Mtpa	Withnell, Roe, Dromedary, Mt Berghaus	20.13	23.63
	Wingina, Camel, Amanda	19.97	26.05
2Mtpa	Withnell, Roe, Dromedary, Mt Berghaus	14.20	16.53
	Wingina, Camel, Amanda	17.03	20.60

SOURCE: COMPANY DATA, 2017 SCOPING STUDY RESULTS

The study estimated total gold production of 290koz (89% overall recovery) from the 325koz mining inventory (of which 65% was oxide material) over a 5 year mine life for average annual gold production of 58kozpa. Other key outcomes of the Base Case 1Mpta study included:

- Project CAPEX $78m (inclusive of 15% contingency) + $18m in year 3 for the addition of the secondary sulphide circuit;
- Royalties of 3.5% (inclusive of 2.5% WA statutory royalty)
- C1 cash cost of $1,000/oz; and
- AISC of $1,200/oz;

The Scoping Study assumptions and operational plan took advantage of existing Mining Leases retained from previous mining activities conducted up to 2008 and which we view as advantageous to permitting of a new operation.

Subsequent work – selection of Pressure Oxidation (POX) for sulphide circuit

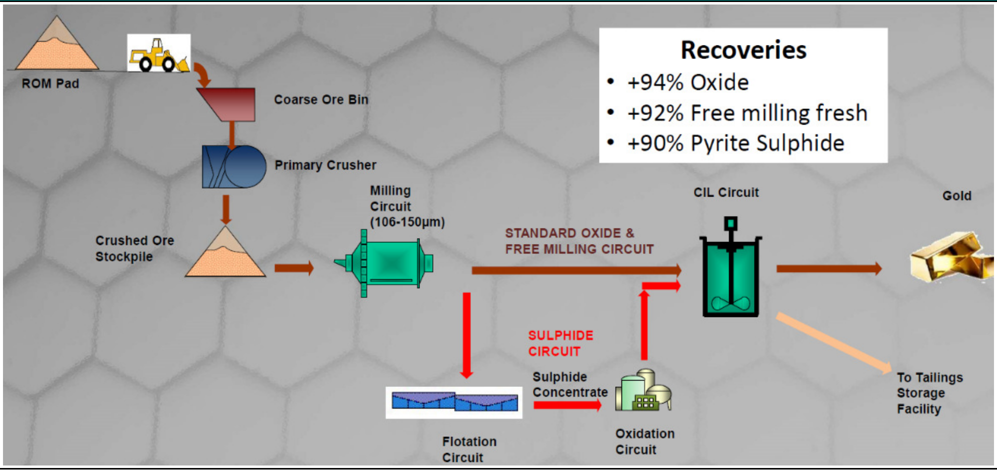
In February 2019 DEG completed a metallurgical testwork program that confirmed gold recoveries from oxide ore could be maintained above 90% for most deposits at the MGP when selecting a coarser grind size (up from 75-90 µm to 106-150µm) for standard CIL processing. The primary benefits of this are lower power consumption, lower grinding media costs and, potentially, higher process plant throughput or lower CAPEX.

In addition, it was determined that flotation of a sulphide concentrate at the coarser grind produced a concentrate amenable to Pressure Oxidation (POX) and average recoveries above 90% could be achieved. Mass pull would be in the range of 5%-9% (average 7%), requiring POX capacity of 50-100ktpa. The oxidised concentrate is fed back to the primary leach circuit for standard processing and the production of gold doré on site.

DEG reported overall average gold recoveries based on the proposed circuit of:

- +94% for oxide ore;
- +92% for free milling fresh ore; and
- +90% for pyrite dominated sulphide ore.

Figure 14 - Proposed process route - simplified schematic



SOURCE: COMPANY DATA

Toweranna: Free milling fresh ore

Metallurgical testwork on ore from the intrusion hosted Toweranna deposit in June 2019 indicated both oxide and fresh ore types to be free milling.

Results from conventional CIL testing undertaken at the coarse grind size (150µm) currently being considered for the MGP achieved gold recoveries of:

- 94.7% for fresh ore; and
- 92.0% for oxide ore.

The caveat is that these results were based on high grade samples (6.6g/t Au oxide and 9.8g/t Au fresh) which are not representative of the Resource (grading 2.2g/t Au). Tails grades of ~0.4g/t Au were reported and, if fixed, would result in lower recoveries for lower grade samples.

Capital structure and financials

Financials

DEG is an exploration and development company that is exclusively reliant on the support of shareholders and the equity capital markets for funding. The company currently has no source of its own cash generation or income. As such, DEG is classified as a Speculative Investment. DEG's flagship Mallina Gold Project is a pre-Resource stage project and any future cash-flows and earnings are reliant on the definition of a mineral deposit that is technically and economically viable to extract. Its successful development remains contingent on successful permitting, approval, financing and construction.

DEG last reported available cash of $9.9m as at 31 March 2020. It subsequently raised $31.2m in April 2020 and we estimate a current cash position of ~$38m. At its current expenditure rate of $3.3m per quarter, DEG has sufficient capital to sustain its exploration programs development for 11.5 quarters or 3 years. We anticipate that DEG's expenditure rate will increase, but that this amount will still be sufficient for 18-24 months.

DEG has no debt and no hedging or gold sale agreements, which we view as entirely appropriate and desirable for an exploration company at this stage.

Equity outstanding

DEG currently has 1,171.3m fully paid ordinary shares and 22.5m unlisted options outstanding, including 1.45m nil-consideration Performance Rights. Combined, the options and Performance Rights represent 2.0% of DEG's outstanding capital.

DEG last raised equity via an oversubscribed equity placement in April 2020 when 111.4m shares were issued at $0.28/sh, raising approximately $31.2m. Of this, the issue of 19.2m shares (Tranche 2) is subject to shareholder approval. For the purposes of our valuation, we have assumed that these will be issued and included them in our estimates.

Table 12 - DEG capital structure summary

Shares on issue	m		1,171.3
Performance shares / other	m	*Tranche 2 shares subject to s/h approval*	19.2
Total shares on issue	**m**		**1,190.5**
Share price	**$/sh**		**0.525**
Market capitalisation	$m		625.0
Net cash	$m		38.9
Enterprise value (undiluted)	**$m**		**586.1**
Options outstanding (m)	m	(wtd avg ex. price $0.21 per share)	22.5
Options (in the money)	m		22.5
Issued shares (diluted for itm options)	m		1,213.0
Market capitalisation (diluted)	m		636.8
Net cash + options	$m		43.7
Enterprise value (diluted)	**$m**		**593.2**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Share register

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 exercised options and participated in equity placements to lift its shareholding to ~15%. DGO has the right to appoint two Non-Executive Directors to the DEG Board and is currently represented by Ed Eshuys and Bruce Parncutt.

Table 13 - DEG top shareholders

Shareholder	**%**	**m**
DGO Gold	15.0%	175.3
Northwest Nonferrous (Shaanxi)	5.0%	59.1
Kirkland Lake Gold (KL:CN)	2.8%	33.3

SOURCE: IRESS, COMPANY REPORTS

Upcoming catalysts

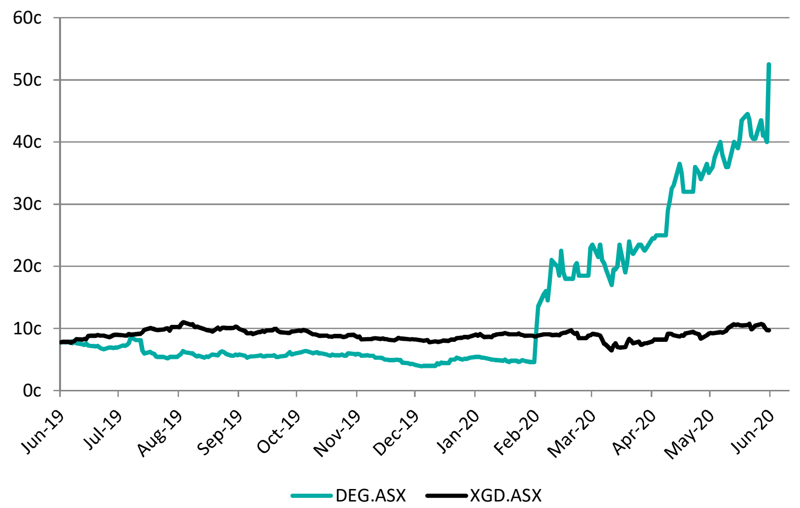
Upcoming catalysts for DEG include:

- Ongoing results from the Hemi prospect, where drilling is continuing to test for and identify extensions to the Aquila, Brolga and Crow gold zones;
- Drilling results from upcoming exploration programs testing the several identified intrusion-related targets along the SAST. These are about to commence and could lead to new discoveries that repeat the success of Hemi, multiplying the Resource growth potential at the MGP;
- The release of a maiden Resource for the Hemi discovery, which will give an initial indication of its potential scale. In our view the gold zones identified at the Hemi prospect may double the current Resource at the MGP;
- The release of updates from development and feasibility studies evaluating the technical and financial viability of potential mining operations at the MGP. Metallurgical testwork will be of particular interest if it indicates any of the major deposits are free-milling; and
- Indications of any corporate activity. While DEG's valuation is high, and beginning to limit the field of potential ASX-listed partners, 49% of the current Resource is in the higher confidence Measured and Indicated categories and drilling from the Hemi discovery is near-surface, consistent and continuous. These factors make it a simpler proposition for external parties to assess, cheaper to drill out to Reserve status and quicker to develop – lowering the risk for a potential partner.

Share price performance vs ASX Gold Index

Relative performance chart below:

Figure 15 - DEG relative share price performance vs XGD



SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

Board and Management

Board of directors

Simon Lill – Non-executive Chairman

Mr. Lill has a BSc and a Masters of Business Administration, both from The University of Western Australia and has been a corporate adviser with Trident Capital Pty Ltd for the last 5 years. He has over 25 years' experience in stockbroking, capital raising, management, business development and analysis for a range of small and start-up companies, both in the manufacturing and resources industries, and has specialised in that time in company restructuring activities.

Glenn Jardine – Managing Director

Mr. Jardine was appointed in March 2020. He is a senior mining executive with direct experience growing resource companies from early stage exploration through to multi-operation entities. This includes taking projects through feasibility studies, equity and debt financing, project development and operations. Commodity experience includes precious metals, base metals and bulk commodities across underground and open pit operations. Processing methods utilised at these projects and operations include CIP/CIL, DMS, sulphide flotation, BIOX, pressure oxidation and SX/EW.

Andy Beckwith – Executive Technical Director (non-independent)

Mr. Beckwith has a Bachelor of Science (Applied Geology) from the University of South Australia, and has over 30 years of Geological and Management experience. His more recent roles include successfully building Westgold to circa 5Moz of resources as Managing Director and prior to that, senior roles with AngloGold Ashanti Australia. Andy has successfully worked on projects from grassroots to mine development and has extensive experience working with corporate transactions, project acquisitions and generation.

Peter Hood – Non-executive Director (independent)

Mr. Hood, a Chemical Engineer, has had a distinguished career in the Australian mining and chemical industries. He held the position of Senior Production Engineer at the Kwinana Nickel Refinery from 1971 to 1981, then Mill Superintendent of the WMC Kambalda Nickel and Gold Operations from 1982 to 1985. In 1985, he joined Coogee Chemicals Pty Ltd as a General Manager and then as their CEO between 1998 and 2005. He then held the position of CEO of Coogee Resources Ltd before retiring in 2008.

Eduard Eshuys – Non-executive Director (independent)

Ed is a geologist with several decades of exploration experience in Australia. In the late 1980s and early 1990s he led the teams that discovered the Plutonic, Bronzewing and Jundee gold deposits, and the Cawse Nickel Deposit. He has also had involvement in the Maggie Hays and Mariners nickel discoveries in the 1970's. More recently he was the Managing Director and CEO of St Barbara Limited from July 2004 to March 2009. During this time St Barbara Limited grew substantially as a gold producer. Ed is also a Director of DGO Gold Limited.

Bruce Parncutt AO – Non-executive Director (independent)

Bruce's career spans over 40 years in investment management, investment banking and stock broking. Previous roles include have included: Managing Director of McIntosh Securities, Senior Vice President of Merrill Lynch, Director of Australian Stock Exchange Ltd. Bruce is also a Director of DGO Gold Limited. In 2016, he was recognised as Officer in the Order of Australia for distinguished service to the community as a philanthropist and an advocate and supporter of charitable causes, business and commerce.

Source: Company website (https://degreymining.com.au/board-of-directors/ and 2019 Annual Report)

De Grey Mining Ltd

Company description

DEG is an exploration and development company, focussing its activities on the Mallina Gold Project (MGP) located 60km south of Port Hedland in WA. The tenement package is prospective for gold, base metals (Zn-Ag-Pb) and lithium. Over the last four years, DEG has expanded the area of the MGP to 1,500km^2 and consolidated its ownership. During that time it has grown the Resource base ~525%, from 346koz @ 1.6g/t Au in February 2016 to 2.2Moz @ 1.8g/t Au as at April 2020.

DEG estimates a project-wide discovery cost of <$20/oz and that this has dropped to $15-$20/oz for the most recent Resource estimates. It holds the corporate objective of increasing the gold Resource to +3.0Moz by the end of 2020 and is well funded to do so.

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

Investment thesis – Speculative Buy, Valuation $0.69/sh

In establishing our valuation for DEG we have considered i) EV/Resource oz metrics for exploration companies, ii) EV/Resource oz metrics for production companies; and iii) an NPV valuation of the MGP based on notional project assumptions. From these, we derive a blended valuation of $794.2m, based primarily on our expectations of Resource growth of 2.3Moz to 3.6Moz at the MGP and a premium EV/oz metric of $160/oz. The premium metric is based on factors we can observe in the market that reflect, in particular, a deposit that is larger scale vs peers, but also the potential for further Resource growth, scalability of potential production, likely mining method and costs, pathway and timeframe to production and funding position. In our view, most of these factors are favourable for DEG and we see the potential for a 4.4-5.8Moz Resource and production of +200kozpa, within a strategic regional position offering further exploration upside. We initiate with a Buy (Speculative) recommendation.

Valuation

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

Table 14 – DEG valuation summary

Ordinary shares (m)	*Assumes 91.2m Tranche 2 shares approved*		**1,190.5**
Options outstanding (m)			22.5
Assumed equity raise (m)			-
Diluted m			**1,213.0**
Sum-of-the-parts		**$m**	**$/sh**
Blended exploration valuation		794.2	0.67
Corporate overheads		(6.3)	(0.01)
Subtotal (EV)		787.9	0.66
Net cash (debt)		38.9	0.03
Total (undiluted)		**826.8**	**0.69**
Cash from options		4.7	@ 0.21
Assumed equity raise		-	@ 0.00
Total (fully diluted)		**831.5**	**0.69**

SOURCE: BELL POTTER ESTIMATES

With upside of 31.4% from the last closing share price to our target price, we initiate our coverage with a Speculative Buy recommendation.

Resource sector risks

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

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

Recommendation structure

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

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

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

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

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

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ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Exploration Risk Warning: The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock as DEG.