

De Grey Mining Ltd. – ASX:DEG

October 4, 2018

Mr. Market Misses the Point! Mineable Ounces More than Doubled with Updated Resource

Impact: Very Positive

De Grey Mining has announced a 15% increase in the overall resource but importantly has resulted in more than doubling the mineable resource at its Pilbara Gold Project in Australia. We believe the market has been underwhelmed by the 15% increase; however, we think the market is missing the key point. The fact that the mineable ounces increased by 127% right before releasing an open pit pre-feasibility study is very positive news (PFS expected by year end). This news supports our investment thesis that De Grey provides exposure to a solid hard rock development play whilst having the optionality of the Pilbara conglomerate.

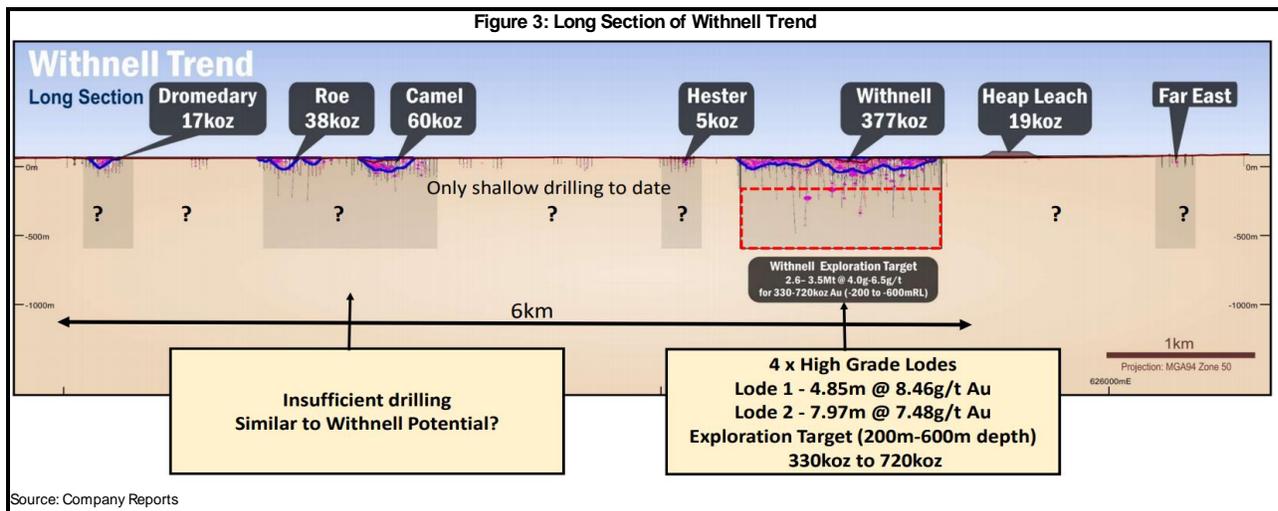
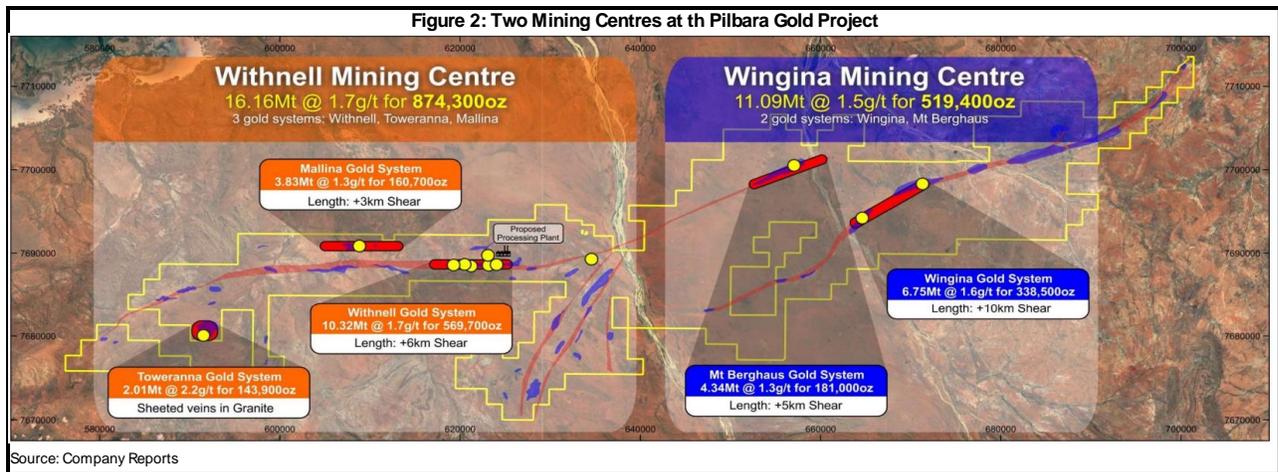
- **De Grey adds low-cost gold ounces.** The increase in M&I resources highlights the company's success in infilling and expansion drilling focused on ounces that can be included in a mine plan. The company noted that it believe it has added 391koz (+127%) to the open pit mine plan in the PFS, which are near-surface resources at a depth of less than 100m, further reflecting the upside potential of continuing to add low-cost higher-grade ounces to the company's multiple satellite deposits, which all remain open along strike and at depth (Figure 2).
- **Results significantly increase valuation ahead of PFS.** Following the addition of 391koz Au to the open pit mine plan, we have adjusted our preliminary valuation of De Grey's hard rock assets to include an additional 6Mt at 2.1g/t Au, increasing our estimated mineable resource estimate by 127%. Our estimates now assume a mine-life of 11 years (was 4.75 years), with average annual production of 56k oz (was 56koz annually) at cash costs of US\$767/oz (was US\$871/oz). As a result of these changes our preliminary valuation for De Grey's hard rock assets to A\$0.30-0.45/share (was A\$0.15-0.23/share).
- **Defining a high-grade underground resource to be a future focus.** Drilling on the property, which includes 154 reverse circulation (RC) holes and 3 diamond (DD) holes, has previously been focused on targeting near surface mineralization limited to 100m in depth. The company has announced that deeper drilling will be a significant component of future exploration on the property, which the company has already been doing at its Withnell property with the [recent intersection](#) of gold mineralization with sufficient grade and thickness to consider an underground target (Figure 3). Drilling at underground targets opens the door to a potential higher-grade underground resource, which the company intends to highlight in a Scoping Study, to follow the Open Pit PFS.

Stock expected to double from here. Our A\$0.30-0.45/share preliminary valuation for De Grey's hard rock assets does not account for the potential of its conglomerate assets, where the company has recently commenced a bulk sampling program. We continue to believe that De Grey's current valuation provides investors a free option on the conglomerates, as the share price does not appear to properly reflect the hardrock assets. Next catalysts include additional exploration results (both hard rock and conglomerate) and a PFS for the company's Pilbara Gold Project in Q4/18.

Figure 1: Pilbara Gold Project - Resource Comparison

Updated October 3, 2018 Resource Estimate												
Type	Measured			Indicated			Inferred			Total		
	Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz	Mt	Au g/t	Au Oz
Oxide	3.60	1.8	204,400	4.53	1.4	207,400	2.89	1.3	118,100	11.02	1.5	529,900
Fresh	0.88	1.5	43,000	5.32	1.7	284,500	10.04	1.7	536,400	16.23	1.7	863,900
Total	4.47	1.7	247,400	9.85	1.6	491,800	12.93	1.6	654,500	27.25	1.6	1,393,800
Previous September 28, 2018 Resource Estimate												
Oxide	3.53	1.8	200,200	2.74	1.3	117,600	3.23	1.4	141,800	9.51	1.5	459,600
Fresh	0.93	1.7	49,400	4.42	1.6	223,300	9.03	1.6	477,800	14.37	1.6	750,400
Total	4.46	1.7	249,600	7.15	1.5	340,900	12.26	1.6	619,600	23.88	1.6	1,210,000
Comparison October 2018 - September 2017 Resource Estimate (% Change)												
Oxide	2%	0%	2%	65%	8%	76%	-11%	-7%	-17%	16%	0%	15%
Fresh	-5%	-12%	-13%	20%	6%	27%	11%	6%	12%	13%	6%	15%
Total	0%	0%	-1%	38%	7%	44%	5%	0%	6%	14%	0%	15%

Source: Company Reports



Company Information: De Grey Mining Ltd. (ASX: DEG)				
De Grey Mining is a gold explorer focused on unlocking value in the Pilbara district of Western Australia. Unlike most gold explorers in the Pilbara, De Grey has a hardrock asset with a 1.2 Moz Au resource to underpin the valuation. In addition to the hardrock gold resource, the company has three conglomerate gold targets where gold nuggets have already been discovered. The company is currently drilling at its hardrock project for an upcoming resource update and Pre-Feasibility Study. De Grey is also actively exploring its conglomerate gold targets with bulk sampling underway.				
	Key Projects			
	Project	Stage	Resource	Notes
	Pilbara Gold (Australia)	Scoping Study (2017)	1.39 Moz Au (27.25Mt @ 1.6g/t Au)	Scoping study indicated Undiscounted Net CF of A\$110-120M at a gold price of US\$1,250/oz.
Financials		Peer Comparison		
Price (A\$/sh):	\$0.16	Company	Mkt Cap (\$)	EV/oz (\$)
Basic S/O (M):	363.0	ASX:DEG	\$56	\$40
Fully Diluted S/O (M):	422.6	TSXV:NXN	\$11	NA
Market Cap (A\$ M):	\$56.3	ASX:ARV	\$117	NA
Cash (A\$ M):	\$6.2	TSXV:PAC	\$34	NA
Debt (A\$ M):	0	ASX:CAI	\$22	\$33
EV (A\$ M):	\$50.1	ASX:KAI	\$29	NA
		TSXV:NVO	\$428	\$643
		Peer Average		\$338

Sources: RCKS, Thomson Reuters, Company Reports

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Company Name	Ticker Symbol	Disclosures
De Grey Mining Ltd.	ASX:DEG	1, 2

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