

SPEC BUY

Current Price **\$0.44**

Ticker: **DCN**
Sector: **Materials**

Shares on Issue (m): **96.1**
Market Cap (\$m): **42.3**
Cash (\$m): **6.5**
Enterprise Value (\$m): **35.8**

52 wk High/Low: **\$0.51** **\$0.24**
12m Av Daily Vol (m): **0.03**

Mineral Inventory (100% basis)

	Mt	g/t	Moz
Reserves	0.7	6.2	0.14
Resources	24.4	2.6	2.06

	\$/oz
EV / Reserve	263
EV / Resource	17

Directors:

Rohan Williams	Executive Chairman
Barry Patterson	Non-Executive Director
Robert Reynolds	Non-Executive Director

Substantial Shareholders:

Redland Plains	14.7%
Directors	11.8%

Share Price Graph



Tuesday, 12 May 2015

Dacian Gold

Another step in the land of giants

Analysts | Patrick Chang | Matthew Keane

Quick Read

Dacian Gold (DCN) released a Resource upgrade incorporating the Heffernans Deposit, boosting the overall project inventory by 709koz. This result exceeded Argonaut's expectation and expanded the total Resource at Mt Morgans to 2.1Moz @ 2.6g/t. The project has the potential to become a 150koz producer, developed as a standalone or toll-treating operation. A comparison with the Frog's Leg mine, which Evolution Mining (EVN) is purchasing, demonstrates Mt Morgans' potential to attract corporate attention with further advancements (see Page 2). Whilst the project is moving steadily towards development, both Westralia and Jupiter offer significant exploration upside. DCN is one of Argonaut's preferred gold development stocks given exposure to AUD denominated costs, exploration upside and proven management. SPECULATIVE BUY maintained.

Event & Impact | Positive

Heffernans better than expected: DCN delivered a larger than anticipated independent maiden Resource at Heffernans of 625koz @ 1.4g/t (0.5g/t cut-off), and an additional, lower grade Resource of 84koz @ 0.4g/t (0.3g/t cut-off). The mineralisation is shallow dipping, with >70% of the 625koz in the Indicated Category and >75% occurring within the top 200m. These attributes bode well for a potential open pit operation.

Open pit and underground operation: The Company's Scoping Study will incorporate open pit and underground operations at Mt Morgans, feeding a single processing facility. This operation would share several similarities (see page 2) with La Mancha's Frog's Leg mine in terms of scale, grade and blend of open pit / underground feed. Evolution (EVN) is acquiring Frog's Leg for ~A\$414m (valuation at deal announcement date).

Infrastructure advantage: The project, being located proximal to the mining town of Laverton, benefiting from substantial infrastructure including roads, water and mining services companies. In addition, the nearby Granny Smith processing facility could provide a low-capex toll-treatment option. The mill is processing high grade material from the Wallaby Mine, and was running at ~41% (in CY14) of its nameplate capacity of 3.6Mtpa.

Further exploration upside anticipated: Both Westralia and Jupiter offer additional upside. Drilling by DCN at Westralia has demonstrated a large mineralised system and significant potential for further extensions. At Jupiter, additional mineralised syenite bodies, including Ganymede will likely deliver further upside. The Company is expected to test these potential extensions through drilling in the near to medium term.

Recommendation

SPECULATIVE BUY recommendation maintained.

Moving towards development

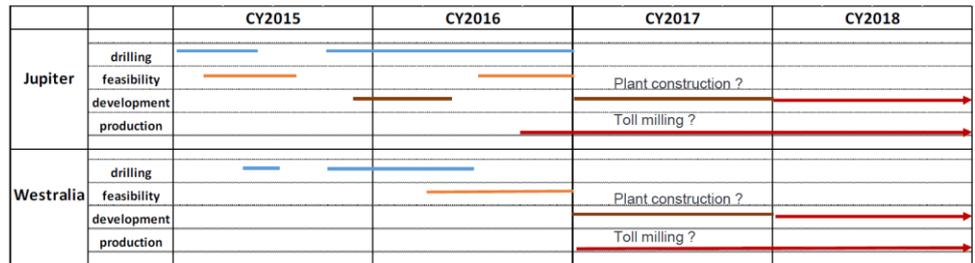
DCN's 100% owned Mt Morgans Project...

Potential open pit and underground operation

DCN's 100% owned Mt Morgans Project, located near Laverton, is moving steadily towards study stages / development with the release of a maiden independent Resource at Heffernans. The Company has commenced a Scoping Study incorporating both Jupiter and Westralia.

...is moving steadily towards study stages / development

Figure 1: Project timeline



Source: DCN

Potentially a ~150koz pa producer...

Potential 150koz producer

Argonaut envisages potential open pit / underground operations at Mt Morgans, which share several similarities with La Mancha's Frog's Leg operation. These include scale, grade and blend of open pit / underground feed.

...sourcing feed from both open pits and underground...

The Frog's Leg mine utilises a recently constructed 1.5Mtpa conventional CIL plant and source its feed from the White Foil open pit (~1.0-1.1Mtpa) and Frog's Leg underground mine (~400-500ktpa). The project is expected to produce ~150koz in CY15.

Similarly at Mt Morgan, ore is expected to be sourced from Jupiter (open pits) and Westralia (underground). Given similar grade profiles (see above) and assuming a similar open pit / underground blend, Mt Morgan is capable of producing ~150koz by utilising a similar sized plant.

...similar to Frog's Leg mine which EVN is acquiring

Table 1: Resource comparison between Mt Morgans and Frog's Leg

Westralia v Frog's Leg (Resources)				
	Mt	grade (g/t)	koz	
Westralia	4.6	5.8	853	
Frog's Leg	3.8	6.4	770	
Jupiter v White Foil (Resources)				
	Mt	grade (g/t)	koz	Strip ratio
Jupiter	14.5	1.5	698	
White Foil	36.0	1.6	1,867	6:1

Source: Argonaut, Company report

Significant Resource expansion at Jupiter expected

Argonaut anticipates significant future increases in Resources at Jupiter with ongoing drilling, potentially from other mineralised syenite bodies (e.g. Ganymede, see page 7).

The project could deliver an additional heap leach operation...

Heap leach option

Subject to positive study results, the project could deliver an additional heap leach operation.

Historically, ~3.5Mt of material was treated using dump leach at Mt Morgans. An additional heap leach operation would improve project payback and reduce the overall stripping ratio of the project. Bottle roll metallurgical testing for low grade material has commenced.

...subject to positive study results

DCN has delineated 84koz @ 0.4g/t low grade material at Heffernans. The low grade mineralisation being considered for heap leach treatment is almost exclusively hosted in the Heffernans syenite.

Potential corporate appeal

M&A activities in the gold space suggest healthy appetite for quality Australian assets. Recent transactions include EVN's bid for Frog's Leg for ~A\$414m (valuation at deal announcement date), and NST's announced joint venture agreement with Tanami (TAM) Gold.

Recent M&A activities in the gold space...

Table 2: Selected transactions in Western Australia

Date	Target	Acquirer	Valuation	Premium	Asset Location	EV / Resource	EV / Reserve
			(\$m)	%		\$/oz	\$/oz
Development projects							
Apr-14	Bullabulling (BAB)	Norton (NGF)	24	30	Western Australia	5	-
Jan-14	Norilsk (Thunderbox)	Saracen (SAR)	23	-	Western Australia	11	32
Oct-14	Mutiny Gold (MYG)	Doray Minerals (DRM)	37	38	Western Australia	73	135
Apr-15	Tanamai (CTP)	Northern Star (NST)	72	-	Northern Territory	27	-
Existing mines							
Aug-13	Barrick (Yilgarn South)	Gold Fields (GFI:US)	330	-	Western Australia	75	127
Sep-13	Alacer (Australian Business)	Metals X (MLX)	40	-	Western Australia	6	27
Dec-13	Plutonic (Barrick Gold)	Northern Star (NST)	25	-	Western Australia	14	121
Jan-14	Barrick (Kanowna)	Northern Star (NST)	75	-	Western Australia	49	121
May-14	Jundee (Newmont)	Northern Star (NST)	82.5	-	Western Australia	163	201
Median (WA)						61	127

Source: Argonaut

...suggest healthy appetite for quality Australian assets...

Development assets that can produce >150koz Au pa have become increasingly rare and sought-after on the ASX. This followed recent takeovers of development companies including Papillion (PIR), PMI Gold (PVM), Orbis (OBS), and Bullabulling (BAB).

Development assets that can support >150koz pa are sought-after

Scalable assets in low sovereign risk locations are even rarer.

2.1Moz and growing

709koz maiden Resource at Heffernans

DCN delivered a better than expected independent Resource at Heffernans...

DCN delivered a larger than anticipated maiden Resource at Heffernans, independently estimated by RungePincockMinarco. The Resource features two components:

- 625koz @ 1.4g/t (0.5g/t cut-off)
- 84koz @ 0.4g/t (0.3g/t cut-off, <0.5g/t), potentially heap leachable

Table 3: Mt Morgans updated Resource (excluding heap leach material)

Updated Mt Morgans Resource (Measured, Indicated and Inferred)			
	Mt	grade (g/t)	koz
Westralia	4.6	5.8	853
Jupiter / Heffernans	14.5	1.5	698
King Street	0.5	2.0	33
Craic	0.2	7.5	46
Transvaal	3.7	2.8	327
Ramornie	0.4	4.0	57
Morgans North	0.5	3.1	45
Project Total	24.4	2.6	2058

Source: DCN

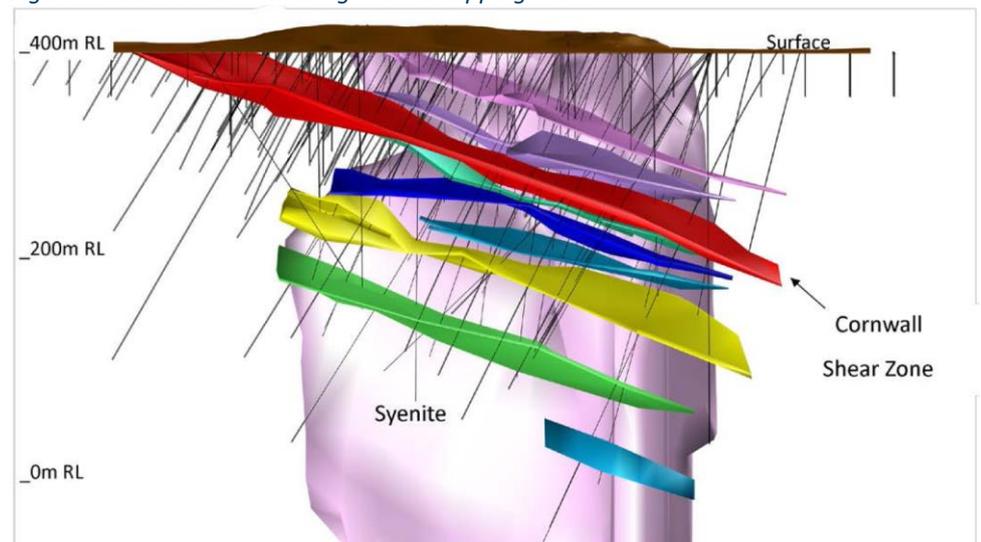
...increasing total inventory to 2.1Moz @

Recent M&A activities in the gold space...

>70% of the 625koz are already in the Indicated Category (40m x 40m drilling) and >75% of the Resource occurs within the top 200m. Mineralisation is controlled by shallow dipping structures such as the Cornwall Shear zone. These attributes bode well for a potential open pit operation.

...suggest healthy appetite for quality Australian assets...

Figure 3: Cross-section showing shallow dipping lodes



Source: DCN

Development asset that can

Infrastructure advantage

Stand-alone and toll-milling optionality

Mt Morgans benefit from well-established infrastructure...

The project, being located proximal to the mining town of Laverton, benefits from substantial infrastructure including roads, water and mining services companies.

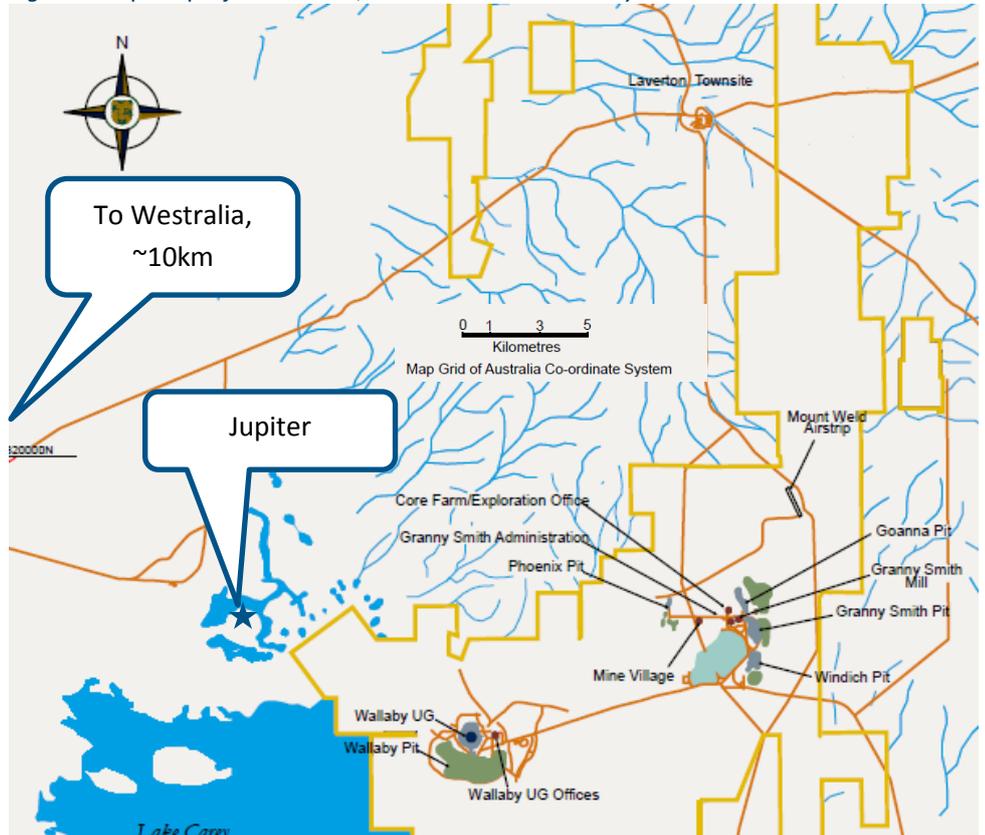
These should assist with reducing capex requirements associated with project infrastructure establishment when the asset is under production.

...including roads, water and mining services companies...

In addition, the nearby Granny Smith processing facility (see Figure 4 below), could provide a low-capex toll-treatment option. The mill is processing high grade material from the Wallaby Mine, and was running at ~41% (in CY14) of its nameplate capacity of 3.6Mtpa.

...which would reduce capex requirement

Figure 4: Jupiter project location, in relation to the Granny Smith mill



The nearby Granny Smith processing facility...

...could provide a toll-treatment option

Source: Goldfield, modified by Argonaut

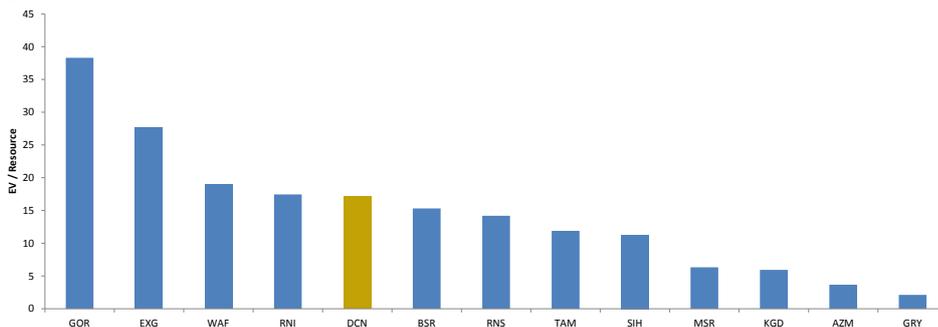
DCN trades on an EV / Resource of \$17.1/oz, slightly above the average of \$14.6/oz...

In-expensive compared to peers

DCN trades on an EV / Resource of \$17.1/oz, compared to a peer average of \$14.6/oz. The modest premium to peers reflects the project’s potential scale, its low risk jurisdiction of Western Australia, the exploration potential and quality of management.

...premium reflects potential scale, low risk jurisdiction and exploration upside...

Figure 5: Peer comparison, EV / Resource

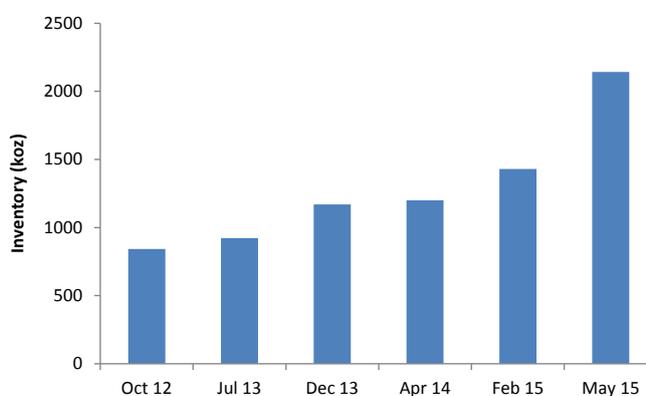


Source: Argonaut, Company report

...metric will improve with the delineation of additional Resources

This metric is anticipated to improve with ongoing Resource additions from Westralia and Jupiter. Given management’s demonstrated track record of Resource growth and the conducive geology, this is highly tangible.

Figure 6: Resource growth at Mt Morgans



Source: Argonaut, Company report

The management team has a proven track record of Resource growth

Exploration upside

Both Westralia and Jupiter offer additional exploration upside, with the Resource at both projects limited by the extent of drilling.

Westralia remains open in multiple directions...

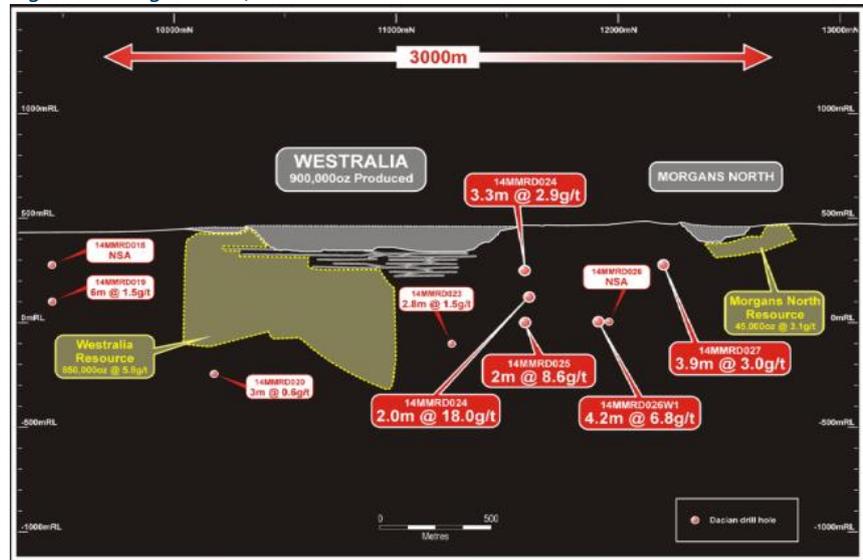
Recent drilling Westralia has demonstrated a large mineralised system and significant potential for further extensions. The deposit remains open in multiple directions and features numerous high grade hits outside the existing Resource, including:

- 2.0m @ 18.0g/t (600m from Resource)
- 2.0m @ 8.6g/t (600m from Resource)
- 4.2m @ 6.8g/t (900m from Resource)

...with recent hits demonstrating a large system...

...several high grade hits are located well away from the Resource area

Figure 6: Long section, Westralia

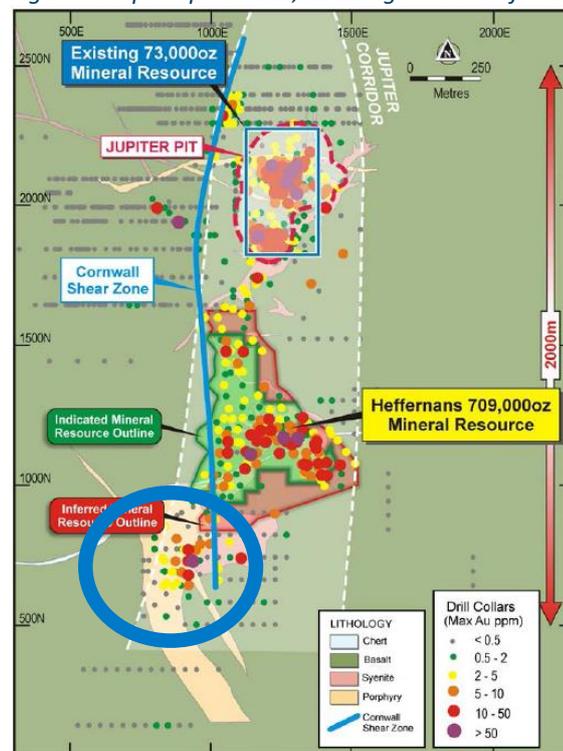


Source: DCN

At Jupiter, additional mineralised syenite bodies...

At Jupiter, additional mineralised syenite bodies, including Ganymede (circled on Figure 7 below) will likely deliver further upside. The Company is expected to test these potential extensions through drilling in the near to medium term.

Figure 7: Jupiter plan view, showing location of Ganymede (circled)



Source: DCN

...upside include the delineation of multi-million ounce deposits similar to Walalby

The upside of the project is the delineation of multi-million ounce, syenite hosted deposits similar to the nearby >7Moz Wallaby. Limited exploration has been conducted to the south of the project area, where the Cornwall shear zone could extend for a considerable distance.

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Important Disclosure

Argonaut currently holds or controls 94,000 DCN shares.

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