

SPEC BUY

Current Price **\$0.43**

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

Shares on Issue (m): **96.1**
Market Cap (\$m): **41.3**
Cash (\$m): **6.5**
Enterprise Value (\$m): **34.8**

52 wk High/Low: **\$0.51** **\$0.25**
12m Av Daily Vol (m): **0.04**

Mineral Inventory (100% basis)

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

EV / Reserve **\$/oz** **256**
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, 23 June 2015

Dacian Gold

Expanding Westralia

Analysts | Patrick Chang, CFA | Matthew Keane

Quick Read

Dacian Gold's (DCN) current drilling program at Westralia achieved early success with two high grade lodes intersected from a single drill hole (see below). This ambitious extensional program tests an area of ~1000m x 500m, similar to the footprint of the 850koz Westralia Resource. Given conducive geology and success to date, the campaign has the potential to deliver significant Resource upside (likely in the Inferred Category) in the order of ~300-500koz, which could translate to a Resource upgrade in H2 CY15. Mt Morgans is progressing towards development with the inventory recently expanded to 2.1Moz @ 2.6g/t. Both Westralia and Jupiter offer significant exploration upside. With further drilling, Argonaut envisages the Resource position to expand towards 3.0Moz and a Reserve position of ~1.0-1.5Moz. 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 acquiring, demonstrates Mt Morgans' potential to attract corporate attention with further advancements. DCN is one of Argonaut's preferred gold development stocks given exposure to AUD denominated costs, exploration upside and proven management.

Event & Impact | Positive

Early success: First diamond hole from DCN's 6,600m, 14-hole extensional program at Westralia delivered two solid intersections (downhole):

- 5.3m @ 12.2g/t Au from 265m
- 4.1m @ 9.9g/t Au from 282m

The intersections are from a banded iron formation (BIF) complex, within hosts the existing 850koz Westralia Resource.

Significant upside: The ambitious 14-hole program, currently underway, tests a ~1000m x 500m area, similar in size to the footprint of the existing Westralia Resource (850koz @ 5.8g/t). A successful program could deliver ~300-500koz (likely in the Inferred Category). Importantly, the results from two holes were from a previously poorly tested footwall BIF unit (only three holes drilled into this unit). These high grade, parallel lodes will likely contribute to the deposit's vertical endowment (ounces per vertical metre).

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 3) with La Mancha's Frog's Leg mine, which Evolution (EVN) is acquiring. Being located proximal to the mining town of Laverton, Mt Morgans benefits from substantial infrastructure (see page 4).

Recommendation

SPECULATIVE BUY recommendation maintained.

Expanding Westralia

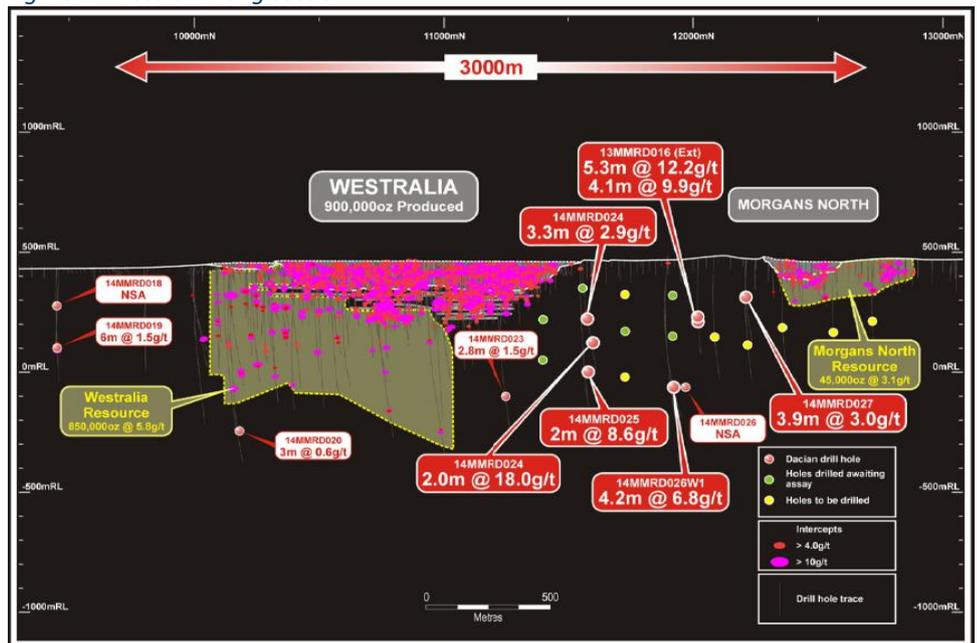
Early success

First diamond hole from DCN's 14-hole program at Westralia...

First diamond hole from DCN's 6,600m, 14-hole extensional program at Westralia delivered two solid intersections (downhole):

- 5.3m @ 12.2g/t Au from 265m
- 4.1m @ 9.9g/t Au from 282m

Figure 1: Westralia long section



Source: DCN

...delivered two solid intersections...

...highlighting tangible exploration upside

Significant upside

Given conducive geology, footprint tested...

The 14-hole program, currently underway, tests a ~1000m x 500m area, similar in size to the footprint of the existing Westralia Resource (850koz @ 5.8g/t).

...and previous positive results...

A successful program has the potential to deliver ~300-500koz (likely in the Inferred Category), which could translate to a Resource upgrade in H2 CY15. This upside is supported by the results from previous drilling campaigns, which include (outside the existing Resource):

- 2.0m @ 18.0g/t from 363m
- 4.2m @ 6.8g/t from 619m

...this program has the potential to deliver ~300-500koz

Importantly, the results from two holes were from a previously poorly tested footwall BIF unit (only three holes drilled into this unit). In addition to the Resource potential, the identification of these high grade parallel lodges will likely contribute to the deposit's vertical endowment (ounces per vertical metre).

Moving towards development

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

...is moving steadily towards study stages / development

Potentially a ~150koz pa producer...

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

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

With further drilling, the asset could become a takeover target

Potential >150koz producer

With a Recent Resource upgrade (to 2.1Moz @ 2.6g/t), the Mt Morgans project is progressing towards development. Given conducive geology at Westralia and Jupiter, and with further drilling, Argonaut envisages the Resource position to expand towards 3.0Moz and a Reserve position of ~1.0-1.5Moz following in-fill drilling.

This inventory can support 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.

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 ~2Mtpa plant.

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

Argonaut anticipates significant future increases in Resources at Jupiter with ongoing drilling, potentially from other mineralised syenite bodies (e.g. Ganymede, drilling planned late CY15 / early CY16).

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), NST's announced joint venture agreement with Tanami (TAM) Gold, and Zijin Mining's (2899:HK) bid for Phoenix Gold (PXG).

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

Scalable assets in low sovereign risk locations are even rarer.

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.

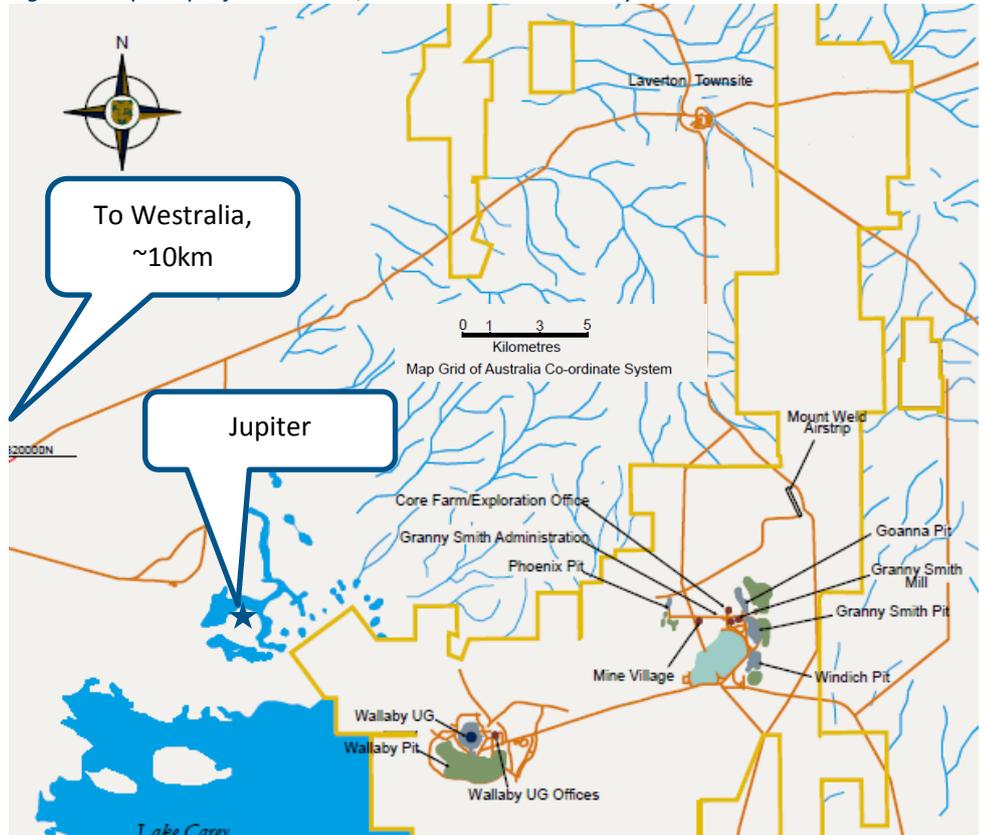
These should assist with reducing capex requirements associated with project infrastructure establishment when the asset is under production.

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

In addition, the nearby Granny Smith processing facility (see Figure 2 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 2: 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

RESEARCH:

Ian Christie | Director, Industrial Research
+61 8 9224 6872 ichristie@argonaut.com

Philipp M-O Kin | Analyst, Oil & Gas Research
+61 8 9224 6864 pkm@argonaut.com

Patrick Chang | Analyst, Metals & Mining Research
+61 8 9224 6835 pchang@argonaut.com

Matthew Keane | Analyst, Metals & Mining Research
+61 8 9224 6869 mkeane@argonaut.com

Helen Lau | Analyst, Metals & Mining Research
+852 3557 4804 hlu@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Sales & Research
+61 8 9224 6875 cwippl@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Damian Rooney | Senior Institutional Dealer
+61 8 9224 6862 drooney@argonaut.com

Ben Willoughby | Institutional Dealer
+61 8 9224 6876 bwiloughby@argonaut.com

INSTITUTIONAL SALES – HONG KONG:

Travis Smithson | Managing Director - Asia
+852 9832 0852 tsmithson@argonaut.com

Glen Gordon | Institutional Research Sales
+852 3557 4874 ggordon@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Executive Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmcglew@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey | Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Important Disclosure

DCN – Argonaut currently holds or controls 94,000 DCN shares.

NST – Argonaut acts as Corporate Adviser to NST and may receive fees commensurate with these services.

2899:HK – Argonaut acts as Corporate Adviser to Zijin Mining in the announced takeover offer for Phoenix Gold Limited (ASX:PXG).

Information Disclosure

Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

General Disclosure and Disclaimer

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") or by Argonaut Securities (Asia) Limited ("ASAL") for the use of the clients of ASPL, ASAL and other related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services License No. 274099 and is a Market Participant of the Australian Stock Exchange Limited. ASAL has a licence (AXO 052) to Deal and Advise in Securities and Advise on Corporate Finance in Hong Kong with its activities regulated by the Securities and Futures Ordinance ("SFO") administered by the Securities and Futures Commission ("SFC") of Hong Kong.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL and ASAL have made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, ASAL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL and ASAL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's and / or ASAL's overall revenues.

Hong Kong Distribution Disclosure

This material is being distributed in Hong Kong by Argonaut Securities (Asia) Limited which is licensed (AXO 052) and regulated by the Hong Kong Securities and Futures Commission. Further information on any of the securities mentioned in this material may be obtained on request, and for this purpose, persons in the Hong Kong office should be contacted at Argonaut Securities (Asia) Limited of Unit 701, 7/F, Henley Building, 5 Queen's Road Central, Hong Kong, telephone (852) 3557 48000.

Copyright

© 2015. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited and / or Argonaut Securities (Asia) Limited. Argonaut Securities Pty Limited and Argonaut Securities (Asia) Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.